



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2017 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 9, 2017 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended March 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 quarter ended March 31, 2017, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

As expected, rental market conditions in Fort McMurray, Alberta improved during the first quarter of 2017, compared to the first quarter of 2016, as the City continued with the early stages of the post-fire rebuilding process.

Operating Results

LREIT completed Q1-2017 with negative funds from operations ("FFO") of \$1.8 million, compared to negative FFO of \$4.3 million during Q1-2016. The favourable FFO variance mainly reflects a decrease in interest expense and an increase in net operating income ("NOI").

The decrease in interest expense was due to divestiture and debt restructuring initiatives during 2016 that resulted in a reduction of outstanding mortgage loan debt and reductions in the rate of interest applicable to the revolving loan and debenture debt.

The increase in NOI is mainly comprised of a decrease in property operating costs and an increase in rental revenues. The decrease in property operating costs is primarily due to the divestitures of Beck Court and Willowdale Gardens in May 2016. The increase in rental revenues is primarily attributable to the increase in the occupancy levels of the Fort McMurray properties. Specifically, the average occupancy level of the Fort McMurray property portfolio increased from 52% during Q1-2016 to 68% during Q1-2017.

Overall, LREIT completed Q1-2017 with a loss and comprehensive loss of \$4.6 million, compared to a loss and comprehensive loss of \$7.6 million during Q1-2016. The decrease in the net loss and comprehensive loss mainly reflects the same factors discussed above.

Liquidity and Capital Resources

During Q1-2017, cash used in operating activities amounted to \$1.2 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was \$2.3 million, compared to cash used in operating activities of \$1.4 million and a cash shortfall of \$3.0 million during Q1- 2016. The cash shortfalls were funded by advances under the revolving loan facility from 2668921 Manitoba Ltd.

As of March 31, 2017, LREIT is current with respect to all debt service payments. However, as previously reported, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64.7 million, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain 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 the mortgages and the lender has taken no action to enforce the loans.

During Q1-2017, LREIT continued to benefit from the debt restructuring that took place during Q1-2016, which has allowed for the deferral of interest payments and/or a decrease in the interest rate charged.

During Q1-2017, LREIT completed the sale of one condominium unit under the Lakewood Townhomes condominium sales program. The sale resulted in the reduction of \$0.4 million of mortgage loan debt and a net cash shortfall of \$0.1 million. Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's, the property classified as held for sale, Woodland Park, and the continuation of the Lakewood Townhomes Condominium Sales Program.

Outlook

A report by the Conference Board of Canada estimates that \$5.3 billion will be injected into the Canadian economy as a result of the Fort McMurray rebuilding effort and that approximately 9,000 jobs will be created in 2017. While management is optimistic that LREIT will experience improved operating results during the remainder of 2017 in connection with the rebuilding effort, there remains the risk that possible homebuilding permit delays and/or late insurance settlements will slow down the pace of the near-term market recovery. In addition, the long-term prospects of the Fort McMurray rental market will remain closely correlated with oil sands development activity and the price of oil.

FINANCIAL SUMMARY

	March 31	December 31	
	<u>2017</u>	<u>2016</u>	<u>2015</u>
STATEMENT OF FINANCIAL POSITION			
Total assets	\$242,732,820	\$245,402,329	\$278,524,804
Total long-term financial liabilities ⁽¹⁾	\$245,721,149	\$243,501,308	\$279,529,237
Weighted average interest rate			
- Mortgage loan debt	5.8%	5.8%	6.0%
- Total debt	5.6%	5.6%	6.4%
		<u>Three Months Ended March 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2015</u>
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	\$ 4,644,515	\$ 4,451,462	\$ 8,731,719
Net operating income	\$ 2,232,113	\$ 1,659,357	\$ 4,752,982
Loss before discontinued operations	\$(4,691,809)	\$(7,640,229)	\$(3,919,811)
Loss and comprehensive loss	\$(4,645,719)	\$(7,599,297)	\$(1,812,046)
Funds from Operations (FFO)	\$(1,777,917)	\$(4,280,574)	\$(1,915,224)
Cash Flows			
Cash used in operating activities	\$(1,218,817)	\$(1,412,372)	\$ (292,138)
Adjusted Funds from Operations (AFFO)	\$(1,885,179)	\$(4,603,418)	\$(1,610,594)

- (1) Long-term financial liabilities consist of mortgage loans, debentures, defeased liability (December 2015) and the revolving loan from 2668921 Manitoba Ltd.

