LANESBOROUGH
Real estate investment trust
2600 Seven Evergreen Place
Winnipeg, Manitoba
R3L 2T3
Tel. 204.475.9090
Fax. 204.475.5505

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2018 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 11, 2018 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the quarter ended March 31, 2018. 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, 2018, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

2018 First Quarter Report

After enduring one of the worst recessions in decades, Alberta experienced a strong rebound in economic activity in 2017. According to a recent economic outlook report by the Alberta Treasury Board and Finance, Alberta's economy is expected to move closer to full recovery in 2018, as it emerges from the impact of the "steepest and most prolonged oil price shock in Canadian history".

Notwithstanding the overall rebound in Alberta's economic activity, rental market conditions remained very competitive in Fort McMurray during Q1-2018. Accordingly, LREIT continues to face significant headwinds and has been unable to generate positive cash flow from its operating activities. LREIT remains dependent on additional sources of cash to fund its operations, regular mortgage loan principal payments, deficits upon loan refinancing, transaction costs for debt financing, and capital expenditures.

Operating Results

LREIT completed Q1-2018 with negative funds from operations ("FFO") of $2.4 million, compared to negative FFO of $1.8 million during Q1-2017, representing a decrease in FFO of $0.6 million. The decrease in FFO mainly reflects a decrease in the net operating income ("NOI") of $0.6 million.

The decrease in NOI is mainly due to a $0.4 million increase in property operating costs and a $0.2 million decrease in rental revenue. The increase in property operating costs is primarily due to an increase in insurance claim costs, as well as an increase in utility costs. The overall decrease in rental revenue is primarily due to a decrease in the revenue of the held for sale and/or sold property segment, as a result of reduced occupancy at Woodland Park; partially offset by a modest increase in the rental revenue of LREIT's investment properties segment.

LREIT completed Q1-2018 with a loss and comprehensive loss of $17.5 million, compared to a loss and comprehensive loss of $4.6 million during Q1-2017. The increase in the loss is primarily due to an unfavourable variance in the fair value adjustments of the investment properties and the investment property classified as held for sale.

Losses related to fair value adjustments during Q1-2018 were primarily driven by reduced revenue expectations associated with the extent of the impact of the rebuilding efforts in Fort McMurray on the rental market, as well as increased uncertainty as to the timing and/or extent of a rental market recovery associated with the prolonged nature of the depressed level of oil sands development activity.

Liquidity and Capital Resources

During Q1-2018, cash used in operations, prior to working capital adjustments, amounted to $1.2 million (2017 - $0.6 million) and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal payments, capital expenditures, and transactions costs was $2.6 million (2017 - $2.3 million).

The increase in cash used in operations primarily reflects a decrease in net operating income, partially offset by a decrease in interest paid. The increase in the cash shortfall is mainly due to an increase in cash used in operations and an increase in expenditures on transactions costs in conjunction with the renewals of three mortgage loans in the aggregate principal amount of $73.1 million. The increase in the cash shortfall was partially offset by the change in working capital adjustments.

LREIT continues to require additional sources of cash to fund the cash shortfall from operating activities, as well as mortgage loan principal payments, transactions costs for debt financing, and capital expenditures. LREIT also requires additional capital to fund the repayment of mortgage loans at maturity and/or refinancing, to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds. The cash shortfall during Q1-2018 was funded by unsecured loan advances from Shelter Canadian Properties Limited.

As of March 31, 2018, LREIT was in default of one mortgage loan with a principal balance of $28.0 million, as the lender of the mortgage loan has indicated that there are service fees outstanding with respect to a previous loan default and that until such fees are paid the loan will remain in default. LREIT continues to meet the debt service obligations of the loan and the lender has taken no action to demand repayment or enforce its security under the loan.

Outlook

The demand for rental accommodations in Fort McMurray is heavily influenced by the level of oil sands development activity in the region, which in turn is driven by oil prices. At present, Alberta heavy oil prices are trading at a large discount, compared to global oil prices, largely due to pipeline bottlenecks and lacking market access. In view of the present issues facing the Alberta oil sands, management anticipates that LREIT will continue to face challenging rental market conditions throughout 2018.

