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 2015 OPERATING RESULTS

Winnipeg, Manitoba, March 10, 2016 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the year ended December 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 year ended December 31, 2015, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

### Overall Results

As anticipated at the outset of the year, and in view of the hardship experienced by the Canadian energy sector, 2015 proved to be a challenging year for LREIT. LREIT's primary market in Fort McMurray, Alberta continued to deteriorate due to the sustained decline in the price of oil and the resulting reduction in oil-sands development activity. During 2015, the yearly average occupancy level of the Fort McMurray properties dropped to 68%, compared to 86% in 2014. Increased uncertainties as to the timing and extent of a recovery in oil prices, oil-sands development activity and rental market conditions have also led to reduced property valuations and tightened lending conditions in Fort McMurray, presenting additional challenges for LREIT.

FFO decreased by $4.4 million in 2015, resulting in negative FFO of $8.4 million compared to negative FFO of $4.0 million in 2014. The decline in FFO was primarily driven by an $8.1 million (21%) decline in revenue. The decrease in revenue was partially offset by a $2.5 million (15%) reduction in property operating costs; a $1.2 million (5%) reduction in interest expense; and a $0.7 million (27%) reduction in trust expense.

Overall, LREIT completed 2015 with a net loss of $98.8 million, compared to a net loss of $22.2 million in 2014. Driven by the same factors discussed above, the increase in the net loss mainly reflects a negative adjustment to the fair value of LREIT's Fort McMurray property portfolio of $93.3 million (32%) and a decrease in revenues of the Fort McMurray property portfolio of $7.4 million (27%).

### Cash Flow Results

The decline in the rental market conditions of Fort McMurray also negatively affected LREIT's operating cash flow in 2015 to the extent that LREIT required significant additional sources of cash to fund the cash shortfall from operating activities, monthly debt service obligations and capital expenditure requirements. During 2015, the cash outflow from operating activities amounted to $6.5 million, compared to cash outflow from operating activities of $0.8 million in 2014.

## Liquidity and Capital Resources

During 2015, the mortgage loan debt service coverage ratio decreased to 0.76, after removing the impact of one-time lump-sum principal repayments, compared to 1.00 in 2014, indicating that the net operating income of LREIT is no longer sufficient to fund its debt service obligations. Consequently, subsequent to December 31, 2015, LREIT defaulted on several mortgage loans by withholding payments of $1.3 million, and deferred the payment of interest on the revolving loan facility of $0.2 million as well as the payment of the property management fee of $0.1 million.

The decreased performance of the Fort McMurray portfolio, along with the unlikelihood of a significant recovery in Alberta's economy in the short-term, are key factors that cast doubt as to the ability of LREIT to sustain operations into the foreseeable future.

During 2015, management undertook a number of initiatives in order to address the liquidity and working capital challenges facing LREIT, including the expansion and acceleration of the divestiture program, the upward refinancing of mortgage loans, the renewal and increase of the 2668921 Manitoba Ltd. revolving loan, and the continued implementation of cost reduction measures. A summary of key events from 2015 is provided below:

- As part of the expanded divestiture program, LREIT sold two properties in 2015 at a combined gross selling price of $72.7 million. The net cash proceeds of $30.8 million were used to improve LREIT’s liquidity and working capital position.
- Proceeds from the upward refinancing of mortgage loan debt were used to repay the remaining 9% mortgage bonds in the aggregate principal amount of $6.0 million and reduce the working capital deficit.
- Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term with a maximum balance of $18.0 million in order to provide the opportunity for increased liquidity and financial flexibility.
- Throughout 2015 management has and will continue to undertake cost reduction measures, to the extent possible, including the reduction of high-interest debt. During 2015, operating costs decreased by $2.5 million or 15%, capital expenditures decreased by $1.9 million (65%), due to the deferral of expenditures deemed discretionary in nature, and the total long-term debt of LREIT decreased by $55.8 million (17%).