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Three Months Ended March 31		Increase (Decrease) in Income	
	2017	2016	Amount	%
Rentals from investment properties	\$ 4,644,515	\$ 4,451,462	\$ 193,053	4%
Property operating costs	<u>(2,412,402)</u>	<u>(2,792,105)</u>	<u>379,703</u>	<u>14%</u>
Net operating income	2,232,113	1,659,357	572,756	35%
Interest income	45,612	17,253	28,359	164%
Interest expense	(3,686,254)	(5,656,180)	1,969,926	35%
Trust expense	<u>(415,478)</u>	<u>(556,430)</u>	<u>140,952</u>	<u>25%</u>
Loss before the following	(1,824,007)	(4,536,000)	2,711,993	60%
Gain on sale of investment property	58,377	-	58,377	n/a
Fair value adjustments - Investment properties	<u>(2,926,179)</u>	<u>(3,104,229)</u>	<u>178,050</u>	<u>6%</u>
Loss before discontinued operations	(4,691,809)	(7,640,229)	2,948,420	39%
Income from discontinued operations	<u>46,090</u>	<u>40,932</u>	<u>5,158</u>	<u>13%</u>
Loss and comprehensive loss	<u>\$ (4,645,719)</u>	<u>\$ (7,599,297)</u>	<u>\$ 2,953,578</u>	<u>39%</u>

LREIT completed Q1-2017 with a loss and comprehensive loss of \$4.6 million, compared to a loss and comprehensive loss of \$7.6 million during Q1-2016. The decrease in the loss mainly reflects a decrease in interest expense and an increase in net operating income.

The decrease in interest expense is mainly due to a decrease in amortization of transaction costs, a reduction of debt during 2016 and a decrease in interest rates of the revolving loan facility from 2668921 Manitoba Ltd. and the Series G debentures. The decrease in amortization of transaction costs is primarily due to the acceleration of amortization during Q1-2016 due to the early renewal of four mortgage loans, as part of the debt restructuring initiatives, and the May 1, 2016 sale of Beck Court and Willowdale Gardens. The decrease in mortgage loan debt is due to the sales of Beck Court and Willowdale Gardens in May 2016, as well as lump sum payments made on mortgage loans during 2016 and the full repayment of two second mortgage loans during 2016.

The increase in net operating income mainly reflects a decrease in property operating costs and an increase in rental revenue. The decrease in property operating costs is mainly due to the sales of Beck Court and Willowdale Gardens in May 2016. The increase in rental revenue is mainly due to an increase in the occupancy level of the Fort McMurray properties, partially offset by a decrease in rental revenue as a result of the sales of Beck Court and Willowdale Gardens.

The increase in the occupancy level of the Fort McMurray portfolio is 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. The average occupancy level increased from 52% during Q1-2016 to 68% during Q2-2017. The extent and duration of the impact of the rebuilding effort 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

	Three Months Ended March 31					
	2017	2016	Increase (Decrease)		% of Total	
			Amount	%	2016	2015
Fort McMurray properties	\$3,570,087	\$2,744,317	\$ 825,770	30%	77%	62%
Other investment properties	<u>383,193</u>	<u>419,002</u>	<u>(35,809)</u>	<u>(9)%</u>	<u>8%</u>	<u>9%</u>
Sub-total	3,953,280	3,163,319	789,961	25%	85%	71%
Held for sale and/or sold properties	<u>691,235</u>	<u>1,288,143</u>	<u>(596,908)</u>	<u>(46)%</u>	<u>15%</u>	<u>29%</u>
Total	<u>\$4,644,515</u>	<u>\$4,451,462</u>	<u>\$ 193,053</u>	<u>4%</u>	<u>100%</u>	<u>100%</u>

Occupancy Level, by Quarter

	2016				2017	
	Q1	Q2	Q3	Q4	12 Month	
					Average	Q1
Fort McMurray properties	52%	58%	76%	72%	65%	68%
Other investment properties	72%	74%	69%	69%	71%	71%
Total	54%	60%	75%	72%	65%	68%
Held for sale and/or sold properties	75%	64%	86%	82%	75%	79%

Average Monthly Rents, by Quarter

	2016				2017	
	Q1	Q2	Q3	Q4	12 Month	
					Average	Q1
Fort McMurray properties	\$1,699	\$1,599	\$1,700	\$1,669	\$1,667	\$1,684
Other investment properties	\$969	\$960	\$945	\$919	\$948	\$909
Total	\$1,576	\$1,491	\$1,573	\$1,543	\$1,546	\$1,554
Held for sale and/or sold properties	\$1,783	\$2,036	\$2,546	\$2,581	\$2,088	\$2,593

During Q1-2017, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, increased by \$0.8 million or 25%, compared to Q1-2016. The increase is due to an increase in the rental revenues of the Fort McMurray portfolio.

