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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2016 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 9, 2016 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended June 30, 2016. 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, 2016, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

During the second quarter of 2016, LREIT maintained its focus on the execution of its divestiture program and debt restructuring initiatives in a continued effort to stabilize operations. In addition, LREIT has been engaged in responding to the aftermath of the Fort McMurray wildfire, which resulted in a full-scale evacuation, destroyed approximately 10% of Fort McMurray’s structures. To date, the damages resulting from the wildfire are estimated to be in excess of $3.5 billion. None of LREIT's Fort McMurray properties incurred structural damage as a result of the wildfire; however, all properties did sustain smoke damage to varying degrees. LREIT has been working closely with its insurance adjuster and contractors in order to fully restore its properties to accommodate the increased demand for rental housing in the aftermath of the fire.

As at August 1, 2016, the occupancy at the Fort McMurray properties was 71%, compared to an average of 52% and 58% in the first and second quarters of 2016, respectively.

Operating Results

LREIT completed Q2-2016 with negative funds from operations (FFO) of $4.3 million, compared to negative FFO of $1.6 million in Q2-2015. The decrease in FFO is mainly due to a decrease in the net operating income of the Fort McMurray portfolio, as well as the sale of Colony Square in 2015 and Beck Court on May 1, 2016, partially offset by a decrease in interest expense.

Overall, LREIT completed Q2-2016 with net income of $20.5 million, compared to a net loss of $34.8 million during Q2-2015. The increase in net income primarily reflects a favourable variance in the fair value adjustments of the investment properties, partially offset by the same factors that caused the reduction in FFO noted above.

The positive fair value adjustments reflect an increase in the carrying value of the Fort McMurray properties, as revenue expectations for the Fort McMurray portfolio have improved due to the increased demand for accommodations associated with the return of displaced residents and those involved in the Fort McMurray rebuilding effort.

Cash Flow Results

During the first six months of 2016, LREIT continued to require additional sources of capital to fund operating activities, as well as debt service obligations and capital expenditure requirements. For the six month period ended June 30, 2016, the cash outflow from operating activities amounted to $1.1 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was $3.3 million, compared to a cash inflow from operating activities of $0.2 million and a cash shortfall of $8.0 million during the same periods of 2015. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by the net proceeds from the sale of Beck Court and Willowdale Gardens.

Liquidity and Capital Resources

In response to its liquidity challenges, LREIT requested concessions from its lenders and commenced making debt service payments in accordance with the requested concessions in February 2016. At March 31, 2016, LREIT had successfully renegotiated one mortgage loan agreement, renewed three mortgage loans, and obtained a forbearance agreement on one mortgage loan, all of which resulted in a reduction to LREIT's monthly debt service requirements.

Due to the uncertainty with respect to LREIT's ability to collect rental revenues and with respect to the timing and extent of business interruption insurance proceeds in the wake of the wildfire, LREIT withheld the June 2016 debt service payments related to the mortgages on all of its Fort McMurray properties and focused its limited cash resources on the restoration and leasing of its properties. Consequently, LREIT was in default of the debt service requirements on ten mortgage loans with an aggregate principal balance of $184.7 million at June 30, 2016. Subsequent to June 30, 2016, LREIT repaid the amounts withheld for one mortgage loan with a principal balance of $24.9 million in full and is no longer in default of the terms of its forbearance agreement.

As of the date of this report, LREIT's lenders have not taken action to enforce their security in response to the defaults and management believes that ongoing discussions will result in arrangements that will help stabilize operations.

Continuing Operations and Ongoing Initiatives

During Q2-2016, the following measures were taken as part of the ongoing efforts to address the liquidity concerns:

- On May 1, 2016, LREIT completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. Divestiture activities are currently focused on the sale of the property classified as held for sale, Woodland Park, as well as the two seniors' housing complexes, Chateau St. Michael's and Elgin Lodge.
- On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date of the debenture to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5%, and to defer all payments of interest to the amended maturity date.
- In conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum. Shelter Canadian Properties Limited and 2668921 Manitoba Ltd. continue to participate equitably in LREIT's debt restructuring initiatives by providing the deferral of property management fees, service fees, and interest on the revolving loan as well as interest on the second mortgage loan acquired by 2668921 Manitoba Ltd. during the first quarter of 2016.
- In an effort to promptly restore operations and meet the increased demand for accommodations that has transpired in the wake of the Fort McMurray wildfire, the suites and common areas of LREIT's properties have been professionally cleaned and restored. Select renovations and the conversion of units to furnished suites are underway to more aptly address the current needs of prospective tenants.