Subsequent to December 31, 2015, an interest-only mortgage loan in the amount of $7.5 million was fully repaid, funded by advances from the 2668921 Manitoba Ltd. revolving loan.

## Outlook and Continuing Operations

The deterioration of the Fort McMurray economy, the successive years of losses and cash deficiencies, the tightening of lending conditions in Fort McMurray, and LREIT’s large working capital deficit, among other factors, continue to present significant challenges and cast doubt as to the ability of LREIT to continue as a going concern.

In response to the challenges facing LREIT with respect to its current financial position and the weak condition of its primary market, LREIT will continue to pursue debt restructuring arrangements with its lenders as well as continue to engage in cost reduction strategies and other initiatives aimed at sustaining the operations of the Trust. Shelter and its parent company 2668921 Manitoba Ltd. have expressed their intention to participate in a coordinated plan with LREIT's lenders that will continue to provide financial support to LREIT during this difficult period.

As LREIT continues to move forward, the critical success factors of LREIT will be the timely completion of property sales under the expanded divestiture program and the willingness and ability of LREIT's lenders, Shelter and 2668921 Manitoba Ltd. to participate in a restructuring of LREIT's debt and fee structure to the degree necessary to allow LREIT the opportunity to stabilize its operations.

**FINANCIAL AND OPERATING SUMMARY**

| | December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **STATEMENT OF FINANCIAL POSITION** | | | |
| Total assets | $278,524,804 | $442,773,600 | $468,072,319 |
| Total long-term financial liabilities (1) | $272,429,237 | $327,980,499 | $302,335,837 |
| | | | |
| Weighted average interest rate | | | |
| Mortgage loan debt | 6.0% | 5.7% | 5.4% |
| Total debt | 6.4% | 6.3% | 5.9% |

(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.

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **KEY FINANCIAL PERFORMANCE INDICATORS** | | | |
| **Operating Results** | | | |
| Rentals from investment properties | $ 30,215,224 | $ 38,291,698 | $40,328,764 |
| Net operating income | $ 16,151,866 | $ 21,775,464 | $24,208,769 |
| Income (loss) before discontinued operations | $(96,394,897) | $(20,878,092) | $14,689,374 |
| Income (loss) and comprehensive income (loss) | $(98,765,643) | $(22,238,581) | $15,519,586 |
| Funds from Operations (FFO) | $ (8,426,367) | $ (4,047,931) | $ (887,528) |
| | | | |
| **Cash Flows** | | | |
| Cash provided by (used in) operating activities | $(6,492,224) | $ (806,632) | $ 1,625,477 |
| Adjusted Funds from Operations (AFFO) | $(8,728,029) | $(5,335,938) | $(3,863,140) |

**OPERATING RESULTS - 2015 COMPARED TO 2014**

**Analysis of Loss**

| | Year Ended December 31 | | Increase (Decrease) in Income | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| Rentals from investment properties | $ 30,215,224 | $ 38,291,698 | $(8,076,474) | (21)% |
| Property operating costs | 14,063,358 | 16,516,234 | 2,452,876 | 15% |
| **Net operating income** | 16,151,866 | 21,775,464 | (5,623,598) | (26)% |
| Interest income | 86,998 | 657,609 | (570,611) | (87)% |
| Interest expense | (23,272,205) | (24,480,925) | 1,208,720 | 5% |
| Trust expense | (1,816,996) | (2,472,215) | 655,219 | 27% |
| Income recovery on Parsons Landing | - | 98,499 | (98,499) | (100)% |

| | | | | |
|---|---|---|---|---|
| **Loss before the following** | (8,850,337) | (4,421,568) | (4,428,769) | (100)% |
| Gain (loss) on sale of investment property | (100,711) | 71,235 | (171,946) | (241)% |
| Fair value adjustments - Investment properties | (87,443,849) | (16,527,759) | (70,916,090) | (429)% |
| **Loss before discontinued operations** | (96,394,897) | (20,878,092) | (75,516,805) | (362)% |
| Loss from discontinued operations | (2,370,746) | (1,360,489) | (1,010,257) | (74)% |
| **Loss and comprehensive loss** | $(98,765,643) | $(22,238,581) | $(76,527,062) | (344)% |

