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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2015 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 12, 2015 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended March 31, 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 March 31, 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

LREIT completed Q1-2015 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of \$2.0 million, compared to a loss of \$2.6 million during Q1-2014. The decrease in loss mainly reflects a decrease in interest expense, an increase in operating income and a decrease in trust expense, partially offset by a decrease in interest income.

Overall, LREIT completed Q1-2015 with a comprehensive loss of \$3.8 million, compared to a comprehensive loss of \$2.4 million during Q1- 2014, representing an increase in the loss of \$1.4 million.

Net Operating Income

During Q1- 2015, net operating income increased by \$0.2 million compared to Q1-2014. Excluding properties held for sale, net operating income decreased by \$0.1 million, as a result of a decrease in the net operating income of the Fort McMurray property portfolio of \$0.2 Million, partially offset by an increase of \$0.1 million in the net operating income of the portfolio of other investment properties. The combined total net operating income for the Fort McMurray property portfolio and the income recovery on Parsons Landing, declined by \$0.3 million during Q1-2015 compared to Q1-2014. The decrease mainly reflects the impact of more competitive rental market conditions in Fort McMurray.

Rental market conditions in Fort McMurray continued to present significant challenges as the slow-down in oil sands activity persisted into Q1-2015. The occupancy level of the Fort McMurray property portfolio in Q1- 2015 was 76% compared to 78% during Q1-2014. Revenue for the Fort McMurray property portfolio decreased by \$0.5 million or 8% during Q1-2015 compared to Q1-2014. The decrease in revenue was largely offset by a decrease in operating costs \$0.4 million or 13%.

Interest Expense

Interest expense decreased by \$0.5 million or 8% during Q1-2015 which was mainly due to the non-cash component of mortgage bond interest. As \$10 million of mortgage bonds were repaid during Q1-2014, compared to \$6 million repaid during Q1-2015, accretion and transaction costs were comparatively high during Q1-2014.

Trust Expense

Trust expense for Q1-2015 decreased by \$0.2 million or 37% compared to Q1-2014, primarily due to the

recovery of a provision for financing fees previously considered unrecoverable.

Interest Income

Interest income for Q1-2015 decreased by \$0.3 million or 94% compared to Q1-2014 due to the collection of \$9 million of mortgage loans receivable during Q2-2014.

Fair Value Adjustments

During Q1-2015, LREIT recorded a loss of \$1.9 million related to fair value adjustments. There were no fair value adjustments during Q1-2014. The loss related to fair value adjustments during Q1-2015 was due to unfavourable changes in revenue and occupancy expectations for the Fort McMurray property portfolio offset by an increase in the fair value of Colony Square due to improvement in key market assumptions.

Cash Flow Results

During Q1-2015, cash inflow from operating activities, excluding working capital adjustments, amounted to \$0.3 million, compared to a cash outflow of \$0.1 million during Q1-2014. Including working capital adjustments, LREIT completed Q1-2015 with a cash outflow from operating activities of \$0.3 million, compared to a cash inflow of \$0.7 million during Q1-2014.

Key Events

First Quarter of 2015

- **Upward refinancing of mortgage loans:** LREIT generated net proceeds of \$7.4 million, after transaction costs, from the upward refinancing of Beck Court. The net proceeds were used to repay the remaining 9% mortgage bonds, in the aggregate principal amount of \$6.0 million, and the balance to working capital.
- **Reclassification of Colony Square:** Colony Square is now classified as “held for sale” and is an additional component of LREIT’s divestiture strategy.

Subsequent to March 31, 2015

- **Sale of property:** On April 1, 2015, LREIT completed the sale of a commercial property in Airdrie, AB 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:** Subsequent to March 31, 2015, LREIT refinanced the first mortgage loan of Millennium Village, which had been subject to an associated interest rate swap liability and debt service coverage breach.

Outlook

LREIT remains optimistic about the long-term prospects for oil sands development. In the near term, seasonal factors have traditionally resulted in improved operating results for the Fort McMurray property portfolio during the second and third quarters of the year, however, the impact of current oil prices creates uncertainty as to the extent and timing of future oil sands activity. In response to this challenge, LREIT has expanded its divestiture program to include Colony Square, which is expected to provide debt reduction during the second half of 2015. In addition, LREIT will pursue additional property sales as opportunities arise. LREIT also intends to pursue refinancing opportunities in an effort to further improve its overall debt burden.

FINANCIAL AND OPERATING SUMMARY

	March 31	December 31	
	<u>2015</u>	<u>2014</u>	<u>2013</u>
STATEMENT OF FINANCIAL POSITION			
Total assets	\$440,129,931	\$442,773,600	\$468,072,319
Total long-term financial liabilities (1)	\$328,048,045	\$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 March 31		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	\$ 8,731,719	\$ 8,908,725	\$ 9,768,888
Net operating income	\$ 4,752,982	\$ 4,504,067	\$ 5,693,568
Loss before discontinued operations	\$(3,919,811)	\$(2,515,948)	\$(1,044,322)
Loss and comprehensive loss	\$(3,812,046)	\$(2,404,013)	\$ (812,228)
Cash Flows			
Cash provided by (used in) operating activities	\$ (292,138)	\$ 718,641	\$ 123,995
Funds from Operations (FFO)	\$(1,915,224)	\$(2,475,248)	\$(1,171,491)
Adjusted Funds from Operations (AFFO)	\$(1,610,594)	\$(2,107,868)	\$(1,555,316)
Distributable income (loss)	\$ 38,985	\$ (361,998)	\$ 15,067

- (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.