The ability of LREIT to remain a going concern in the near-term is largely contingent upon financial support from Shelter and its parent company, 2668921 Manitoba Ltd., as well as LREIT’s capacity to continue to renew and/or refinance its mortgage loan debts as they become due. Addressing LREIT's liquidity concerns continues to be the top priority in 2018.

	March 31	December 31	
	2018	2017	2016
STATEMENT OF FINANCIAL POSITION			
Total assets	$205,927,655	$222,128,456	$245,402,329
Total long-term financial liabilities (1)	$242,106,645	$245,533,159	$243,501,308
Weighted average interest rate			
- Mortgage loan debt	5.7%	5.5%	5.8%
- Total debt	5.5%	5.4%	5.6%

	Three Months Ended March 31		
	2018	2017	2016
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	$ 4,467,503	$ 4,644,515	$ 4,451,462
Net operating income	$ 1,648,933	$ 2,232,113	$ 1,659,357
Loss before discontinued operations	$(17,468,874)	$(4,691,809)	$(7,640,229)
Loss and comprehensive loss	$(17,494,728)	$(4,645,719)	$(7,599,297)
Funds from Operations (FFO)	$(2,354,103)	$(1,777,917)	$(4,280,574)

Cash Flows

Cash used in operating activities	$(1,181,842)	$(1,218,817)	$(1,412,372)
Adjusted Funds from Operations (AFFO)	$(2,541,890)	$(1,885,179)	$(4,603,418)

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

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) in Income	
	2018	2017	Amount	%
Rentals from investment properties	$ 4,467,503	$ 4,644,515	$ (177,012)	(4)%
Property operating costs	(2,818,570)	(2,412,402)	(406,168)	(17)%
Net operating income	1,648,933	2,232,113	(583,180)	(26)%
Interest income	49,826	45,612	4,214	9%
Interest expense	(3,646,134)	(3,686,254)	40,120	1%
Trust expense	(380,874)	(415,478)	34,604	8%
Loss before the following	(2,328,249)	(1,824,007)	(504,242)	(28)%
Gain (loss) on sale of investment property	(34,882)	58,377	(93,259)	(160)%
Fair value adjustments - Investment properties	(15,105,743)	(2,926,179)	(12,179,564)	(416)%
Loss before discontinued operations	(17,468,874)	(4,691,809)	(12,777,065)	(272)%
Income (loss) from discontinued operations	(25,854)	46,090	(71,944)	(156)%
Loss and comprehensive loss	$(17,494,728)	$ (4,645,719)	$(12,849,009)	(277)%

LREIT completed Q1-2018 with a loss and comprehensive loss of $17.5 million, compared to a loss and comprehensive loss of $4.6 million during Q1-2017. The increase in the loss mainly reflects an unfavourable variance in the fair value adjustments and a decrease in net operating income.

Unfavourable fair value adjustments were relatively higher during Q1-2018 compared to Q1-2017. During Q1-2017, the unfavourable fair value adjustments were mainly due to reduced revenue expectations as a result of perceived delays in the Fort McMurray rebuilding process. During Q1-2018, the carrying values of the Fort McMurray properties were further reduced to reflect the combined impact of lower than anticipated demand for rental accommodations associated with the rebuilding efforts as well as to reflect increased uncertainty with respect to a longer-term rental market recovery as a result of the prolonged low-level of oil sands development activity.

The decrease in net operating income mainly reflects an increase in operating costs of $0.4 million or 17% and a decrease in rental revenue of $0.2 million or 4%. The increase in property operating costs is primarily due to an increase in insurance claim costs and an increase in utility costs, as a result of an increase in the proportion of all inclusive leases. The decrease in rental revenue is primarily due to the decreased revenue of the held for sale and/or sold property segment, primarily as a result of reduced occupancy at Woodland Park (the property classified as held-for-sale); partially offset by an increase in rental revenue for the investment properties.

