



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2015 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 14, 2015 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended June 30, 2015. 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, 2015, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

Results of Operation

Overview

Overall, LREIT completed Q2-2015 with a comprehensive loss of \$34.8 million, compared to a comprehensive loss of \$0.74 million during Q2- 2014.

Net Operating Income

During Q2-2015, net operating income decreased by \$1.37 million compared to Q2-2014. Excluding properties held for sale and/or sold, NOI decreased by \$1.23 million. The decrease in NOI is entirely attributable to the Fort McMurray property portfolio and is comprised of a \$1.9 million decrease in rental revenues, partially offset by a \$0.6 million decrease in operating costs.

The sustained slowdown in oil sands development activity, which began during Q4-2014 in conjunction with a significant decline in the price of oil, has resulted in increasingly competitive rental market conditions in Fort McMurray and has countered the increased level of demand that LREIT has typically experienced during the second and third quarters of the year.

The occupancy level of the Fort McMurray portfolio was 72% during Q2-2015, representing an 18% decrease, compared to an occupancy level of 90% during Q2-2014. During Q2-2015, the average monthly rental rate experienced an 8% decrease in comparison to Q2-2014.

Fair Value Adjustments

During Q2-2015, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of \$33.1 million, compared to a loss related to fair value adjustments of \$0.7 Million, during Q2-2014. The decrease in the fair value of investment properties is primarily due to the reduction in the carrying value of the Fort McMurray properties portfolio, which has been adjusted to reflect unfavourable changes in revenue and occupancy expectations, as well as an increased level of uncertainty in regard to the extent and/or timing of future oil sands development and production activity.

Cash Flow Results

During Q2-2015, cash used in operating activities, excluding working capital adjustments, amounted to \$0.8 million, compared to cash used in operating activities of \$0.1 million during Q2-2014. Including working capital adjustments, LREIT completed Q2-2015 with cash provided by operating activities of \$0.5 million, compared to cash used in operating activities of \$0.3 million during Q2-2014.

Key Events

Second Quarter of 2015

- **Sale of property:** On April 1, 2015, LREIT completed the sale of a commercial property in Airdrie, Alberta for net proceeds of \$2.4 million, after sales expenses and the assumption of the mortgage loan debt by the purchaser.
- **Elimination of a debt covenant breach:** On April 7, 2015, LREIT refinanced the first mortgage loan of Millennium Village, which included an associated interest rate swap liability and debt service coverage breach.

Subsequent to June 30, 2015

- **Renewal of Revolving Loan:** Subsequent to June 30, 2015, the maximum amount that may be advanced by 2668921 Manitoba Ltd. on the revolving loan facility increased to \$18 million at an interest rate of 12%. As of June 30, 2015, the balance of the revolving loan was \$15 million.

Outlook

Although the continued depressed level of oil prices and the resulting reduction in oil sands development activity are expected to impact the operating results of LREIT in the near term, LREIT remains optimistic about the long-term prospects for the Fort McMurray rental market. Management is continuing to pursue and expand the divesture program, both within and outside of Fort McMurray, in order to reduce the debt burden, sustain operations and position LREIT to take advantage of an eventual recovery in the Fort McMurray rental market.

FINANCIAL AND OPERATING SUMMARY

	June 30		December 31	
	2015	2014	2014	2013
STATEMENT OF FINANCIAL POSITION				
Total assets	\$403,437,550	\$442,773,600	\$468,072,319	
Total long-term financial liabilities ⁽¹⁾	\$324,012,038	\$327,980,499	\$302,335,837	
Weighted average interest rate				
- Mortgage loan debt	5.7%	5.7%	5.4%	
- Total debt	6.3%	6.3%	5.9%	

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Rentals from investment properties	\$ 7,957,771	\$ 9,975,172	\$ 16,689,490	\$18,883,897
Net operating income	\$ 4,556,944	\$ 5,924,651	\$9,309,926	\$10,428,718
Loss before discontinued operations	\$(34,990,639)	\$(898,369)	\$(38,910,450)	\$(3,414,317)
Loss and comprehensive loss	\$(34,820,609)	\$(742,668)	\$(38,632,655)	\$(3,146,681)

