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 2017 OPERATING RESULTS

Winnipeg, Manitoba, March 26, 2018 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the year ended December 31, 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 year ended December 31, 2017, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

2017 Annual Report

According to a report by the Conference Board of Canada, the estimated growth in the Gross Domestic Product (GDP) of the Regional Municipality of Wood Buffalo for 2017 was 18.6%, compared to the 14.6% decline in GDP that was experienced in 2016. The report cites the rebound in oil production and the post-fire rebuild of Fort McMurray as the driving forces behind the boost to the economy.

The improved economic climate and rental market conditions in Fort McMurray and the debt restructuring and divestiture activities LREIT has undertaken since 2016 have continued to reduce the extent of the operating cash deficiencies during 2017. Notwithstanding the improved results, LREIT continues to face significant financing challenges and required additional sources of cash during 2017 to fund the cash outflow from operating activities, regular mortgage loan principal payments, deficits incurred upon loan refinancing, transaction costs for debt financing, and capital expenditures.

Operating Results

LREIT completed 2017 with negative funds from operations ("FFO") of $6.4 million, compared to negative FFO of $12.5 million in 2016, representing an improvement in FFO of $6.0 million. The improvement is mainly attributable to a $5.1 million decrease in interest expense and a $1.0 million increase in net operating income ("NOI").

The decrease in interest expense is mainly the result of the divestiture and debt restructuring initiatives undertaken since 2016, which have resulted in a reduced level of total mortgage loan debt, reduced interest rates on the Series G debentures and revolving loan facility, and a reduction in transaction cost amortization compared to the prior year.

The increase in NOI mainly reflects an increase in the average occupancy level of the Fort McMurray properties, which increased from 65% in 2016 to 71% during 2017, partially offset by the loss of operating income associated with the sales of Beck Court and Willowdale Gardens on May 1, 2016.

The occupancy levels of the Fort McMurray properties increased during 2017 as a result of the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild; however, the impact of the rebuild on operating results has been less than previously anticipated and the extent of any future impact is uncertain.

LREIT completed 2017 with a loss and comprehensive loss of $32 million, compared to a loss and comprehensive loss of $1.7 million in 2016. The increase in the loss is primarily due to an unfavourable variance in the fair value adjustments of the investment properties. Specifically, the unfavorable fair value variance reflects the combined effect of an increase in the carrying value of the Fort McMurray properties during 2016, followed by a decrease in the carrying value during 2017.

The increase in fair value in 2016 was largely driven by the expectation of improved post-fire rental market conditions. During 2017, the carrying value of the Fort McMurray properties was reduced to reflect a decrease in the anticipated positive impact of the post-fire rebuilding process and an increase in the level of uncertainty regarding the extent and timing of future oil sands development activity and its corresponding impact on the recovery of the Fort McMurray rental market.

Liquidity and Capital Resources

During 2017, cash used in operations, prior to working capital adjustments amounted to $1.8 million (2016 - $3.8 million) and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal payments, capital expenditures, and transactions costs was $8.4 million (2016 - $10.6 million).

As of December 31, 2017, LREIT was in default, as a result of outstanding service fee payments, on four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46.9 million. Subsequent to December 31, 2017, forbearance agreements were executed for three of these loans, secured by a total of six properties, in the aggregate principal amount of $18.7 million. The forbearance agreements required an initial combined repayment of $1.7 million which was paid on March 5, 2018, and require future combined repayments of $0.6 million, $0.7 million and $0.3 million in 2018, 2019 and 2020, respectively. LREIT continues to meet the debt service obligations of the mortgage loan that remains in default and the lender has taken no action to demand repayment of enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25.6 million was triggered due to non-compliance with a deadline set with respect to the establishment of a condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In addition, subsequent to December 31, 2017, two mortgage loans secured by two properties in the aggregate principal amount of $43.3 million were renewed until September 1, 2020 at an interest rate of prime plus 3.3%. The terms of the renewals required an initial combined principal repayment of $1.5 million, which was made on March 16, 2018, and additional principal repayments of $0.5 million every six months commencing on September 1, 2018 and ending on March 1, 2020. In addition, principal repayments of $0.3 million are required for each quarter during the renewal period in which LREIT fails to sell a unit under its condominium sales program.

