



# LANESBOROUGH

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## LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

### LANESBOROUGH REIT REPORTS 2016 THIRD QUARTER RESULTS

Winnipeg, Manitoba, November 10, 2016 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended September 30, 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 quarter ended September 30, 2016, which may be obtained from the LREIT website at [www.lreit.com](http://www.lreit.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

During Q3-2016, LREIT continued to focus on the execution of its divestiture, debt restructuring, and post-fire Fort McMurray initiatives.

#### Operating Results

LREIT completed Q3-2016 with negative funds from operations (FFO) of \$1.6 million, compared to negative FFO of \$1.9 million during Q3-2015, resulting in a favourable variance of \$0.3 million. The improvement in FFO, in comparison to the preceding quarters of 2016, was more significant, reflecting a favourable variance of \$2.7 million as compared to both Q1 and Q2 of 2016.

Overall, LREIT completed Q3-2016 with a loss and comprehensive loss of \$11.1 million, compared to a loss and comprehensive loss of \$27.3 million during Q3-2015. The decrease in the loss mainly reflects a favourable variance in the fair value adjustments of the investment properties, as well as a decrease in interest expense, partially offset by a decrease in net operating income. The decrease in net operating income is primarily due to 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 property portfolio.

The variance in the fair value adjustments primarily pertains to reductions in the carrying value of the Fort McMurray properties, which were more pronounced in Q3-2015, compared to Q3-2016. The unfavourable fair value adjustments in the both Q3-2016 and Q3-2015 were driven by an increase in the uncertainty associated with the extent and timing of a recovery of the Fort McMurray rental market and were compounded in Q3-2015 with reduced expectations for operating results.

Notwithstanding the decrease in net operating income compared to Q3-2015, Q3-2016 represents an improvement in comparison to the preceding quarters of 2016. The return of homeowners displaced by the wildfire and the commencement of the post-fire rebuild during Q3-2016 have bolstered economic activity in the region, moderating the impact of the low-level of oil sands development activity and resulting in a recovery in the occupancy levels. The average occupancy level of LREIT's Fort McMurray properties increased from 58% during Q2-2016 to 76% during Q3-2016, representing a return in average occupancy to a level, which has not been experienced since the beginning of fiscal 2015. The rental rates of the Fort McMurray properties, however, continue to remain at reduced levels in comparison to the prior year. The reduced rental rate levels, together with the uncertainty, which surrounds the extent and/or duration of the post-fire rental market recovery, continue to limit the ability of LREIT to sustain operations

## **Cash Flow Results**

During the first nine months of 2016, LREIT continued to require additional sources of capital to fund operating activities, as well as debt service obligations and capital expenditure requirements. For the nine month period ended September 30, 2016, the cash outflow from operating activities amounted to \$0.4 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was \$5.4 million, compared to a cash outflow from operating activities of \$2.6 million and a cash shortfall of \$11.6 million during the same period in 2015. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by the net proceeds from the sale of Beck Court and Willowdale Gardens.

## **Liquidity and Capital Resources**

In response to the liquidity challenges facing LREIT, throughout 2016 LREIT has reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements.

As of September 30, 2016, mortgage renewal, amendment, and forbearance agreements have been obtained for six mortgage loans on six properties and all deferred debt service payments have been paid in full, with the exception of \$0.3 million in debt service payments which remain in arrears with respect to three mortgage loans on three Fort McMurray properties with an aggregate principal balance of \$81.0 million. In September 2016, the lender of the three mortgage loans that remain in default issued a demand letter and notice to enforce security, but has taken no further action against LREIT and remains in discussion with LREIT regarding the restructuring of the loans.

Deferred debt service payments with respect to five mortgage loans on eight properties, with an aggregate principal balance of \$65.4 million were paid in full during Q3-2016. However, the lender maintained that there are servicing fees outstanding with respect to these mortgage loans and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at September 30, 2016 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default 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 loan.

LREIT is optimistic that its lenders and service providers will continue to support its efforts to stabilize its operations.

## **Outlook & Continuing Operations**

LREIT will continue to maintain its focus on divestiture, debt restructuring, and post-fire operational initiatives in Fort McMurray, including the conversion of units into furnished suites at select properties in order to aptly meet the needs of the rental housing market.

Under the divestiture program, LREIT completed the sale of Elgin Lodge on October 1, 2016, which generated net cash proceeds of approximately \$4.3 million that were used to reduce the outstanding balance of the revolving loan from 2668921 Manitoba Ltd. Shelter Canadian Properties Ltd. and 2668921 Manitoba Ltd. are continuing to support LREIT through the deferral of interest and fees and the advancing of funds under the revolving loan. During the three and nine month periods ended September 30, 2016, 2668921 Manitoba Ltd. provided net advances under the revolving loan of \$2.1 million and \$9.6 million, respectively.

## FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	September 30		December 31	
	2016	2015	2014	
Total assets	\$262,136,363	\$278,524,804	\$442,773,600	
Total long-term financial liabilities <sup>(1)</sup>	\$254,554,833	\$279,529,237	\$327,980,499	
Weighted average interest rate				
- Mortgage loan debt	5.9%	6.0%	5.7%	
- Total debt	6.6%	6.4%	6.3%	

(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.

KEY FINANCIAL PERFORMANCE INDICATORS	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015

### Operating Results

Rentals from investment properties	\$ 5,096,608	\$ 7,568,402	\$ 13,527,722	\$ 24,257,892
Net operating income	\$ 2,606,793	\$ 4,266,094	\$ 6,090,298	\$ 13,576,020
Income (loss) before discontinued operations	\$(10,614,965)	\$(27,333,719)	\$ 2,259,269	\$(66,244,169)
Income (loss) and comprehensive income (loss)	\$(11,136,578)	\$(27,276,615)	\$ 1,752,846	\$(65,909,270)
Funds from Operations	\$ (1,579,111)	\$ (1,904,147)	\$(10,202,991)	\$ (5,384,305)

### Cash Flows

Cash provided by (used in) operating activities	\$ 724,682	\$ (2,830,238)	\$ (421,852)	\$ (2,611,304)
Adjusted Funds from Operations	\$ (1,980,475)	\$ (2,135,701)	\$(11,048,335)	\$ (5,528,671)

## ANALYSIS OF OPERATING RESULTS

### Analysis of Income (Loss)

	Three Months Ended Sept. 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	\$ 5,096,608	\$ 7,568,402	\$(2,471,794)	(33)%
Property operating costs	2,489,815	3,302,308	812,493	25%
<b>Net operating income</b>	2,606,793	4,266,094	(1,659,301)	(39)%
Interest income	46,638	21,648	24,990	115%
Interest expense	(3,992,561)	(5,736,630)	1,744,069	30%
Trust expense	(414,325)	(512,363)	98,038	19%
<b>Loss before the following</b>	(1,753,455)	(1,961,251)	207,796	11%
Fair value adjustments - Investment properties	(8,861,510)	(25,372,468)	16,510,958	65%
<b>Loss before discontinued operations</b>	(10,614,965)	(27,333,719)	16,718,754	61%
Income (loss) from discontinued operations	(521,613)	57,104	(578,717)	(1,013)%
<b>Loss and comprehensive loss</b>	\$(11,136,578)	\$(27,276,615)	\$16,140,037	59%

## Analysis of Income (Loss)

	Nine Months Ended Sept. 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	\$ 13,527,722	\$ 24,257,892	\$(10,730,170)	(44)%
Property operating costs	7,437,424	10,681,872	3,244,448	30%
<b>Net operating income</b>	6,090,298	13,576,020	(7,485,722)	(55)%
Interest income	103,626	68,811	34,815	51%
Interest expense	(15,413,126)	(18,001,130)	2,588,004	14%
Trust expense	(1,529,265)	(1,362,905)	(166,360)	(12)%
<b>Loss before the following</b>	(10,748,467)	(5,719,204)	(5,029,263)	(88)%
Gain (loss) on sale of investment property	20,986	(201,215)	222,201	110%
Fair value adjustments - Investment properties	12,986,750	(60,323,750)	73,310,500	122%
<b>Income (loss) before discontinued operations</b>	2,259,269	(66,244,169)	68,503,438	103%
Income (loss) from discontinued operations	(506,423)	334,899	(841,322)	(251)%
<b>Income (loss) and comprehensive income (loss)</b>	<u>\$ 1,752,846</u>	<u>\$(65,909,270)</u>	<u>\$67,662,116</u>	<u>103%</u>

LREIT completed Q3-2016 with a loss and comprehensive loss of \$11.1 million, compared to a loss and comprehensive loss of \$27.3 million during Q3-2015. For the nine month period ended September 30, 2016, the income and comprehensive income totaled \$1.8 million, compared to a loss and comprehensive loss of \$65.9 million during the nine month period ended September 30, 2015. The decrease in the loss/increase in income for the three and nine month periods ended September 30, 2016 mainly reflects a favorable 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 of held for sale and/or sold properties and a decrease in the net operating income of the Fort McMurray property portfolio.