Cash Flows

Cash provided by (used in) operating activities	\$ 511,072	\$ (260,667)	\$ 218,934	\$ 457,974
Funds from Operations (FFO)	\$(1,564,934)	\$ (58,076)	\$(3,480,158)	\$(2,533,324)
Adjusted Funds from Operations (AFFO)	\$(1,782,376)	\$ (959,791)	\$(3,392,970)	\$(3,067,659)

- (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.

Q2-2015 COMPARED TO Q2-2014

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net operating income				
Fort McMurray properties	\$ 3,237,384	\$ 4,551,452	\$ 6,414,181	\$ 7,884,581
Other investment properties	<u>755,363</u>	<u>667,580</u>	<u>1,405,426</u>	<u>1,259,396</u>
Sub-total	3,992,747	5,219,032	7,819,607	9,143,977
Held for sale and/or sold properties	<u>564,197</u>	<u>705,619</u>	<u>1,490,319</u>	<u>1,284,741</u>
Total net operating income	4,556,944	5,924,651	9,309,926	10,428,718
Interest income	22,271	206,779	47,163	591,997
Interest expense	(5,855,496)	(5,745,943)	(12,264,500)	(12,700,225)
Trust expense	(458,683)	(599,264)	(850,542)	(1,219,949)
Income recovery on Parsons Landing	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,499</u>
Loss before the following	(1,734,964)	(213,777)	(3,757,953)	(2,800,960)
Gain (loss) on sale of investment property	(201,215)	-	(201,215)	71,235
Fair value adjustments - Investment properties	<u>(33,054,460)</u>	<u>(684,592)</u>	<u>(34,951,282)</u>	<u>(684,592)</u>
Loss before discontinued operations	(34,990,639)	(898,369)	(38,910,450)	(3,414,317)
Income from discontinued operations	<u>170,030</u>	<u>155,701</u>	<u>277,795</u>	<u>267,636</u>
Loss and comprehensive loss	<u>\$(34,820,609)</u>	<u>\$(742,668)</u>	<u>\$(38,632,655)</u>	<u>\$(3,146,681)</u>

During Q2-2015, loss before gain on sale of investment property, fair value adjustments and discontinued operations increased by \$1.5 million compared to Q2-2014. The increase is mainly due to a decrease in operating income of \$1.4 million, a decrease in interest income of \$0.2 million and an increase in interest expense of \$0.1 million, partially offset by a decrease in trust expense of \$0.1 million.

During Q2-2015, LREIT's comprehensive loss was \$34.8 million, compared to a comprehensive loss of \$0.7 million during Q2-2014, representing a variance of \$34.1 million. In addition to the variables noted in the preceding paragraph, the increase in loss reflects an increase in loss from fair value adjustments of \$32.4 million and an unfavourable variance on the sale of investment property of \$0.2 million.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Fort McMurray properties	\$ 5,337,956	\$ 7,229,516	\$ (1,891,560)	\$ 11,103,995	\$ 13,521,962	\$ (2,417,967)
Other investment properties	<u>1,336,306</u>	<u>1,276,175</u>	<u>60,131</u>	<u>2,625,088</u>	<u>2,513,179</u>	<u>111,909</u>
Sub-total	6,674,262	8,505,691	(1,831,429)	13,729,083	16,035,141	(2,306,058)
Held for sale and/or sold properties ⁽¹⁾	<u>1,283,509</u>	<u>1,469,481</u>	<u>(185,972)</u>	<u>2,960,407</u>	<u>2,848,756</u>	<u>111,651</u>
Total	<u>\$ 7,957,771</u>	<u>\$ 9,975,172</u>	<u>\$(2,017,401)</u>	<u>\$ 16,689,490</u>	<u>\$ 18,883,897</u>	<u>\$(2,194,407)</u>

