LANESBOROUGH REIT

2014 ANNUAL REPORT

TABLE OF CONTENTS

Unitholder Returns

	Year Ended December 31, 2014 (Per unit)	Year Ended December 31, 2013 (Per unit)
Opening price	$1.07	$0.65
Closing price	$0.47	$1.07

Lanesborough Real Estate Investment Trust ("LREIT") units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The warrants are listed on the Toronto Stock Exchange under the symbol "LRT.WT.A".

CHIEF EXECUTIVE OFFICER'S MESSAGE
2014 Annual Report

Highlights

During 2014, LREIT continued to improve its financial and liquidity position. Key accomplishments include:

- **Extension of series G debentures:** In 2014, the maturity date of the Series G debentures was extended from February 2015 to June 2018. The extension of the maturity date will provide more time for LREIT to pursue alternative sources of repayment for the debentures, including additional property sales and upward refinancings.

- **Completion of acquisition - Parsons Landing:** On March 6, 2014, the purchase of Parsons Landing was completed, resolving uncertainties regarding the finalization of property ownership and interest forgiveness. In May 2014, 27 months after the fire, the lease up of Parsons Landing achieved 94% occupancy.

- **Upward refinancing of mortgage loans:** LREIT generated net proceeds of $1.6 Million from the upward refinancing of Elgin Lodge and, subsequent to December 31, 2014, generated net proceeds of $7.4 Million from the upward refinancing of Beck Court. The proceeds have been used to pay down higher interest rate debt and for general working capital purposes.

- **Collection of Mortgage Loans:** The full collection of the mortgage loans receivable, which were provided on the sale of the Clarington Seniors' Residence in 2012, of $9.0 Million, including accrued interest, provided an infusion of funds in the second quarter of 2014.

- **Elimination of mortgage bond debt:** In 2014, the Trust repaid $10 Million of the 9% mortgage bonds. In February of 2015, the remaining mortgage bonds with a face value of $6 Million were repaid. The repayments were funded using proceeds from the sale of Nova Court and the upward refinancing of Beck Court, respectively.

- **Reduction in mortgage loan debt service:** During 2014, the cash component of interest expense, including discontinued operations, decreased by 15% or $3.8 Million, compared to 2013. The majority of the decrease is due to mortgage refinancings at more favourable rates, as well as the reduction in the mortgage bond debt.

- **Overall debt reduction:** After accounting for regular and lump-sum mortgage loan principal payments and debt discharged/assumed on the sale of properties, the total long-term debt of LREIT, combined with the acquisition payable on Parsons Landing, decreased by $15.7 Million during 2014, compared to 2013. As of December 31, 2014, the total debt of LREIT, including the revolving loan, was equal to 78% of the IFRS carrying value of the total property portfolio.

Income Results

During 2014, LREIT incurred a loss from investment properties of $20.9 Million compared to income from investment properties of $14.7 Million during 2013. The variance is mainly due to a variance in fair value adjustments, including the fair value adjustments on Parsons Landing, and a decrease in the combined total of net operating income and insurance recoveries, partially offset by a decrease in interest expense.

During 2013, the fair value of the investment property portfolio increased by $15.9 Million, largely as a result of the return of suites to active rental operations at Parsons Landing and favourable changes in key valuation assumptions including cap and discount rates. The fair value loss of $16.5 Million that occurred in 2014 is almost entirely due to unfavourable changes in revenue and occupancy expectations for the Fort McMurray portfolio that occurred as a result of the decline in oil prices during the fourth quarter of 2014.

After excluding the impact of properties sold, NOI combined with insurance recoveries on Parsons Landing decreased by $3.0 Million during 2014, compared to 2013. After accounting for the decline in net operating income related to the sale of the Purolator Building and Nova Court in 2013, the decrease in operating income is largely attributable to a weakening of market conditions in the first quarter of 2014. Conditions improved substantially in the second and third quarters of the year, but softened again in the fourth quarter, due largely to seasonal factors.

Interest expense decreased by $2.7 Million or 10% during 2014, largely as a result of the refinancing of debt at lower interest rates during 2013, the effects of which were fully realized in 2014. The reduction in the combined total of long-term debt and the acquisition payable of $17.0 Million also served to reduce interest expense.

Income from discontinued operations decreased $2.2 Million due to the write-down of Elgin Lodge to its fair value based on a new appraisal prepared during 2014. Overall LREIT completed 2014 with a comprehensive loss of $22.2 Million compared to comprehensive income of $15.5 Million in 2013.

Cash Flow Results

During 2014, the cash outflow from operating activities, excluding working capital adjustments, amounted to $0.6 Million, compared to a cash inflow of $2.0 Million during 2013. Including working capital adjustments, LREIT completed 2014 with a cash outflow from operating activities of $0.8 Million, compared to a cash inflow of $1.6 Million during 2013.

Outlook

The recent decline in oil prices and lower occupancies will make 2015 a challenging year for the Fort McMurray property portfolio. LREIT intends to expand its divestiture program in 2015 and will pursue upward refinancing opportunities in an effort to further improve its overall liquidity position.

Despite current headwinds, the long-term prospects for continued growth in oil sands production and development activity remain. Even during periods of price volatility, oil sands production has continued to increase steadily over time, reflecting the long-term nature of the oil sands resource.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
March 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements ("Financial Statements") of LREIT for the year ended December 31, 2014 with reference to the Annual Report for 2013 and the quarterly reports for 2014.

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with breaches of covenants under financing agreements, debt financing, availability of cash for distributions, the taxation of trusts, public markets, real property ownership, liquidity, interest and financing risk, credit risk, concentration of portfolio in one market, future property acquisitions, dependence on natural resources industries, reliance on single or anchor tenants, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, multi-family residential sector risk, environmental risks, other tax-related risk factors, supply risk, utility and property tax risk, government regulation, nature of units, dilution, competition, general economic conditions, current economic conditions, relationship with the property manager, reliance on key personnel, reliance on Shelter Canadian Properties Limited ("Shelter") or its parent company 2668921 Manitoba Ltd. for interim funding and additional risks associated with debentures. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither LREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price Information

All purchase prices set forth herein are disclosed prior to closing costs, other adjustments on closing and GST, where applicable.

Financial Statements

Throughout this report, the consolidated financial statements as of December 31, 2014 will be referred to as the "Financial Statements"; the consolidated statements of financial position as of December 31, 2014 will be referred to as the "Statement of Financial Position"; the consolidated statements of comprehensive income (loss) for the year ended December 31, 2014 will be referred to as the "Income Statement"; and the consolidated statements of cash flows for the year ended December 31, 2014 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	December 31 2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 442,773,600	$ 468,072,319	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 327,980,499	$ 302,335,837	$ 324,501,221
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.4 %	7.1 %
- Total debt	6.3 %	5.9 %	7.4 %

	Year Ended December 31 2014	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 38,291,698	$ 40,328,764	$ 38,410,992
Net operating income	$ 21,775,464	$ 24,208,769	$ 22,429,229
Income (loss) before discontinued operations	$ (20,878,092)	$ 14,689,374	$ 601,545
Income (loss) and comprehensive income (loss)	$ (22,238,581)	$ 15,519,586	$ 20,098,308
Cash Flows			
Cash provided by (used in) operating activities	$ (806,632)	$ 1,625,477	$ (4,538,612)
Funds from Operations (FFO) *	$ (4,047,931)	$ (887,528)	$ (7,138,217)
Adjusted Funds from Operations (AFFO) *	$ (6,083,144)	$ (3,863,140)	$ (10,207,994)
Distributable income (loss)*	$ (3,468,853)	$ (1,501,299)	$ (5,091,215)
Per Unit			
Net operating income *			
- basic	$ 1.040	$ 1.276	$ 1.204
- diluted	$ 0.803	$ 1.045	$ 1.197
Income (loss) before discontinued operations *			
- basic	$ (0.997)	$ 0.774	$ 0.032
- diluted	$ (0.997)	$ 0.634	$ 0.032
Income (loss) and comprehensive income (loss)			
- basic	$ (1.062)	$ 0.818	$ 1.079
- diluted	$ (1.062)	$ 0.670	$ 1.073
Cash provided by (used in) operating activities			
- basic	$ (0.039)	$ 0.086	$ (0.244)
- diluted	$ (0.039)	$ 0.070	$ (0.244)
Funds from Operations (FFO) *			
- basic and diluted	$ (0.193)	$ (0.047)	$ (0.383)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.290)	$ (0.204)	$ (0.548)
Distributable loss *			
- basic and diluted	$ (0.166)	$ (0.079)	$ (0.273)

(1) Long-Term Financial Liabilities

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.

(2) Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with International Financial Reporting Standards (IFRS) or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

As of December 31, 2014, LREIT owns a portfolio of income-producing real estate properties, comprised of 20 investment properties and two seniors' housing complexes classified under discontinued operations. The core business activities of LREIT include investment, development, management and divestiture activities which are focused on maximizing the return on the real estate portfolio.

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio. During the past six years, the divestiture program of LREIT, combined with systematic and proactive debt restructuring initiatives, has enabled LREIT to meet significant liquidity challenges.

A more detailed description of the operations and business strategy of LREIT is provided in the section of the MD&A titled, "Overview of Operations and Investment Strategy".

Divestiture Program

During the period from 2009 to 2014, LREIT sold 23 properties and 17 condominium units under its divestiture program at a combined gross selling price of $260.8 Million. The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration of the overall cash needs of the Trust. The timing of property sales is uncertain.

Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

Highlights of 2014 Results and Key Issues/Events

1. Background Information

For segmented reporting purposes, LREIT's portfolio of investment properties is divided into four categories:

- Fort McMurray: Includes twelve multi-family properties in Fort McMurray.
- Other investment properties: Includes the seven other investment properties.
- Parsons Landing: Due to the fire in 2012 and subsequent reconstruction of the property in 2013, Parsons Landing is categorized separately for segmented reporting purposes.
- Properties sold: Includes the operating results of the two properties which were sold in 2013.

The operating results for the two seniors' housing complexes are classified under "Discontinued operations" in the Income Statement of the Trust. The income and expense analyses which are contained throughout this report do not include the two seniors' housing complexes, except where noted.

In the financial statements of the Trust, cash flow from operating activities includes net operating income, less interest and trust expenses, on a cash basis, from the investment properties and the seniors' housing complexes in discontinued operations. The cash flow analyses which are contained throughout this report provide a break-down of the cash flow from investment properties and discontinued operations.

2. Comparative Income Results

	Year Ended December 31		
	2014	2013	Increase (Decrease) in income
Net operating income			
Fort McMurray properties	$ 13,499,864	$ 15,714,974	$ (2,215,110)
Other investment properties	5,394,738	5,614,907	(220,169)
Sub-total	18,894,602	21,329,881	(2,435,279)
Properties sold	(102,372)	1,832,176	(1,934,548)
Parsons Landing	2,983,234	1,046,712	1,936,522
Total net operating income	21,775,464	24,208,769	(2,433,305)
Interest income	657,609	1,272,740	(615,131)
Interest expense	(24,480,925)	(27,223,579)	2,742,654
Trust expense	(2,472,215)	(2,312,565)	(159,650)
Income recovery on Parsons Landing	98,499	2,622,629	(2,524,130)
Income (loss) before the following	(4,421,568)	(1,432,006)	(2,989,562)
Gain on sale of investment properties	71,235	221,642	(150,407)
Fair value adjustments - Investment properties	(16,527,759)	6,970,031	(23,497,790)
Fair value adjustment - Parsons Landing	-	8,929,707	(8,929,707)
Income (loss) before discontinued operations	(20,878,092)	14,689,374	(35,567,466)
Income from discontinued operations	(1,360,489)	830,212	(2,190,701)
Income (loss) and comprehensive income (loss)	$ (22,238,581)	$ 15,519,586	$ (37,758,167)

A summary of the key financial performance indicators of LREIT is provided in the "Financial Summary" section of the MD&A which precedes this "Executive Summary".

During 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and discontinued operations amounted to $4.4 Million, compared to a loss of $1.4 Million during 2013, representing an increase in loss of $3.0 Million. The increase in loss is mainly due to a decrease in the net operating income of the Fort McMurray properties of $2.2 Million, a decrease in the net operating income attributable to properties sold of $1.9 Million, a net decrease in the combined total of net operating income from Parsons Landing and income recovery on Parsons Landing of $0.6 Million and a decrease in interest income of $0.6 Million, partially offset by a decrease in interest expense of $2.7 Million.

During 2014, the net loss of LREIT was $22.2 Million, compared to net income of $15.5 Million during 2013, representing a variance of $37.8 Million. In addition to the variables noted in the preceding paragraph, the variance mainly reflects a decrease of $32.4 Million in income from fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and a decrease in income from discontinued operations of $2.2 Million mainly representing a fair value reduction, compared to 2013.

2. Comparative Income Results (continued)

Occupancy/Rental Rate Comparison

	Year Ended December 31	
	2014	2013
Average occupancy level		
Fort McMurray	86%	91%
Other investment properties	92%	93%
Total	88%	91%
Properties sold	n/a	100%
Parsons Landing	83%	n/a
Average rental rate		
Fort McMurray	$2,292	$2,329
Other investment properties	$928	$929
Total	$1,645	$1,666
Properties sold	n/a	$2,521
Parsons Landing	$2,712	n/a

3. Comparative Cash Flow Results

	Year Ended December 31		
	2014	2013	Increase (Decrease)
Cash provided by (used in)			
Operating activities before working capital adjustments	$ (610,558)	$ 2,030,226	$(2,640,784)
Working capital adjustments	(196,074)	(404,749)	208,675
Operating activities	$ (806,632)	$ 1,625,477	$(2,432,109)

During 2014, the cash provided by (used in) operating activities, before working capital adjustments, decreased by $2.6 Million, compared to 2013. The decrease mainly reflects a decrease in the cash component of net operating income of $3.0 Million and a decrease in the income recovery on Parsons Landing of $2.5 Million, partially offset by a decrease in interest paid of $3.1 Million.

4. Interest Expense

	Year Ended December 31		
	2014	2013	Increase (Decrease)
Interest expense			
Investment properties	$ 24,480,925	$ 27,223,579	$(2,742,654)
Discontinued operations	1,037,408	747,837	289,571
Total interest expense	$ 25,518,333	$ 27,971,416	$(2,453,083)

	As at December 31	
Key Variables	2014	2013
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.7 %	5.4 %
Seniors' housing complexes	6.6 %	5.0 %
Combined operations	5.7 %	5.4 %

4. Interest Expense (continued)

Total interest expense for investment properties decreased by $2.7 Million or 10% during 2014, compared to 2013. The decrease reflects a net decrease in the combined mortgage loan/acquisition payable interest of $3.1 Million and a decrease in mortgage bond interest of $0.9 Million, partially offset by an increase in fair value adjustments on the interest rate swap liability of $0.5 Million, an increase in accretion of mortgage bonds of $0.4 Million, and a net increase in total amortization charges for transaction costs of $0.2 Million.

The decrease in interest expense on mortgage loan/acquisition payable debt mainly reflects a reduction of interest as a result of refinancing transactions, interest savings on the elimination of the mortgage loan debt for Nova Court and the Purolator Building, a decrease in interest expense on the mortgage loan for Parsons Landing compared to the interest on the acquisition payable relating to Parsons Landing, partially offset by an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. The decrease in mortgage bond interest reflects the repayment of $10.0 Million in mortgage bonds in January 2014. The mortgage bond repayment resulted in the recording of additional accretion of $0.6 Million in the first quarter of 2014.

The increase in interest expense for discontinued operations of $0.3 Million is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

5. Key Financing and Investing Events in 2014

2014 Q1

Completion of Parsons Landing Acquisition - On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by the net proceeds of a first mortgage loan maturing on May 1, 2015, an advance under the revolving loan and the balance in cash. The completion of the purchase transaction eliminated the "Acquisition payable" on the balance sheet of LREIT and resolved long-standing uncertainties regarding the finalization of property ownership and interest forgiveness.

Repayment of Mortgage Bonds - In January 2014, LREIT repaid $10.0 Million of the 9% mortgage bonds which were secured against certain properties of LREIT, including the Nova Court property. At year end, the face value of the remaining mortgage bonds was $6.0 Million. Subsequent to December 31, 2014, LREIT repaid all of the outstanding mortgage bonds.

2014 Q2

Upward Refinancing - On May 1, 2014, the first mortgage loan of Elgin Lodge was upward refinanced with a new first mortgage loan of $10.0 Million. The net proceeds from the upward refinancing were approximately $1.6 Million.

Mortgage Loans Receivable - The mortgage loan receivable arising from the 2012 sale of the Clarington Seniors' Residence was received in full. The amount received, including accrued interest, was $9.0 Million.

Extension of Maturity Date of Debentures - On June 16, 2014, LREIT obtained approval from the holders of the Series G debentures to extend the maturity date of the Series G debentures from February 28, 2015 to June 30, 2018.

2014 Q4

Debt Covenants - As of December 31, 2014, LREIT is in breach of a 1.15 overall Trust debt service coverage requirement of a $15.5 Million mortgage loan with a maturity date of June 4, 2018 and the related $1.4 Million interest rate swap liability on a property in Fort McMurray, Alberta. The covenant breach was initially expected to be eliminated by the refinancing of the mortgage loan and interest rate swap liability in the third quarter of 2014; however, the expected refinancing was delayed. Subsequent to December 31, 2014, LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

5. Key Financing and Investing Events in 2014 (continued)

As of December 31, 2014, LREIT was also in breach of an annual debt covenant on a mortgage loan for a property in Winnipeg with a balance of $40,423,153. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

As of December 31, 2014, the Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The covenant breach has not resulted in an acceleration of the repayment of the mortgage loan. Management does not anticipate that the lender will demand repayment of the mortgage loan, provided that scheduled monthly payments of principal and interest continue to be made. Management expects LREIT to remain current with its scheduled payments of principal and interest. There can be no assurance, however, that the lender will not accelerate payment of the mortgage loan. The Trust has requested a waiver of the covenant requirement from the lender.

6. Subsequent Events

Subsequent to December 31, 2014, the first mortgage loan of Beck Court was upward refinanced resulting in net proceeds of approximately $7.4 Million after transaction costs. A portion of the net proceeds was used to repay the remaining mortgage bonds in the aggregate principal amount of $6.0 Million.

Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

7. Liquidity

	December 31 2014	2013
Unrestricted cash	$ 1,445,335	$ 2,401,741
Restricted cash	$ 3,998,659	$ 4,241,812
Working capital deficit	$ 13,234,208	$ 4,259,858
Amount available on revolving loan*	$ 500,000	$ 14,095,000

*As at March 10, 2015, there was $1.7 Million available on the revolving loan.

8. Risks and Uncertainties

The key risks and uncertainties affecting the current and future operations of LREIT include the following:

- the working capital deficit of the Trust;
- the concentration of properties in Fort McMurray;
- the debt service covenant breach on three mortgage loans and a related interest rate swap liability;
- ability of LREIT to complete additional property sales;
- ability of LREIT to renew and/or upward refinance mortgage debt; and
- reliance on Shelter and its parent 2668921 Manitoba Ltd. for interim funding.

As a result of the extension of the maturity date of the Series G debentures, the repayment of the remaining mortgage bond debt, the renewal or refinancing of mortgage loans, the completion of the Parsons Landing acquisition and the successful completion of property sales over the past six years, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

The recent decline in oil prices has created a higher level of uncertainty in the Fort McMurray economy, resulting in the slowdown of oil sands development, an increased vacancy in the rental market, and more difficult mortgage lending conditions for properties in Fort McMurray. The fair value of LREIT properties located in Fort McMurray have been reduced to reflect the change in the rental market. A prolonged delay or slowdown of development activity in the oil sands industry could further reduce the net operating income results and values for the Fort McMurray property portfolio.