Analysis of Rental Revenue

	Three Months Ended March 31					
			Increase (Decrease)		% of Total	
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$3,656,080	$3,570,087	$ 85,993	2%	82%	77%
Other investment properties	418,148	383,193	34,955	9%	9%	8%
Sub-total	4,074,228	3,953,280	120,948	3%	91%	85%
Held for sale and/or sold properties	393,275	691,235	(297,960)	(43)%	9%	15%
Total	$4,467,503	$4,644,515	$(177,012)	(4)%	100%	100%

Occupancy Level, by Quarter

	2017					2018
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	68%	71%	73%	72%	71%	69%
Other investment properties	71%	73%	73%	75%	73%	77%
Total	68%	72%	73%	72%	71%	70%
Held for sale and/or sold properties	79%	79%	69%	61%	72%	46%

Average Monthly Rents, by Quarter

	2017					2018
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	$1,684	$1,707	$1,711	$1,697	$1,700	$1,685
Other investment properties	$909	$909	$903	$905	$907	$907
Total	$1,554	$1,573	$1,575	$1,563	$1,566	$1,554
Held for sale and/or sold properties	$2,593	$2,611	$2,597	$2,549	$2,588	$2,484

During Q1-2018, total investment property revenue, excluding held for sale and/or sold properties, increased by $0.1 million or 3%, compared to Q1-2017. The increase mainly reflects an increase in the average occupancy level from 68% during Q1-2017 to 70% during Q1-2018, which is largely due to two corporate tenants that transferred from the Woodland Park property, classified as held for sale, to other LREIT properties in Fort McMurray that offered lower rental rates or were closer to urban amenities.

During Q1-2018, revenue from the held for sale and/or sold properties decreased by $0.3 million or 43% compared to Q1-2017. The decrease was primarily due to a decrease in average occupancy level of Woodland Park (the property classified as held for sale) from 79% in Q1-2017 to 46% during Q1-2018. The decrease in average occupancy is primarily due to the transfer of two corporate tenants to other LREIT properties, as discussed above, and the departure of tenants that were awaiting the reconstruction of their homes. The Woodland Park property had a relatively high proportion of tenants awaiting the reconstruction of their homes as a result of the property's townhome offering and their proximity to the area of Fort McMurray where the majority of the homes were lost to the wildfire.

The revenue results of the Fort McMurray property portfolio continue to reflect the challenging rental market conditions in Fort McMurray.

The reduced level of rental revenue, together with the uncertain timing and/or extent of future oil sands development activity and 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.

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2018	2017	Increase (Decrease)	%
Fort McMurray properties	$2,207,518	$1,859,837	$ 347,681	19%
Other investment properties	356,282	304,732	51,550	17%
Sub-total	2,563,800	2,164,569	399,231	18%
Held for sale and/or sold properties	254,770	247,833	6,937	3%
Total	$2,818,570	$2,412,402	$ 406,168	17%

During Q1-2018, property operating costs, excluding the held for sale and/or sold properties, increased by $0.4 million or 18%, compared to Q1-2017. The increase was mainly due to an increase in insurance claim costs, as well as an increase in utility costs, as a result of an increase in the proportion of all inclusive leases. After accounting for held for sale and/or sold properties, the total increase in property operating costs was also $0.4 million.

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 1,448,562	$ 1,710,250	$ (261,688)	(15)%	88%	77%	40%	48%
Other investment properties	61,866	78,461	(16,595)	(21)%	4%	4%	15%	20%
Sub-total	1,510,428	1,788,711	(278,283)	(16)%	92%	81%	37%	45%
Held for sale and/or sold properties	138,505	443,402	(304,897)	(69)%	8%	19%	35%	64%
Total	$ 1,648,933	$ 2,232,113	$ (583,180)	(26)%	100%	100%	37%	48%

During Q1-2018, the net operating income of the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $0.3 million or 16%, compared to Q1- 2017. The operating margin, excluding held for sale and/or sold properties, decreased from 45% during Q1-2017 to 37% during Q1-2018. The decreases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the increase in the property operating costs of the Fort McMurray property portfolio, as discussed above.

The decrease in net operating income from held for sale and/or sold properties of $0.3 million is primarily due to a decrease in the revenue of Woodland Park (the Fort McMurray property which is classified as held for sale). Including the held for sale and/or sold properties, the total net operating income decreased by $0.6 million or 26% during Q1-2018, compared to Q1-2017.

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.

FOR FURTHER INFORMATION PLEASE CONTACT:
Gino Romagnoli, Chief Executive Officer, or Arni Thorsteinson, Vice-Chair
Tel: (204) 475-9090, Fax: (204) 452-5505, Email: info@lreit.com

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.