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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2017 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 9, 2017 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the quarter ended June 30, 2017. 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, 2017, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

Operating results during Q2-2017 continued to reflect the stabilized rental market conditions in Fort McMurray, Alberta, LREIT's primary market, as the process of re-establishing the community progresses.

According to a recent report by Canada Mortgage and Housing Corporation ("CMHC"), one-third of the previously destroyed houses are now under reconstruction, with the vast majority breaking ground during the first six months of 2017. CMHC is forecasting further reductions in the average vacancy rates, primarily due to demand from construction workers taking part in the rebuilding efforts.

Operating Results

LREIT completed the three and six months periods ended June 30, 2017 with negative funds from operations ("FFO") of $1.6 million and $3.3 million, respectively, compared to negative FFO of $4.3 million and $8.6 million, respectively, during the same periods in 2016. The favourable FFO variance mainly reflects a decrease in interest expense and an increase in net operating income ("NOI").

The decrease in interest expense is mainly due to the divestiture and debt restructuring initiatives undertaken during 2016 which resulted in reduced amortization of transaction costs, reduced mortgage loan debt and reductions in the rate of interest applicable to the revolving loan and Series G debenture debt.

The increase in NOI is mainly due to an increase in the net rental revenue of the Fort McMurray property portfolio, as a result of an increase in the average occupancy rate to 71% during the second quarter of 2017, compared to 58% during the second quarter of 2016. The increase in net rental revenues was partially offset by the loss of revenue associated with sales of Beck Court and Willowdale Gardens in May 2016.

Overall, LREIT completed Q2-2017 with a loss and comprehensive loss of $8.9 million, compared to income and comprehensive income of $20.5 million during Q2-2016. The decrease in income mainly reflects an unfavourable variance in fair value adjustments of the investment properties, partially offset by the above noted decrease in interest expense and increase in NOI.

Liquidity and Capital Resources

During the first six months of fiscal 2017, cash used in operating activities, before working capital adjustments, amounted to $0.7 million, compared to $1.6 million during the same period in 2016, and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal repayments, capital expenditures, and transaction costs, was $4.5 million, compared to $3.3 million during the first six months of 2016. The increase in the cash shortfall is mainly due to an increase in cash used in operations after working capital adjustments. The cash shortfall was funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd.

As of June 30, 2017, LREIT is current with respect to all debt service payments, with the exception of one matured mortgage loan with an expired forbearance agreement. As previously reported, the mortgage loan matured in December 2015 and subsequently operated under a forbearance agreement which matured on February 28, 2017, after which it was being over-held, pending the completion of a review of an extension request.

During Q2-2017, the extension request was denied and the lender of the matured mortgage loan applied to have a receiver appointed in respect of the underlying mortgaged property. Due to a defect in the security held by the lender, the lender was not able to place the property into receivership; however, the Alberta Court of Queen's Bench did inform the lender that the guarantee provided by LREIT with respect to the original mortgage loan was enforceable and granted summary judgment against LREIT in respect of the guarantee obligation. As a result, the lender may pursue the enforcement options available to an unsecured creditor, including a new application for receivership that would encompass LREIT's beneficial ownership of the property. LREIT is unable to satisfy the full repayment of the matured mortgage loan with its current resources and continues to seek a settlement with the lender in the form of extended financing or by the divestiture of the property.

As previously reported, five mortgage loans on eight properties with an aggregate principal balance of $64.3 million, which were previously in default of debt service payments, are still presented as being in default, as the lender indicated that there are service fees outstanding with respect to the loans and no payment of such fees has been made. Management expects that an agreement with respect to the servicing fees will be negotiated and that any default will be remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans. In the event that full repayment is demanded LREIT would not be able to satisfy the full repayment of the loan with its current resources.

Outlook

LREIT continues to benefit from the debt restructuring and divestiture activities that took place during 2016, as they have allowed for the deferral of interest payments, a decrease in mortgage loan debt, and decreases in the interest rates charged. Such factors, when combined with the improved operating performance being experienced in fiscal 2017, are beginning to reduce the extent of the operating cash deficiencies.

Notwithstanding the progress made, LREIT continues to face financing challenges and the ability to continue operations in the near-term is contingent on the continued financial support of Shelter and its parent company, 2668921 Manitoba Ltd., as well as LREIT's ability to renew and/or refinance its mortgage loan debts as they become due.

Looking beyond the post-fire rebuilding process in Fort McMurray, which may take several years, the long term prospects of the Fort McMurray rental market will remain closely correlated with the price of oil and oil sands development activity.