The favorable variances in the fair value adjustments of the investment properties are primarily due to the significant reductions in the carrying value of the Fort McMurray properties that occurred throughout 2015 as a result of deterioration in the expectations of operating results and increased uncertainty as to the extent and/or timing of a recovery of the Fort McMurray rental market. Q3- 2016 experienced a less pronounced reduction in the carrying value of the Fort McMurray portfolio, caused by increased uncertainty resulting from the prolonged nature of the economic downturn, in comparison to Q3-2015. The favourable variance for the nine months ended September 30, 2016 was compounded by an increase in the carrying value of the Fort McMurray properties in Q2-2016, as revenue expectations for the Fort McMurray portfolio were adjusted to reflect the increase in demand for rental accommodations associated with the return of displaced residents who have lost their homes and those involved with the rebuilding efforts.

The decrease in interest expense is mainly the 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 in the third and fourth quarters of 2015 and the full repayment of two second mortgage loans during the first nine months of 2016.

The decrease in the net operating income of held for sale/sold properties is primarily due to the sale of Colony Square, in November 2015, and the sales of Beck Court and Willowdale Gardens, in May 2016.

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. The extent and duration of the impact on the future operating results of LREIT remain uncertain at this time.

## Rental Revenues

### Analysis of Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	\$ 3,970,850	\$4,208,373	\$ (237,523)	\$9,553,722	\$13,826,198	\$ (4,272,476)
Other investment properties	<u>395,530</u>	<u>484,234</u>	<u>(88,704)</u>	<u>1,246,648</u>	<u>1,479,328</u>	<u>(232,680)</u>
Sub-total	4,366,380	4,692,607	(326,227)	10,800,370	15,305,526	(4,505,156)
Held for sale and/or sold properties	<u>730,228</u>	<u>2,875,795</u>	<u>(2,145,567)</u>	<u>2,727,352</u>	<u>8,952,366</u>	<u>(6,225,014)</u>
Total	<u>\$ 5,096,608</u>	<u>\$7,568,402</u>	<u>\$(2,471,794)</u>	<u>\$13,527,722</u>	<u>\$24,257,892</u>	<u>\$(10,730,170)</u>

### Occupancy Level, by Quarter

	2016			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	52%	58%	76%	62%
Other investment properties	72%	74%	69%	72%
Total	54%	60%	75%	63%
Held for sale and/or sold properties	75%	64%	86%	74%

  

	2015					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray properties	76%	71%	66%	71%	54%	67%
Other investment properties	85%	86%	83%	85%	79%	83%
Total	77%	73%	68%	73%	56%	69%
Held for sale and/or sold properties	89%	88%	87%	88%	81%	87%

### Average Monthly Rents, by Quarter

	2016			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	\$1,699	\$1,599	\$1,700	\$1,666
Other investment properties	\$969	\$960	\$945	\$958
Total	\$1,576	\$1,491	\$1,573	\$1,547
Held for sale and/or sold properties (3)	\$1,783	\$2,036	\$2,546	\$1,997

	2015					
	Q1	Q2	Q3	9 Month	12 Month	
				Average	Q4	Average
Fort McMurray properties	\$2,158	\$2,127	\$2,079	\$2,121	\$1,980	\$2,086
Other investment properties	\$949	\$967	\$973	\$963	\$971	\$965
Total	\$1,954	\$1,931	\$1,892	\$1,926	\$1,810	\$1,897
Held for sale and/or sold properties	\$1,239	\$1,220	\$1,223	\$1,227	\$1,219	\$1,224

During the three and nine months ended September 30, 2016, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, decreased by \$0.3 million or 7% and \$4.5 million or 29%, respectively, as compared to the same periods in 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 Q3-2016 by the entry of homeowners displaced by the wildfire into the rental market and an influx 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. The average occupancy level for the Fort McMurray portfolio decreased from 71% during the first nine months of 2015 to 62% during the first nine months of 2016.

Notwithstanding the improvement in the occupancy levels of the Fort McMurray property portfolio during Q3-2016, the rental rates of the Fort McMurray properties remain at a significantly reduced level compared to the prior year. In comparison to 2015, the average monthly rental rate decreased by \$379 per suite or 18%, and \$455 per suite or 21% during the three and nine-month periods ended September 30, 2016, respectively. 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 \$2.1 million and \$6.2 million during the three and nine month periods ended September 30, 2016, respectively, the total revenue of LREIT decreased by \$2.5 million or 33% during Q3-2016, compared to Q3-2015, and decreased by \$10.7 million or 44% during the first nine months of 2016, compared to the first nine months of 2015. The decreases in revenue from held for sale and/or sold properties for the three and nine-month periods ended September 30, 2016 were 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 nine-month period revenue results were also impacted by a decrease in the revenue of Woodland Park, the Fort McMurray property that is classified as held-for-sale.

