



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2016 OPERATING RESULTS

Winnipeg, Manitoba, March 13, 2017 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the year ended December 31, 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 year ended December 31, 2016, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

This past year proved to be very challenging for both LREIT and its primary market, Fort McMurray. In May 2016, a devastating wildfire ripped through the City of Fort McMurray, adding to existing challenges facing the community, which have resulted from the prolonged downturn in the Canadian oil sands sector.

Given the strong headwinds that LREIT continues to confront, management has maintained its focus on two primary initiatives: debt restructuring and the divestiture program. In addition, LREIT has been responding to the operational repercussions of the Fort McMurray wildfire, initially focussing on the clean-up and restoration of all its Fort McMurray properties and, subsequently, on the renovation and conversion of select apartment units into fully furnished suites in order to improve the marketability of LREIT’s properties and better meet tenant needs in the post-fire rental market environment.

As evidenced by the discussion of operating results that follows, the entry of homeowners displaced by the wildfire into the rental market and commencement of the post-fire rebuild have resulted in increased economic activity and increased demand for rental accommodations in Fort McMurray. While these factors alone are unlikely to alleviate the cash deficiency facing LREIT, management anticipates that they will, in the short term, serve to mitigate some of the strain caused by the sustained low-level of oil sands development activity.

Operating Results

LREIT completed 2016 with negative funds from operations (“FFO”) of \$12.5 million, compared to negative FFO of \$8.4 million in 2015. The decrease in FFO mainly reflects a decrease in net operating income (“NOI”), partially offset by a decrease in interest expense. NOI decreased primarily as a result of the divestiture activities, as well as the decreased operating performance of the Fort McMurray property portfolio. Consistent with the divestiture and debt restructuring initiatives undertaken during 2016, the decrease in interest expense was primarily due to the decrease in the total mortgage loan debt.

Within the context of the Fort McMurray property portfolio, the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild during the third quarter of 2016 have resulted in increased economic activity and demand for rental accommodations in the region.

The average occupancy level of the Fort McMurray properties increased to 76% and 72% during the third and fourth quarters of 2016, respectively, compared to 66% and 54% during the third and fourth quarters of 2015. Notwithstanding the improvement in the average occupancy level during the second half of 2016, overall, the average occupancy level of the Fort McMurray properties decreased from 67% to 65%

and the average monthly rental rate of the Fort McMurray properties decreased by \$419 or 20% during 2016, compared to 2015.

LREIT completed 2016 with a loss and comprehensive loss of \$1.7 million, compared to a loss and comprehensive loss of \$98.8 million in 2015. The decrease in the loss and comprehensive loss was primarily due to a favourable variance in the fair value adjustments of the investment properties. Specifically, the favourable variance is the result of having experienced significant reductions in the carrying value of the Fort McMurray properties during 2015, due to the impact of the sustained low-level of oil sands development activity, followed by increases in the carrying value of the Fort McMurray properties during 2016, as revenue expectations were adjusted to reflect the improvement in rental market conditions anticipated during the post-wildfire rebuild effort.

Liquidity and Capital Resources

During 2016, cash used in operating activities amounted to \$3.3 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures, and transaction costs, was \$10.6 million, compared to cash used in operating activities of \$6.5 million and a cash shortfall of \$17.9 million in 2015. The cash shortfall was primarily funded by advances under the revolving loan facility from 2668921 Manitoba Ltd., partially offset by the net proceeds from the sales of Beck Court, Willowdale Gardens, and Elgin Lodge.

Restructuring LREIT's mortgage debt was a key priority during 2016. As previously reported, during the first quarter of 2016, LREIT defaulted on the debt service requirements of 12 mortgage loans, with an aggregate principal balance of \$194.0 million, associated with all 13 properties in the Fort McMurray portfolio. Consequently, management pursued debt restructuring arrangements with the affected lenders and successfully obtained renewal agreements and a forbearance agreement for five mortgage loans in the aggregate principal amount of \$105.1 million, inclusive of terms which allow for the partial deferral of interest. As of December 31, 2016, LREIT was current with respect to all debt service payments; however, the lender of five mortgage loans with an aggregate principal balance of \$65.1 million, associated with eight of the properties in the Fort McMurray portfolio, maintains that there are servicing fees outstanding which were triggered by the initial mortgage loan defaults and that until such fees are paid the loans will continue to remain in default. As of the date of this report, LREIT continues to meet the debt service obligations of the five affected mortgage loans and the lender has not taken any further actions to enforce the security of the loans.