As previously announced on March 31, 2017, LREIT no longer satisfies the continued listing requirements of the Toronto Stock Exchange and it is not anticipated that such requirements will be satisfied in the foreseeable future. As a result, LREIT intends to transition the listings of its trust units and Series G debentures to the TSX Venture Exchange later this year.

STATEMENT OF FINANCIAL POSITION

	June 30	December 31	
	2017	2016	2015
Total assets	$236,253,617	$245,402,329	$278,524,804
Total long-term financial liabilities [(1)]	$247,863,222	$243,501,308	$279,529,237
Weighted average interest rate			
- Mortgage loan debt	5.7%	5.8%	6.0%
- Total debt	5.6%	5.6%	6.4%

(1) Long-term financial liabilities consist of mortgage loans, debentures, defeased liability (December 2015) and the revolving loan from 2668921 Manitoba Ltd.

KEY FINANCIAL PERFORMANCE INDICATORS

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Operating Results				
Rentals from investment properties	$ 4,880,593	$ 3,979,652	$ 9,525,108	$ 8,431,114
Net operating income	$ 2,474,144	$ 1,824,148	$ 4,706,257	$ 3,483,505
Income (loss) before discontinued operations	$(8,899,395)	$20,514,463	$(13,591,204)	$12,874,234
Income (loss) & comprehensive income (loss)	$(8,909,938)	$20,488,721	$(13,555,657)	$12,889,424
Funds from Operations (FFO)	$(1,563,031)	$(4,343,306)	$(3,340,948)	$(8,623,880)
Cash Flows				
Cash provided by (used in) operating activities	$ (851,127)	$ 265,838	$(2,069,944)	$(1,146,534)
Adjusted Funds from Operations (AFFO)	$(1,713,565)	$(4,464,442)	$(3,598,744)	$(9,067,860)

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Three Months Ended June 30		Increase (Decrease) in Income	
	2017	2016	Amount	%
Rentals from investment properties	$ 4,880,593	$ 3,979,652	$ 900,941	23%
Property operating costs	(2,406,449)	(2,155,504)	250,945	(12)%
Net operating income	2,474,144	1,824,148	649,996	36%
Interest income	44,612	39,735	4,877	12%
Interest expense	(3,713,754)	(5,764,385)	2,050,631	36%
Trust expense	(357,490)	(558,510)	201,020	36%
Loss before the following	(1,552,488)	(4,459,012)	2,906,524	65%
Gain on sale of investment property	-	20,986	(20,986)	n/a
Fair value adjustments - Investment properties	(7,346,907)	24,952,489	(32,299,396)	(129)%
Income (loss) before discontinued operations	(8,899,395)	20,514,463	(29,413,858)	(143)%
Loss from discontinued operations	(10,543)	(25,742)	15,199	59%
Income (loss) and comprehensive income (loss)	$ (8,909,938)	$ 20,488,721	$(29,398,659)	(143)%

	Six Months Ended June 30		Increase (Decrease) in Income	
	2017	2016	Amount	%
Rentals from investment properties	$ 9,525,108	$ 8,431,114	$ 1,093,994	13%
Property operating costs	(4,818,851)	(4,947,609)	128,758	3%
Net operating income	4,706,257	3,483,505	1,222,752	35%
Interest income	90,224	56,988	33,236	58%
Interest expense	(7,400,008)	(11,420,565)	4,020,557	35%
Trust expense	(772,968)	(1,114,940)	341,972	31%
Loss before the following	(3,376,495)	(8,995,012)	5,618,517	62%
Gain on sale of investment property	58,377	20,986	37,391	178%
Fair value adjustments - Investment properties	(10,273,086)	21,848,260	(32,121,346)	(147)%
Income (loss) before discontinued operations	(13,591,204)	12,874,234	(26,465,438)	(206)%
Income from discontinued operations	35,547	15,190	20,357	134%
Income (loss) and comprehensive income (loss)	$(13,555,657)	$ 12,889,424	$(26,445,081)	(205)%

LREIT completed the three and six month periods ended June 30, 2017 with a loss and comprehensive loss of $8.9 million and $13.6 million, respectively, compared to income and comprehensive income of $20.4 million and $12.9 million, respectively, during the three and six month periods ended June 30, 2016. The decrease in the income during the three and six month periods ended June 30, 2017 mainly reflects an unfavorable variance in the fair value adjustments of the investment properties, partially offset by a decrease in interest expense and an increase in net operating income.

