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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2016 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 11, 2016 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the quarter ended March 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 quarter ended March 31, 2016, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

Since crude oil prices commenced their decline in the autumn of 2014, LREIT has experienced sustained downward pressure on occupancy and rental rates in its primary rental market of Fort McMurray, Alberta. However, after more than eighteen months of declining occupancy, there are signs that conditions may be stabilizing. Specifically, although the average quarterly occupancy level of the Fort McMurray properties dropped from 54% in Q4-2015 to 52% in Q1-2016, the average monthly occupancy level of the Fort McMurray properties showed improvement throughout the first quarter after experiencing an average monthly occupancy level of 50% in January 2016. In addition, occupancy has continued to increase subsequent to the end of Q1-2016 as the Fort McMurray properties commenced the month of May 2016 with an occupancy level of 56%. LREIT remains optimistic that seasonal factors may accelerate this trend. The improvement in occupancy, however, is tempered by the fact that LREIT has lowered its rental rates to remain competitive.

Overall Results

LREIT completed Q1-2016 with negative funds from operations (FFO) of $4.3 million, compared to negative FFO of $1.9 million in Q1-2015. The decrease in FFO is mainly due to a decrease in the net operating income of the Fort McMurray portfolio and the sale of Colony Square in 2015, partially offset by a decrease in interest expense.

Overall, LREIT completed Q1-2016 with a net loss of $7.6 million, compared to a net loss of $3.8 million during Q1-2015. The increase in net loss was driven by the same factors discussed above and a $1.2 million increase in loss from fair value adjustments.

Cash Flow Results

During Q1-2016, LREIT continued to require significant additional sources of capital to fund operating activities, as well as debt service obligations and capital expenditure requirements. For the three month period ended March 31, 2016, the cash outflow from operating activities amounted to $1.4 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was $3.0 million, compared to a cash outflow from operating activities of $0.3 million and a cash shortfall of $2.5 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.

Liquidity and Capital Resources

After removing the impact of one-time lump-sum principal repayments, the mortgage loan debt service coverage ratio decreased to 0.76 during 2015, indicating that net operating income was insufficient to fund LREIT's debt service obligations. Consequently, LREIT requested concessions from certain of its lenders and commenced payments in accordance with the concessions during Q1-2016. As a result, LREIT defaulted on the debt service requirements of twelve mortgage loans with an aggregate balance of $194.0 million, relating to all thirteen properties in Fort McMurray. In addition, LREIT remained in breach of an annual debt covenant requirement on a $4.2 million mortgage loan, relating to a property classified under discontinued operations.

Continuing Operations and Ongoing Initiatives

As previously reported, in an effort to sustain its operations into the foreseeable future, LREIT expanded its divestiture program and has been actively pursuing debt restructuring arrangements with certain of its lenders. LREIT is pleased to report, that although there is still a substantial amount of work to be done, significant progress has been made on both of these initiatives in 2016.

Through the cooperation and support it has received from its lenders with respect to debt restructuring initiatives, LREIT renewed three mortgage loans, inclusive of interest rate and deferred payment concessions; received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan, covering approximately 60% of LREIT's total outstanding mortgage loan debt in Fort McMurray. With respect to the mortgage loans that remain in default as of the date of this report, LREIT has signed a pre-negotiation agreement with one lender and remains in discussions with the other lender. In the interim, LREIT is continuing to make reduced debt service payments to these lenders in accordance with previously requested concessions. As of the date of this report, these lenders have taken no further action against LREIT and LREIT is hopeful that ongoing discussions will result in additional concessions that will help LREIT turn around its operations.

On May 1, 2016 LREIT completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. The net proceeds of $9.3 million were used to fully repay a $5.4 million second mortgage loan secured by Willowdale Gardens and to pay down the revolving loan from 2668921 Manitoba Ltd. by approximately $3.9 million.