The financial capacity of LREIT to meet all of its debt obligations and continue operations is dependent on improving cash flows from operations and, in particular, the cash flow from operations of the Fort McMurray portfolio; the completion of property sales and/or upward refinancings; the continued ability of the Trust to repay, renew or refinance debt at maturity; the renewal of the revolving loan commitment from 2668921 Manitoba Ltd.; and/or the continued availability of interim funding from Shelter.

A more detailed description of key risks is provided in the "Operating Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

CONTINUING OPERATIONS

The Financial Statements have been prepared using the going concern assumption.

The "going concern" basis of accounting is considered appropriate by management due to management's expectation of maintaining adequate liquidity, renewing maturing mortgage debt, meeting all mortgage principal and interest payment obligations, obtaining modified loan terms from lenders, receiving the continued financial support of Shelter and its parent company 2668921 Manitoba Ltd., completing upward refinancing, reducing high interest debt and generating additional capital through the completion of property sales.

CAPITAL REQUIREMENTS - GENERAL

As of December 31, 2014, the unrestricted cash balance of LREIT was $1,445,335 and the working capital deficit was $13,234,208, representing an increase of $8,974,350 compared to the working capital deficit as of December 31, 2013. As of December 31, 2013, the working capital deficit included $10,000,000 of mortgage bond debt, as the debt was being repaid in January 2014. The increase in the working capital deficit is mainly due to an increase in the revolving loan and a decrease in loans receivable, largely offset by the elimination of the mortgage bond liability of $10,000,000. During 2014, net advances of the revolving loan were $13,595,000 and cash inflows in regard to the collection of loans receivable were $9,491,016. As of December 31, 2014, the balance of the revolving loan is $14,500,000.

The upward financing of the Beck Court mortgage loan in 2015 produced net proceeds of approximately $7.4 Million and resulted in the repayment of $6.0 Million of mortgage bonds. Neither the loan proceeds nor the mortgage bonds are included in the calculation of working capital.

LREIT requires ongoing sources of cash to fund regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures, net of the cash inflow or outflow from operating activities. In addition, LREIT requires additional capital on a periodic basis to fund lump-sum debenture repayments. Additional capital is also periodically required to fund the repayment of mortgage loans upon maturity or refinancing to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds. As cash distributions on units were suspended in March 2009, the current funding requirements of LREIT do not encompass the funding of cash distributions.

The net cash inflow from the upward refinancing of properties and the revolving loan facility from 2668921 Manitoba Ltd. represent funding sources for any cash outflow from operating activities, regular mortgage loan principal payments, transaction costs and capital expenditures. The net proceeds from property sales, after repayment of any related mortgage loan indebtedness, will be used to repay any amounts owing to 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and cash flow from operating activities, LREIT completed 2014 with a cash shortfall of $12,759,214. The cash shortfall was funded by advances on the revolving loan.

Detailed information regarding the funding sources and funding commitments of LREIT are provided in the "Capital Resources and Liquidity" section of this report.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

LREIT is an unincorporated closed-end real estate trust which was established on April 23, 2002 under the laws of the Province of Manitoba. LREIT became a publicly traded entity on August 30, 2002. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The warrants are listed on the Toronto Stock Exchange under the symbol "LRT.WT.A".

The core business activities of LREIT include acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada with a focus on multi-unit residential properties. Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter is also responsible for the property management function for the investment properties of LREIT, pursuant to the terms of a Property Management Agreement.

Investment in Properties

As of December 31, 2014, the real estate portfolio of LREIT consists of 18 multi-family residential properties, one commercial property and one mixed residential/commercial property (the "investment properties"), as well as two seniors' housing complexes (the "discontinued operations") under "assets held for sale".

The Financial Statements of LREIT provide segmented results for investment properties, with "Fort McMurray", "Other Investment Properties", "Properties Sold" and "Parsons Landing" representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information.

Operations

LREIT seeks to maximize the operating income of its property portfolio through the implementation of sound financial management practices and operating procedures, responsive management services and proactive leasing strategies.

LREIT also has a continuous capital improvement program with respect to its properties. The program is designed to extend the useful life of the properties and improve the quality of tenants' physical surroundings. The capital improvement program encompasses major renovation or expansion projects at selected properties, as deemed appropriate. LREIT capitalizes all expenditures related to the improvement of its properties if the expenditures are expected to enhance operating income in the future.

Financing

The purchase price of the LREIT properties was primarily funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes the upward refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. As an interim source of funds, LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of December 31, 2014, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During 2014, the mortgage loan debt service coverage ratio was 1.00, compared to 1.04 during 2013. For the purpose of calculating the debt service coverage ratio, the income recovery on Parsons Landing is added to net operating income and, prior to the completion of the acquisition of Parsons Landing on March 6, 2014, interest on the acquisition payable was included in debt service costs.

The reduction in the debt service coverage ratio reflects a decrease in operating income and income recoveries which was greater than the decrease in debt service costs during 2014.

Divestiture Program

General

LREIT initiated a divestiture program in 2009 targeting the sale of assets, with estimated gross proceeds in excess of $250 Million. The objectives of the divestiture program are to reduce total debt, including debenture debt and higher cost mortgage loan financing, and to enable LREIT to improve its working capital position. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

Since the inception of the divestiture program to December 31, 2014, LREIT has sold 23 properties and 17 condominium units at a combined gross selling price of $260.8 Million.

Divestiture Program

Year	Properties Sold	Condominium Units Sold	Gross Proceeds	Net Proceeds At Closing	Vendor Take-back Financing Received	Total Net Proceeds
2009	13	-	$ 90,392,000	$ 29,631,650	$ 6,300,000	$ 35,931,650
2010	5	-	40,385,000	17,563,501	3,790,650	21,354,151
2011	-	4	1,927,100	52,120	-	52,120
2012	3	9	102,896,400	21,927,121	-	21,927,121
2013	2	3	24,724,700	14,468,789	3,200,000	17,668,789
2014	-	1	474,900	(6,877)	9,491,016	9,484,139
Total	23	17	$ 260,800,100	$ 83,636,304	$ 22,781,666	$ 106,417,970

Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

LREIT is currently pursuing the sale of the remaining seniors' housing complexes and/or other properties and continuing with the condominium sales program at Lakewood Townhomes.

Lakewood Townhomes Condominium Sales

In October 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. Upon sale of each unit, the first mortgage loan requires a repayment equal to 95% of the sale list price agreed upon with the lender. Additional selling costs, including sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, will be paid by the balance of the net sales proceeds and from working capital. The current expectation of management is that the condominium sales program will be substantially completed in 2017. The condominium sales program encompasses services and renovations fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the section of this report titled "Related Party Transactions".

As of December 31, 2014, 17 condominium units have been sold at a combined gross selling price of $8.2 Million.

Distributions

LREIT suspended cash distributions in 2009.

REAL ESTATE PORTFOLIO

Portfolio Summary - December 31, 2014

As of December 31, 2014, the property portfolio of LREIT consists of 22 rental properties, 20 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust, including all of the unsold condominium units at Lakewood Townhomes. The remaining properties consist of two seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 22 properties has a total purchase price of approximately $396.1 Million and encompasses 2,125 suites and 123,126 square feet of leasable commercial area.

Quarterly Changes in Property Portfolio

During the fourth quarter of 2013, LREIT sold the Purolator Building and Nova Court. As of January 1, 2013, the 160 suites at Parsons Landing were in the process of being reconstructed following the fire in 2012. Rental operations recommenced for 84 reconstructed suites on June 1, 2013 and the remaining 76 suites were returned to rental operations on October 3, 2013. In addition, three condominium units at Lakewood Townhomes were sold in 2013.

During 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at Lakewood Townhomes.

After accounting for property and condominium sales as well as the return of reconstructed suites at Parsons Landing, the number of "revenue generating" suites in the investment property portfolio decreased by 1 suite or 0.05% as of December 31, 2014, compared to December 31, 2013. The number of "revenue generating" suites is not a fully accurate indicator of the income potential of the investment property portfolio during the comparative annual periods, as a number of factors including the extent of insurance proceeds and the lease-up process have impacted the net operating income results of Parsons Landing since June 1, 2013.

Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

A list of all of the properties in the LREIT real estate portfolio is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 20 properties which are classified as investment properties as of December 31, 2014 consist of one commercial property located in Airdrie, Alberta, which is subject to a sale agreement as noted above; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 13 multi-family residential properties, including Parsons Landing, in Fort McMurray, Alberta; and one multi-family property in each of Yellowknife, Northwest Territories, Thompson, Manitoba, Brandon, Manitoba, Edson, Alberta and Peace River, Alberta (5 properties).

As noted above, the properties in "discontinued operations" consist of the two seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario.

Completion of Parsons Landing Acquisition

On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by the net proceeds from a first mortgage loan maturing on May 1, 2015, an advance under the revolving loan and the balance in cash.

Properties Held for Sale/Discontinued Operations

Discontinued operations is a segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which is held for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the two remaining seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Assets or liabilities classified as held for sale".

Income from discontinued operations is disclosed separately on the Income Statement.

The cash inflows and outflows from properties in discontinued operations are included with the cash inflows and outflows from investment properties in the Statement of Cash Flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the Statement of Cash Flows.

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to units sold, are included with investment properties.

Rent and Other Receivables

As of December 31, 2013, "Rent and other receivables" included a 12.5% second mortgage loan of $8.5 Million and an interest free mortgage loan of $275,000, both of which pertain to the sale of Clarington Seniors' Residence in 2012 and a 5% second mortgage loan of $500,000 pertaining to the sale of Nova Villa in 2009.

During the first quarter of 2014, payment of the mortgage loan receivable arising from the sale of Nova Villa in the amount of $500,000 was received in full. During the second quarter of 2014, payment of the two remaining loans was received in full, which, including accrued interest, totaled $8,991,016.

FAIR VALUE MEASUREMENT

General

The fair value of the investment property portfolio of LREIT is determined quarterly based on the same valuation techniques that are used by independent valuation professionals. The capitalized net operating income method and discounted cash flow methods are typically emphasized, although the direct comparison method may occasionally be used when appropriate market comparables are available. In addition, periodic external appraisals and market reports serve to substantiate and guide the internal valuation process of LREIT, particularly with respect to key assumptions, including capitalization rates and discount rates.

Fair value estimates are also sensitive to changes in forecasted net operating income and temporary fluctuations have the potential to skew fair value estimates. As a result, actual operating results are normalized to reflect stabilized future expectations regarding capital expenditures, vacancy rates, inflation, operating costs and rental market conditions. Normalization adjustments are based on appraisals, market reports, historic performance and management projections.

Parsons Landing

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. Although LREIT had acquired possession of Parsons Landing prior to the fire, the closing of the purchase transaction had not been completed. From the date of the fire to May 31, 2013, the property was under reconstruction and unoccupied. On June 1, 2013, 84 suites were returned to active rental operations. On October 3, 2013, active rental operations recommenced for the entire property. On March 6, 2014, the purchase of Parsons Landing was completed.

As a result of the fire, LREIT recorded an impairment loss of $27.8 Million in the first quarter of 2012. Throughout the remainder of 2012 and in 2013, the carrying value of Parsons Landing was adjusted on a quarterly basis to reflect the increase in fair market value during the reconstruction period. The fair market value was determined based on historical results and normalized operating performance at comparable properties. A discount was also applied to reflect the timing difference between the date of the valuation and the future re-occupation of the property.

The increases in the carrying value of the property to December 31, 2013 were disclosed in the Income Statement of LREIT as a separate line item, titled "Fair value adjustment on Parsons Landing". During 2013, the income of LREIT included a fair value adjustment on Parsons Landing in the total amount of $8.9 Million, comprised of quarterly adjustments of $0.3 Million (Q1), $1.8 Million (Q2), $5.2 Million (Q3) and $1.7 Million (Q4). The higher value in the third quarter of 2013 generally coincides with the return of suites to active operations and reflects improved revenue and vacancy expectations, based on actual leasing results for the reconstructed units, as well as a reduction in the present value discount attributable to the passage of time.

Effective January 1, 2014, the fair value of the investment property portfolio of LREIT, and any gain or loss related to a change in the fair value, encompasses the fair market value of Parsons Landing.

Investment Properties

During 2014, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $16,527,759, including Parsons Landing. During 2013, LREIT recorded gains related to fair value adjustment on its investment properties and on the fair value adjustment on Parsons Landing of $15,899,738. The variance in the amounts served to reduce income by $32,427,497 during 2014, compared to 2013. The gains related to fair value adjustments in 2013 were primarily due to an improvement in key valuation assumptions, including capitalization and discount rates, as well as an improvement in the revenue and occupancy expectations for Parsons Landing. The improved expectations for Parsons Landing were based on actual results following the return of 76 suites to active rental operations. The loss related to fair value adjustments in 2014 is primarily due to a fair value loss of $15,685,280 recorded during the fourth quarter of 2014 which was the result of reduced revenue and occupancy expectations for the Fort McMurray portfolio. Revenue and occupancy expectations for the Fort McMurray portfolio are affected by changes in oil sands development activity, which in turn is affected by the price of oil, which declined sharply during the fourth quarter of 2014.

Summary of Quarterly Results

Quarterly Analysis

	2014			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 9,483,539	$ 9,924,262	$ 9,975,172	$ 8,908,725
Net operating income	$ 5,242,793	$ 6,103,953	$ 5,924,651	$ 4,504,067
Loss for the period before discontinued operations	$(16,643,003)	$ (820,772)	$ (898,369)	$ (2,515,948)
Loss and comprehensive loss	$(18,296,432)	$ (795,468)	$ (742,668)	$ (2,404,013)
PER UNIT				
Net operating income				
- basic	$ 0.248	$ 0.290	$ 0.283	$ 0.218
- diluted	$ 0.247	$ 0.213	$ 0.201	$ 0.157
Loss for the period before discontinued operations				
- basic and diluted	$ (0.788)	$ (0.039)	$ (0.043)	$ (0.122)
Loss and comprehensive loss				
- basic and diluted	$ (0.866)	$ (0.038)	$ (0.035)	$ (0.116)

Quarterly Analysis

	2013			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 10,115,906	$ 10,417,760	$ 10,026,210	$ 9,768,888
Net operating income	$ 6,023,275	$ 6,405,204	$ 6,086,722	$ 5,693,568
Income (loss) for the period before discontinued operations	$ (669,080)	$ 13,422,853	$ 2,979,923	$ (1,044,322)
Income (loss) and comprehensive income (loss)	$ (509,164)	$ 13,505,324	$ 3,335,654	$ (812,228)
PER UNIT				
Net operating income				
- basic	$ 0.311	$ 0.339	$ 0.323	$ 0.303
- diluted	$ 0.237	$ 0.337	$ 0.319	$ 0.300
Income (loss) for the period before discontinued operations				
- basic	$ (0.035)	$ 0.711	$ 0.158	$ (0.056)
- diluted	$ (0.035)	$ 0.706	$ 0.156	$ (0.056)
Income (loss) and comprehensive income (loss)				
- basic	$ (0.026)	$ 0.716	$ 0.177	$ (0.043)
- diluted	$ (0.026)	$ 0.711	$ 0.175	$ (0.043)

Revenue and Operating Income

The primary variables affecting the quarterly rental revenue and net operating income results of LREIT are rental market conditions in Fort McMurray, property sales and the reconstruction of Parsons Landing.

In general, rental market conditions in Fort McMurray are affected by oil sands development activity, which has steadily increased over the past decade. Although management's long-term growth expectations remain strong, there was a slowdown of development activity in 2014, which affected revenue and operating income results. The rental market is also affected by seasonal variations in demand, with stronger levels of demand typically being experienced in the second and third quarters of the year. Variations in the supply of rental units and increased competition from work camp accommodations have also affected the quarterly revenue and operating income results of LREIT.

The sale of the Purolator Building on October 1, 2013 and Nova Court on December 31, 2013, affected quarterly revenue and net operating income results throughout 2014, in comparison to 2013.

The phased-in return of reconstructed suites at Parsons Landing contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses during the period from June 1, 2013 to February 5, 2014, the expiry date for insurance coverage. There was also an impact on the operating results of Parsons Landing between the insurance expiry date and the May 2014 completion of the lease-up phase for the reconstructed suites.

Net Income (Loss) before Discontinued Operations

After accounting for operating income, quarterly variances in interest expense and fair value adjustments represent the two main "ongoing" factors that affect quarterly variances in income/loss before taxes and discontinued operations.

Interest expense on mortgage loans includes interest on mortgage loans and the revolving loan commitment. The main variables affecting decreases in interest expense on mortgage loans/acquisition payable have been the discharge of mortgage loan debt on the sale of properties, periodic lump-sum paydowns of mortgage loan debt, reduction of interest expense due to refinancing and, in March 2014, the elimination of the acquisition payable on Parsons Landing. The main variables affecting increases in interest expense have been the upward refinancing of mortgage loan debt and the new mortgage loan financing for Parsons Landing which was obtained in March 2014. Changes in the balance of the revolving loan and the weighted average interest rate also contribute to quarterly variances in interest expense.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly changes in the fair value of investment properties. Gains from fair value adjustments were most significant during the third quarter of 2013 when gains from fair value adjustments served to increase income by $7.7 Million. Losses from fair value adjustments were most pronounced in the fourth quarter of 2014 ($15.7 Million), as revenue and occupancy expectations from the Fort McMurray portfolio were reduced to reflect an anticipated slow down in oil sands development activity resulting from the significant decline in oil prices experienced in the fourth quarter of 2014 and into 2015.

Increase in the fair market value of Parsons Landing, after the write-down of its carrying value in the first quarter of 2012 due to the fire, resulted in gains from fair value adjustments of $8.9 Million in 2013. Changes in the fair market value of Parsons Landing were recorded separately during 2013 as "Fair value adjustments of Parsons Landing".

Variances in fair market adjustments are a major contributing factor in the comparative results of LREIT for 2014.

Net Income (Loss)

The operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, have also contributed to variations in quarterly net income.

ANALYSIS OF INCOME (LOSS)

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease) in Income	
	2014	2013	Amount	%
Rentals from investment properties	$ 38,291,698	$ 40,328,764	$ (2,037,066)	(5)%
Property operating costs	16,516,234	16,119,995	(396,239)	(2)%
Net operating income	21,775,464	24,208,769	(2,433,305)	(10)%
Interest income	657,609	1,272,740	(615,131)	(48)%
Interest expense	(24,480,925)	(27,223,579)	2,742,654	10 %
Trust expense	(2,472,215)	(2,312,565)	(159,650)	(7)%
Income recovery on Parsons Landing	98,499	2,622,629	(2,524,130)	(96)%
Loss before the following	(4,421,568)	(1,432,006)	(2,989,562)	(209)%
Gain on sale of investment properties	71,235	221,642	(150,407)	(68)%
Fair value adjustments - Investment properties	(16,527,759)	6,970,031	(23,497,790)	(337)%
Fair value adjustment - Parsons Landing	-	8,929,707	(8,929,707)	(100)%
Income (loss) before discontinued operations	(20,878,092)	14,689,374	(35,567,466)	(242)%
Income (loss) from discontinued operations	(1,360,489)	830,212	(2,190,701)	(264)%
Income (loss) and comprehensive income (loss)	$ (22,238,581)	$ 15,519,586	$ (37,758,167)	(243)%

Analysis of Income (Loss) per Unit

	Year Ended December 31		Change	
	2014	2013		
Income (loss) before discontinued operations				
- basic	$ (0.997)	$ 0.774	$ (1.771)	(229)%
- diluted	$ (0.997)	$ 0.634	$ (1.631)	(257)%
Income (loss) and comprehensive income (loss)				
- basic	$ (1.062)	$ 0.818	$ (1.880)	(230)%
- diluted	$ (1.062)	$ 0.670	$ (1.732)	(259)%

Overall Results

During 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment of Parsons Landing, and discontinued operations increased by $2,989,562 compared to 2013. The increase in the loss is mainly due to a decrease in operating income of $2,433,305, a decrease in income recovery on Parsons Landing of $2,524,130 and a decrease in interest income of $615,131, partially offset by a decrease in interest expense of $2,742,654.