Notwithstanding the positive revenue results during Q1-2017, the revenue results of the Fort McMurray property portfolio continue to reflect challenging rental market conditions as a result of the depressed level of oil sands development activity in the region. Rental rates remain at depressed levels and the average monthly rental rate decreased by \$15 per suite or 1% during Q1-2017, compared to Q1-2016. The impact of the low level of oil sands development activity continues to be tempered 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 52% during Q1-2016 to 68% during Q1-2017 driving the increase in revenue.

The depressed level of rental rates, together with the uncertainty regarding 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. 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 2017 first quarter MD&A.

After accounting for the decrease in revenue from held for sale and/or sold properties of \$0.6 million during Q1-2017, the total revenue increased by \$0.2 million or 4%, compared to Q1-2016. 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, partially offset by an increase in the revenue of Woodland Park, a Fort McMurray property which is currently classified as held-for-sale.

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2017	2016	Increase (Decrease)	%
Fort McMurray properties	\$1,859,837	\$1,907,568	\$ (47,731)	(3)%
Other investment properties	<u>304,732</u>	<u>280,385</u>	<u>24,347</u>	<u>9%</u>
Sub-total	2,164,569	2,187,953	(23,384)	(1)%
Held for sale and/or sold properties	<u>247,833</u>	<u>604,152</u>	<u>(356,319)</u>	<u>(59)%</u>
Total	<u>\$2,412,402</u>	<u>\$2,792,105</u>	<u>\$(379,703)</u>	<u>(14)%</u>

During Q1-2017, property operating costs decreased by \$0.4 million or 14%, compared to Q1-2016. The decrease mainly reflects a decrease in the property operating costs of held for sale/or sold properties, primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016.

Analysis of Net Operating Income and Operating Margin

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	\$1,710,250	\$ 836,749	\$ 873,501	104%	77%	50%	48%	30%
Other investment properties	<u>78,461</u>	<u>138,617</u>	<u>(60,156)</u>	<u>(43)%</u>	<u>4%</u>	<u>8%</u>	<u>20%</u>	<u>33%</u>
Sub-total	1,788,711	975,366	813,345	83%	81%	58%	45%	31%
Held for sale and/or sold properties	<u>443,402</u>	<u>683,991</u>	<u>(240,589)</u>	<u>(35)%</u>	<u>20%</u>	<u>42%</u>	<u>64%</u>	<u>53%</u>
Total	<u>\$2,232,113</u>	<u>\$ 1,659,357</u>	<u>\$ 572,756</u>	<u>35%</u>	<u>100%</u>	<u>100%</u>	<u>48%</u>	<u>37%</u>

During Q1-2017, the net operating income of the investment properties portfolio, excluding held for sale and/or sold properties, increased by \$0.8 million or 83%, compared to Q1-2016. The operating margin, excluding held for sale and/or sold properties, increased from 31% during Q1-2016 to 45% during Q1-2017. The increase in net operating income and operating margin, excluding held for sale and/or sold properties, is primarily due to the increase in the revenue results of the Fort McMurray property portfolio, as discussed above.

After accounting for held for sale and/or sold properties, the total net operating income increased by \$0.6 million or 35%, during Q1-2017, compared to Q1-2016. The decrease in net operating income from held for sale and/or sold properties is primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the revenue of Woodland Park, the Fort McMurray property which is classified as held-for-sale.

Interest Expense

During Q1-2017, total interest expense decreased by \$2.2 million or 37%, compared to Q1-2016. The decrease mainly reflects a decrease in mortgage loan interest of \$1.5 million, as well as a decrease in debenture interest of \$0.4 million, a decrease in interest expense related to discontinued operations of \$0.2 million and a decrease in revolving loan interest of \$0.2 million.

The decrease in mortgage loan interest is primarily due to a decrease in the amortization of transaction costs of mortgage loans and a decrease in the total mortgage debt during 2016. The decrease in debentures interest reflects the reduction in the Series G debenture interest rate from 9.5% to 5%, effective June 30, 2016, in accordance with the amended terms of the Series G debentures and a decrease in amortization of transaction costs of \$0.1 million as transactions costs associated with the debentures were fully amortized in 2016. The decrease in interest expense related to discontinued operations is due to the sale of Elgin Lodge on October 1, 2016. The decrease in revolving loan interest mainly reflects the reduction of the interest rate from 12% to 5%, effective July 1, 2016, partially offset by an increase in the average outstanding principal balance.

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.