1. Represents revenue from Colony Square and 156/204 East Lake Blvd.

During Q2-2015 total revenue from investment properties, excluding held for sale and/or sold properties, decreased by \$1.83 million (22%), compared to Q2-2014, which was mainly due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

The revenue results for the Fort McMurray property portfolio reflect increasingly competitive rental market conditions as a result of a slow-down in oil sands development activity due to a decline in the price of oil beginning in Q4-2014 and the continued depressed level of oil prices in Q2-2015. As a result, the occupancy level and average rental rates decreased in Q2-2015, compared to Q2-2014. As noted in the following charts, the average occupancy level for the Fort McMurray portfolio decreased from 90% during Q2-2014 to 72% during Q2-2015, while the average monthly rental rate decreased by \$181 per suite or 8%.

Occupancy Level, by Quarter

	2015					
	Q1	Q2	6 Month Average			
Fort McMurray properties	76%	72%	74%			
Other investment properties	92%	94%	93%			
Total	79%	75%	77%			
Held for sale and/or sold properties	94%	90%	93%			

	2014					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	78%	90%	84%	90%	85%	86%
Other investment properties	88%	91%	90%	94%	93%	92%
Total	79%	90%	85%	91%	86%	87%
Held for sale and/or sold properties	90%	93%	91%	93%	93%	92%

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

Average Monthly Rents, by Quarter

	2015					
	Q1	Q2	6 Month Average			
Fort McMurray properties	\$2,228	\$2,192	\$2,210			
Other investment properties	\$1,138	\$1,158	\$1,148			
Total	\$1,932	\$1,910	\$1,921			
Held for sale and/or sold properties *	\$760	\$736	\$748			

	2014					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	\$2,397	\$2,373	\$2,386	\$2,351	\$2,291	\$2,354
Other investment properties	\$1,137	\$1,126	\$1,131	\$1,117	\$1,123	\$1,126
Total	\$2,055	\$2,034	\$2,045	\$2,016	\$1,976	\$2,020
Held for sale and/or sold properties *	\$741	\$739	\$740	\$732	\$754	\$741

* Represents the residential portion of Colony Square.

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Increase	2015	2014	Increase
			(Decrease)			(Decrease)
Fort McMurray properties	\$2,100,572	\$2,678,064	\$(577,492)	\$4,689,814	\$5,637,381	\$ (947,567)
Other investment properties	<u>580,943</u>	<u>608,595</u>	<u>(27,652)</u>	<u>1,219,662</u>	<u>1,253,783</u>	<u>(34,121)</u>
Sub-total	2,681,515	3,286,659	(605,144)	5,909,476	6,891,164	(981,688)
Held for sale and/or sold properties	<u>719,312</u>	<u>763,862</u>	<u>(44,550)</u>	<u>1,470,088</u>	<u>1,564,015</u>	<u>(93,927)</u>
Total	<u>\$3,400,827</u>	<u>\$4,050,521</u>	<u>\$(649,694)</u>	<u>\$7,379,564</u>	<u>\$8,455,179</u>	<u>\$(1,075,615)</u>

During Q2-2015, property operating costs, excluding held for sale and/or sold, decreased by \$0.61 million or 18%, compared to Q2-2014. The decrease is comprised almost entirely of the decrease of \$0.58 million in Fort McMurray operating costs. The decrease in Fort McMurray operating costs is mainly due to decreases in maintenance costs, property taxes, utilities and management fees. The decrease in maintenance costs included the elimination of the Parsons Landing occupancy fee paid to the developer prior to the completion of the purchase of the property on March 6, 2014 and a decrease in repair costs related to water damage, net of insurance recoveries.