Q1-2015 COMPARED TO Q1-2014

	Three Months Ended March 31		
	2015	2014	Increase (Decrease) in income
Net operating income			
Fort McMurray properties	\$ 3,176,797	\$ 3,333,129	\$ (156,332)
Other investment properties	<u>650,063</u>	<u>591,816</u>	<u>58,247</u>
Sub-total	3,826,860	3,924,945	(98,085)
Held for sale and/or sold properties	<u>926,122</u>	<u>579,122</u>	<u>347,000</u>
Total net operating income	4,752,982	4,504,067	248,915
Interest income	24,892	385,218	(360,326)
Interest expense	(6,409,004)	(6,954,282)	545,278
Trust expense	(391,859)	(620,685)	228,826
Income recovery on Parsons Landing	<u>-</u>	<u>98,499</u>	<u>(98,499)</u>
Loss before the following	(2,022,989)	(2,587,183)	564,194
Gain on sale of investment property	-	71,235	(71,235)
Fair value adjustments - Investment properties	<u>(1,896,822)</u>	<u>-</u>	<u>(1,896,822)</u>
Loss before discontinued operations	(3,919,811)	(2,515,948)	(1,403,863)
Income from discontinued operations	<u>107,765</u>	<u>111,935</u>	<u>(4,170)</u>
Loss and comprehensive Loss	<u><u>\$ (3,812,046)</u></u>	<u><u>\$ (2,404,013)</u></u>	<u><u>\$ (1,408,033)</u></u>

During Q1-2015, loss before gain on sale of investment property, fair value adjustments and discontinued operations decreased by \$0.6 million compared to Q1-2014. The decrease in the loss is mainly due to a decrease in interest expense of \$0.5 million, an increase in operating income of \$0.2 million and a decrease in trust expense of \$0.2 million, partially offset by a decrease in interest income of \$0.4 million and a decrease in income recovery on Parsons Landing of \$0.1 million.

During Q1-2015, LREIT's loss and comprehensive loss was \$3.8 million, compared to a net loss of \$2.4 million during Q1-2014, representing an increase in loss of \$1.4 million. In addition to the variables noted in the preceding paragraph, the increase in loss reflects a \$1.9 million loss from fair value adjustments in Q1-2015 and a gain on sale of investment property of \$0.1 million in Q1-2014.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended March 31					
	2015	2014	Increase (Decrease)		% of Total	
			Amount	%	2015	2014
Fort McMurray properties	\$5,766,039	\$6,292,446	\$(526,407)	(8)%	66%	71%
Other investment properties	<u>1,288,782</u>	<u>1,237,004</u>	<u>51,778</u>	<u>4%</u>	<u>15%</u>	<u>14%</u>
Sub-total	7,054,821	7,529,450	(474,629)	(6)%	81%	85%
Held for sale and/or sold properties (1)	<u>1,676,898</u>	<u>1,379,275</u>	<u>297,623</u>	<u>22%</u>	<u>19%</u>	<u>15%</u>
Total	<u><u>\$8,731,719</u></u>	<u><u>\$8,908,725</u></u>	<u><u>\$(177,006)</u></u>	<u><u>(2)%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>

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

During Q1-2015, total revenue from investment properties, excluding held for sale and/or sold properties, decreased by \$0.47 million, compared to Q1-2014 which was mainly due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

As disclosed in the following charts, the decrease in revenue from the Fort McMurray property portfolio is due to a decrease in both the average occupancy level and the average rental rate. The average occupancy level for the Fort McMurray portfolio decreased from 78% during Q1-2014 to 76% during Q1-2015, while the average monthly rental rate decreased by \$169 per suite or 7.1%.

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 Q1-2015.

Occupancy Level, by Quarter

	2014				2015	
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	78%	90%	90%	85%	86%	76%
Other investment properties	88%	91%	94%	93%	92%	92%
Total	79%	90%	91%	86%	87%	79%

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

Average Monthly Rents, by Quarter

	2014				2015	
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	\$2,397	\$2,373	\$2,351	\$2,291	\$2,354	\$2,228
Other investment properties	\$1,137	\$1,126	\$1,117	\$1,123	\$1,126	\$1,138
Total	\$2,055	\$2,034	\$2,016	\$1,976	\$2,020	\$1,932
Held for sale and/or sold properties *	\$741	\$739	\$732	\$754	\$741	\$760

* Represents the residential portion of Colony Square.

After including held for sale and/or sold properties, total revenue from the investment properties decreased by \$0.18 million during Q1-2015, compared to Q1-2014. The decrease is mainly attributable to the Fort McMurray portfolio, largely offset by an increase in revenue from held for sale and/or sold properties of \$0.30 million. The increase in revenue from held for sale and/or sold properties mainly reflects additional revenue as a result of charges to a tenant that was over-holding at Colony Square, as well as the lease up of 156/204 East Lake Blvd. in Q3-2014.