During May 2016, LREIT will propose, subject to the approval of the debenture holders, that the terms of the Series G debentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate for the period after December 31, 2015 from 9.5% to 5% and to defer all payments of interest until to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Shelter and 2668921 Manitoba Ltd. have participated equitably in LREIT's debt restructuring initiatives by allowing the deferral of property management fees, service fees and interest on the revolving loan as well as interest on the second mortgage loan, acquired by 2668921 Manitoba Ltd. during the quarter.

While LREIT is pleased to report on the progress of its debt restructuring initiatives, certain lenders may be unwilling to participate in the restructuring of LREIT's debt to the extent or for the duration required to sustain operations. Such an event could result in an acceleration of mortgage payments or foreclosures.

Outlook

LREIT has made progress in 2016 with respect to its divestiture and debt restructuring initiatives, furthering its efforts to sustain operations in anticipation of an eventual recovery. Although there are signs that the Fort McMurray rental market may be stabilizing, LREIT anticipates that 2016 and 2017 will be extremely challenging years. The timely completion of additional property sales and completion of debt restructuring initiatives, in conjunction with the continued support of Shelter and its parent company, 2668921 Manitoba Ltd., will be paramount in LREIT's efforts to remain viable until conditions in Fort McMurray improve.

To the best of our knowledge, none of LREIT's properties suffered structural damage during the May wildfires in Fort McMurray. LREIT will join with others in supporting the re-building of the Regional Municipality of Wood Buffalo.

FINANCIAL SUMMARY

	March 31	December 31	
	2016	2015	2014
STATEMENT OF FINANCIAL POSITION			
Total assets	$275,886,136	$278,524,804	$442,773,600
Total long-term financial liabilities [(1)]	$282,158,073	$279,529,237	$327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.7%	6.0%	5.7%
- Total debt	6.4%	6.4%	6.3%

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

	Three Months Ended March 31		
	2016	2015	2014
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	$ 4,451,462	$ 8,731,719	$ 8,908,725
Net operating income	$ 1,659,357	$ 4,752,982	$ 4,504,067
Income (loss) before discontinued operations	$(7,640,229)	$(3,919,811)	$(2,515,948)
Income (loss) and comprehensive income (loss)	$(7,599,297)	$(3,812,046)	$(2,404,013)
Funds from Operations (FFO)	$(4,280,574)	$(1,915,224)	$(2,475,248)
Cash Flows			
Cash provided by (used in) operating activities	$(1,412,372)	$ (292,138)	$ 718,641
Adjusted Funds from Operations (AFFO)	$(4,603,418)	$(1,610,594)	$(2,107,868)

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 4,451,462	$ 8,731,719	$(4,280,257)	(49)%
Property operating costs	2,792,105	3,978,737	1,186,632	30%
Net operating income	1,659,357	4,752,982	(3,093,625)	(65)%
Interest income	17,253	24,892	(7,639)	(31)%
Interest expense	(5,656,180)	(6,409,004)	752,824	12%
Trust expense	(556,430)	(391,859)	(164,571)	(42)%
Loss before the following	(4,536,000)	(2,022,989)	(2,513,011)	(124)%
Fair value adjustments - Investment properties	(3,104,229)	(1,896,822)	(1,207,407)	(64)%
Loss before discontinued operations	(7,640,229)	(3,919,811)	(3,720,418)	(95)%
Income from discontinued operations	40,932	107,765	(66,833)	(62)%
Loss and comprehensive loss	$ (7,599,297)	$ (3,812,046)	$(3,787,251)	(99)%

LREIT completed Q1-2016 with a net loss of $7.6 million, compared to a net loss of $3.8 million during

Q1-2015, representing an increase in the net loss of $3.8 million. The increase in the net loss was primarily driven by a decrease in the net operating income of the Fort McMurray property portfolio of $1.9 million or 69%, an increase in loss from fair value adjustments of $1.2 million and a decrease in the net operating income of held for sale and/or sold properties of $1.2 million, primarily due to the sale of Colony Square on November 1, 2015. The increase in net loss was partially offset by a $0.8 million or 12% reduction in interest expense from continuing operations.

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.