After accounting for fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and the gain on sale of investment properties, LREIT completed 2014 with a loss of $20,878,092, compared to income of $14,689,374 during 2013, representing a variance of $35,567,466. The variance is mainly due to a decrease of $32,427,497 in fair value adjustments, including the fair value adjustment in regard to Parsons Landing.

After accounting for discontinued operations, LREIT completed 2014 with a comprehensive loss of $22,238,581 compared to comprehensive income of $15,519,586 during 2013, representing a variance of $37,758,167.

Per Unit Results

During 2014, the loss before discontinued operations amounted to $0.997 per unit, compared to income of $0.774 per unit during 2013, representing a variance of $1.771 per unit.

The per unit variance mainly reflects the loss of the Trust for 2014 compared to income for the same period of 2013, partially offset by an increase in the weighted average number of units. From December 31, 2013 to December 31, 2014, the weighted average number of units increased by 1,969,711 units or 10%. The increase largely reflects the exercise of trust unit purchase warrants during the first and second quarter of 2014 and the fourth quarter of 2013.

Net Operating Income

Net operating income consists of rental revenue less property operating costs.

Rental Revenue

All of the rental revenue of LREIT is derived from the leasing of residential units or commercial space. Rental revenue includes revenue from all investment properties, and the rental revenue in regard to investment properties which are sold during the year, including condominium units at Lakewood Townhomes.

Investment Properties

The investment properties of LREIT are separated into four operating segments, as noted below.

Fort McMurray (Twelve properties)

Accounting for approximately 48% of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio, excluding Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

Other Investment Properties (Seven Properties)

The seven other investment properties consist of one mixed use residential/commercial property, one commercial property, and five multi-family residential rental properties located in Alberta, Manitoba, and the Northwest Territories.

Properties Sold (the Purolator Building and Nova Court)

The operating results of properties sold are analysed separately as the properties do not contribute to the net operating income of the Trust, subsequent to the closing date of sale. The operating results for properties sold as disclosed in the analysis of net operating income pertain to the operations of the Purolator Building and Nova Court in 2013.

Parsons Landing

As a result of the fire at Parsons Landing, the revenue generating capacity of the property was impaired. As a result, Parsons Landing has been segregated from operating properties and analysed separately. In 2015, Parsons Landing will be reclassified to the "Fort McMurray" operating segment.

As previously disclosed, 84 reconstructed units were returned to rental operations on June 1, 2013 and the remaining 76 reconstructed units were returned to rental operations on October 3, 2013. Prior to the return of reconstructed units on June 1, 2013, the income of Parsons Landing consisted of revenue in regard to the recovery of insurance proceeds for revenue losses. In accordance with IFRS, the insurance recoveries are recorded as a separate line item, titled, "Income recovery on Parsons Landing" and are not included in the calculation of net operating income.

Commencing on June 1, 2013, the net income or loss from reconstructed units which were leased is reflected in operating income. To February 5, 2014, an income recovery continued to be recorded in regard to accrued revenue for insurance proceeds for non-reconstructed units and reconstructed units that had not been leased. Subsequent to February 5, 2014, insurance proceeds are no longer available as the two year revenue loss coverage term has expired.

In several instances throughout this report, the income recovery on Parsons Landing is combined with net operating income in order to derive an income amount for comparative purposes which includes all the income associated with Parsons Landing.

An analysis of the average monthly rents and occupancy level for the Fort McMurray, Other investment properties, Properties sold and Parsons Landing segments are provided in the following sections of this report.

Discontinued Operations

At December 31, 2014, the property portfolio includes two seniors' housing complexes which are classified under discontinued operations. The following analysis excludes the revenue and operating costs of the seniors' housing complexes.

Rental Revenue

Analysis of Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2014	2013	Amount	%	2014	2013
Fort McMurray	$ 22,737,066	$ 24,422,889	$ (1,685,823)	(7)%	59 %	61 %
Other investment properties	11,003,126	10,892,024	111,102	1 %	29 %	27 %
Sub-total	33,740,192	35,314,913	(1,574,721)	(4)%	88 %	88 %
Properties sold (1)	1,065	3,425,499	(3,424,434)	(100)%	- %	8 %
Parsons Landing (2)	4,550,441	1,588,352	2,962,089	186 %	12 %	4 %
Total	$ 38,291,698	$ 40,328,764	$ (2,037,066)	(5)%	100 %	100 %

(1) Represents revenue from the Purolator Building and Nova Court.

(2) For 2013, results represent revenue from Parsons Landing for 84 suites which were reconstructed and returned to rental operations on June 1, 2013, as well as a further 76 suites which were reconstructed and returned to rental operations on October 3, 2013.

During 2014, the total revenue from investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $1,574,721, compared to 2013. The variance is mainly due to the unfavourable variance in revenue results for the Fort McMurray portfolio, particularly during the first quarter of 2014. Specifically, during 2014, rental revenues for the Fort McMurray property portfolio decreased by $1,685,823, comprised of a decrease of $805,094 in Q1, a decrease of $296,358 in Q2, a decrease of $346,779 in Q3, and a decrease of $237,592 in Q4.

As disclosed in the following charts, the decrease in revenue from the Fort McMurray property portfolio, is due to a decrease in the average occupancy level and a decrease in the average rental rate. The average occupancy level for the Fort McMurray portfolio decreased from 91% during 2013 to 86% during 2014, while the average monthly rental rate decreased by $37 or 1.6%.

The revenue results for the Fort McMurray property portfolio generally reflect a more competitive rental market characterized by a slowdown in oil sands development activity, reduced demand for residential rental units and an increase in the supply of available rental units as well as increased competition from temporary housing units. Specifically, the first quarter results reflect abnormal variations in seasonal demand that resulted from a delay in the commencement of municipal and oil sands infrastructure projects.

In contrast to the average rental rate increases that occurred during 2013, average rental rates decreased steadily throughout 2014. As a result, revenue during the fourth quarter of 2014 was comparatively low relative to the fourth quarter of 2013.

Occupancy Level, by Quarter

	2014				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	80 %	90 %	89 %	86 %	86 %
Other investment properties	89 %	92 %	94 %	93 %	92 %
Total	82 %	91 %	91 %	88 %	88 %
Properties sold	n/a	n/a	n/a	n/a	n/a
Parsons Landing	69 %	89 %	93 %	81 %	83 %

	2013				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	93 %	95 %	92 %	84 %	91 %
Other investment properties	95 %	94 %	92 %	90 %	93 %
Total	94 %	94 %	92 %	85 %	91 %
Properties sold	100 %	100 %	100 %	99 %	100 %
Parsons Landing	n/a	n/a	n/a	n/a	n/a

The occupancy level represents the portion of potential revenue that was achieved.

Average Monthly Rents, by Quarter

	2014				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,337	$2,309	$2,285	$2,233	$2,292
Other investment properties	$933	$927	$919	$933	$928
Total	$1,672	$1,654	$1,638	$1,617	$1,645
Properties sold	n/a	n/a	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,734	$2,626	$2,712

	2013				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,259	$2,275	$2,318	$2,387	$2,329
Other investment properties	$922	$929	$931	$934	$929
Total	$1,627	$1,638	$1,661	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,692	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a

Property Operating Costs

Analysis of Property Operating Costs

	Year Ended December 31		Increase (Decrease)	
	2014	2013	Amount	%
Fort McMurray	$ 9,237,202	$ 8,707,915	$ 529,287	6 %
Other investment properties	5,608,388	5,277,117	331,271	6 %
Sub-total	14,845,590	13,985,032	860,558	6 %
Properties sold	103,437	1,593,323	(1,489,886)	(94)%
Parsons Landing	1,567,207	541,640	1,025,567	189 %
Total	$ 16,516,234	$16,119,995	$ 396,239	2 %

During 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $860,558 or 6%, compared to 2013. The increase is comprised of an increase of $529,287 in the operating costs of the Fort McMurray portfolio and a $331,271 increase in the Other investment properties portfolio.

The increase in operating costs of the Fort McMurray portfolio is mainly due to an increase in maintenance costs, including an increase in repair costs related to water damage, net of insurance recoveries, partially offset by a decrease in property taxes.

The increase in operating costs of the Other investment properties portfolio is mainly due to an increase in maintenance costs.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2014	2013	Amount	%	2014	2013	2014	2013
Fort McMurray	$ 13,499,864	$ 15,714,974	$ (2,215,110)	(14)%	62 %	65 %	59 %	64 %
Other investment properties	5,394,738	5,614,907	(220,169)	(4)%	25 %	23 %	49 %	52 %
Sub-total	18,894,602	21,329,881	(2,435,279)	(11)%	87 %	88 %	56 %	60 %
Properties sold	(102,372)	1,832,176	(1,934,548)	(106)%	(1)%	8 %	n/a	53 %
Parsons Landing	2,983,234	1,046,712	1,936,522	185 %	14 %	4 %	66 %	66 %
Total	$ 21,775,464	$ 24,208,769	$ (2,433,305)	(10)%	100 %	100 %	57 %	60 %

After considering the decrease in rental revenue and the increase in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, decreased by $2,435,279 or 11% during 2014, compared to 2013.

The decrease in net operating income is comprised of a $2,215,110 decrease in net operating income from the Fort McMurray properties and a $220,169 decrease in net operating income from the Other investment properties.

After accounting for the decrease in net operating income related to properties sold and the increase in net operating income attributable to Parsons Landing, net operating income decreased by $2,433,305 during 2014, compared to 2013.

During 2014, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $3,081,733, compared to $3,669,341 during 2013, representing a decrease of $587,608 or 16%. The decrease is attributable to the change in the operational status of the property. During 2013, revenue losses from unleased or unreconstructed suites were fully covered by insurance proceeds, whereas, at the beginning of 2014, the property was in the lease-up phase and insurance recoveries ended on February 5, 2014. The lease-up phase was essentially completed in May 2014 when the property achieved an occupancy level of 94%.

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 60% during 2013, to 56% during 2014. The decrease in the operating margin is mainly due to the unfavourable variance in revenue results for the Fort McMurray property portfolio, particularly during the first and fourth quarters of 2014, and the unfavourable variance in property operating costs for Fort McMurray and the Other investment properties portfolio, particularly during the fourth quarter of 2014.

The operating margin is a measurement of the relative profitability of the investment properties and represents the amount of net operating income which is derived from rental revenues, on a percentage basis. The operating margin is calculated by dividing net operating income by rental revenue.

Interest Income

During 2014 interest income amounted to $657,609, compared to $1,272,740 during 2013. The decrease in interest income mainly reflects the fact that LREIT received full repayment of its mortgage loans receivable in June 2014. Interest income is also earned on defeasance assets and cash.

Interest Expense

General

Interest expense includes interest expense for investment properties and discontinued operations. On the Income Statement, interest expense for investment properties is disclosed as a separate line item, while interest expense for discontinued operations is included in the line item "Income from discontinued operations". On the Statement of Cash Flows, "interest expense" and "interest paid" includes the total amount of interest for both investment properties and discontinued operations.

As disclosed in the following chart, total interest expense amounted to $25,518,333 during 2014, of which $24,480,925 pertains to investment properties and $1,037,408 pertains to discontinued operations.

Total interest expense for investment properties decreased by $2,742,654 or 10% during 2014, compared to 2013. The decrease reflects a net decrease in the combined mortgage loan/acquisition payable interest of $3,075,758 and a decrease in mortgage bond interest of $858,082, partially offset by an increase in interest charges related to fair value adjustments on the interest rate swap liability of $540,298, an increase in total amortization charges for transaction costs of $235,989 and an increase in accretion of $419,041.

Total interest expense for discontinued operations increased by $289,571 or 39% during 2014, compared to 2013 as a result of the upward refinancing of Elgin Lodge in May 2014.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and interest charges related to the change in fair value of the interest rate swap liability. The $2,453,083 decrease in total interest expense during 2014, compared to 2013, is comprised of a $3,825,818 decrease in the cash component of interest expense, partially offset by a $1,372,735 increase in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Year Ended December 31		Increase (Decrease)	
	2014	2013	Amount	%
Investment Properties				
Mortgage Loans and Acquisition Payable				
Mortgage loan interest	$ 16,813,399	$ 16,838,750	$ (25,351)	- %
Acquisition payable interest	653,315	3,703,722	(3,050,407)	(82)%
Amortization of transaction costs	2,100,864	2,166,884	(66,020)	(3)%
Change in fair value of interest rate swap liability	253,599	(286,699)	540,298	188 %
Total - mortgage loans and acquisition payable	19,821,177	22,422,657	(2,601,480)	(12)%
Mortgage Bonds				
Mortgage bond interest	581,918	1,440,000	(858,082)	(60)%
Accretion of debt component	873,218	454,177	419,041	92 %
Amortization of transaction costs	601,470	278,909	322,561	116 %
Total - mortgage bonds	2,056,606	2,173,086	(116,480)	(5)%
Debentures				
Interest on debentures	2,363,011	2,367,153	(4,142)	- %
Amortization of transaction costs	240,131	260,683	(20,552)	(8)%
Total - debentures	2,603,142	2,627,836	(24,694)	(1)%
Total interest expense - investment properties	24,480,925	27,223,579	(2,742,654)	(10)%
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	817,834	705,670	112,164	16 %
Amortization of transaction costs	219,574	42,167	177,407	421 %
Total interest expense - discontinued operations	1,037,408	747,837	289,571	39 %
Total - interest expense	$ 25,518,333	$ 27,971,416	$ (2,453,083)	(9)%

	2014	2013	Amount	%
Cash and Non-cash Component				
Non-cash component				
Accretion	$ 873,218	$ 454,177	$ 419,041	92 %
Amortization of transaction costs	3,162,039	2,748,643	413,396	15 %
Change in fair value of interest rate swaps	253,599	(286,699)	540,298	188 %
Total non-cash component	4,288,856	2,916,121	1,372,735	47 %
Cash component				
Interest	21,229,477	25,055,295	(3,825,818)	(15)%
Total cash component	21,229,477	25,055,295	(3,825,818)	(15)%
Total - interest expense	$ 25,518,333	$ 27,971,416	$ (2,453,083)	(9)%

Cash Component of Interest Expense - General

The cash component of interest expense consists of mortgage loan interest, including mortgage loan interest in discontinued operations, interest on the revolving loan, and interest on acquisition payable as well as mortgage bond interest and debenture interest.

During 2014, the total cash component of interest expense decreased by $3,825,818 or 15%, compared to 2013. The decrease reflects a decrease of $3,937,982 in the cash component of interest expense for investment properties, partially offset by an increase of $112,164 in the cash component of interest expense for discontinued operations.

As a percentage of net operating income for both investment properties and discontinued operations and after including the income recovery on Parsons Landing, the cash component of interest on mortgage loans and acquisition payable, increased from 75% during 2013 to 79% during 2014.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio increased to 91% during 2014, compared to 89% during 2013.

Cash Component of Interest Expense - Investment Properties

Interest on Mortgage Loans and Acquisition Payable

Mortgage loan and acquisition payable interest for investment properties decreased by $3,075,758 or 15% during 2014, compared to 2013. The decrease in interest expense on mortgage loan/acquisition payable debt mainly reflects a reduction of interest as a result of refinancing transactions of $2,192,992, interest savings on the elimination of the mortgage loan debt for Nova Court and the Purolator Building of $475,294, a decrease in interest expense on the mortgage loan for Parsons Landing compared to the interest on the acquisition payable relating to Parsons Landing of $527,882, partially offset by an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $198,882.

Mortgage Bond Interest

Interest on the mortgage bonds decreased $858,082 during 2014 compared to 2013. The decrease in interest on the mortgage bonds is due to the partial repayment of $10,000,000 aggregate principal amount of mortgage bonds during the first quarter of 2014.

Debenture Interest

During 2014, interest on debentures amounted to $2,363,011, compared to $2,367,153 during 2013.

Cash Component of Interest Expense - Discontinued Operations

The cash component of interest expense for discontinued operations consists of interest payments on mortgage loans. Mortgage loan interest for discontinued operations increased by $112,164 or 16% during 2014, compared to 2013. The increase is mainly due to the upward refinancing of the mortgage loan debt of Elgin Lodge in May 2014.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense increased by $1,372,735 during 2014, compared to 2013. The increase mainly reflects a $540,298 increase in interest charges related to fair value adjustments on the interest rate swap liability, an increase in total amortization charges for transaction costs, including discontinued operations, of $413,396, and an increase in accretion of $419,041 as a result of the partial repayment of mortgage bonds during the first quarter of 2014. The partial repayment of the mortgage bonds in the aggregate principal amount of $10,000,000 resulted in increased accretion during the first quarter, which was partially offset by decreased accretion during the remainder of 2014.

The increase in interest charges related to fair value adjustments on the interest rate swap liability is due to an adjustment that resulted from the anticipated refinancing and prepayment of the existing Millennium Village mortgage loan and related swap liability in the third quarter of 2014.

The increase in amortization charges mainly consists of an increase in amortization charges for mortgage bonds of $322,561 and an increase in amortization charges for mortgage loans of $111,387, partially offset by a decrease in amortization charges for debentures of $20,552. The increase in amortization charges for mortgage bonds is entirely due to the partial repayment of the mortgage bonds in the aggregate principal amount of $10,000,000 during the first quarter, partially offset by decreased amortization charges during the remainder of 2014.

Trust Expense

Trust expense for 2014 increased by $159,650 compared to 2013. The increase is mainly due to $235,591 of transaction costs related to mortgage loan financing that was not completed, and a loss on warrant purchases of $89,534, partially offset by a charge of $205,000 associated with the write down of a loan receivable in 2013.

Gain on Sale of Investment Properties

The gain on sale of investment properties represents the extent to which the net proceeds from the sale of an investment property exceeds the carrying value of the property as determined at the end of the preceding year.

During 2014, the Trust recorded a gain on sale of investment properties of $71,235 related to the sale of one condominium unit at Lakewood Townhomes in the first quarter of the year. During 2013, LREIT sold two investment properties (the Purolator Building and Nova Court), and three condominium units, generating a gain on sale of $221,642.

Fair Value Adjustments and Fair Value Adjustment of Parsons Landing

During 2014, a loss from fair value adjustments of $16,527,759 was recorded, compared to a gain from fair value adjustments of $15,899,738 during 2013, including the fair value adjustment on Parsons Landing. Gains/losses on fair value adjustments are included in the income of the Trust and are disclosed as positive or negative "adjustments". After accounting for fair value adjustments, capital expenditures and property dispositions, the carrying value of investment properties decreased by $14,420,814 during 2014.