Analysis of Property Operating Costs

	Three Months Ended		Increase (Decrease)	
	March 31		Amount	%
	2015	2014		
Fort McMurray properties	\$2,589,242	\$2,959,317	\$(370,075)	(13)%
Other investment properties	<u>638,719</u>	<u>645,188</u>	<u>(6,469)</u>	<u>(1)%</u>
Sub-total	3,227,961	3,604,505	(376,544)	(10)%
Held for sale and/or sold properties	<u>750,776</u>	<u>800,153</u>	<u>(49,377)</u>	<u>(6)%</u>
Total	<u>\$3,978,737</u>	<u>\$4,404,658</u>	<u>\$(425,921)</u>	<u>(10)%</u>

During Q1-2015, property operating costs, excluding held for sale and/or sold, decreased by \$0.38 million or 10%, compared to Q1-2014. The decrease is comprised almost entirely of the decrease of \$0.37 million in Fort McMurray operating costs. The decrease in Fort McMurray operating costs is mainly due to decreases in management fees, utilities and maintenance costs. 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 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 March 31		Increase (Decrease)		Percent of Total Operating Margin			
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	\$ 3,176,797	\$ 3,333,129	\$ (156,332)	(5)%	67%	74%	55%	53%
Other investment properties	<u>650,063</u>	<u>591,816</u>	<u>58,247</u>	<u>10%</u>	<u>14%</u>	<u>13%</u>	<u>50%</u>	<u>48%</u>
Sub-total	3,826,860	3,924,945	(98,085)	(2)%	81%	87%	54%	52%
Held for sale and/or sold properties	<u>926,122</u>	<u>579,122</u>	<u>347,000</u>	<u>60%</u>	<u>19%</u>	<u>13%</u>		
Total	<u>\$ 4,752,982</u>	<u>\$ 4,504,067</u>	<u>\$ 248,915</u>	<u>6%</u>	<u>100%</u>	<u>100%</u>	<u>54%</u>	<u>51%</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 \$0.1 million or 2% during Q1-2015, compared to Q1-2014. The decrease is comprised of a \$0.16 million decrease in net operating income from the Fort McMurray properties, partially offset by a \$0.06 million increase in net operating income from the other investment properties.

Including the increase in net operating income related to held for sale and/or sold properties, total net operating income increased by \$0.25 million or 6% during Q1-2015, compared to Q1-2014.

Overall, the operating margin for the property portfolio, excluding held for sale and/or sold properties, increased from 52% during Q1-2014, to 54% during Q1-2015. The increase in the operating margin is mainly due to the favourable variance in property operating costs for Fort McMurray properties.

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	March 31, 2015	Dec. 31, 2014	Amount	%
Rentals from investment properties	\$ 8,731,719	\$ 9,483,539	\$ (751,820)	(8)%
Property operating costs	<u>3,978,737</u>	<u>4,240,746</u>	<u>262,009</u>	<u>6%</u>
Net operating income	4,752,982	5,242,793	(489,811)	(9)%
Interest income	24,892	37,842	(12,950)	(34)%
Interest expense	(6,409,004)	(5,540,625)	(868,379)	(16)%
Trust expense	<u>(391,859)</u>	<u>(697,733)</u>	<u>305,874</u>	<u>44%</u>
Loss before the following	(2,022,989)	(957,723)	(1,065,266)	(111)%
Fair value adjustments	<u>(1,896,822)</u>	<u>(15,685,280)</u>	<u>13,788,458</u>	<u>(88)%</u>
Loss for the period before discontinued operations	(3,919,811)	(16,643,003)	12,723,192	76%
Income (loss) from discontinued operations	<u>107,765</u>	<u>(1,653,429)</u>	<u>1,761,194</u>	<u>(107)%</u>
Comprehensive loss	<u>\$ (3,812,046)</u>	<u>\$ (18,296,432)</u>	<u>\$ 14,484,386</u>	<u>79%</u>

During Q1-2015 the loss before fair value adjustments, and discontinued operations increased by \$1.07 million compared to Q4-2014. The increase mainly reflects a decrease in net operating income of \$0.49 million and an increase in interest expense of \$0.87 million, partially offset by a decrease in trust expense of \$0.31 million. The decrease in net operating income is mainly attributable to the Fort McMurray portfolio. The increase in interest expense mainly reflects an increase in mortgage loan interest, accretion charges, amortization charges on transaction costs, and interest charges related to the change in fair value of the interest rate swap liability.

Including the variance in fair value adjustments in the amount of \$13.79 million, the loss before discontinued operations decreased by \$12.72 million during Q1-2015. Fair value losses were comparatively high during Q4-2014 due to reduced revenue and occupancy expectations related to the decline in oil prices.

Including discontinued operations, LREIT completed Q1-2015 with a comprehensive loss of \$3.81 million, compared to a comprehensive loss of \$18.30 million during Q4-2014.

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) 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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