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended				Operating			
	June 30		Increase (Decrease)		Percent of Total		Margin	
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	\$3,237,384	\$ 4,551,452	\$(1,314,068)	(29)%	71%	77%	61%	63%
Other investment properties	<u>755,363</u>	<u>667,580</u>	<u>87,783</u>	<u>13%</u>	<u>17%</u>	<u>11%</u>	<u>57%</u>	<u>52%</u>
Sub-total	3,992,747	5,219,032	(1,226,285)	(23)%	88%	88%	60%	61%
Held for sale and/or sold properties	<u>564,197</u>	<u>705,619</u>	<u>(141,422)</u>	<u>(20)%</u>	<u>12%</u>	<u>12%</u>	<u>44%</u>	<u>8%</u>
Total	<u>\$4,556,944</u>	<u>\$ 5,924,651</u>	<u>\$(1,367,707)</u>	<u>(23)%</u>	<u>100%</u>	<u>100%</u>	<u>57%</u>	<u>59%</u>

After considering the decrease in rental revenue and the decrease in property operating costs, net operating income, excluding held for sale and/or sold properties, decreased by \$1.23 million or 23% during Q2-2015, compared to Q2-2014. The decrease is comprised of a \$1.31 million decrease in net operating income from the Fort McMurray properties, partially offset by a \$0.09 million increase in net operating income from the other investment properties.

Including the decrease in net operating income related to held for sale and/or sold properties, total net operating income increased by \$1.37 million or 23% during Q2-2015, compared to Q2-2014.

Overall, the operating margin for the property portfolio, excluding held for sale and/or sold properties, decreased from 61% during Q2-2014, to 60% during Q2-2015. The decrease in the operating margin is mainly due to the unfavourable variance in revenue results for Fort McMurray properties.

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss

	Three Months Ended		Increase (Decrease) In	
	June 30, 2015	March 31, 2015	Amount	%
Rentals from investment properties	\$ 7,957,771	\$ 8,731,719	\$ (773,948)	(9)%
Property operating costs	<u>3,400,827</u>	<u>3,978,737</u>	<u>577,910</u>	<u>15%</u>
Net operating income	4,556,944	4,752,982	(196,038)	(4)%
Interest income	22,271	24,892	(2,621)	(11)%
Interest expense	(5,855,496)	(6,409,004)	553,508	9%
Trust expense	<u>(458,683)</u>	<u>(391,859)</u>	<u>(66,824)</u>	<u>(17)%</u>
Loss before the following	(1,734,964)	(2,022,989)	288,025	14%
Gain (loss) on sale of investment property	(201,215)	-	(201,215)	n/a
Fair value adjustments	<u>(33,054,460)</u>	<u>(1,896,822)</u>	<u>(31,157,638)</u>	<u>1,643%</u>
Loss for the period before discontinued operations	(34,990,639)	(3,919,811)	(31,070,828)	(793)%
Income (loss) from discontinued operations	<u>170,030</u>	<u>107,765</u>	<u>62,265</u>	<u>58%</u>
Comprehensive loss	<u>\$ (34,820,609)</u>	<u>\$ (3,812,046)</u>	<u>\$ (31,008,563)</u>	<u>(813)%</u>

During Q2-2015 the loss before sale of investment property, fair value adjustments, and discontinued operations decreased by \$0.29 million or 14%, compared to Q1-2015. The decrease mainly reflects a decrease in interest expense of \$0.55 million, partially offset by a decrease in net operating income of \$0.19 million and an increase in trust expense of \$0.07 million. The decrease in net operating income is mainly attributable to the Fort McMurray portfolio. The decrease in interest expense mainly reflects the repayment of the remaining mortgage bonds in the amount of \$6,000,000 during Q1-2015.

Including the variance in fair value adjustments in the amount of \$31.16 million, the loss before discontinued operations increased by \$31.07 million during Q2-2015. Fair value losses were comparatively high during Q2-2015 as a result of the changes in the valuation assumptions for the Fort McMurray portfolio.

Including discontinued operations, LREIT completed Q2-2015 with a comprehensive loss of \$34.82 million, compared to a comprehensive loss of \$3.81 million during Q1-2015.

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). 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.