The determination of the fair market value of investment properties is based on a comprehensive valuation process. Additional information regarding the fair market value of investment properties and the valuation process is provided in the "Fair Value Measurement" section of this report.

Discontinued Operations

Income from discontinued operations includes the net operating income, interest expense and income tax for the seniors' housing complexes.

Analysis of Income from Discontinued Operations

	Year Ended December 31		Increase (Decrease) in income
	2014	2013	
Rental income	$ 5,185,738	$ 5,152,227	$ 33,511
Property operating costs	3,774,693	3,682,675	(92,018)
Net operating income	1,411,045	1,469,552	(58,507)
Interest expense	(1,037,408)	(747,837)	(289,571)
Fair value adjustment	(1,734,126)	-	(1,734,126)
Tax recovery (expense)	-	108,497	(108,497)
Income from discontinued operations	$ (1,360,489)	$ 830,212	$ (2,190,701)

During 2014, LREIT recorded a loss from discontinued operations of $1,360,489, compared to income of $830,212 during 2013, representing a variance of $2,190,701. The variance is due to a fair value adjustment for Elgin Lodge in the fourth quarter of 2014 in the amount of $1,734,126, as well as an increase in interest expense of $289,571, an absence of income tax recoveries of $108,497, and a decrease in net operating income of $58,507.

The fair value adjustment of Elgin Lodge is attributable to a decline in the occupancy level of the property.

The increase in interest expense for discontinued operations is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

Operating income for discontinued operations is earned in subsidiary operating companies which are subject to income tax and deferred income tax. In the first quarter of 2013, LREIT recorded a net income tax expense of $78,591 for discontinued operations and in the second quarter of 2013, LREIT recorded an income tax recovery of $187,088. The net result for 2013 was a tax recovery of $108,497.

Comparison to Preceding and Comparative Quarter

Analysis of Loss

	2014			2013	
	Q4	Q3	Increase (Decrease) in Income	Q4	Increase (Decrease) in income
Rentals from investment properties	$ 9,483,539	$ 9,924,262	$ (440,723)	$ 10,115,906	$ (632,367)
Property operating costs	4,240,746	3,820,309	(420,437)	4,092,631	(148,115)
Net operating income	5,242,793	6,103,953	(861,160)	6,023,275	(780,482)
Interest income	37,842	27,770	10,072	340,701	(302,859)
Interest expense	(5,540,625)	(6,240,075)	699,450	(6,490,178)	949,553
Trust expense	(697,733)	(554,533)	(143,200)	(550,238)	(147,495)
Income recovery on Parsons Landing	-	-	-	350,295	(350,295)
Loss before the following	(957,723)	(662,885)	(294,838)	(326,145)	(631,578)
Gain on sale of investment properties	-	-	-	56,714	(56,714)
Fair value adjustments	(15,685,280)	(157,887)	(15,527,393)	(2,107,277)	(13,578,003)
Fair value adjustment of Parsons Landing	-	-	-	1,707,628	(1,707,628)
Loss for the period before discontinued operations	(16,643,003)	(820,772)	(15,822,231)	(669,080)	(15,973,923)
Income (loss) from discontinued operations	(1,653,429)	25,304	(1,678,733)	159,916	(1,813,345)
Comprehensive loss	$ (18,296,432)	$ (795,468)	$ (17,500,964)	$ (509,164)	$ (17,787,268)

Comparison to Preceding Quarter

During the fourth quarter of 2014, LREIT incurred a loss of $957,723, before fair value adjustments, and discontinued operations, compared to a loss of $662,885 during the third quarter of 2014. The increase in the loss mainly reflects a decrease in net operating income of $861,160, partially offset by a decrease in interest expense of $699,450. The decrease in net operating income is mainly due to a decrease in the net operating income of the Fort McMurray portfolio. The decrease in interest expense mainly reflects a reduction in interest charges related to the change in fair value of the interest rate swap liability.

After accounting for the variance in fair value adjustments in the amount of $15,527,393, the loss of LREIT before discontinued operations increased by $15,822,231 during the fourth quarter of 2014, compared to the third quarter of 2014. The variance in fair value adjustments is mainly due to reduced revenue and occupancy expectations related to the decline in oil prices that occurred during the fourth quarter of 2014.

Income from discontinued operations decreased by $1,678,733 during the fourth quarter of 2014, compared to the third quarter of 2014. The decrease is mainly due to a fair value adjustment for Elgin Lodge recorded in the fourth quarter of 2014 reducing its fair value by $1,734,126.

After accounting for discontinued operations, LREIT completed the fourth quarter of 2014 with a comprehensive loss of $18,296,432, compared to a comprehensive loss of $795,468 during the third quarter of 2014.

Comparison to Fourth Quarter of 2013

During the fourth quarter of 2014, LREIT incurred a loss of $957,723, before profit on sale of investment properties, fair value adjustments, and discontinued operations, compared to a loss of $326,145 during the fourth quarter of 2013. The increase in the loss mainly reflects a decrease in net operating income of $780,482, a decrease in income recovery on Parsons Landing of $350,295 and a decrease in interest income of $302,859, partially offset by a decrease in interest expense of $949,553.

The decrease in net operating income is mainly due to the Fort McMurray property portfolio and the sale of Nova Court on December 31, 2013, partially offset by an increase in net operating income from Parsons Landing. The decrease in interest income is due to the repayment of the mortgage loans receivable in June 2014. The decrease in interest expense is mainly due to the same factors which contributed to the overall decrease in interest expense during 2014 as disclosed in the preceding sections of this report.

After accounting for the variance in fair value adjustments and the variance in gain on sale of investment properties in the amount of $15,342,345, the loss of LREIT before discontinued operations increased by $15,973,923 during the fourth quarter of 2014, compared to the fourth quarter of 2013. The variance is mainly due to reduced revenue and occupancy expectations related to the decline in oil prices that occurred during the fourth quarter of 2014.

Income from discontinued operations decreased by $1,813,345 during the fourth quarter of 2014, compared to the fourth quarter of 2013. The decrease is mainly due to a fair value adjustment for Elgin Lodge recorded in the fourth quarter of 2014 reducing its fair value by $1,734,126, and an increase in interest expense for Elgin Lodge due to upward refinancing in May 2014.

After accounting for discontinued operations, LREIT completed the fourth quarter of 2014 with a comprehensive loss of $18,296,432, compared to a comprehensive loss of $509,164 in the fourth quarter of 2013.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash Flow from Operating Activities

The net cash flow from operating activities is equal to the cash component of net operating income, income recovery on Parsons Landing and interest received less net interest paid, the cash component of trust expense and the net increase or decrease in working capital items (disclosed as "working capital adjustments") for both investment properties and the seniors' housing complexes classified as discontinued operations. The calculation of the cash component of net operating income excludes "accrued rent receivable", while the calculation of the cash component of trust expense excludes "unit based compensation", "loss on warrant repurchases" and the "write down of note receivable". Net interest paid consists of interest paid, net of interest received.

"Interest paid" on the Statements of Cash Flows is based on the cash component of interest expense for both investment properties and discontinued operations after adjusting for the change in accrued interest during the period.

Due to the exclusion of non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of the interest swap liability, there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. Quarterly variances in accrued interest in regard to the Series G debentures and mortgage bonds also serve to increase "interest paid" by a substantial amount in the second and fourth quarters of the year, compared to the first and third quarters of the year. In 2013, "interest paid" was approximately $1.9 Million higher in the second and fourth quarters of the year, compared to the first and third quarters. In 2014, "interest paid" was approximately $1.45 Million higher in the second and fourth quarters of the year, compared to the first and third quarters. The decrease in the quarterly discrepancy reflects the decrease in interest as a result of the partial repayment of $10,000,000 aggregate principal amount of mortgage bonds in January of 2014.

2014 vs 2013 Comparatives

Cash from Operating Activities

	Year Ended December 31		Increase
	2014	2013	(Decrease)
Net operating income			
Investment properties	$ 21,775,464	$ 24,208,769	$ (2,433,305)
Discontinued operations	1,411,045	1,469,552	(58,507)
Total net operating income	23,186,509	25,678,321	(2,491,812)
Accrued rent receivable	(438,891)	82,342	(521,233)
Net operating income - cash basis	22,747,618	25,760,663	(3,013,045)
Income recovery on Parsons Landing	98,499	2,622,629	(2,524,130)
Gain on debenture repurchases	-	(3,985)	3,985
Trust expense	(2,472,215)	(2,312,565)	(159,650)
Loss on warrant repurchases	89,534	-	89,534
Unit-based compensation	135,156	101,093	34,063
Write down of note receivable	-	205,000	(205,000)
Trust expense - cash basis	(2,247,525)	(2,006,472)	(241,053)
Interest paid			
Investment properties	(20,904,574)	(24,110,575)	3,206,001
Discontinued operations	(794,220)	(715,256)	(78,964)
Total interest paid	(21,698,794)	(24,825,831)	3,127,037
Interest received	489,644	660,459	(170,815)
Interest expense - cash basis	(21,209,150)	(24,165,372)	2,956,222
Income tax recovery (expense) - current	-	(177,237)	177,237
Cash provided by (used in) operating activities, before working capital adjustments	(610,558)	2,030,226	(2,640,784)
Working capital adjustments, net	(196,074)	(404,749)	208,675
Cash provided by (used in) operating activities	$ (806,632)	$ 1,625,477	$ (2,432,109)

During 2014, net cash provided by operating activities, excluding working capital adjustments, decreased by $2,640,784 compared to 2013. The decrease mainly reflects a decrease in the cash component of net operating income of $3,013,045 and a decrease in the income recovery on Parsons Landing of $2,524,130, partially offset by a decrease in interest paid of $3,127,037.

The variance in the cash flow results for the annual comparatives is generally due to the same factors which affected the variance in net operating income, income recovery on Parsons Landing and interest expense as disclosed in the preceding sections of this report.

After providing for working capital adjustments, cash used in operating activities amounted to $806,632 during 2014, compared to cash provided by operating activities of $1,625,477 during 2013, representing a variance of $2,432,109.

Comparison to Third Quarter of 2014

Cash from Operating Activities

	Three Months Ended		
	December 31 2014	September 30 2014	Increase (Decrease)
Net operating income			
Investment properties	$ 5,242,793	$ 6,103,953	$ (861,160)
Discontinued operations	391,590	338,746	52,844
Total net operating income	5,634,383	6,442,699	(808,316)
Accrued rent receivable	81,448	(311,872)	393,320
Net operating income - cash basis	5,715,831	6,130,827	(414,996)
Trust expense	(697,733)	(554,533)	(143,200)
Loss on warrant repurchases	9,792	42,400	(32,608)
Unit-based compensation	18,750	18,750	-
Trust expense - cash basis	(669,191)	(493,383)	(175,808)
Interest paid			
Investment properties	(6,335,488)	(4,284,172)	(2,051,316)
Discontinued operations	(236,153)	(237,273)	1,120
Total interest paid	(6,571,641)	(4,521,445)	(2,050,196)
Interest received	37,774	30,288	7,486
Interest expense - cash basis	(6,533,867)	(4,491,157)	(2,042,710)
Cash provided by (used in) operating activities, before working capital adjustments	(1,487,227)	1,146,287	(2,633,514)
Working capital adjustments, net	(240,289)	(683,377)	443,088
Cash provided by (used in) operating activities	$ (1,727,516)	$ 462,910	$ (2,190,426)

During the fourth quarter of 2014, the net cash used in operating activities, excluding working capital adjustments, amounted to $1,487,227, compared to net cash provided by operating activities of $1,146,287 during the third quarter of 2014, representing a variance in cash flow before working capital adjustments of $2,633,514. The decrease mainly reflects an increase in interest paid of $2,050,196, as well as a decrease in the cash component of net operating income of $414,996. The increase in interest paid reflects the timing of interest payments on the Series G debentures and mortgage bonds, as noted above.

After providing for working capital adjustments, cash used in operating activities amounted to $1,727,516 during the fourth quarter of 2014, compared to cash provided by operating activities of $462,910 during the third quarter of 2014, representing a variance of $2,190,426.

Fourth Quarter Comparatives

Cash from Operating Activities

	Three Months Ended December 31 2014	2013	Increase (Decrease)
Net operating income			
Investment properties	$ 5,242,793	$ 6,023,275	$ (780,482)
Discontinued operations	391,590	324,280	67,310
Total net operating income	5,634,383	6,347,555	(713,172)
Accrued rent receivable	81,448	70,344	11,104
Net operating income - cash basis	5,715,831	6,417,899	(702,068)
Income recovery on Parsons Landing	-	350,295	(350,295)
Gain on debenture repurchases	-	(3,985)	3,985
Trust expense	(697,733)	(550,238)	(147,495)
Loss on warrant repurchases	9,792	-	9,792
Unit-based compensation	18,750	33,750	(15,000)
Trust expense - cash basis	(669,191)	(516,488)	(152,703)
Interest paid			
Investment properties	(6,335,488)	(6,169,778)	(165,710)
Discontinued operations	(236,153)	(164,122)	(72,031)
Total interest paid	(6,571,641)	(6,333,900)	(237,741)
Interest received	37,774	178,315	(140,541)
Interest expense - cash basis	(6,533,867)	(6,155,585)	(378,282)
Cash provided by (used in) operating activities, before working capital adjustments	(1,487,227)	92,136	(1,579,363)
Working capital adjustments, net	(240,289)	(1,658,418)	1,418,129
Cash used in operating activities	$ (1,727,516)	$ (1,566,282)	$ (161,234)

During the fourth quarter of 2014, the net cash used in operating activities, excluding working capital adjustments, amounted to $1,487,227, compared to net cash provided by operating activities of $92,136 during the fourth quarter of 2013, representing a variance in cash flow before working capital adjustments of $1,579,363. The variance reflects a decrease in the cash component of net operating income of $702,068, a decrease in the income recovery on Parsons Landing of $350,295, a decrease in interest received of $140,541, and an increase in interest paid of $237,741.

After providing for working capital adjustments, the cash used in operating activities increased by $161,234 during the fourth quarter of 2014, compared to the fourth quarter of 2013.

Funds from Operations ("FFO") & Adjusted Funds from Operations ("AFFO")

LREIT considers "Funds from Operations" ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance. FFO measures the cash generating abilities of LREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions.

During 2014, the FFO deficiency increased by $3,160,403, compared to 2013, while the AFFO deficiency increased by $2,220,004. On a basic per unit basis, the FFO deficiency increased by $0.146 per unit, compared to 2013, while the AFFO deficiency increased by $0.086 per unit.

The cash increase or decrease from discontinued operations is included in the calculation of FFO and AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Year Ended December 31	
	2014	2013
Comprehensive income (loss)	$ (22,238,581)	$ 15,519,586
Add (deduct):		
Deferred taxes	-	(285,734)
Gain on sale of properties	(71,235)	(221,642)
Fair value adjustment - Property and equipment	1,734,126	-
Fair value adjustments - Investment properties	16,527,759	(6,970,031)
Fair value adjustment - Parsons Landing	-	(8,929,707)
Funds from operations (FFO) *	(4,047,931)	(887,528)
Add (deduct):		
Straight-line rent adjustment	(438,891)	82,342
Accretion of debt component of mortgage bonds	873,218	454,177
Write down of note receivable	-	205,000
Unit-based compensation	135,156	101,093
Change in fair value of interest rate swaps	253,599	(286,699)
Capital expenditures on investment properties	(2,479,990)	(3,275,839)
Capital expenditures on property and equipment	(378,305)	(255,686)
Adjusted funds from operations (AFFO) *	$ (6,083,144)	$ (3,863,140)
FFO per unit *		
- basic and diluted	$ (0.193)	$ (0.047)
AFFO per unit *		
- basic and diluted	$ (0.290)	$ (0.204)

* FFO and AFFO are non-IFRS financial measures of operating performance widely used by the real estate industry. Accordingly, FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

FFO has been calculated in accordance with the recommendations of RealPac. The method that is used by LREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers. The FFO and AFFO per unit amounts have been calculated on a basis consistent with that prescribed by IFRS for calculating earnings per unit.

AFFO is determined by taking the amounts reported as FFO and adjusting for capital expenditures and other items that impact available cash flow. Capital expenditures are referred to as expenditures that by standard accounting definitions are accounted for as capital in that the expenditure itself provides economic benefits beyond the current financial year.

As many analysts consider AFFO to be a cash flow statistic, the following chart reconciles cash flow from operations to AFFO.

Reconciliation Between Cash from Operating Activities and Adjusted Funds from Operations

	Year Ended December 31	
	2014	2013
Cash provided by (used in) operating activities	$ (806,632)	$ 1,625,477
Add (deduct):		
Working capital adjustments	196,074	404,749
Loss on warrant repurchases	(89,534)	-
Gain on debenture repurchases	-	3,985
Amortization of transaction costs and accrued interests	(2,524,757)	(2,365,826)
Capital expenditures on investment properties	(2,479,990)	(3,275,839)
Capital expenditures on property and equipment	(378,305)	(255,686)
Adjusted funds from operations (AFFO)	(6,083,144)	(3,863,140)

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of LREIT is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements. Accordingly, a reconciliation between the net cash flow from operating activities and distributable income is provided in the chart below.

Distributable income (loss) is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures, from both investment properties and discontinued operations. Working capital adjustments are excluded from LREIT's calculation of distributable income as working capital adjustments are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Reconciliation Between Cash from Operating Activities and Distributable Loss

	Year Ended December 31	
	2014	2013
Cash provided by (used in) operating activities	$ (806,632)	$ 1,625,477
Working capital adjustments	196,074	404,749
	(610,558)	2,030,226
Add (deduct):		
Capital expenditures on investment properties	(2,479,990)	(3,275,839)
Capital expenditures on property and equipment	(378,305)	(255,686)
Distributable loss	$ (3,468,853)	$ (1,501,299)
Per unit		
- basic and diluted	$ (0.166)	$ (0.079)

As disclosed in the preceding chart, LREIT completed 2014 with a distributable loss of $3,468,853, compared to a distributable loss of $1,501,299 during 2013. The increase in the distributable loss reflects the decrease in cash flow, excluding working capital adjustments, as previously discussed, partially offset by a decrease in capital expenditures.

Distributions

Cash distributions will continue to be suspended for the foreseeable future, given the other funding priorities of LREIT.

For information regarding the "special" trust unit distribution made on December 31, 2013, please refer to the "Taxation" section of this report.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $7,157,724 during 2014. Financing activities consist of cash inflows and outflows related to the repayment of mortgage loan debt, mortgage loan financing activities for Parsons Landing and Elgin Lodge, expenditures on transaction costs, draws and repayments on the revolving loan commitment, the repayment of mortgage bonds, the payment of the acquisition payable, cash inflows related to the exercise of options and warrants and cash outflows related to the purchase of warrants under the normal course issuer bid (NCIB) of LREIT.

Additional information regarding the financing activities of LREIT is provided in other sections of this report.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $7,011,038 during 2014. Investing activities that resulted in a cash inflow during the period include the collection of mortgage loans receivable of $9,491,016, a decrease in restricted cash of $237,163 and a decrease in defeasance assets of $148,031. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties and discontinued operations of $2,479,990 and $378,305, respectively.