LREIT continued to make progress with respect to the divestiture program during 2016, completing the sales of Beck Court, Willowdale Gardens, Elgin Lodge, and one condominium unit under the Lakewood Townhomes condominium sales program. The combined net cash proceeds from the sales, after repayment or assumption by the purchaser of the existing mortgage loans, selling costs, and standard closing adjustments, amounted to \$13.7 million and were used to repay a \$5.4 million second mortgage loan, which was secured with a second charge over Willowdale Gardens, and to pay down the revolving loan from 2668921 Manitoba Ltd. by \$8.3 million.

Outlook

Having already experienced the first signs of improvement in the Fort McMurray rental market, and in view of recent pipeline approvals, it is anticipated that the rental market conditions in Fort McMurray will continue to gradually improve in 2017, resulting in a positive impact on operating results. According to the Government of Alberta Board, GDP growth is forecasted at 2.3% in 2017, compared to the negative GDP growth experienced during the previous two years. Notwithstanding the anticipated improvements, the extent and duration of any positive impact is subject to various risks and uncertainties and the longer-term prospects for the region will continue to be closely related to oil sands development activity.

Effective January 1, 2017, Mr. Gino Romagnoli assumed the position of Chief Executive Officer in the place of Mr. Arni Thorsteinson. Mr. Romagnoli has served as a senior officer of LREIT since inception in 2002. Mr. Thorsteinson will continue to serve LREIT as vice-chair and trustee, providing valuable guidance and direction as LREIT continues to focus on its primary initiatives of debt restructuring, the divestiture program, and the post-fire operational initiatives.

The trustees and management wish to thank Mr. Thorsteinson for the significant and invaluable contributions he has made to LREIT over the past fourteen years. We look forward to his continued support and guidance as he continues to serve vice-chair and trustee of LREIT.

FINANCIAL SUMMARY

	December 31		
	2016	2015	2014
STATEMENT OF FINANCIAL POSITION			
Total assets	\$245,402,329	\$278,524,804	\$442,773,600
Total long-term financial liabilities ⁽¹⁾	\$243,501,308	\$279,529,237	\$327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.8%	6.0%	5.7%
- Total debt	5.6%	6.4%	6.3%
	Year Ended December 31		
	2016	2015	2014
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	\$ 18,328,212	\$ 30,215,224	\$ 38,291,698
Net operating income	\$ 7,814,287	\$ 16,151,866	\$ 21,775,464
Loss before discontinued operations	\$ (1,264,483)	\$(96,394,897)	\$(20,878,092)
Loss and comprehensive loss	\$ (1,730,124)	\$(98,765,643)	\$(22,238,581)
Funds from Operations	\$(12,463,056)	\$ (8,426,367)	\$ (4,047,931)
Cash Flows			
Cash used in operating activities	\$ (3,254,380)	\$(6,492,224)	\$ (806,632)
Adjusted Funds from Operations	\$(14,090,280)	\$(8,728,029)	\$(5,335,938)

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

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease) in Income	
	2016	2015	Amount	%
	Rentals from investment properties	\$ 18,328,212	\$ 30,215,224	\$(11,887,012)
Property operating costs	10,513,925	14,063,358	3,549,433	25%
Net operating income	7,814,287	16,151,866	(8,337,579)	(52)%
Interest income	149,576	86,998	62,578	72%
Interest expense	(19,076,586)	(23,272,205)	4,195,619	18%
Trust expense	(1,883,331)	(1,816,996)	(66,335)	(4)%
Loss before the following	(12,996,054)	(8,850,337)	(4,145,717)	(47)%
Gain (loss) on sale of investment property	86,167	(100,711)	186,878	n/a
Fair value adjustments - Investment properties	11,645,404	(87,443,849)	99,089,253	n/a
Loss before discontinued operations	(1,264,483)	(96,394,897)	95,130,414	99%
Loss from discontinued operations	(465,641)	(2,370,746)	1,905,105	80%
Loss and comprehensive loss	\$ (1,730,124)	\$ (98,765,643)	\$97,035,519	98%

LREIT completed 2016 with a loss and comprehensive loss of \$1.7 million, compared to a loss and comprehensive loss of \$98.8 million during 2015. The decrease in the loss mainly reflects a favourable 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.