## Property Operating Costs

### Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	Increase	2016	2015	Increase
			(Decrease)			(Decrease)
Fort McMurray properties	\$2,008,924	\$1,857,738	\$ 151,186	\$5,514,627	\$ 6,049,528	\$ (534,901)
Other investment properties	259,489	256,921	2,568	789,087	820,326	(31,239)
Sub-total	2,268,413	2,114,659	153,754	6,303,714	6,869,854	(566,140)
Held for sale and/or sold properties	221,402	1,187,649	(966,247)	1,133,710	3,812,018	(2,678,308)
Total	<u>\$2,489,815</u>	<u>\$3,302,308</u>	<u>\$(812,493)</u>	<u>\$7,437,424</u>	<u>\$10,681,872</u>	<u>\$(3,244,448)</u>

During the three and nine months ended September 30, 2016, property operating costs decreased by \$0.8 million or 25% and \$3.2 million or 30%, respectively, as compared to the same periods in 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 sale of Beck Court and Willowdale Gardens on May 1, 2016. The nine-month comparative was also impacted by a decrease in the property operating costs of the Fort McMurray properties, mainly due to a decrease in property taxes, management fee expenses and utilities. The decrease was tempered by an increase in the operating costs of the Fort McMurray properties during Q3-2016 as a result of renovations completed to prepare suites to more aptly meet tenants' needs.

## Net Operating Income and Operating Margin

### Analysis of Net Operating Income – Three Months Ended September 30

	Net Operating Income							
	Three Months Ended				Percent of		Operating	
	September 30		Increase (Decrease)		Total		Margin	
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	\$1,961,926	\$ 2,350,635	\$(388,709)	(17)%	75%	55%	49%	56%
Other investment properties	<u>136,041</u>	<u>227,313</u>	<u>(91,272)</u>	<u>(40)%</u>	<u>5%</u>	<u>5%</u>	<u>34%</u>	<u>47%</u>
Sub-total	2,097,967	2,577,948	(479,981)	(19)%	80%	60%	48%	55%
Held for sale and/or sold properties	<u>508,826</u>	<u>1,688,146</u>	<u>(1,179,320)</u>	<u>(70)%</u>	<u>20%</u>	<u>40%</u>	<u>70%</u>	<u>59%</u>
Total	<u>\$2,606,793</u>	<u>\$ 4,266,094</u>	<u>\$(1,659,301)</u>	<u>(39)%</u>	<u>100%</u>	<u>100%</u>	<u>51%</u>	<u>56%</u>

### Analysis of Net Operating Income – Nine Months Ended September 30

	Net Operating Income							
	Nine Months Ended				Percent of		Operating	
	September 30		Increase (Decrease)		Total		Margin	
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	\$4,039,095	\$ 7,776,670	\$(3,737,575)	(48)%	66%	57%	42%	56%
Other investment properties	<u>457,561</u>	<u>659,002</u>	<u>(201,441)</u>	<u>(31)%</u>	<u>8%</u>	<u>5%</u>	<u>37%</u>	<u>45%</u>
Sub-total	4,496,656	8,435,672	(3,939,016)	(47)%	74%	62%	42%	55%
Held for sale and/or sold properties	<u>1,593,642</u>	<u>5,140,348</u>	<u>(3,546,706)</u>	<u>(69)%</u>	<u>27%</u>	<u>38%</u>	<u>58%</u>	<u>57%</u>
Total	<u>\$6,090,298</u>	<u>\$13,576,020</u>	<u>\$(7,485,722)</u>	<u>(55)%</u>	<u>100%</u>	<u>100%</u>	<u>45%</u>	<u>56%</u>

The net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by \$0.5 million or 19% and \$3.9 million or 47% during the three and nine-month periods ended September 30, 2016, respectively, compared to the same periods in 2015. The operating margin, excluding held for sale and/or sold properties, decreased from 55% during Q3-2015 to 48% during Q3-2016, and from 55% during the first nine months of 2015 to 42% during the first nine months of 2016. The decreases in net operating income and the operating margin, excluding held for sale and/or sold properties, primarily reflect the decreased revenue results of the Fort McMurray property portfolio.

After including held for sale and/or sold properties, the total net operating income of LREIT during the three and nine month periods ended September 30, 2016, decreased by \$1.7 million or 39% and \$7.5 million or 55%, respectively, compared to the same periods 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 sale of Beck Court and Willowdale Gardens, on May 1, 2016. The net operating income for the nine-month period ended September 30, 2016 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](http://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.*