Cash Flow Summary

During 2014, the net cash outflow from operating, financing and investing activities was $956,406. After providing for the opening cash balance of $2,401,741, LREIT completed 2014 with a cash balance of $1,445,335.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2015

Working Capital/Existing Cash

As of December 31, 2014, the unrestricted cash balance of LREIT was $1,445,335 and the working capital deficit was $13,234,208, representing an increase in the working capital deficit of $8,974,350 compared to the working capital deficit as of December 31, 2013. The working capital deficit consists of current assets less current liabilities, excluding the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $14,500,000 is included in the calculation of the working capital deficit.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating working capital may differ from the method which is used by other issuers. Accordingly, working capital as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

The upward financing of the Beck Court mortgage loan in 2015 produced net proceeds of approximately $7.4 Million and resulted in the repayment of $6.0 Million of mortgage bonds. Neither the loan proceeds nor the mortgage bonds are included in the calculation of working capital.

Excluding the amount due on the revolving loan, LREIT has a working capital surplus of $1,265,792 as of December 31, 2014. The working capital consists primarily of the combined working capital of individual properties for use in the day-to-day operations of the properties.

Cash Inflow from Operating Activities

The overall funding requirements of LREIT are affected by the level of cash inflows or outflows from operating activities. LREIT completed 2014 with a cash outflow from operating activities of $806,632 compared to a cash inflow of $1,625,477 in 2013. After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and the cash inflow from operating activities, LREIT completed 2014 with a cash shortfall of $12,759,214, compared to a shortfall of $12,287,802 during 2013. LREIT is expected to incur another substantial cash shortfall in 2015 and will continue to require other sources of cash to meet its ongoing funding commitments.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter). Effective October 1, 2014, the revolving loan commitment was renewed for a nine-month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15,000,000. As of the date of this report, $1,700,000 is available under the revolving loan commitment.

Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. are provided in the section of this report titled "Related Party Transactions".

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and to complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue as opportunities arise and with consideration to the overall cash needs of the Trust. The timing and terms of additional property sales, if any, is uncertain.

Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

Upward Refinancing of Mortgage Loans

The upward refinancing of mortgage loan debt is expected to be a source of capital for LREIT during 2015. The opportunity to complete upward refinancings is limited by the extent to which the existing property portfolio is leveraged and the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust.

Subsequent to December 31, 2014, the first mortgage loan of Beck Court was upward refinanced, resulting in net proceeds of approximately $7.4 Million after transaction costs. The net proceeds were used to repay the remaining mortgage bonds in the aggregate principal amount of $6,000,000 and for working capital purposes.

Details regarding mortgage loan transactions in 2014 are disclosed in the "Long-term Debt" section of the MD&A.

Debt and/or Equity Offerings

LREIT may pursue additional offerings of debt and/or equity in the future as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

Exercise of Warrants

As of December 31, 2014, the unexercised trust unit purchase warrants of LREIT consisted of 6,570,025 warrants with an exercise price of $1.00 and an expiry date of March 9, 2015 (the "March 2015 warrants") and 13,509,200 warrants with an exercise price of $0.75 and an expiry date of December 23, 2015 (the "December 2015 warrants").

Subsequent to December 31, 2014, none of the December 2015 warrants were exercised and the remaining 6,570,025 March 2015 warrants expired. During 2014 and 2013, LREIT received proceeds from the exercise of purchase warrants of $591,624 and $999,000, respectively. If all outstanding warrants were exercised as of the date of this report, LREIT would receive additional proceeds of $10,131,900. As the trading price of LREIT trust units is currently below $0.75, LREIT does not expect to obtain significant funds from the exercise of warrants in 2015.

Uses of Funds - 2015

Long-term Debt Principal Payments

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for 2015 and for the next five years, is provided in the following chart. The chart reflects mortgage payments in accordance with the payment terms specified by the applicable mortgage loan.

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	2015	2016/2017	2018/2019
Mortgage loans				
Investment properties *	$ 278,704,067	$ 148,676,078	$ 32,499,691	$ 97,528,298
Properties held for sale	14,376,467	4,376,467	10,000,000	-
Total mortgage loans	293,080,534	153,052,545	42,499,691	97,528,298
Debentures and mortgage bonds **	30,873,800	6,000,000	-	24,873,800
Total	$ 323,954,334	$ 159,052,545	$ 42,499,691	$ 122,402,098

* The amount due in "2018/2019" includes two mortgage loans in the aggregate amount of $55,917,841, one of which is subject to an interest rate swap arrangement. The loans mature in 2018 and are in breach of debt service coverage requirements. Under IFRS, mortgages in breach of debt covenants are classified as a current liability, regardless of the maturity date. If the above chart was adjusted to reflect the mortgage loans as a current liability, the total long-term debt due in 2015 would increase to $213,284,980.

** Reflects the face value of mortgage bonds, which were repaid in full subsequent to December 31, 2014.

Summary of Mortgage Loan Debt Due in 2015

The amount due in 2015 for mortgage loans on investment properties of $148,676,078 consists of ten mortgage loans, with maturity dates in 2015, in the aggregate amount of $145,307,942 and regular principal payments of $3,368,136 for other mortgage loans.

All mortgage loans which have matured prior to March 10, 2015 have been renewed or refinanced. Management expects that the remaining mortgage loans with maturity dates in 2015 will be renewed/ refinanced on similar terms at maturity. Upward refinancing opportunities for the loans will also be pursued.

An analysis of mortgage loans is provided in the "Mortgage Loans" section of the MD&A.

Principal Payments - Debentures and Mortgage Bonds

As of December 31, 2014, the total face value of the 9% Series G debentures is $24,873,800. At a meeting of the debenture holders on June 16, 2014, the maturity date of the Series G debentures was extended from February 28, 2015 to June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to redeem the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness, if applicable, and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage loan and mortgage bond indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

LREIT has a NCIB in place for the Series G debentures. The current terms of the NCIB, as extended in June 2014, provide for the repurchase of debentures by LREIT to a maximum principal amount of $2,476,380 during the twelve month period ending June 22, 2015. For the period from January 1, 2014 to the date of this report, the Trust purchased and cancelled Series G debentures with a face value of $36,000 at an average price of $85.61 per $100.00.

As of December 31, 2014, the total face value of the 9% mortgage bonds, due December 24, 2015, was $6,000,000. On February 12, 2015, LREIT repaid all outstanding mortgage bonds.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During 2014, funds in the amount of $801,598 were released from escrow following the completion of capital improvements and $565,527 of new cash deposits were added to mortgage and capital improvement reserves. As of December 31, 2014, cash deposits in escrow for capital expenditures amount to $779,041.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $1.5 Million for 2015.

Summary

Management expects that the proceeds from sale of properties and upward refinancings, supplemented by draws on the revolving loan commitment and periodic credit support from Shelter, as required, will be sufficient to cover the projected funding commitments of LREIT for 2015. As of the date of this report, $1,700,000 is available under the revolving loan commitment.

The net proceeds from property sales, after repayment of any related mortgage loan and mortgage bond indebtedness, will be used to repay any amounts owing to 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the repayment of the Series G debentures.

CAPITAL STRUCTURE

Capital Structure - December 31, 2014

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
Long-term debt	$ 101,953,013	25.0 %	$ 154,124,845	38.1 %
Current portion of long-term debt	210,073,719	51.5 %	133,107,487	32.9 %
Equity	95,890,624	23.5 %	117,452,013	29.0 %
Total capitalization	$ 407,917,356	100.0 %	$ 404,684,345	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, mortgage bonds, debenture debt, a defeased liability, mortgage guarantee fees payable and accrued interest payable, less unamortized transaction costs. On the Statement of Financial Position, the long-term debt of investment properties is separated into current and non-current portions, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities classified as held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs. The amount payable in regard to the acquisition of Parsons Landing was included in "Trade and other payables" on the Statement of Financial Position of LREIT at December 31, 2013.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of December 31, 2014 increased by $26,050,275 or 8.7% compared to the total long-term debt as of December 31, 2013. The increase mainly reflects an increase in mortgage loan debt, partially offset by a decrease in mortgage bond debt.

	December 31		Increase
	2014	2013	(Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 278,704,067	$ 244,586,398	$ 34,117,669
Interest rate swap liability	1,441,705	1,188,106	253,599
Mortgage bonds	5,786,226	14,913,008	(9,126,782)
Debentures	24,873,800	24,873,800	-
Defeased liability	2,584,460	2,644,615	(60,155)
Total secured long-term debt	313,390,258	288,205,927	25,184,331
Mortgage guarantee fees	-	91,362	(91,362)
Accrued interest payable	1,478,261	1,975,830	(497,569)
Unamortized transaction costs	(2,841,787)	(3,040,787)	199,000
Total long-term debt - Investment properties	312,026,732	287,232,332	24,794,400
Total long-term debt - Properties held for sale			
Mortgage loans	14,376,467	13,042,918	1,333,549
Unamortized transaction costs	(77,674)	-	(77,674)
Total long-term debt - Properties held for sale	14,298,793	13,042,918	1,255,875
Total long-term debt	$ 326,325,525	$ 300,275,250	$ 26,050,275

As of December 31, 2013, the amount payable in regard to the acquisition of Parsons Landing was $41,793,000, excluding the GST liability. If the acquisition payable was included in long-term debt at December 31, 2013, the chart above would reflect a decrease in the total long-term debt of investment properties of $16,998,600 during 2014.

Mortgage Bonds

During the first quarter of 2014, LREIT repaid mortgage bonds with a face value of $10,000,000. As of December 31, 2014, the remaining balance of the 9% mortgage bonds, due December 24, 2015, at face value, was $6,000,000. On February 12, 2015, LREIT repaid all outstanding mortgage bonds.

Debentures

As of December 31, 2014, LREIT has Series G debentures outstanding with a face value of $24,873,800, due June 30, 2018.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of December 31, 2014, the total mortgage loan debt of LREIT increased by $35,451,218 compared to the amount payable as of December 31, 2013. As disclosed in the following chart, the increase is mainly attributable to an increase in mortgage loan financing for investment properties, partially offset by regular repayments of principal.

	Year Ended December 31, 2014		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 50,000,000	$ 40,000,000	$ 10,000,000
Repayment of mortgage loans on refinancing	(8,104,208)	-	(8,104,208)
Net proceeds	41,895,792	40,000,000	1,895,792
Regular repayment of principal on mortgage loans	(5,993,419)	(5,431,176)	(562,243)
Reduction of mortgage loans on sale of properties	(451,155)	(451,155)	-
Increase (decrease) in mortgage loans	35,451,218	34,117,669	1,333,549
Total mortgage loans - December 31, 2013	257,629,316	244,586,398	13,042,918
Total mortgage loans - December 31, 2014	$ 293,080,534	$ 278,704,067	$ 14,376,467

If the acquisition payable on Parsons Landing of $41,793,000, excluding the GST liability, was included in mortgage loan payable at December 31, 2013, the chart above would reflect a decrease in mortgage loan debt of $6,341,782 during 2014.

Net Proceeds (Repayment) of Mortgage Loan Financing

Investment Properties

The proceeds of mortgage loan financing of $40,000,000 as disclosed on the preceding chart, consists of the first mortgage loan which was obtained for Parsons Landing.

During the first quarter of 2014, the cash outflow in regard to the payment of the acquisition payable on Parsons Landing was $44,006,731.

Discontinued Operations (Seniors' Housing Complexes)

The net proceeds of mortgage loan financing of $1,895,792 as disclosed on the preceding chart, consist of the new first mortgage loan for Elgin Lodge of $10,000,000 less $8,104,208 required to discharge the previous first mortgage loan.

After accounting for transaction costs and including the payment of the acquisition payable on Parsons Landing, the net cash outflow from mortgage financing activities for investment properties and discontinued operations was $3,349,787 during 2014.

Regular Repayments of Principal

During 2014, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $5,993,419, compared to $7,830,198 during 2013.

Revolving Loan

As of December 31, 2014, the amount drawn on the revolving loan was $14,500,000, compared to $905,000 as of December 31, 2013, representing an increase of $13,595,000. During the first quarter of 2014, amount drawn on the the revolving loan was increased by $14,095,000 in order to repay $10,000,000 of mortgage bonds related to the sale of Nova Court in 2013, to fund a portion of the cash payment on the completion of the acquisition of Parsons Landing and for general working capital purposes. During the second quarter of 2014, the balance drawn on the revolving loan was reduced by $6,700,000 as a result of the collection of mortgage loans receivable. During the third and fourth quarter of 2014, the revolving loan balance increased by $1,700,000 and $4,500,000, respectively, and was used for working capital purposes.

During 2013 and 2014, the interest rate on the revolving loan was 12%. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan commitment is included in mortgage loan interest.

Composition of Mortgage Loan Debt - December 31, 2014

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount December 31, 2014	Percentage of Total
Investment Properties			
Fixed rate			
2014	3.3 %	$ 25,458,352	8.7 %
2015	3.6 %	17,226,640	5.9 %
2016	9.2 %	7,648,934	2.6 %
2017	5.7 %	19,290,990	6.6 %
2018	4.5 %	76,100,151	26.0 %
2019	5.0 %	30,356,050	10.3 %
	4.7 %	176,081,117	60.1 %
Demand/variable rate	7.5 %	102,622,950	35.0 %
Principal amount		278,704,067	95.1 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	3.4 %
Demand/variable rate	5.0 %	4,376,467	1.5 %
Principal amount		14,376,467	4.9 %
Total		$ 293,080,534	100.0 %

(1) The year of maturity is based on the contractual loan obligation and does not reflect the IFRS Financial Statement disclosure requirement to disclose fixed term loans which are secured by a demand promissory note and loans in breach of a covenant as a current liability.

(2) As of December 31, 2014, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 6.6% and 5.7%, respectively, compared to 5.4%, 5.0% and 5.4% at December 31, 2013. The weighted average interest rate for mortgage loan debt excludes the interest on the revolving loan.

Mortgage Loan Debt Summary

	2014			
	Q 4	Q 3	Q 2	Q 1 *
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.7%	4.7%	4.7%
Variable rate mortgage loans	7.5%	7.5%	7.5%	7.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	6.3%	6.2%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations **	66%	66%	66%	66%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations **	73%	73%	73%	73%

	2013			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.8%	4.5%	4.6%	4.9%
Variable rate mortgage loans	7.2%	7.7%	7.7%	8.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	5.9%	6.2%	6.2%	7.0%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations **	65%	64%	66%	67%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations **	76%	73%	76%	77%

* Commencing in Q1 2014, the weighted average interest rate statistics include the first mortgage loan on Parsons Landing and the loan ratios include the property value and first mortgage loan for Parsons Landing. Statistics prior to Q1 2014, exclude the amount payable on acquisition of Parsons Landing and the property value of Parsons Landing.

** Excludes the revolving loan.

Long-term Debt Maturities

All mortgage loans for investment properties and discontinued operations which matured prior to March 10, 2015 have been renewed or refinanced.

Debt Covenants

The status of the mortgage loans which are in breach of covenant requirements as of December 31, 2014 is provided below.

Property	Mortgage Balance March 31, 2012	Maturity Date	Status
Investment Properties			
Colony Square	$ 40,423,153	May 5, 2018	(1)
Millennium Village	15,494,688	June 4, 2018	(2)
Interest rate swap liability	1,441,705	June 4, 2018	(2)
	16,936,393		
	57,359,546		
Discontinued Operations			
Chateau St. Michael's	4,376,467	June 1, 2015	(3)
	$ 61,736,013		

(1) The lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.
(2) The lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the refinancing of the loan.
(3) The lender has been notified of the covenant breach, and the Trust has requested a waiver of the covenant requirement from the lender.

A summary of the mortgage loan debt which matures during 2015 is provided in the "Capital Resources and Liquidity" section of this report.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2013	19,423,011
- December 31, 2014	20,252,386
- March 10, 2015	20,252,386

As of December 31, 2014, LREIT had 20,252,386 units outstanding, representing an increase of 829,375 units or 4.27%, compared to the number of units outstanding as of December 31, 2013.

The increase in the number of units outstanding mainly reflects the exercise of 762,375 warrants during 2014 for cash proceeds of $591,624.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan, the Deferred Unit Plan and the terms of the outstanding warrants of LREIT are provided in the Annual Information Form (AIF). The AIF is available on the SEDAR website at www.sedar.com.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Shelter currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. In May 2014, the independent trustees of LREIT approved an extension of the term of the Services Agreement to December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to a Property Management Agreement. Shelter has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. In May 2014, the independent trustees of LREIT approved an extension of the term of the Property Management Agreement to December 31, 2024.

Property management fees are included in property operating costs. Leasing commissions and tenant improvement and renovation fees are capitalized to investment properties. During the period of major in-suite renovations or development, operating costs are capitalized to the cost of buildings and properties under development.

During 2014, the fees payable to Shelter for investment properties included service fees of $1,337,131 and property management fees of $1,594,910.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

LREIT has entered into an agreement with Shelter, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter will administer the sales program and completion of the in-suite renovations. LREIT pays a service fee equal to 5% of the gross sales proceeds. Shelter is responsible for the payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter increases by the amount of the increase in the fixed rate. LREIT also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During 2014, LREIT incurred service fees in regard to the condominium sales program of $24,932 and renovation fees of nil.

Revolving Loan

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter. As of December 31, 2014, the revolving loan commitment was secured by mortgage charges against the title to four investment properties and two seniors' housing complexes.

A summary of the terms for the revolving loan commitment from January 1, 2013 are provided in the following chart.

Revolving Loan Term				Maximum	Maximum Loan
From	To	Renewal Fees	Interest Rate	Interest Charge	Commitment
January 1, 2013	June 30, 2013	$ 25,000	12.00%	$ 379,916	$ 12,000,000
July 1, 2013	December 31, 2013	25,000	12.00%	872,637	15,000,000
January 1, 2014	September 30, 2014	25,000	12.00%	1,181,357	15,000,000
October 1, 2014	June 30, 2015	25,000	12.00%	1,375,000	15,000,000

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense and categorized under "mortgage loan interest". Renewal and extension fees are included in transaction costs.

The terms of the revolving loan and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the loans. All necessary regulatory approvals were obtained for the revolving loan and all renewals.

During 2014, interest on the loan commitment amounted to $1,369,005, compared to $1,170,123 during 2013.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. For a summary of certain additional key risks relating to LREIT, see the Annual Information Form, which is available at www.sedar.com.

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors which are considered in assessing whether LREIT has the ability to continue to operate, including: (i) multiple years of sustaining a cash deficiency from operations, (ii) the breach of debt covenant requirements which, as of the date of this report, remains on three mortgage loans and the related interest rate swap liability in the aggregate amount of $61,736,013, (iii) the significant concentration of properties in Fort McMurray, (iv) the impact of rental market conditions in Fort McMurray on rental rates and occupancy levels and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (v) the working capital deficit, (vi) the reliance on Shelter and its parent company 2668921 Manitoba Ltd. for interim funding, (vii) the successful completion of additional property sales under the divestiture program, and (viii) the ability to complete upward refinancings to generate additional funds.

The financial capacity of LREIT to continue operations is dependent on improving cash flows from operations and, in particular, the net operating income cash flow contribution from the Fort McMurray portfolio; the completion of property sales and/or upward refinancings; the continued ability of the Trust to repay, renew or refinance debt at maturity; the renewal of the revolving loan commitment from 2668921 Manitoba Ltd.; and/or the continued availability of interim funding from Shelter. In the event that cash flows from operations do not improve and the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter and its parent company 2668921 Manitoba Ltd., LREIT may not have the ability to fund all of its debt obligations.