LREIT completed Q1-2016 with negative FFO of $4.3 million, representing a decrease of $2.4 million, compared to Q1-2015. On a basic per unit basis, FFO decreased by $0.111, from negative $0.091 during the first quarter of 2015 to negative $0.202 during the first quarter of 2016.

Analysis of Rental Revenue

	Three Months Ended March 31					
	2016	2015	Increase (Decrease)		% of Total	
Fort McMurray properties	$2,744,317	$5,003,577	$(2,259,260)	(45)%	62%	57%
Other investment properties	419,002	489,588	(70,586)	(14)%	9%	6%
Sub-total	3,163,319	5,493,165	(2,329,846)	(42)%	71%	63%
Held for sale and/or sold properties	1,288,143	3,238,554	(1,950,411)	(60)%	29%	37%
Total	$4,451,462	$8,731,719	$(4,280,257)	(49)%	100%	100%

Occupancy Level, by Quarter

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

Average Monthly Rents, by Quarter

	2015					2016
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	$2,158	$2,127	$2,079	$1,980	$2,086	$1,699
Other investment properties	$949	$967	$973	$971	$965	$969
Total	$1,954	$1,931	$1,892	$1,810	$1,897	$1,576
Held for sale and/or sold properties	$1,239	$1,220	$1,223	$1,219	$1,224	$1,783

During Q1-2016, total revenue from investment properties, excluding held for sale and/or sold properties, decreased by $2.3 million or 42%, compared to Q1-2015. The decrease in revenue is almost entirely attributable to the Fort McMurray portfolio.

The revenue results of the Fort McMurray property portfolio reflects 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 Q4-2014, and continued throughout 2015 and into Q1-2016. As a result, the average occupancy level for the Fort McMurray portfolio decreased from 76% during Q1-2015 to 52% during Q1-2016 and the average monthly rental rate decreased by $459 per suite or 21%.

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. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve the operating performance are discussed in the "Liquidity and Capital Resources" section of the MD&A.

After including held for sale and/or sold properties, the total revenue of LREIT decreased by $4.3 million or 49% during Q1-2016, compared to Q1-2015. The decrease in revenue from held for sale and/or sold properties of $1.9 million or 60% is primarily due to the sale of Colony Square on November 1, 2015.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2016	2015	Increase (Decrease)	%
Fort McMurray properties	$1,907,568	$2,284,651	$ (377,083)	(17)%
Other investment properties	280,385	299,448	(19,063)	(6)%
Sub-total	2,187,953	2,584,099	(396,146)	(15)%
Held for sale and/or sold properties	604,152	1,394,638	(790,486)	(57)%
Total	$2,792,105	$3,978,737	$(1,186,632)	(30)%

Property operating costs decreased by $1.2 million or 30% during Q1-2016, compared to Q1-2015. The decrease mainly reflects a $0.8 million decrease in the property operating costs of held for sale and/or sold properties, primarily due to the sale of Colony Square on November 1, 2015, and a decrease in the property operating costs of the Fort McMurray properties of $0.4 million, mainly due to decreases in maintenance and management fee expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Three Months Ended March 31		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 836,749	$ 2,718,926	$(1,882,177)	(69)%	50%	57%	30%	54%
Other investment properties	138,617	190,140	(51,523)	(27)%	8%	4%	33%	39%
Sub-total	975,366	2,909,066	(1,933,700)	(66)%	58%	61%	31%	53%
Held for sale and/or sold properties	683,991	1,843,916	(1,159,925)	(63)%	27%	39%	53%	57%
Total	$1,659,357	$ 4,752,982	$(3,093,625)	(65)%	100%	100%	37%	54%

The net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1.9 million or 66% during Q1-2016, compared to Q1-2015. The operating margin, excluding held for sale and/or sold properties, decreased from 53% during Q1-2015 to 31% during Q1-2016. The decrease in net operating income and the operating margin, excluding held for sale and/or sold properties, 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.

After including held for sale and/or sold properties, the total net operating income decreased by $3.1 million or 65%. The decrease in net operating income from held for sale and/or sold properties of $1.2 million or 63% is primarily due to the sale of Colony Square on November 1, 2015.

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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