The favourable variance in fair value adjustments mainly reflects the net effect of having experienced significant reductions in the carrying value of the Fort McMurray properties during 2015 and a subsequent increase in the carrying value of the Fort McMurray properties during 2016. As previously reported, the carrying value of the Fort McMurray properties was reduced in 2015 to reflect an anticipated decline in operating results and the increased uncertainty as to the extent and/or timing of a recovery in the Fort McMurray rental market, resulting from the prolonged low-level of oil sands development activity. During the second quarter of 2016, the carrying value of the Fort McMurray properties increased as revenue expectations were revised to account for the anticipated improvement in rental market conditions associated with the post-wildfire rebuild and the migration of displaced homeowners into the rental market.

The decrease in interest expense is mainly due to a reduction in mortgage loan interest as a result of the sale of Colony Square in November, 2015 and the sales of Beck Court and Willowdale Gardens in May, 2016, as well as lump-sum payments made on mortgage loans during the third and fourth quarters of 2015 and the full repayment of two second mortgage loans during 2016. Also contributing to the decrease in interest expense were interest rate reductions for both the revolving loan from 2668921 Manitoba Ltd. and the Series G debentures.

The decrease in net operating income mainly reflects the sale of Colony Square in November 2015 and the sales of Beck Court and Willowdale Gardens in May, 2016, as well as a decrease in the net operating income of the Fort McMurray properties.

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 continues to exert downward pressure on the general economic and rental market conditions in Fort McMurray. The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild are factors that are currently moderating the downward pressure, as evidenced by the increase in the average occupancy level from 58% during Q2-2016 to 76% during Q3-2016 and to 72% during Q4-2016. The extent and duration

of the impact of these moderating factors on future operating results is uncertain and the long-term prospects of the Fort McMurray rental market remain dependent on the level of future oil-sands development activity.

Analysis of Rental Revenue

	Year Ended December 31				% of Total	
	2016	2015	Increase (Decrease)			
Fort McMurray properties	\$13,262,742	\$17,052,331	\$ (3,789,589)	(22)%	72%	56%
Other investment properties	<u>1,631,872</u>	<u>1,935,784</u>	<u>(303,912)</u>	<u>(16)%</u>	<u>9%</u>	<u>6%</u>
Sub-total	14,894,614	18,988,115	(4,093,501)	(22)%	81%	63%
Held for sale and/or sold properties	<u>3,433,598</u>	<u>11,227,109</u>	<u>(7,793,511)</u>	<u>(69)%</u>	<u>19%</u>	<u>37%</u>
Total	<u>\$18,328,212</u>	<u>\$30,215,224</u>	<u>\$(11,887,012)</u>	<u>(39)%</u>	<u>100%</u>	<u>100%</u>

Occupancy Level, by Quarter

	2016				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	52%	58%	76%	72%	65%
Other investment properties	72%	74%	69%	69%	71%
Total	54%	60%	75%	72%	65%
Held for sale and/or sold properties	75%	64%	86%	82%	75%
	2015				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	76%	71%	66%	54%	67%
Other investment properties	85%	86%	83%	79%	83%
Total	77%	73%	68%	56%	69%
Held for sale and/or sold properties	89%	88%	87%	81%	87%