The decline in oil prices that began in the fourth quarter of 2014 has created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity. The delay or slowdown of development activity in the oil sands industry could adversely affect the net operating income results and values for the Fort McMurray property portfolio.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has sold 23 properties under its divestiture program, renewed or refinanced all mortgage loans which have matured as of the date of this report, repaid all outstanding mortgage bonds, obtained approval from the debenture holders for the extension of the maturity date for the Series G debentures to June 30, 2018 and eliminated all covenant breaches on mortgage loan debt, with the exception of three mortgage loans and the related interest rate swap liability which are in breach of the debt service coverage requirement. One of the covenant breaches noted above was initially expected to be eliminated by the refinancing of the mortgage loan and interest rate swap liability in the third quarter of 2014; however, the expected refinancing was delayed. The lender has agreed to provide a forbearance extension to April 30, 2015 to permit the refinancing of the loan.

Subsequent to December 31, 2014, the lender for one mortgage loan in breach of covenant waived the covenant requirement.

Real Property Ownership

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors.

The properties of LREIT generate income through rent payments made by the tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. Leasing results are affected by a number of factors, including location of the property and, in particular, the level of supply and demand in the local rental market.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand or the perceived desirability of such investments. Such illiquidity may tend to limit LREIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If LREIT were to be required to liquidate its real property investments, the proceeds to LREIT might be significantly less than the aggregate carrying value of its properties.

Certain significant expenditures, including property taxes, utility payments, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If LREIT were unable to meet mortgage payments on any property, losses could be sustained as a result of the lender's exercise of foreclosure rights or sale.

Revolving Loan Commitment From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan commitment from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary depending on the timing of property sales or upward refinancings.

Credit Support from Shelter

Shelter has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees.

The continuation of interim funding from Shelter may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from property sales or upward refinancings to the extent required to restore working capital.

Public Market Risk

It is not possible to predict the price at which units or other publicly traded securities of LREIT will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units and other publicly traded securities of LREIT may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Completion of Divestiture Program

In 2009, LREIT initiated a divestiture program targeting the sale of assets, with a value in excess of $250 Million. The objective of the divestiture program is to reduce total debt, including debenture debt, and in particular higher cost interim mortgage loan financing. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

From January 1, 2009 to December 31, 2014, LREIT sold 23 properties and 17 condominium units at Lakewood Townhomes for a combined gross selling price of $260,800,100.

During 2014, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $474,900.

The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust.

There can be no assurance that LREIT will complete the divestiture program under the time frame or to the extent which is contemplated by management.

Concentration of the Portfolio of LREIT in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. The sale of properties which are located outside of Fort McMurray will also serve to increase the exposure of LREIT's portfolio to the Fort McMurray market.

At December 31, 2014, there were 22 properties in the real estate portfolio of LREIT comprised of 20 properties in the investment property portfolio and two seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of one commercial property, 18 residential properties and one mixed residential/commercial property, comprising a total of 1,917 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, including Parsons Landing. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 57% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $295,767,904, which represents approximately 73% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 59% of investment property revenue during 2014 and 62% of the net operating income. Parsons Landing did not achieve its full revenue and net operating income potential during 2014 as the property commenced the year under lease-up. The lease-up phase was essentially completed in May 2014.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio. As a result, fluctuations in the activity of the oil sands industry can have a significant impact on rental market conditions including the average rental rate and the overall occupancy level of the Fort McMurray portfolio. Although management expects that there will be continued development activity and production growth in the oil sands industry into the foreseeable future, there can be no assurance that this will be the case. The recent decline in oil prices has also created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity.

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a more restrictive capital market, a change in legislation and numerous other factors beyond the control of LREIT.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties.

The recent decline in oil prices resulted in a tightening of mortgage lending conditions for properties in Fort McMurray; however, management does not anticipate that this will affect LREIT's ability to renew or refinance mortgage loan debt. It is possible that the upward refinancing potential of LREIT's mortgage loan portfolio could be reduced if oil prices continue to affect lending conditions in Fort McMurray.

Mortgage Maturities

To the date of this report, all mortgage loans which have matured have been renewed or refinanced.

Debt Covenants

As previously disclosed in this report, at December 31, 2014 LREIT was in breach of debt service covenants on three mortgage loans and a related swap liability in the aggregate amount of $61,736,013.

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

The Trust was in breach of a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan on a property in Winnipeg, Manitoba. The Trust has notified the lender of the covenant breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

The Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The covenant breach has not resulted in an acceleration of the repayment of the mortgage loan. Management does not anticipate that the lender will demand repayment of the mortgage loan, provided that scheduled monthly payments of principal and interest continue to be made. Management expects LREIT to remain current with its scheduled payments of principal and interest. There can be no assurance, however, that the lender will not accelerate payment of the mortgage loan. The Trust has requested a waiver of the covenant requirement from the lender.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to pay distributions is dependent upon a number of factors, including the level of operating cash flows, the amount of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. The Trust does not currently pay cash distributions. To the extent that it does make cash distributions in the future, such cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

LREIT currently qualifies as a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of Trust, the distributions of LREIT are established at the discretion of the Trustees. If circumstances permit and subject to the application of the SIFT Rules discussed below, it is the intent of the Trust to distribute an amount which is not less than all of its taxable income to its Unitholders. The Declaration of Trust provides that if the Trustees determine that available cash is not sufficient to satisfy payment of distributions, the Trustees may declare that the distribution be satisfied through the issuance of additional units, followed by an immediate consolidation of units such that, subject to the Declaration of Trust, unitholders own the same number of units on a post-consolidation basis.

Due to the decline in operating cash flow since 2009, LREIT suspended cash distributions.

Tax Treatment of LREIT

The annual determination of LREIT's status in regard to qualifying for the REIT Exception has a significant impact on the tax treatment of the Trust. The determination as to whether LREIT qualifies for the REIT Exception is subject to uncertainty and, as such, there is a risk that the tax treatment of the Trust may be less favourable than anticipated. Details regarding the REIT Exception are provided in the "Taxation" section of this report.

Legal Claims

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the cost to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

Relationship with Shelter

The financial performance of LREIT will depend in part on the performance of Shelter, and its key personnel, in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Conflicts of Interest

There are potential conflicts of interest to which Trustees and officers of LREIT are, or may become, subject to in connection with the operations of LREIT. Arni Thorsteinson, a Trustee and Chief Executive Officer of LREIT, is also a director and officer of Shelter and the director and the President of 2668921 Manitoba Ltd., the parent company of Shelter. Shelter provides Asset and Property Management services to LREIT and is also engaged in a wide range of real estate and other business activities, including the development and management of real estate. Gary Benjaminson, the Chief Financial Officer and Secretary of LREIT, is also an employee of Shelter. Mr. Benjaminson was appointed to the position on August 26, 2014.

Shelter and its affiliates and associates and its directors and officers, including Mr. Thorsteinson, may become involved in transactions in which their interests actually, or are perceived to, conflict with the interests of LREIT. Such conflicts will be subject to the procedures and remedies set out in the Canada Business Corporations Act.

Shelter has granted LREIT a right of first refusal to acquire interests in multi-family residential properties on the terms and conditions available to Shelter and/or its affiliates, subject to limited exceptions in the case of properties which are managed by Shelter and/or its affiliates outside of the LREIT portfolio.

Shelter also provides asset management services to Temple Hotels Inc. ("Temple"), a corporation with a primary focus of acquiring hotel businesses and assets. Mr. Thorsteinson is a Director and President and Chief Executive Officer of Temple. Temple acquired Nova Court from LREIT on December 31, 2013.

Mr. Thorsteinson abstained from voting on the sale of Nova Court by LREIT to Temple. The sale was approved by the Independent Trustees of LREIT. In addition, an independent third party appraisal was obtained for Nova Court which supported the consideration received by LREIT.

Other

Other risks and uncertainties are more fully explained in other regulatory filings of LREIT, including the Annual Information Form.

Credit Risk

Credit risk for LREIT arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The maximum exposure to this credit risk is equal to the carrying value of the amounts receivable. LREIT strives to mitigate this risk of credit loss by reviewing tenants' covenants, by obtaining security deposits whenever permitted by legislation and by limiting its exposure to any one tenant. The failure of LREIT's tenants to pay LREIT amounts owing on a timely basis or at all would have an adverse effect on LREIT's financial condition.

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At December 31, 2014, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $64,499,331 (December 31, 2013 - $66,264,365) which expire between 2015 and 2022 (December 31, 2013 - expires between 2014 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

Credit risk arises in the event that these parties default on repayment of their debt since they are guaranteed by LREIT. This credit risk is mitigated as LREIT has recourse under these guarantees in the event of a default by the borrowers, in which case LREIT's claim would be against the underlying real estate investments.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of LREIT, in accordance with IFRS, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial Statement items which encompass estimates include the following:

- determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- determination of the "fair value" of the interest rate swap liability: the fair value of the interest rate swap arrangement reflects the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity.

- the determination of the "fair value" of the mortgage bond: at inception, the fair value of the mortgage bond was based on market interest rates with the residual value used to value the trust unit purchase warrants;

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates; and

- determination of the status of the Trust for income tax purposes: qualification for the REIT Exception is subject to uncertainties in the interpretation and application of the SIFT Rules and can only be determined for a given year after the year has ended.

TAXATION

Taxation of LREIT

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the federal income taxation of publicly listed or traded trusts, LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2013, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

The REIT Exception is applied on an annual basis. Previously, LREIT did not qualify for the REIT Exception and therefore was subject to the SIFT Rules in 2011 and 2012. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, LREIT qualified for the REIT Exception in 2013 and it has been determined that LREIT qualifies for the REIT Exception in 2014.

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2015 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2015 or any subsequent year.

If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Please refer to the Annual Information Form for a more detailed discussion of the SIFT Rules.

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. If LREIT qualifies for the REIT Exception in a taxation year, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year, if any. Distributions (if any) in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions (if any) not included in income.

The cash distributions paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions paid by LREIT since inception, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009, December 2010 and December 2013.

If LREIT does not qualify for the REIT Exception, distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during 2014 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2014 Annual Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
March 10, 2015

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
2014 ANNUAL REPORT

SCHEDULE I

Real Estate Portfolio as of December 31, 2014

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy December 31 2014
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	86 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	84 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	83 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	72 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	79 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	81 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	82 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	74 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	75 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	82 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	76 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	69 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	94 %
Westhaven Manor	Edson	4,050,000	May 2007	48	88 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	81 %
Colony Square (3)	Winnipeg	29,907,700	October 2008	428	92 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	94 %
Total - Residential		**360,822,188**	Total suites	**1,917**	
COMMERCIAL					
Retail and Office					
Colony Square (3)	Winnipeg	7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd. (4)	Airdrie	1,600,000	June 2003	39,936	100 %
Total - Commercial		**9,531,600**	Total leasable area	**123,126**	
Total investment properties		**370,353,788**			
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	91 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	73 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 396,075,788**			

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of December 31, 2014 has been reduced to 47 to account for the sale of 17 condominium units. Seven units are unoccupied and held as available for sale and are not included in the occupancy statistic.

(2) Includes the cost of major renovations and asset additions.

(3) Colony Square is comprised of one mixed residential/commercial property.

(4) Subsequent to December 31, 2014, the property was sold, subject to the removal of final conditions by the purchaser.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Lanesborough Real Estate Investment Trust. To fulfil this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial information. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's best judgment in the circumstances.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and free access to the Audit Committee.

MNP LLP, the independent auditors, appointed by the Unitholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Gary Benjaminson"

Gary Benjaminson
Chief Financial Officer

March 10, 2015

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP LLP

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2014 has incurred a loss before discontinued operations of $20,878,092 during the year ended December 31, 2014 and, as at that date, has a working capital deficit of $13,234,208 and is in breach of certain debt covenants. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

MNP LLP

Winnipeg, Manitoba
March 10, 2015

Chartered Accountants

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2014	December 31 2013
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$406,619,555**	$421,040,369
Defeasance assets (Note 6)	**2,731,947**	2,879,978
Restricted cash (Note 7)	**3,998,659**	4,241,812
Total non-current assets	**413,350,161**	428,162,159
Current assets		
Cash	**1,445,335**	2,401,741
Rent and other receivables (Note 8)	**1,663,043**	10,129,493
Deposits and prepaids (Note 9)	**1,190,396**	893,063
	4,298,774	13,424,297
Assets classified as held for sale (Note 10)	**25,124,665**	26,485,863
Total current assets	**29,423,439**	39,910,160
TOTAL ASSETS	**$442,773,600**	$468,072,319
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 11)	**$101,953,013**	$154,124,845
Total non-current liabilities	**101,953,013**	154,124,845
Current liabilities		
Trade and other payables (Note 12)	**17,495,580**	47,306,909
Current portion of long-term debt (Note 11)	**210,073,719**	133,107,487
Deposits from tenants	**2,514,508**	2,518,165
	230,083,807	182,932,561
Liabilities classified as held for sale (Note 10)	**14,846,156**	13,562,900
Total current liabilities	**244,929,963**	196,495,461
Total liabilities	**346,882,976**	350,620,306
Total equity	**95,890,624**	117,452,013
TOTAL LIABILITIES AND EQUITY	**$442,773,600**	$468,072,319

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31	
	2014	**2013**
Rentals from investment properties	**$ 38,291,698**	$ 40,328,764
Property operating costs	**16,516,234**	16,119,995
Net operating income	**21,775,464**	24,208,769
Interest income	**657,609**	1,272,740
Interest expense (Note 13)	**(24,480,925)**	(27,223,579)
Trust expense	**(2,472,215)**	(2,312,565)
Gain on sale of investment property	**71,235**	221,642
Fair value adjustments (Note 5)	**(16,527,759)**	6,970,031
Fair value adjustment of Parsons Landing (Note 5)	**-**	8,929,707
Income recovery on Parsons Landing	**98,499**	2,622,629
Income (loss) before discontinued operations	**(20,878,092)**	14,689,374
Income (loss) from discontinued operations (Note 10)	**(1,360,489)**	830,212
Income (loss) and comprehensive income (loss)	**$ (22,238,581)**	$ 15,519,586
Income (loss) per unit before discontinued operations:		
Basic	**$ (0.997)**	$ 0.774
Diluted	**$ (0.997)**	$ 0.634
Income (loss) per unit from discontinued operations:		
Basic	**$ (0.065)**	$ 0.044
Diluted	**$ (0.065)**	$ 0.036
Income (loss) per unit:		
Basic	**$ (1.062)**	$ 0.818
Diluted	**$ (1.062)**	$ 0.670

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31 2014	2013
Issued capital (Note 15)		
Balance, beginning of year	**$116,100,394**	$107,978,701
Units issued on:		
Payment of distributions	**-**	6,900,000
Exercise of options	**22,780**	2,380
Exercise of warrants	**718,355**	1,219,313
Balance, end of year	**116,841,529**	116,100,394
Contributed surplus		
Balance, beginning of year	**17,091,850**	17,211,070
Value of deferred units granted	**75,000**	75,000
Value of unit options granted	**60,156**	26,093
Warrants exercised	**(126,731)**	(220,313)
Warrants purchased under normal course issuer bid	**(72,368)**	-
Balance, end of year	**17,027,907**	17,091,850
Cumulative earnings		
Balance, beginning of year	**58,609,804**	43,090,218
Income (loss) and comprehensive income (loss)	**(22,238,581)**	15,519,586
Balance, end of year	**36,371,223**	58,609,804
Cumulative distributions to unitholders		
Balance, beginning of year	**(74,350,035)**	(67,450,035)
Distributions declared	**-**	(6,900,000)
Balance, end of year	**(74,350,035)**	(74,350,035)
Total equity	**$ 95,890,624**	$117,452,013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2014	2013
Operating activities		
Income (loss) and comprehensive income (loss)	**$ (22,238,581)**	$ 15,519,586
Adjustments to reconcile income to cash flows		
Fair value adjustments - Investment properties	**16,527,759**	(6,970,031)
Fair value adjustment - Property and equipment (Note 10)	**1,734,126**	-
Fair value adjustment - Parsons Landing	**-**	(8,929,707)
Gain on sale of properties	**(71,235)**	(221,642)
Loss on warrant repurchases	**89,534**	-
Write down of note receivable	**-**	205,000
Accrued rental revenue	**(438,891)**	82,342
Gain on debenture repurchases	**-**	(3,985)
Unit-based compensation	**135,156**	101,093
Deferred income tax expense	**-**	(285,734)
Interest income	**(657,609)**	(1,272,740)
Interest received	**489,644**	660,459
Interest expense	**25,518,333**	27,971,416
Interest paid	**(21,698,794)**	(24,825,831)
Cash from operations	**(610,558)**	2,030,226
Decrease (increase) in rent and other receivables	**(413,241)**	134,017
Decrease (increase) in deposits and prepaids	**(287,348)**	482,084
Increase (decrease) in tenant deposits	**35,016**	83,595
Increase in property sale deposit	**-**	-
Increase (decrease) in trade and other payables	**469,499**	(1,104,445)
	(806,632)	1,625,477
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**50,000,000**	166,500,000
Repayment of mortgage loans on refinancing	**(8,104,208)**	(167,263,300)
Payment of acquisition payable of Parsons Landing	**(44,006,731)**	-
Redemption of mortgage bonds	**(10,000,000)**	-
Repayment of long-term debt	**(6,053,574)**	(7,929,596)
Prepayment of mortgage loans	**-**	(2,998,500)
Proceeds of revolving loan commitment	**24,639,136**	13,880,000
Repayment of revolving loan commitment	**(11,044,136)**	(18,000,000)
Expenditures on transaction costs	**(3,040,713)**	(2,452,158)
Exercise of options	**22,780**	2,380
Exercise of warrants	**591,624**	999,000
Debentures purchased and cancelled under normal course issuer bid	**-**	(83,215)
Warrants purchased and cancelled under normal course issuer bid	**(161,902)**	-
	(7,157,724)	(17,345,389)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(2,479,990)**	(3,275,839)
Capital expenditures on property and equipment	**(378,305)**	(255,686)
Decrease in defeasance assets	**148,031**	145,392
Proceeds of mortgage loans receivable (Note 8)	**9,491,016**	3,200,000
Taxes paid on property sold	**-**	(1,734,702)
Proceeds of sale	**(6,877)**	14,468,789
Change in restricted cash	**237,163**	3,555,578
	7,011,038	16,103,532
Cash increase (decrease)	**(953,318)**	383,620
Add (deduct) decrease (increase) in cash from discontinued operations (Note 10)	**(3,088)**	763,844
	(956,406)	1,147,464
Cash, beginning of year	**2,401,741**	1,254,277
Cash, end of year	**$ 1,445,335**	$ 2,401,741

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust, which was created under the laws of the Province of Manitoba by a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006, June 18, 2008 and December 9, 2009.

The registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of the Trust, which trade on the TSX and the related trading symbols:

Units	LRT.UN
Series G Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Warrants expiring March 9, 2015	LRT.WT
Warrants expiring December 23, 2015	LRT.WT.A

The Trust and its subsidiaries earn income from real estate investments in Canada.

2 *Basis of presentation and continuing operations*

The consolidated financial statements of the Trust for the years ended December 31, 2014 and 2013 ("Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on March 10, 2015.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust incurred a loss before discontinued operations of $20,878,092 for the year ended December 31, 2014 (2013 - income of $14,689,374). The Trust incurred a cash deficiency from operating activities of $806,632 for the year ended December 31, 2014 (2013 - generated cash of $1,625,477). After deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $12,759,214 for the year ended December 31, 2014 (2013 - $12,287,802). In addition, the Trust has a working capital deficit of $13,234,208 as at December 31, 2014 (December 31, 2013 - $4,259,858) and the Trust was in breach of a debt service coverage requirement on three mortgage loans and a related interest rate swap liability (December 31, 2013 - one mortgage loan and the related interest rate swap liability).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

The Trust was in breach of a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan on a property in Winnipeg, Manitoba. The Trust has notified the lender of the covenant breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

The Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or debentures of the Trust.