Pursuant to the terms of the Declaration of Trust, LREIT is prohibited from incurring additional mortgage loan indebtedness if such indebtedness would result in the total mortgage loan indebtedness of LREIT exceeding 75% of the appraised value of LREIT's total property portfolio. As LREIT's mortgage loan indebtedness exceeds 75% of the appraised value of its total property portfolio (77% at December 31, 2017), LREIT was unable to request an increase in the $30 million revolving loan facility from 2668921 Manitoba Ltd. but, instead, was able to obtain unsecured loan financing from Shelter Canadian Properties Limited ("Shelter") in the amount of $6.0 million to address the funding of its cash shortfall during 2017.

Outlook

The long term prospects of the Fort McMurray rental market remain closely correlated with the price of oil and oil sands development activity. Alberta's energy sector showed signs of recovery in 2017 and the Conference Board of Canada is forecasting GDP growth for the Regional Municipality of Wood Buffalo of 10.4% in 2018. Notwithstanding the economic improvement in the region, the extent of its impact on rental market conditions to date has not been sufficient to address LREIT’s cash short falls.

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

STATEMENT OF FINANCIAL POSITION

	December 31		
	2017	2016	2015
Total assets	$222,128,456	$245,402,329	$278,524,804
Total long-term financial liabilities (1)	$245,533,159	$243,501,308	$279,529,237
Weighted average interest rate			
- Mortgage loan debt	5.5%	5.8%	6.0%
- Total debt	5.4%	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

	Year Ended December 31		
	2017	2016	2015
Operating Results			
Rentals from investment properties	$ 19,052,202	$ 18,328,212	$ 30,215,224
Net operating income	$ 8,803,502	$ 7,814,287	$ 16,151,866
Loss before discontinued operations	$(31,877,187)	$ (1,264,483)	$(96,394,897)
Loss and comprehensive loss	$(32,036,682)	$ (1,730,124)	$(98,765,643)
Funds from Operations	$ (6,423,890)	$(12,463,056)	$ (8,426,367)
Cash Flows			
Cash used in operating activities	$ (2,662,330)	$ (3,254,380)	$ (6,492,224)
Adjusted Funds from Operations	$ (7,625,263)	$(13,753,872)	$ (8,728,029)

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Year Ended December 31		Increase (Decrease) in Income	
	2017	2016	Amount	%
Rentals from investment properties	$ 19,052,202	$ 18,328,212	$ 723,990	4%
Property operating costs	(10,248,700)	(10,513,925)	265,225	3%
Net operating income	8,803,502	7,814,287	989,215	13%
Interest income	189,425	149,576	39,849	27%
Interest expense	(13,930,662)	(19,076,586)	5,145,924	27%
Trust expense	(1,463,535)	(1,883,331)	419,796	22%
Loss before the following	(6,401,270)	(12,996,054)	6,594,784	51%
Gain on sale of investment property	55,070	86,167	(31,097)	(36)%
Fair value adjustments - Investment properties	(25,530,987)	11,645,404	(37,176,391)	(319)%
Loss before discontinued operations	(31,877,187)	(1,264,483)	(30,612,704)	(2,421)%
Loss from discontinued operations	(159,495)	(465,641)	306,146	66%
Loss and comprehensive loss	$ (32,036,682)	$ (1,730,124)	$(30,306,558)	(1,752)%

LREIT completed 2017 with a loss and comprehensive loss of $32 million, compared to a loss and comprehensive loss of $1.7 million in 2016. The increase in the loss mainly reflects an unfavourable variance in the fair value adjustments of the investment properties, partially offset by a decrease in interest expense, as well as an increase in net operating income.

The unfavourable fair value adjustments variance reflects the combined effect of an increase in the carrying value of the Fort McMurray properties during 2016, followed by a decrease in the carrying value of the Fort McMurray properties during 2017. During the second quarter of 2016, the carrying value of the Fort McMurray properties increased as revenue expectations were increased in anticipation of an improvement in rental market conditions associated with the post-wildfire rebuild and the entry of displaced homeowners into the rental market. Throughout 2017, the carrying value of the Fort McMurray properties was reduced to reflect declines in revenue expectations associated with the post-fire rebuilding efforts and to reflect increasing uncertainty as to the extent and timing of a recovery in the Fort McMurray rental market, resulting from the prolonged low-level of oil sands development activity.

The decrease in interest expense is primarily due to the divestiture and debt restructuring initiatives undertaken since 2016, which have resulted in a reduction in the total balance of mortgage loan debt, reduced interest rates on the Series G debentures and revolving loan facility, and a reduction in transaction cost amortization as a result of the acceleration of transaction cost amortization in 2016.