LREIT completed 2015 with a net loss of $98.8 million, compared to a net loss of $22.2 million in 2014, representing an increase in the net loss of $76.5 million. The increase in the net loss was primarily driven by the results of the Fort McMurray property portfolio, which experienced fair value reductions of $93.3 million (32%) during the year and a decrease in revenues of $7.4 million (27%). The significant decline in the performance of the Fort McMurray portfolio is mainly due to the sustained negative impact of the decline in oil prices on the Fort McMurray economy and rental market.

The net loss resulting primarily from the reduction in fair values and revenue of the Fort McMurray portfolio was partially offset by a $2.5 million (15%) reduction in property operating costs, a $1.2 million (5%) reduction in interest expense and a $0.7 million (27%) reduction in trust expense.

An increase in loss from discontinued operations of $1.0 million, which was primarily due to an increase in the impairment loss required to bring the carrying value of one of the seniors' homes down to its net realizable value, also contributed to the increase in net loss for 2015.

**Analysis of Rental Revenue**

| | Year Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | Increase (Decrease) | | % of Total | |
| Fort McMurray properties | $19,876,889 | $27,287,507 | $(7,410,618) | (27)% | 66% | 71% |
| Other investment properties | 1,935,784 | 1,995,330 | (59,546) | (3)% | 6% | 5% |
| Sub-total | 21,812,673 | 29,282,837 | (7,470,164) | (26)% | 72% | 76% |
| Held for sale / sold properties | 8,402,551 | 9,008,861 | (606,310) | (7)% | 28% | 24% |
| Total | $30,215,224 | $38,291,698 | $(8,076,474) | (21)% | 100% | 100% |

During 2015, total revenue from investment properties, excluding held for sale and/or sold properties, decreased by $7.5 million (26%), compared to 2014. The decreases in revenue are mainly due to unfavourable variances in revenue results for the Fort McMurray portfolio. The revenue results for the Fort McMurray property portfolio reflect increasingly challenging rental market conditions due to the economic downturn in the region, which resulted from the decline in the price of oil that began in the fourth quarter of 2014 and continued throughout 2015. As a result, the yearly average occupancy level for the Fort McMurray portfolio decreased from 86% during 2014 to 68% during 2015, while the average monthly rental rate has decreased by $204 per suite or 9%.

As a result of the sustained economic contraction in Fort McMurray, the average occupancy level of the Fort McMurray properties experienced a substantial decrease from 85% in Q4-2014 to 55% in Q4-2015. In addition, the average monthly rental rate decreased by $249 (11%) as compared to Q4-2014. The noted decreases in the occupancy and rental rate levels of the Fort McMurray portfolio, along with the unlikelihood of a significant recovery in the short-term, are key factors that cast significant doubt as to the ability of LREIT to sustain operations into the foreseeable future.

After including held for sale and/or sold properties, the total revenue of LREIT decreased by $8.1 million (21%) during 2015, compared to 2014. The decrease in revenue from held for sale and/or sold properties of $0.6 million (7%) is primarily due to the sale of Colony Square on November 1, 2015.