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt and the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 23 properties, including two properties during the year ended December 31, 2013, the Trust has successfully renewed mortgage loans at maturity, the Trust has extended the maturity date for the Series G debentures to 2018, the Trust has successfully eliminated covenant breaches on eight mortgage loans through refinancing and/or improved operations, the Trust has completed the acquisition of Parsons Landing, and has repaid all mortgage bond debt subsequent to December 31, 2014.

If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities and reported revenues and expenses used in these Financial Statements.

Statement of compliance

The Financial Statements of the Trust have been prepared in accordance with IFRS using the same presentation and accounting policies under IFRS as disclosed in Note 3 . The Financial Statements are based on IFRS standards issued and effective as at March 10, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

3 Significant accounting policies

(a) Principles of consolidation

The Financial Statements comprise the Financial Statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The Financial Statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination and the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. When an acquisition represents the acquisition of a business, the acquisition is accounted for as a business combination.

(b) Investment Properties

The Trust follows IAS 40 "Investment Properties" and has chosen the fair value method of presenting investment properties in the Financial Statements.

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the property to the condition necessary for it to be capable of operating and similar costs. The carrying value also includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. An investment property is derecognized upon sale.

The fair value of investment properties is determined by the Trust using recognized valuation techniques.

Investment properties held for sale are classified as assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

3 Significant accounting policies (continued)

(c) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses, in accordance with IAS 16 "Property and equipment".

The Trust provides for amortization of property and equipment in order to apply the cost of the assets over the estimated useful lives as follows.

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Amortization is not recorded for property and equipment held in discontinued operations.

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. Cash generating units are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying value of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying value that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in net income (loss). Impairment losses for goodwill are not reversed.

(d) Rent and other receivables

Rent and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost using the effective interest rate method. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

3 Significant accounting policies (continued)

(e) Cash

Cash comprises demand and short-term deposits at the bank with an original maturity of twelve months or less.

Cash deposits, which are not available for use by the Trust within a period of twelve months, are carried as restricted cash.

(f) Property, plant and equipment classified as held for sale

Held for sale assets
Property, plant and equipment is transferred to assets held for sale when it is expected that the carrying value will be recovered principally through sale rather than from continuing use. For this to be the case the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:
- The Trustees must be committed to a plan to sell the property and an active program to locate a buyer and complete the plan must have been initiated
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification

Property, plant and equipment classified as held for sale is recorded at the lower of carrying value or fair value, and is not depreciated or amortized.

Discontinued operations
A discontinued operation is a part of the business of the Trust that:
- Has been disposed of or has been classified as held for sale and that represents a major line of business or geographic area of operation;
- Is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- Is a subsidiary acquired exclusively with a view to resell.

The results of discontinued operations are presented separately on the Statement of Comprehensive Income (loss) and the assets and liabilities are presented separately on the Statement of Financial Position.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

3 Significant accounting policies (continued)

(g) Mortgages loans, mortgage bonds, and debentures

All mortgage loans and mortgage bonds are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and bonds are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the loans and bonds are recognized in the Statement of Comprehensive Income over the expected life of the borrowings. Interest is recognized on an accrual basis. All mortgage loans and mortgage bonds with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and mortgage bonds with maturities greater than twelve months and are payable on demand as a result of a debt covenant breach at the financial statement date, are classified as current liabilities.

(h) Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust, including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. At the end of each reporting period, the estimate of unit options expected to vest is revised and compensation expense in regard to options granted to officers, employees and trustees is recognized.

(i) Tenant deposits

Tenant deposits liabilities are initially recognized at fair value. Where the time value of money is material, tenant deposits are carried at amortized cost, using the effective interest rate method. Any difference between the initial fair value and the amortized cost is included as a component of rentals from investment properties and recognized on a straight-line basis over the lease term.

(j) Revenue recognition

Management has determined that all of the leases with tenants are operating leases.

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to deferred rent receivable. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancelable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

3 Significant accounting policies (continued)

(j) Revenue recognition (continued)

Premiums received to terminate leases are recognized in the income statement when they arise.

Meal and other revenue is recognized on the delivery of the meal or other service.

Interest income is recognized on an accrual basis using the effective interest method.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

(k) Income taxes

(i) The Trust

The Trust qualifies as a mutual fund trust and a real estate investment trust for income tax purposes. The Trust intends to pay or make payable in each year distributions to its unitholders in an amount that is required so that the Trust has no current tax expense for the year. As a result, the Trust does not account for income taxes arising from its own activities.

(ii) Wholly owned subsidiary companies

Current taxes
Current taxes for the current and prior periods are, to the extent unpaid, recognized as a liability. Current tax assets and liabilities for the current and prior periods are measured at amounts expected to be recovered from or paid to the taxation authorities, including interest. The tax rates and tax laws used to compute those amounts are the tax rates and tax laws which have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes
Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses and other short-term temporary differences.

Deferred tax assets are recognized to the extent that it is regarded as probable that the benefit from the deductible temporary differences can be realized. The recoverability of all tax assets is assessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which that asset or liability will be settled, based on tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

3 Significant accounting policies (continued)

(l) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(m) Per unit calculations

Basic per unit information is calculated using the weighted average number of units outstanding for the period, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the period after considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential exercise of warrants to the extent that the warrants are dilutive. The diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

(n) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the designation of such instruments by the Trust. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial instruments classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until disposition of the financial asset.

Financial instruments are derecognized when the Trust no longer controls the contractual rights that comprises a financial asset or when the obligation under a financial liability has been discharged, concluded or expired.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

3 Significant accounting policies (continued)

(n) Financial instruments (continued)

Based on the purpose for which assets and liabilities are acquired, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Mortgage bonds	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Interest rate swap liability	Fair value through profit and loss	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage guarantee fees	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

The Trust assesses impairment of all financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in income.

(o) Current and future changes to significant accounting policies

The following new standard was implemented with a January 1, 2014 effective date:

(i) IFRIC Interpretation 21 - Levies

IFRIC Interpretation 21: The interpretation addresses the accounting for a liability to pay a levy within the scope of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The adoption of the interpretation had no impact on the amounts recorded in the Financial Statements of the Trust.

The following new or amended standards have been issued by the International Accounting Standards Board (IASB):

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments was issued in July 2014 and replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, based on how the entity manages its financial instruments and the contractual characteristics of the financial instruments; and has an effective date of implementation of January 1, 2018.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

3 *Significant accounting policies (continued)*

(o) Current and future changes to significant accounting policies (continued)

(ii) IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts, excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted.

The Trust is currently evaluating the impact of these standards on its Financial Statements.

4 *Significant accounting judgments, estimates and assumptions*

The preparation of the Financial Statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the Financial Statements date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of the asset or liability affected.

(a) Judgments other than estimates

In the process of applying the accounting policies of the Trust, management has made the following judgments, which have the most significant effect on the amounts recognized in the Financial Statements:

Business combinations
The Trust acquires subsidiaries that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The extent of the land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, meal services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

Operating lease contracts
The Trust has entered into leases with tenants. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and accounts for the leases as operating leases.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

4 *Significant accounting judgments, estimates and assumptions (continued)*

(a) Judgments other than estimates (continued)

Income taxes
The Trust is a real estate investment trust for income tax purposes. In order for the Trust to qualify as a real estate investment trust for a year, the property and revenue of the Trust must meet certain conditions. Management has assessed the property and revenue of the Trust against those conditions and is satisfied that the Trust qualifies as a real estate investment trust.

Management expects that the Trust will continue to qualify as a real estate investment trust for 2015 and beyond. If the Trust were to fail to qualify as a real estate investment trust, the Trust would be required to account for income taxes arising from all of its activities and material adjustments to the consolidated financial statements could be required.

(b) Estimates

Valuations of property
Investment property is stated at fair value as at the financial statement date. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. The valuations are prepared using recognized valuation techniques to determine the fair value of investment properties. The techniques comprise both the capitalized net operating income method and the discounted cash flow method. In certain cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

The determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, anticipated capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. The estimates are based on local market conditions existing at the financial statement date.

Management uses their market knowledge and professional judgment as well as historic transactional comparables or external appraisals obtained. In these circumstances, a greater degree of uncertainty exists in estimating the market value of investment property than in a more active market.

5 Investment properties

	Year Ended December 31	
	2014	2013
Balance, beginning of year	$421,040,369	$427,967,800
Additions - capital expenditures	2,479,990	3,275,839
Fair value adjustments	(16,527,759)	6,970,031
Dispositions (a)	(373,045)	(24,389,739)
Fair value adjustment of Parsons Landing (b)	-	8,929,707
Purchase price adjustment of Parsons Landing (b)	-	(1,713,269)
Balance, end of year	$406,619,555	$421,040,369

5 Investment properties (continued)

Investment properties have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to normalized net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

The table below provides details of the range of capitalization rates used for valuing the investment properties of the Trust:

	December 31 2014		December 31 2013	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	7.25 %	7.00 %	7.50 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Major Canadian cities	4.75 %	4.75 %	4.75 %	4.75 %
Impaired property	7.00 %	7.00 %	7.00 %	7.00 %
Other	5.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	6.50 %	7.25 %	6.50 %	7.25 %

(ii) *The discounted cash flow method*. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity. The key assumptions are the normalized first year cash flows, the inflation rates applied to the first year cash flows, and the discount rate applied over the useful life of the investment property.

The table below provides details of the range of discount rates used for valuing the investment properties of the Trust:

	December 31 2014		December 31 2013	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.00 %	9.25 %	9.00 %	9.50 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
Major Canadian cities	6.75 %	6.75 %	6.75 %	6.75 %
Impaired property	9.00 %	9.00 %	9.00 %	9.00 %
Other	7.25 %	10.00 %	8.25 %	10.00 %
Commercial properties	8.50 %	9.25 %	8.50 %	9.25 %

5 Investment properties (continued)

(iii) *Direct comparison*. The direct comparison method may occasionally be used when appropriate information is available, typically from an appraiser or realtor, such as the sale price of a comparable property or an offer to purchase a given property. In certain situations, properties with condominium title may be valued based on the selling price of comparable condominium units, net of selling and condominium conversion costs. Key assumptions associated with the above methods include the appropriateness of each comparison as well as the extent of selling and condominium conversion costs. The direct comparison method was factored into the valuation analysis prepared for East Lake Boulevard and Lakewood Townhomes (2013 - Colony Square, Laird's Landing, Lakewood Apartments, Millennium and Woodland Park).

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying value of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Carrying Value at December 31, 2014	Valuation Update Timetable
Greater than $10 Million	9	$ 355,840,561	Three years
Less than $10 Million	11	50,778,994	Five years
	20	$ 406,619,555	

The Trust utilizes capitalization and discount rates within the ranges provided in market reports by knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount rate ranges change from one reporting period to the next, or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

To assist in the determination of fair value at December 31, 2014, external appraisals were obtained in 2014 for 2 properties having an aggregate fair value of $26.2 Million representing 6.5% of the total carrying value of investment properties. Appraisals were obtained in 2013 for 7 properties having an aggregate fair value of $254.6 Million representing 62.5% of the total carrying value of investment properties. Appraisals were obtained in 2012 for 10 properties having an aggregate fair value of $117.4 Million representing 28.9% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 1 property having a fair value of $8.4 Million representing 2.1% of the total carrying value of investment properties.

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions and also considers anticipated capital expenditures.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

5 Investment properties (continued)

The capitalized net operating income method and discounted cash flow method, as noted above, would be categorized as level 3 valuation methods in the fair value hierarchy. The most significant inputs or variables to the valuation process, all of which are unobservable, are the normalized income, capitalization rate, discount rate and growth rate. A decrease in the normalized income or growth rate, or an increase in the capitalization rate or the discount rate will result in a decrease in the estimated fair value of investment properties. The fair value estimate is sensitive to all four assumptions, however, changes in the capitalization rate have the greatest impact on the fair value estimate. There are interrelationships between the capitalization rate, the discount rate and the growth rate.

The inputs used in the valuation at December 31, 2014 were:

Description	Input
Normalized net operating income (year 1)	$27,831,756
Weighted average capitalization rate	6.70%
Growth rate	2.00%
Weighted average discount rate	8.70%

The direct comparison method as noted above is a level 2 valuation method.

(a) Dispositions

On October 1, 2013, the Trust sold the Purolator Building for gross proceeds of $1,600,000. On December 31, 2013, the Trust sold Nova Court for gross proceeds of $21,680,000. Revenue and expenses of the Purolator Building and Nova Court are carried in the "Properties Sold" operating segment effective in the December 31, 2013 Financial Statements and, prior to December 31, 2013, were carried in the "Other Investment Properties" operating segment.

One condominium unit at Lakewood Townhomes was sold during the year ended December 31, 2014 (2013 - three condominium units).

The following table reflects the results of the sale of condominium units at Lakewood Townhomes:

	Year Ended December 31 December 31 2014	2013
Units sold	1	3
Gross proceeds	$ 474,900	$ 1,444,700
Gain on sale	$ 71,235	$ 247,011

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

5 Investment properties (continued)

(b) Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

The permanent mortgage financing for the purchase of Parsons Landing was uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement.

In 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. An agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses.

The reconstruction was completed and 84 suites were returned to the Trust on June 1, 2013 and the remaining 76 suites were returned to the Trust on October 3, 2013. The cost of the reconstruction was fully funded from insurance proceeds.

The purchase transaction was completed on March 6, 2014.

The comparative Financial Statements reflect the following:

Adjustments to fair value in 2013 are separately recorded and reflect the reconstruction and re-leasing of the property.

At December 31, 2013, the balance owing in regard to the acquisition of Parsons Landing was reflected in Trade and other payables.

For the period from January 1, 2013 to May 31, 2013, the Financial Statements reflect revenue in regard to recovery of insurance proceeds for revenue losses. The revenue is reflected as "Income recovery on Parsons Landing" in the income of the Trust.
For the period from June 1, 2013 to December 31, 2013, the Financial Statements reflect rental revenues and property operating costs for occupied suites and recovery of insurance proceeds for unoccupied suites.

Effective January 1, 2014, any gain or loss related to a change in the fair value of Parsons Landing is reflected in "Fair value adjustments".

6 Defeasance assets and defeased liability

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Defeased Liability has a balance of $2,584,460 at December 31, 2014 (2013 - $2,644,615), is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.87% (December 31, 2013 - 3.83%) and have been placed in escrow. The Defeasance Assets and the Defeased Liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

6 Defeasance assets and defeased liability (continued)

The following table reflects the effect of the Defeasance Assets and the Defeased Liability on income.

	Recorded as	Year Ended December 31 2014	2013
Interest income on Defeasance Assets	Interest income	$ 58,266	$ 60,905
Interest expense on Defeased Liability	Interest expense	(145,862)	(149,136)
Amortization of transaction costs	Interest expense	(10,391)	(10,011)
		$ (97,987)	$ (98,242)

7 Restricted cash

	December 31 2014	2013
Tenant security deposits	$ 2,477,106	$ 2,484,188
Reserves required by mortgage loan agreements	1,521,553	1,757,624
	$ 3,998,659	$ 4,241,812

8 Rent and other receivables

	December 31 2014	2013
Rent receivable	$ 74,791	$ 223,314
Less: allowance for uncollectible accounts	(18,789)	(32,751)
	56,002	190,563
Loans receivable	-	9,320,600
Other receivables	898,648	348,828
Deferred rent receivable	708,393	269,502
	$ 1,663,043	$ 10,129,493

9 Deposits and prepaids

	December 31 2014	2013
Deposits		
Property tax deposits	$ 521,380	$ 368,647
Other	10,850	10,630
	532,230	379,277
Prepaid expenses	658,166	513,786
	$ 1,190,396	$ 893,063

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

10 Assets and liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations.

Assets and liabilities classified as "held for sale" are as follows:

	December 31 2014	December 31 2013
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 25,014,979	$ 26,370,800
Cash	23,691	20,603
Restricted cash	49,976	43,986
Rent and other receivables	4,446	8,916
Deposits, prepaids and other	31,573	41,558
Assets classified as held for sale	$ 25,124,665	$ 26,485,863
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	$ 14,298,793	$ 13,042,918
Trade and other payables	250,107	261,399
Deposits from tenants	297,256	258,583
Liabilities classified as held for sale	$ 14,846,156	$ 13,562,900

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2014	Year Ended December 31 2013
Rental income	$ 5,185,738	$ 5,152,227
Property operating expenses	3,774,693	3,682,675
Net operating income	1,411,045	1,469,552
Interest expense (c)	(1,037,408)	(747,837)
Fair value adjustment (a)	(1,734,126)	-
Current tax expense (d)	-	(177,237)
Deferred tax recovery (d)	-	285,734
Income (loss) from discontinued operations	$ (1,360,489)	$ 830,212

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

10 Assets and liabilities of properties held for sale (continued)

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2014	Year Ended December 31 2013
Cash inflow (outflow) from operating activities	$ 635,047	$ 388,915
Cash inflow (outflow) from financing activities	(247,663)	841,487
Cash outflow from investing activities	(384,296)	(1,994,246)
Increase (decrease) in cash from discontinued operations	$ 3,088	$ (763,844)

(a) Property and equipment

December 31, 2014	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,527,556	226,508	(902,210)	20,851,854
Furniture, equipment and appliances	239,412	151,797	(38,898)	352,311
	25,899,068	378,305	(941,108)	25,336,265
Valuation adjustment	1,412,840	(1,734,126)	-	(321,286)
	$ 27,311,908	$ (1,355,821)	$ (941,108)	$ 25,014,979

December 31, 2013	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,295,528	232,028	(902,210)	20,625,346
Furniture, equipment and appliances	215,754	23,658	(38,898)	200,514
	25,643,382	255,686	(941,108)	24,957,960
Valuation adjustment	1,412,840	-	-	1,412,840
	$ 27,056,222	$ 255,686	$ (941,108)	$ 26,370,800

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

10 Assets and liabilities of properties held for sale (continued)

(a) Property and equipment (continued)

The carrying value in property and equipment is comprised of the following:

	Year Ended December 31 2014	2013
Balance, beginning of year	$ 26,370,800	$ 26,115,114
Additions - capital expenditures	378,305	255,686
Net gain (loss) on fair value adjustments	(1,734,126)	-
Balance, end of year	$ 25,014,979	$ 26,370,800

Assets in discontinued operations are carried at the lower of carrying value or fair value with fair value determined by sale value less selling costs. In 2014, the sale value less selling costs of a property carried in discontinued operations was determined by an updated appraisal and a fair value adjustment of $1,734,126 was recorded.

(b) Long term debt

	December 31 2014	2013
Secured debt		
Mortgage loans	$ 14,376,467	$ 13,042,918
Unamortized transaction costs	(77,674)	-
Total long term debt	$ 14,298,793	$ 13,042,918

All mortgages which have matured prior to March 10, 2015 have been renewed or refinanced.