Outlook

In addition to its property restoration and leasing efforts, LREIT will maintain its focus on the divestiture program and debt restructuring initiatives, all of which are key to its ability to remain a going concern.

It is anticipated that post-fire rental market conditions in Fort McMurray will have a positive impact on operating results; however, the extent and duration of the impact remains uncertain at this time. The longer-term prospects for the region will continue to be closely linked to oil sands development activity.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	June 30 2016	December 31 2015	December 31 2014
Total assets	$273,917,517	$278,524,804	$442,773,600
Total long-term financial liabilities (1)	$255,428,420	$279,529,237	$327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.8%	6.0%	5.7%
- Total debt	6.5%	6.4%	6.3%

(1) Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability, the revolving loan from 2668921 Manitoba Ltd., an interest rate swap liability and mortgage bonds. The mortgage bonds are included at face value.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
KEY FINANCIAL PERFORMANCE INDICATORS				
Operating Results				
Rentals from investment properties	$ 3,979,652	$ 7,957,771	$ 8,431,114	$ 16,689,490
Net operating income	$ 1,824,148	$ 4,556,944	$ 3,483,505	$ 9,309,926
Income (loss) before discontinued operations	$20,514,463	$(34,990,639)	$12,874,234	$(38,910,450)
Income (loss) and comprehensive income (loss)	$20,488,721	$(34,820,609)	$12,889,424	$(38,632,655)
Funds from Operations (FFO)	$(4,343,306)	$ (1,564,934)	$ (8,623,880)	$ (3,480,158)
Cash Flows				
Cash provided by (used in) operating activities	$ 265,838	$ 511,072	$ 1,146,534	$ 218,934
Adjusted Funds from Operations (AFFO)	$(4,464,442)	$ (1,782,376)	$ (9,067,860)	$ (3,392,970)

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Three Months Ended June 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 3,979,652	$ 7,957,771	$(3,978,119)	(50)%
Property operating costs	2,155,504	3,400,827	1,245,323	37%
Net operating income	1,824,148	4,556,944	(2,732,796)	(60)%
Interest income	39,735	22,271	17,464	78%
Interest expense	(5,764,385)	(5,855,496)	91,111	2%
Trust expense	(558,510)	(458,683)	(99,827)	(22)%
Loss before the following	(4,459,012)	(1,734,964)	(2,724,048)	(157)%
Gain on sale of investment property	20,986	(201,215)	222,201	n/a
Fair value adjustments - Investment properties	24,952,489	(33,054,460)	58,006,949	175%
Income (loss) before discontinued operations	20,514,463	(34,990,639)	55,505,102	159%
Income (loss) from discontinued operations	(25,742)	170,030	(195,772)	(115)%
Income (loss) and comprehensive income (loss)	$ 20,488,721	$(34,820,609)	$55,309,330	159%

	Six Months Ended June 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 8,431,114	$ 16,689,490	$(8,258,376)	(49)%
Property operating costs	4,947,609	7,379,564	2,431,955	33%
Net operating income	3,483,505	9,309,926	(5,826,421)	(63)%
Interest income	56,988	47,163	9,825	21%
Interest expense	(11,420,565)	(12,264,500)	843,935	7%
Trust expense	(1,114,940)	(850,542)	(264,398)	(31)%
Loss before the following	(8,995,012)	(3,757,953)	(5,237,059)	(139)%
Gain (loss) on sale of investment property	20,986	(201,215)	222,201	(110)%
Fair value adjustments - Investment properties	21,848,260	(34,951,282)	56,799,542	163%
Income (loss) before discontinued operations	12,874,234	(38,910,450)	51,784,684	133%
Income from discontinued operations	15,190	277,795	(262,605)	(95)%
Income (loss) and comprehensive income (loss)	$ 12,889,424	$(38,632,655)	$ 51,522,079	133%

LREIT completed the three and six month periods ended June 30, 2016 with net income of $20.5 million and $12.9 million, respectively, compared to a net loss of $34.8 million and $38.6 million, respectively, during the three and six month periods ended June 30, 2015. The increase in the net income for the three and six month periods ended June 30, 2016 mainly reflects a favorable variance in the fair value adjustments of the investment properties, as well as a reduction in interest expense, partially offset by a decrease in the net operating income of the Fort McMurray property portfolio and a decrease in the net operating income of held for sale and/or sold properties.