The decrease in interest expense mainly reflects a decrease in the amortization of transaction costs, a reduced level of mortgage loan debt, and a decrease in the interest rates on the revolving loan facility from 2668921 Manitoba Ltd. and the Series G debentures, all of which are covered in more detail in the "Interest Expense" section of this report.

The increase in net operating income mainly reflects an increase in rental revenue, due to an increase in the occupancy level of the Fort McMurray properties, partially offset by a decrease in net operating income as a result of the sales of Beck Court and Willowdale Gardens.

The increase in the occupancy level of the Fort McMurray portfolio is primarily the result of the entry of homeowners displaced by the May 2016 wildfire into the rental market and the commencement of the post-fire rebuild. The average occupancy level increased from 55% during the first six months of 2016 to 70% during the first six months of 2017. The extent and duration of the impact of the rebuilding effort on future operating results is uncertain and the long term prospects of the Fort McMurray rental market remain dependent on the price of oil and the level of future oil sands development activity.

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Fort McMurray properties	$ 3,800,949	$2,838,555	$ 962,394	$7,371,036	$5,582,872	$1,788,164
Other investment properties	391,025	432,116	(41,091)	774,218	851,118	(76,900)
Sub-total	4,191,974	3,270,671	921,303	8,145,254	6,433,990	1,711,264
Held for sale and/or sold properties	688,619	708,981	(20,362)	1,379,854	1,997,124	(617,270)
Total	$ 4,880,593	$3,979,652	$ 900,941	$9,525,108	$8,431,114	$1,093,994

Occupancy Level, by Quarter

	2017		
	Q1	Q2	6 Month Average
Fort McMurray properties	68%	71%	70%
Other investment properties	71%	73%	72%
Total	68%	72%	70%
Held for sale and/or sold properties	79%	79%	79%

	2016					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	52%	58%	55%	76%	72%	65%
Other investment properties	72%	74%	73%	69%	69%	71%
Total	54%	60%	57%	75%	72%	65%
Held for sale and/or sold properties	75%	64%	70%	86%	82%	75%

Average Monthly Rents, by Quarter

	2017		
	Q1	Q2	6 Month Average
Fort McMurray properties	$1,684	$1,707	$1,696
Other investment properties	$909	$909	$909
Total	$1,554	$1,573	$1,563
Held for sale and/or sold properties	$2,593	$2,611	$2,602

	2016					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	$1,699	$1,599	$1,649	$1,700	$1,669	$1,667
Other investment properties	$969	$960	$964	$945	$919	$948
Total	$1,576	$1,491	$1,534	$1,573	$1,543	$1,546
Held for sale and/or sold properties	$1,783	$2,036	$1,873	$2,546	$2,581	$2,088

During the three and six months ended June 30, 2017, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, increased by $0.9 million or 28% and $1.7 million or 27%, respectively, compared to the same periods in the prior year. The increase mainly reflects an increase in the average occupancy level of the Fort McMurray properties, as well as an increase in the average monthly rental rate.

The average occupancy level for the Fort McMurray portfolio increased from 58% during Q2-2016 to 71% during Q2-2017 and increased from 55% during the first six months of 2016 to 70% during the first six months of 2017 driving the increase in revenue. The average monthly rental rate increased by $108 per suite or 7% and $47 per suite or 3% during the three and six months ended June 30, 2017, respectively, compared to the same periods in the prior year.

Notwithstanding the positive revenue results during the first six months of 2017, the revenue results of the Fort McMurray property portfolio continue to reflect challenging rental market conditions as a result of the low level of oil sands development activity in the region, with rental rates that continue to be depressed relative to historical levels. The impact of the low level of oil sands development activity continues to be tempered by the entry of homeowners displaced by the wildfire into the rental market and the migration of workers involved in the rebuilding effort.

The depressed level of rental rates, together with the uncertainty regarding the extent and/or duration of the post-fire rental market recovery, are key factors that continue to cast significant doubt as to the ability of LREIT to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve operating performance are discussed in the "Liquidity and Capital Resources" section of the 2017 second quarter MD&A.

During the three and six month periods ended June 30, 2017, revenue from the held for sale and/or sold properties decreased by $0.02 million or 3% and $0.6 million or 31%, respectively, compared to the same periods in the prior year. The decrease in revenue from held for sale and/or sold properties was primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the revenue of Woodland Park, a Fort McMurray property which is currently classified as held-for-sale.