The increase in net operating income is mainly due to an increase in the average occupancy level of the Fort McMurray properties from 65% during 2016 to 71% during 2017, partially offset by a decrease in net operating income as a result of the sales of Beck Court and Willowdale Gardens in May 2016.

The increase in the occupancy level of the Fort McMurray portfolio during 2017 was 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. While economic activity in the region has increased, the impact of the rebuild on operating results has been less favourable than previously anticipated and its future impact is uncertain. 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					
			Increase (Decrease)		% of Total	
	2017	2016	Amount	%	2017	2016
Fort McMurray properties	$14,983,563	$13,262,742	$ 1,720,821	13%	79%	72%
Other investment properties	1,568,568	1,631,872	(63,304)	(4)%	8%	9%
Sub-total	16,552,131	14,894,614	1,657,517	11%	87%	81%
Held for sale and/or sold properties	2,500,071	3,433,598	(933,527)	(27)%	13%	19%
Total	$19,052,202	$18,328,212	$ 723,990	4%	100%	100%

Occupancy Level, by Quarter

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

	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%

Average Monthly Rents, by Quarter

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

	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

During 2017, total investment property revenue, excluding held for sale and/or sold properties, increased by $1.7 million or 11%, compared to 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 of the Fort McMurray portfolio increased from 65% in 2016 to 71% in 2017. The average monthly rental rate increased by $33 per suite or 2% during 2017 compared to 2016.

The increase in the occupancy level and rental rates of the Fort McMurray portfolio during 2017 was 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. While economic activity in the region has increased, the impact of the rebuild on operating results has been less favourable than previously anticipated and its future impact is uncertain. The revenue results of the Fort McMurray property portfolio reflect challenging rental market conditions with rental rates that continue to be depressed relative to historical levels.

The depressed level of rental rates, together with the uncertainty regarding the 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 the Trust 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 annual report.

During 2017, revenue from the held for sale and/or sold properties decreased by $0.9 million or 27% compared to 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, and was partially offset by an increase in the revenue of Woodland Park, the property classified as held for sale.

Analysis of Property Operating Costs

	Year Ended December 31			
	2017	2016	Increase (Decrease)	%
Fort McMurray properties	$ 8,086,147	$ 8,085,890	$ 257	- %
Other investment properties	1,230,211	1,067,768	162,443	15%
Sub-total	9,316,358	9,153,658	162,700	2%
Held for sale and/or sold properties	932,342	1,360,267	(427,925)	(31)%
Total	$10,248,700	$10,513,925	$ (265,225)	(3)%

During 2017, property operating costs, excluding the held for sale and/or sold properties, increased by $0.2 million or 2%, compared to 2016. The increase was mainly due to an increase in the maintenance costs of the other investment properties operating segment, resulting primarily from elevator and mechanical repairs. The operating costs of the Fort McMurray properties were in-line with the prior year as abnormally low operating costs incurred in the second quarter of 2016, as a result of the wildfire evacuation, were offset by higher operating costs incurred during the third and fourth quarters of 2016, primarily as a result of expenditures on in-suite renovations aimed at meeting tenant's needs in the post-fire environment.

During 2017, property operating costs from the held for sale and/or sold properties decreased by $0.4 million compared to 2016. The decrease was primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, and was partially offset by an increase in the property operating costs of Woodland Park, the property classified as held for sale.

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Year Ended December 31		Increase (Decrease)		Percent of Total			
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	$ 6,897,416	$ 5,176,852	$ 1,720,564	33%	78%	66%	46%	39%
Other investment properties	338,357	564,104	(225,747)	(40)%	4%	7%	22%	35%
Sub-total	7,235,773	5,740,956	1,494,817	26%	82%	73%	44%	39%
Held for sale and/or sold properties	1,567,729	2,073,331	(505,602)	(24)%	18%	27%	63%	60%
Total	$ 8,803,502	$ 7,814,287	$ 989,215	13%	100%	100%	46%	43%

During 2017, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, increased by $1.5 million or 26%, compared to the prior year. The operating margin, excluding held for sale and/or sold properties, increased from 39% in 2016 to 44% in 2017. The increases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the increase in the revenue results of the Fort McMurray property portfolio, as discussed in the "Rental Revenues" section above.

The decrease in net operating income from held for sale and/or sold properties of $0.5 million is primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, and was partially offset by an increase in the net operating income of Woodland Park, the Fort McMurray property which is classified as held for sale. After accounting for held for sale and/or sold properties, the total net operating income of LREIT increased by $1.0 million or 13% during 2017 compared to 2016.

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