The favorable variance in the fair value adjustment of the investment properties is primarily due to an increase in the carrying value of the Fort McMurray properties, as revenue expectations for the Fort McMurray portfolio were adjusted to reflect the increase in demand for rental accommodations associated with the return of displaced residents who have lost their homes and those involved with the rebuilding efforts.

The decrease in interest expense is mainly the result of the sale of Colony Square in November 2015, as well as lump-sum payments made on mortgage loans in 2015 and the full repayment of two second mortgage loans during the first six months of 2016.

The decline in the net operating income of the Fort McMurray portfolio is primarily the result of the sustained low-level of oil sands development activity, which continued to exert downward pressure on the general economic, and rental market conditions of Fort McMurray throughout 2015 and the first six months of 2016. While the re-entry of residents displaced by the wildfire and the commencement of the post-fire rebuild effort are factors that have resulted in increased economic activity in the region, the impact of these factors on the operating results for the second quarter of 2016 has been negligible and will not begin to be realized until the third quarter of 2016.

The decrease in the net operating income of held for sale/sold properties is primarily due to the sale of Colony Square on November 1, 2015.

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 2,838,555	$4,614,248	$(1,775,693)	$5,582,872	$ 9,617,825	$(4,034,953)
Other investment properties	432,116	505,506	(73,390)	851,118	995,094	(143,976)
Sub-total	3,270,671	5,119,754	(1,849,083)	6,433,990	10,612,919	(4,178,929)
Held for sale and/or sold properties	708,981	2,838,017	(2,129,036)	1,997,124	6,076,571	(4,079,447)
Total	$ 3,979,652	$7,957,771	$(3,978,119)	$8,431,114	$16,689,490	$(8,258,376)

Occupancy Level, by Quarter

	2016		
	Q1	Q2	6 Month Average
Fort McMurray properties	52%	58%	55%
Other investment properties	72%	74%	73%
Total	54%	60%	57%
Held for sale and/or sold properties	75%	64%	70%

	2015					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	76%	71%	74%	66%	54%	67%
Other investment properties	85%	86%	86%	83%	79%	83%
Total	77%	73%	75%	68%	56%	69%
Held for sale and/or sold properties	89%	88%	89%	87%	81%	87%

Average Monthly Rents, by Quarter

	2016		
	Q1	Q2	6 Month Average
Fort McMurray properties	$1,699	$1,599	$1,649
Other investment properties	$969	$960	$964
Total	$1,576	$1,491	$1,534
Held for sale and/or sold properties	$1,783	$2,036	$1,873

	2015					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	$2,158	$2,127	$2,143	$2,079	$1,980	$2,086
Other investment properties	$949	$967	$958	$973	$971	$965
Total	$1,954	$1,931	$1,943	$1,892	$1,810	$1,897
Held for sale and/or sold properties	$1,239	$1,220	$1,229	$1,223	$1,219	$1,224

During the three and six months ended June 30, 2016, total revenue from investment properties, excluding held for sale and/or sold properties, decreased by $1.8 million or 36% and $4.2 million or 39%, respectively, as compared to the same periods in the prior year. The decrease in revenue is almost entirely due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

The revenue results of the Fort McMurray property portfolio continue to reflect challenging rental market conditions due to the decreased oil sands development activity in the region, which resulted from the decline in the price of oil that began in the fourth quarter of 2014 and has continued to remain at depressed levels. The average occupancy level for the Fort McMurray portfolio decreased from 71% during the second quarter of 2015 to 58% during the second quarter of 2016 and the average monthly rental rate decreased by $528 per suite or 25%. The average occupancy level for the Fort McMurray portfolio decreased from 74% during for the first six months of 2015 to 55% during the first six months of 2016 and the average monthly rental rate decreased by $494 per suite or 23%.

While the re-entry of residents displaced by the wildfire and the commencement of the post-fire rebuild effort are factors that have resulted in increased economic activity in the region, as evidenced by the increase in average occupancy level of the Fort McMurray portfolio to 71% as of August 1, 2016, the impact of these factors on the operating results for the second quarter of 2016 was negligible.