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Fort McMurray properties	$1,883,781	$1,598,135	$ 285,646	$3,743,618	$3,505,703	$ 237,915
Other investment properties	300,223	249,213	51,010	604,955	529,598	75,357
Sub-total	2,184,004	1,847,348	336,656	4,348,573	4,035,301	313,272
Held for sale and/or sold properties	222,445	308,156	(85,711)	470,278	912,308	(442,030)
Total	$2,406,449	$2,155,504	$ 250,945	$4,818,851	$4,947,609	$(128,758)

During the three and six month periods ended June 30, 2017, property operating costs, excluding the held for sale and/or sold properties, increased by $0.3 million and $0.3 million, respectively, compared to the same periods in the prior year. The increases in operating costs, excluding held for sale and/or sold properties, were the result of the operating costs for the Fort McMurray properties being abnormally low in the comparative periods due to the wildfire evacuation that occurred in the second quarter of 2016. The increases are reflective of property operating costs returning to normal levels in 2017, partially offset by a decrease in property taxes due to reductions in the 2017 assessment values for the Fort McMurray properties.

During the three and six month periods ended June 30, 2017, property operating costs from the held for sale and/or sold properties decreased by $0.09 million and $0.4 million, respectively, compared to the same periods in the prior year. The decreases were primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the property operating costs of Woodland Park, a Fort McMurray property which is currently classified as held-for-sale.

Analysis of Net Operating Income and Operating Margin

	Net Operating Income							
	Three Months Ended June 30		Increase (Decrease)		Percent of Total		Operating Margin	
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	$1,917,168	$ 1,240,420	$ 676,748	55%	77%	68%	50%	44%
Other investment properties	90,802	182,903	(92,101)	(50)%	4%	10%	23%	42%
Sub-total	2,007,970	1,423,323	584,647	41%	81%	78%	48%	44%
Held for sale/sold properties	466,174	400,825	65,349	16%	19%	22%	68%	57%
Total	$2,474,144	$1,824,148	$ 649,996	36%	100%	100%	51%	46%

Analysis of Net Operating Income and Operating Margin

	Net Operating Income							
	Six Months Ended June 30		Increase (Decrease)		Percent of Total		Operating Margin	
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	$3,627,418	$ 2,077,169	$1,550,249	75%	77%	60%	49%	37%
Other investment properties	169,263	321,520	(152,257)	(47)%	4%	9%	22%	38%
Sub-total	3,796,681	2,398,689	1,397,992	58%	81%	69%	47%	37%
Held for sale/sold properties	909,576	1,084,816	(175,240)	(16)%	19%	31%	66%	54%
Total	$4,706,257	$ 3,483,505	$1,222,752	35%	100%	100%	49%	41%

During the three and six month periods ended June 30, 2017, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, increased by $0.6 million or 41% and $1.4 million or 58%, respectively, compared to the same periods in the prior year. The operating margin, excluding held for sale and/or sold properties, increased from 44% during Q2-2016 to 48% during Q2-2017, and from 37% during the first six months of 2016 to 47% during the first six months of 2017. The increases in net operating income and operating margin, excluding held for sale and/or sold properties, were primarily due to the increase in the revenue results of the Fort McMurray property portfolio, partially offset by an increase in property operating costs.

After accounting for held for sale and/or sold properties, the total net operating income during the three and six month periods ended June 30, 2017, increased by $0.6 million or 36% and $1.2 million or 35%, respectively, compared to the same periods in the prior year. The decreases in net operating income from held for sale and/or sold properties are primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the revenue of Woodland Park, the Fort McMurray property which is classified as held-for-sale.

Interest Expense

During the three and six months ended June 30, 2017, total interest expense decreased by $2.2 million or 37% and $4.4 million or 37%, respectively, compared to the same periods in 2016. The decreases mainly reflect a decrease in mortgage loan interest and a decrease in debenture interest, as well as a decrease in interest expense related to discontinued operations and a decrease in revolving loan interest.

The decrease in mortgage loan interest is primarily due to a decrease in the amortization of transaction costs, as well as a decrease in the total balance of mortgage debt during 2016.

The decrease in debenture interest reflects a decrease in the amortization of transaction costs and the reduction in the Series G debenture interest rate from 9.5% to 5%, effective June 30, 2016, in accordance with the amended terms of the Series G debentures.

The decrease in interest expense related to discontinued operations is due to the sale of Elgin Lodge on October 1, 2016.

The decrease in revolving loan interest mainly reflects the reduction of the interest rate from 12% to 5%, effective July 1, 2016, partially offset by an increase in the average outstanding principal balance

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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