Average Monthly Rents, by Quarter

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

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

During 2016, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, decreased by \$4.1 million, or 22%, as compared to 2015. 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 depressed level of oil sands development activity in the region, the impact of which was tempered during the third and fourth quarters of 2016 by the entry of homeowners displaced by the wildfire into the rental market and the migration of workers involved in the rebuilding effort. As a result, the average occupancy level for the Fort McMurray portfolio increased from 66% during Q3-2015 to 76% during Q3-2016 and increased from 54% during Q4-2015 to 72% during Q4-2016. Notwithstanding the improvement in the average occupancy level during the second half of 2016, overall, the average occupancy level for the Fort McMurray portfolio decreased from 67% during 2015 to 65% during 2016, and the rental rates of the Fort McMurray properties continued to remain at reduced levels compared to 2015. In comparison to 2015, the average monthly rental rate decreased by \$419 per suite, or 20%, during 2016. 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 the decrease in revenue from held for sale and/or sold properties of \$7.8 million during 2016, the total revenue decreased by \$11.9 million, or 39%, during 2016, compared to 2015. The decrease in revenue from held for sale and/or sold properties for 2016 was primarily due to the sale of Colony Square on November 1, 2015 and the sales of Beck Court and Willowdale Gardens on May 1, 2016, as well as a decrease in the revenue of Woodland Park, the Fort McMurray property, which is classified as held-for-sale.

Property Operating Costs

Analysis of Property Operating Costs

	Year Ended December 31			
	2016	2015	Increase (Decrease)	%
Fort McMurray properties	\$ 8,085,890	\$ 8,090,681	\$ (4,791)	- %
Other investment properties	<u>1,067,768</u>	<u>1,119,567</u>	<u>(51,799)</u>	<u>(5)%</u>
Sub-total	9,153,658	9,210,248	(56,590)	(1)%
Held for sale and/or sold properties	<u>1,360,267</u>	<u>4,853,110</u>	<u>(3,492,843)</u>	<u>(72)%</u>
Total	<u>\$10,513,925</u>	<u>\$14,063,358</u>	<u>\$(3,549,433)</u>	<u>(25)%</u>

During 2016, property operating costs decreased by \$3.5 million, or 25%, as compared to 2015. The decreases mainly reflect a decrease in the property operating costs of held for sale/or sold properties, primarily due to the sale of Colony Square on November 1, 2015 and the sales of Beck Court and Willowdale Gardens on May 1, 2016.

Excluding the held for sale and/or sold properties, property operating costs decreased by approximately \$57,000, or 1%, during 2016, compared to 2015. The modest decrease is mainly comprised of decreases in property taxes, utilities, and management fees, largely offset by an increase in maintenance costs. The increase in maintenance costs primarily reflects the cost associated with preparing suites in Fort McMurray to accommodate the post-fire increase in demand for accommodation.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Year Ended December 31				Percent of Total		Operating Margin	
	2016	2015	Increase (Decrease) Amount	%	2016	2015	2016	2015
Fort McMurray properties	\$ 5,176,852	\$ 8,961,650	\$(3,784,798)	(42)%	66%	55%	39%	53%
Other investment properties	<u>564,104</u>	<u>816,217</u>	<u>(252,113)</u>	<u>(31)%</u>	<u>7%</u>	<u>5%</u>	<u>35%</u>	<u>42%</u>
Sub-total	5,740,956	9,777,867	(4,036,911)	(41)%	73%	60%	39%	51%
Held for sale and/or sold properties	<u>2,073,331</u>	<u>6,373,999</u>	<u>(4,300,668)</u>	<u>(67)%</u>	<u>27%</u>	<u>40%</u>	<u>60%</u>	<u>57%</u>
Total	<u>\$ 7,814,287</u>	<u>\$16,151,866</u>	<u>\$(8,337,579)</u>	<u>(52)%</u>	<u>100%</u>	<u>100%</u>	<u>43%</u>	<u>53%</u>

During 2016, the net operating income of the investment properties portfolio, excluding held for sale and/or sold properties, decreased by \$4.0 million, or 41%, compared to 2015. The operating margin, excluding held for sale and/or sold properties, decreased from 51% during 2015 to 39% during 2016. The decrease in net operating income and operating margin, excluding held for sale and/or sold properties, is primarily due to the decreased revenue results of the Fort McMurray property portfolio.

After including held for sale and/or sold properties, the total net operating income during 2016 decreased by \$8.3 million, or 52%, compared to 2015. 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 and the sales of Beck Court and Willowdale Gardens on May 1, 2016. The decrease in net operating income from held for sale and/or sold properties was also impacted by a decrease in the revenue of Woodland Park, the Fort McMurray property, which is classified as held-for-sale

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.