**Occupancy Level, by Quarter**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 12 Month Average |
| Fort McMurray properties | 76% | 72% | 67% | 55% | 68% |
| Other investment properties | 85% | 86% | 83% | 79% | 83% |
| Total | 77% | 73% | 68% | 57% | 69% |
| Held for sale and/or sold properties | 95% | 94% | 94% | 95% | 94% |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 12 Month Average |
| Fort McMurray properties | 78% | 90% | 90% | 85% | 86% |
| Other investment properties | 89% | 88% | 87% | 89% | 88% |
| Total | 78% | 90% | 90% | 85% | 86% |
| Held for sale and/or sold properties | 89% | 93% | 96% | 95% | 93% |

**Average Monthly Rents, by Quarter**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 12 Month Average |
| Fort McMurray properties | $2,242 | $2,206 | $2,153 | $2,057 | $2,165 |
| Other investment properties | $949 | $967 | $973 | $971 | $965 |
| Total | $2,042 | $2,014 | $1,971 | $1,889 | $1,979 |
| Held for sale and/or sold properties | $942 | $933 | $954 | $961 | $946 |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 12 Month Average |
| Fort McMurray properties | $2,415 | $2,389 | $2,367 | $2,306 | $2,369 |
| Other investment properties | $916 | $923 | $919 | $927 | $921 |
| Total | $2,183 | $2,162 | $2,143 | $2,093 | $2,145 |
| Held for sale and/or sold properties | $939 | $929 | $919 | $935 | $930 |

**Property Operating Costs**

Excluding held for sale and/or sold properties, the decrease in operating costs was $1.8 million (15%) and was mainly due to decreases in maintenance, utilities, management fees and property taxes associated with the Fort McMurray portfolio. The decrease in maintenance costs for 2015 was primarily due to a decrease in mechanical repairs and the elimination of the Parsons Landing occupancy fee paid to the developer prior to the completion of the purchase of the property on March 6, 2014.

Including held for sale and/or sold properties, total operating costs decreased by $2.5 million (15%) during 2015, compared to 2014. The decrease in operating costs for the held for sale and/or sold properties of $0.6 million (14%) is primarily due to the sale of Colony Square on November 1, 2015.

**Analysis of Property Operating Costs**

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2015 | 2014 | Increase (Decrease) | % |
| Fort McMurray properties | $9,021,561 | $10,804,409 | $(1,782,848) | (17)% |
| Other investment properties | 1,119,567 | 1,164,511 | (44,944) | (4)% |
| Sub-total | 10,141,128 | 11,968,920 | (1,827,792) | (15)% |
| Held for sale and/or sold properties | 3,922,230 | 4,547,314 | (625,084) | (14)% |
| Total | $14,063,358 | $16,516,234 | $(2,452,876) | (15)% |

**Analysis of Net Operating Income**

| | Net Operating Income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year Ended December 31 | | Increase (Decrease) | | Percent of Total | | Operating Margin | |
| | 2015 | 2014 | Amount | % | 2015 | 2014 | 2015 | 2014 |
| Fort McMurray | $10,855,328 | $16,483,098 | $ (5,627,770) | (34)% | 67% | 76% | 55% | 60% |
| Other properties | 816,217 | 830,819 | (14,602) | (2)% | 5% | 4% | 42% | 42% |
| Sub-total | 11,671,545 | 17,313,917 | (5,642,372) | (33)% | 72% | 80% | 54% | 59% |
| Held for sale / sold properties | 4,480,321 | 4,461,547 | 18,774 | - % | 27% | 20% | 53% | 50% |
| Total | $16,151,866 | $21,775,464 | $ (5,623,598) | (26)% | 100% | 100% | 53% | 57% |

Net operating income, excluding held for sale and/or sold properties, decreased by $5.6 million (33%) during 2015, compared 2014 and the operating margin, excluding held for sale and/or sold properties, decreased from 59% during 2014 to 54% during 2015. The decrease in net operating income and operating margin primarily reflect the reduction in the revenue results of the Fort McMurray property portfolio, partially offset by the reduction in the operating cost results, as analyzed in the preceding sections of this report.

**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:**

Arni Thorsteinson, Chief Executive Officer, or Gino Romagnoli, Investor Relations
Tel: (204) 475-9090, Fax: (204) 452-5505, Email: info@lreit.com