Notwithstanding the improvement in the occupancy levels of the Fort McMurray properties subsequent to the period ended June 30, 2016, the rental rates of the Fort McMurray properties remain at a significantly reduced level compared to the prior year. The reduced rental rate level, together with the uncertainty with respect to the extent and/or duration of the post-fire rental market recovery, are key factors that cast significant doubt as to the ability of LREIT to sustain operations into the foreseeable future.

After accounting for a decrease in revenue from held for sale and/or sold properties of $2.1 million and $4.1 million in the three and six month periods ended June 30, 2016, respectively, the total revenue decreased by $4.0 million or 50% during the second quarter of 2016, compared to the second quarter of 2015 and decreased by $8.3 million or 49% during the first six months of 2016, compared to the first six months of 2015. The decrease in revenue from held for sale and/or sold properties for the three and six month periods ended June 30, 2016 was primarily due to the sale of Colony Square on November 1, 2015; a decrease in revenue related to Woodland Park, the Fort McMurray property classified as held for sale; and the sale of Beck Court on May 1, 2016.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 1,598,135	$ 1,907,139	$ (309,004)	$ 3,505,703	$ 4,191,790	$ (686,087)
Other investment properties	249,213	263,957	(14,744)	529,598	563,405	(33,807)
Sub-total	1,847,348	2,171,096	(323,748)	4,035,301	4,755,195	(719,894)
Held for sale and/or sold properties	308,156	1,229,731	(921,575)	912,308	2,624,369	(1,712,061)
Total	$ 2,155,504	$ 3,400,827	$(1,245,323)	$ 4,947,609	$ 7,379,564	$(2,431,955)

During the three and six months ended June 30, 2016, property operating costs decreased by $1.2 million or 37% and $2.4 million or 33%, respectively, as compared to the same periods in the prior year. The decreases mainly reflect a decrease in the property operating costs of held for sale and/or sold properties, primarily due to the sale of Colony Square on November 1, 2015 and a decrease in the property operating costs of the Fort McMurray properties, primarily due to decreases in maintenance and management fee expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Three Months Ended June 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 1,240,420	$ 2,707,109	$(1,466,689)	(54)%	68%	59%	44%	59%
Other investment properties	182,903	241,549	(58,646)	(24)%	10%	5%	42%	48%
Sub-total	1,423,323	2,948,658	(1,525,335)	(52)%	78%	64%	44%	58%
Held for sale and/or sold properties	400,825	1,608,286	(1,207,461)	(75)%	22%	35%	57%	57%
Total	$ 1,824,148	$ 4,556,944	$(2,732,796)	(60)%	100%	99%	46%	57%

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Six Months Ended June 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 2,077,169	$ 5,426,035	$(3,348,866)	(62)%	60%	58%	37%	56%
Other investment properties	321,520	431,689	(110,169)	(26)%	9%	5%	38%	43%
Sub-total	2,398,689	5,857,724	(3,459,035)	(59)%	69%	63%	37%	55%
Held for sale and/or sold properties	1,084,816	3,452,202	(2,367,386)	(69)%	27%	37%	54%	57%
Total	$ 3,483,505	$ 9,309,926	$(5,826,421)	(63)%	100%	100%	41%	56%

The net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1.5 million or 52% and $3.5 million or 59%, during the second quarter of 2016, compared to the second quarter of 2015, and during the first six months of 2016, compared to the first six months of 2015, respectively. The operating margin, excluding held for sale and/or sold properties, decreased from 58% during the second quarter of 2015 to 44% during the second quarter of 2016, and from 55% during the first six months of 2015 to 37% during the first six months of 2016. The decreases in net operating income and the operating margin, excluding held for sale and/or sold properties, primarily reflect the decreased revenue results of the Fort McMurray property portfolio, partially offset by a decrease in operating costs.

After including held for sale and/or sold properties, total net operating income decreased by $2.7 million or 60% during the second quarter of 2016 and $5.8 million or 63% during the first six months of 2016, compared to the same periods in the prior year. The decrease in net operating income from held for sale and/or sold properties is primarily due to the sale of Colony Square on November 1, 2015; a decrease in revenue related to Woodland Park, the Fort McMurray property classified as held for sale; and the sale of Beck Court on May 1, 2016.

ABOUT LREIT

LREIT is a real estate investment trust, which is listed on the Toronto Stock Exchange under the symbols LRT.UN (Trust Units) and LRT.DB.G (Series G Debentures). 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.