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of December 31, 2014, the Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

10 Assets and liabilities of properties held for sale (continued)

(c) Interest expense

	Year Ended December 31 2014	2013
Mortgage loan interest	$ 817,834	$ 705,670
Amortization of transaction costs	219,574	42,167
	$ 1,037,408	$ 747,837

(d) Deferred tax

The Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:

	December 31 2014	2013
Property and equipment	$ 2,272,271	$ 538,145
Transaction costs	$ 201,004	$ 62,939

Unused tax losses expiring in:

	2014	2013
2027	$ -	$ 43,366
2028	333,199	549,398
2029	447,270	447,270
2030	-	-
2031	-	73,375
2032	90,758	269,519
	$ 871,227	$ 1,382,928

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

11 Long-term debt

	December 31 2014	2013
Secured debt		
Mortgage loans (a)	$ 278,704,067	$ 244,586,398
Interest rate swap liability (b)	1,441,705	1,188,106
Mortgage bonds (c)	5,786,226	14,913,008
Debentures (d)	24,873,800	24,873,800
Defeased liability	2,584,460	2,644,615
Total secured debt	313,390,258	288,205,927
Mortgage guarantee fees	-	91,362
Total debt	313,390,258	288,297,289
Accrued interest payable	1,478,261	1,975,830
Unamortized transaction costs		
Mortgage loans	(1,758,930)	(1,909,636)
Mortgage bonds	(153,325)	(754,795)
Debentures	(915,989)	(352,422)
Defeased liability	(13,543)	(23,934)
Total unamortized transaction costs	(2,841,787)	(3,040,787)
	312,026,732	287,232,332
Less current portion		
Mortgage loans	(202,908,513)	(122,180,991)
Interest rate swap liability	(1,441,705)	(1,188,106)
Mortgage bonds	(5,786,226)	(9,319,958)
Defeased liability	(63,602)	(60,167)
Mortgage guarantee fees	-	(44,587)
Accrued interest payable	(1,478,261)	(1,975,830)
Transaction costs	1,604,588	1,662,152
Total current portion	(210,073,719)	(133,107,487)
	$ 101,953,013	$ 154,124,845
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,212,781	$ 1,023,567
Mortgage bonds	153,325	329,655
Debentures	227,698	298,539
Defeased liability	10,784	10,391
	$ 1,604,588	$ 1,662,152

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

11 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At December 31, 2014, the contractual weighted average interest rate for variable rate long-term debt was 7.5% and for fixed rate long-term debt was 4.7% (December 31, 2013 - variable - 7.2%, fixed - 4.7%).

Normal principal installments and principal maturities at face value are as follows:

Year ending December 31	Mortgage Loans: Normal Principal Installments	Mortgage Loans: Principal Maturities	Debentures and Mortgage Bonds	Defeased Liability
2015	$ 1,806,177	$201,102,336	$ 6,000,000	$ 63,602
2016	1,714,656	7,540,966	-	2,520,858
2017	1,634,859	18,008,996	-	-
2018	829,749	18,629,000	24,873,800	-
2019	134,572	27,302,756	-	-
	$ 6,120,013	$272,584,054	$ 30,873,800	$ 2,584,460

Year ending December 31	Total Long-term Debt	Weighted average interest rate of long-term debt
2015	208,972,115	6.3%
2016	11,776,480	7.5%
2017	19,643,855	5.6%
2018	44,332,549	5.8%
2019	27,437,328	5.0%
	$312,162,327	6.1%

In accordance with IFRS, the face value of two mortgage loans in the amount of $55,917,841 and the $1,441,705 fair value of the interest rate swap liability are reflected as current liabilities as the related properties are not in compliance with the loan covenants (Note 11(a)).

The Trust intends to renew or refinance all mortgage debt and debentures at market rates on maturity.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

11 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates		Amount	
	December 31		December 31	
	2014	2013	2014	2013
First mortgage loans				
Fixed rate	4.5%	4.6%	$ 171,581,117	$ 176,340,766
Variable rate	6.9%	6.1%	89,116,663	50,239,345
Total first mortgage loans	5.3%	4.9%	260,697,780	226,580,111
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,500,000	4,500,000
Variable rate	11.1%	11.1%	13,506,287	13,506,287
Total second mortgage loans	11.3%	11.3%	18,006,287	18,006,287
Total	5.7%	5.4%	$ 278,704,067	$ 244,586,398

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. As of December 31, 2014, the Trust was not in compliance with debt service coverage requirements for two mortgage loans.

As of December 31, 2014, the Trust was not in compliance with a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan. The lender has been notified of the breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

As of December 31, 2014, The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

All mortgages which have matured prior to March 10, 2015 have been renewed or refinanced.

Mortgage loans are secured by mortgage charges registered against specific investment properties and are secured by assignments of book debts and rents and by repayment guarantees.

(b) Interest rate swap liability

The Trust has entered into an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan in the amount of $15,494,688 has a fixed rate of 5.82% and matures in 2018. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis.

11 Long-term debt (continued)

(b) Interest rate swap liability (continued)

The interest rate swap liability is a financial instrument classified as fair value through profit and loss. The fair value of the interest rate swap liability has been determined using level 2 of the fair value hierarchy, and is estimated based on the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity, using discount rates currently available for debt of similar terms and remaining maturities.

The change in fair value of interest rate swap liability increased by $253,599 during the year ended December 31, 2014 (2013 - $286,699 decrease).

(c) Mortgage bonds

The face value of the 9% mortgage bonds due December 24, 2015 is $6,000,000 (December 31, 2013 - $16,000,000).

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 16,000,000 trust unit purchase warrants for gross proceeds of $16,000,000. Each trust unit purchase warrant entitles the holder to purchase one unit at a price of $0.75 until December 24, 2015. The mortgage bonds are secured by second mortgage charges registered against four investment properties with a fair value of $37,033,806 (December 31, 2013 - $38,192,000).

The carrying value of the mortgage bonds is summarized as follows:

	December 31	
	2014	2013
Balance, beginning of year	$ 14,913,008	$ 14,458,831
Accretion	873,218	454,177
Redemption	(10,000,000)	-
Balance, end of year	$ 5,786,226	$ 14,913,008

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $470,623 was identified, and the residual value of $1,346,282 was assigned to the warrants.

Subsequent to December 31, 2014, the remaining mortgage bonds with a face value of $6,000,000 were repaid.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

11 Long-term debt (continued)

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due June 30, 2018 is $24,873,800 (December 31, 2013 - $24,873,800).

On June 16, 2014, LREIT obtained approval from the holders of the Series G debentures to extend the maturity date of the debentures from February 28, 2015 to June 30, 2018.

The Series G debentures are redeemable, subject to notice requirements, and the Trust is required to redeem debentures from the net proceeds of property sales, after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

On June 17, 2013, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust was entitled to purchase up to $2,493,000 of Series G debentures. The normal course issuer bid expired on June 16, 2014.

On June 23, 2014, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,476,380 of Series G debentures. The normal course issuer bid expires on June 22, 2015.

The Trust is not required to purchase any debentures under the normal course issuer bid.

During the period from January 1, 2015 to March 10, 2015, the Trust purchased and cancelled Series G debentures with a face value of $36,000 at an average price of $85.61 per $100.00.

12 Trade and other payables

	December 31	
	2014	2013
Accounts payable - vendor invoices	$ 1,256,193	$ 982,173
Accrued payables	708,197	658,892
Prepaid rent	1,031,190	754,113
Revolving loan from 2668921 Manitoba Ltd. (Note 19)	14,500,000	905,000
Payable on acquisition of Parsons Landing	-	44,006,731
	$ 17,495,580	$ 47,306,909

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

13 Interest expense

	Year Ended December 31 2014	2013
Mortgage loan interest	$ 16,813,399	$ 16,838,750
Change in fair value of interest rate swap	253,599	(286,699)
Mortgage bond interest	581,918	1,440,000
Accretion of mortgage bonds	873,218	454,177
Debenture interest	2,363,011	2,367,153
Amortization of transaction costs	2,942,465	2,706,476
Interest on acquisition payable	653,315	3,703,722
	$ 24,480,925	$ 27,223,579

14 Per unit calculations

	Year Ended December 31 2014	2013
Income (loss) before discontinued operations	$ (20,878,092)	$ 14,689,374
Income (loss) from discontinued operations	(1,360,489)	830,212
Income (loss)	$ (22,238,581)	$ 15,519,586

	Year Ended December 31 2014	2013
Weighted average number of units:		
Units	20,099,659	18,211,934
Deferred units	847,265	765,279
Total basic	20,946,924	18,977,213
Total diluted	20,946,924	23,172,093

15 Units

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Units	Amount	Units	Amount
Outstanding, beginning of year	19,423,011	$116,100,394	18,084,011	$107,978,701
Units issued on:				
Exercise of options	67,000	22,780	7,000	2,380
Exercise of warrants	762,375	718,355	1,332,000	1,219,313
Payment of distribution	-	-	6,448,598	6,900,000
Consolidation of units	-	-	(6,448,598)	-
Outstanding, end of year	20,252,386	$116,841,529	19,423,011	$116,100,394

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

16 Warrants

Warrants expiring March 9, 2015:

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants ("March 2015 warrants"). Each warrant entitles the purchaser to purchase one unit at a price of $1.00 prior to March 9, 2015.

	Year Ended December 31 2014	2013
Balance, beginning of year	6,780,000	6,780,000
Warrants exercised	(79,375)	-
Purchased and cancelled under normal course issuer bid	(130,600)	-
Balance, end of year	6,570,025	6,780,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 678,000 March 2015 warrants. The normal course issuer bid commenced on January 24, 2014 and expired on January 23, 2015. The normal course issuer bid was not renewed at the January 23, 2015 expiry.

Subsequent to December 31, 2014, the remaining 6,570,025 of the March 2015 warrants expired.

Warrants expiring December 23, 2015:

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000,000 trust unit purchase warrants ("December 2015 warrants"). Each warrant entitles the purchaser to purchase one unit at a price of $0.75 prior to December 23, 2015.

	Year Ended December 31 2014	2013
Balance, beginning of year	14,493,000	15,825,000
Warrants exercised	(683,000)	(1,332,000)
Purchased and cancelled under normal course issuer bid	(300,800)	-
Balance, end of year	13,509,200	14,493,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 1,404,150 December 2015 warrants. The normal course issuer bid commenced on January 24, 2014 and expired on January 23, 2015. The normal course issuer bid was not renewed at the January 23, 2015 expiry.

17 Unit option plan

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan and the deferred unit plan will be limited to 10% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the TSX on the date of grant. Options granted to Trustees vest immediately. With the exception of options granted on November 19, 2012, January 15, 2013 and May 19, 2014, which vested immediately, options granted to senior officers and consultants vest on a straight-line basis over five years. The options will have a maximum term of five years from the date of grant.

On May 19, 2014, the Trust granted options to purchase 200,000 units at $1.11 per trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $60,156 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 27.55% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.50%. The fair value of the options issued was recorded to unit-based compensation expense under trust expense.
A summary of the status of the unit options and changes during the period is as follows:

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	333,000	$ 0.41	891,000	$ 1.69
Exercised, February 14, 2014	(30,000)	0.34	-	-
Exercised, March 25, 2014	(27,000)	0.34	-	-
Exercised, April 11, 2014	(10,000)	0.34	-	-
Issued, May 19, 2014	200,000	1.11	-	-
Cancelled, January 7, 2013	-	-	(231,000)	5.10
Issued, January 15, 2013	-	-	180,000	0.65
Exercised, February 15, 2013	-	-	(7,000)	0.34
Cancelled, July 15, 2013	-	-	(350,000)	0.60
Cancelled, July 15, 2013	-	-	(150,000)	0.65
Outstanding, end of year	466,000	$ 0.72	333,000	$ 0.41
Vested, end of year	466,000		333,000	

At December 31, 2014 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	176,000	176,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
1.11	200,000	200,000	May 19, 2019
	466,000	466,000	

18 Deferred unit plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid, in whole or in part, in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees, as applicable, to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees vest immediately. Deferred units granted to participants other than Trustees vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) vest immediately and are redeemable by the participant following termination other than for cause, retirement, or death. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 72,419 for the year ended December 31, 2014 (2013 - 98,606). Aggregate deferred units outstanding and fully vested at December 31, 2014 were 896,509 (December 31, 2013 - 824,090).

Unit-based compensation expense of $75,000 for the year ended December 31, 2014 (2013 - $75,000) relating to deferred units granted was recorded to unit-based compensation expense under trust expense.

19 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

19 Related party transactions (continued)

Property Management agreement

The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2024. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to investment properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,594,910 for the year ended December 31, 2014 (2013 - $1,678,677).

Included in trade and other payables at December 31, 2014 is a balance of $10,210 receivable from (December 31, 2013 - $7,160 payable to) Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement

The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2024. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, fair value gains (losses) and defeasance assets. Service fees are included in trust expense.

The Trust incurred service fees of $1,337,131 for the year ended December 31, 2014 (2013 - $1,435,351).

Services fee and renovation fee for Lakewood Townhomes condominium sales program

The Trust has entered into an agreement with Shelter Canadian Properties Limited, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian Properties Limited will administer the sales program and the completion of the in-suite renovations. The Trust pays a service fee equal to 5% of the gross sales proceeds and Shelter Canadian Properties Limited is responsible for the payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee to the external real estate broker due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed rate. The Trust also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $24,932 for the year ended December 31, 2014 (2013 - $75,847). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the year ended December 31, 2014 (2013 - nil).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

19 Related party transactions (continued)

Financing

On January 1, 2013, the Trust had a $12 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $15 Million effective July 1, 2013. The loan matured September 30, 2014 and bore interest at 12%, subject to a maximum interest and fee payment of $1,206,357 for the period from January 1, 2014 to September 30, 2014 and was renewed on October 1, 2014 to June 30, 2015 bearing interest at 12%, subject to a maximum interest and fee payment of $1,375,000 for the period from October 1, 2014 to June 30, 2015 (2013 - 12% to June 30, 2013, 12% from July 1, 2013 to December 31, 2013 subject to maximum interest and fee payments of $404,916 and $897,637, respectively). The renewals at January 1, 2014 and October 1, 2014 encompassed extension fees of $25,000 and $25,000, respectively (2013 - $25,000 and $25,000 at January 1, 2013 and July 1, 2013, respectively).

During the year ended December 31, 2014, the Trust received advances of $24,639,136 (2013 - $13,880,000) and repaid advances of $11,044,136 (2013 - $18,000,000) against the revolving loan, resulting in a balance of $14,500,000 (December 31, 2013 - $905,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $1,369,005 for the year ended December 31, 2014 (2013 - $1,170,123) is included in interest expense.

Included in accrued interest payable at December 31, 2014 is a balance of nil (December 31, 2013 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

The loan is secured by mortgage charges against the title to four investment properties and two seniors' housing complexes.

The revolving loan commitment was considered and approved by the independent Trustees.

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel, other than securities-based compensation under the unit option plan. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2014 was $564,000 (2013 - $564,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $14,438 (2013 - $11,456).

Guarantees

Obligations, including certain mortgage loans payable, have been guaranteed or indemnified by Shelter Canadian Properties Limited and/or its parent company, 2668921 Manitoba Ltd. No fees were charged to the Trust in regard to the guarantees.

20 Financial instruments and risk management

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk - debt covenant requirements
At December 31, 2014, The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

At December 31, 2014, the Trust was in breach of a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan on a property in Winnipeg, Manitoba. The Trust has notified the lender of the covenant breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

At December 31, 2014, the Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

There are no other cross-default covenants with respect to other mortgage loans of the Trust.

Liquidity risk - debt maturities
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to refinance its debt as it matures.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years.

As at December 31, 2014, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.5 years (December 31, 2013 - 3.4 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

20 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
The repayment obligations in regard to the financial liabilities of the Trust, at face value, are as follows:

December 31, 2014	Long-term Debt Obligations (1) (Note 11)	Other Payables (2)	Total
2015	$ 208,972,115	$ 22,930,054	$ 231,902,169
2016	11,776,480	-	11,776,480
2017	19,643,855	-	19,643,855
2018	44,332,549	-	44,332,549
2019	27,437,328	-	27,437,328
	$ 312,162,327	$ 22,930,054	$ 335,092,381

(1) Mortgage loan principal maturities include two mortgage loans which are not in compliance with the debt service coverage requirement. In accordance with IFRS, the mortgage loans in the amount of $55,917,841 are reflected as current liability.

(2) Other payables include trade and other payables, accrued interest payable, interest rate swap liability and deposits from tenants. The revolving loan from 2668921 Manitoba Ltd. is included in trade and other payables.

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2014 the percentage of fixed rate mortgage loans to total mortgage loans was 63% (December 31, 2013 - 72%).

The Trust has variable rate mortgage loans on investment properties totaling $102,622,950, or 37% of the total mortgage loans at December 31, 2014 (December 31, 2013 - 28%). Should interest rates change by 1%, interest expense would change by $1,026,230 per year.
As at December 31, 2014, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to December 31, 2017 of $69,624,916 representing 25% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $696,249 per year.

With the exception of the interest rate swap arrangement, the Trust has not traded in financial instruments.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

20 Financial instruments and risk management (continued)

Credit risk
Credit risk arises when the Trust has a risk of loss resulting from a default by third parties to an obligation.

Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Trust has credit policies to address credit risk that include the analysis of financial position and credit history of a prospective tenant and by obtaining security deposits whenever permitted by legislation. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due but not impaired:

	December 31 2014	December 31 2013
Rent receivable overdue:		
0 to 30 days	$ 48,222	$ 123,531
31 to 60 days	3,087	38,555
More than 60 days	23,482	61,228
	$ 74,791	$ 223,314

A reconciliation of allowance for doubtful accounts is as follows:

	Year Ended December 31 2014	Year Ended December 31 2013
Balance, beginning of year	$ 32,751	$ 20,051
Amount charged to bad debt expense relating to impairment of rent receivable	43,186	48,664
Amounts written off as uncollectible	(57,148)	(35,964)
Balance, end of year	$ 18,789	$ 32,751
Amount charged to bad debts as a percent of rentals from investment properties	0.11%	0.12%

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

20 Financial instruments and risk management (continued)

Credit risk (continued)
The Trust continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the Trust's covenants. At December 31, 2014, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $64,499,331 (December 31, 2013 - $66,264,365) which expires between 2015 and 2022 (December 31, 2013 - expires between 2014 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

Credit risks arise in the event that these parties default on repayment of their debt since they are guaranteed by the Trust. These credit risks are mitigated as the Trust has recourse under these guarantees in the event of a default by the borrowers, in which case the Trust's claim would be against the underlying real estate investments.

Market risk
Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The Trust does not have financial instruments that are affected by changes in market prices.

Currency risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust does not have any transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with the financial instruments of the Trust are not exposed to other price risk.

Fair values
Except for the interest rate swap liability which is carried at fair value, a comparison of the carrying value and fair value of the financial instruments of the Trust is provided below.

	Carrying Value December 31		Fair Value December 31	
	2014	2013	2014	2013
Financial assets				
Defeasance assets	2,731,947	2,879,978	-	-
Restricted cash	3,998,659	4,241,812	3,650,405	4,241,812
Cash	1,445,335	2,401,741	1,445,335	2,401,741
Rent and other receivables	1,663,043	10,129,493	1,663,043	10,129,493
Deposits	532,230	379,277	532,230	379,277
Financial liabilities				
Mortgages loans	278,704,067	244,586,398	282,108,110	245,530,710
Mortgage bonds	5,786,226	14,913,008	6,000,000	15,226,306
Debentures	24,873,800	24,873,800	24,131,239	24,647,812
Defeased liability	2,584,460	2,644,615	-	-
Mortgage guarantee fees	-	91,362	-	91,362
Trade and other payables	17,495,580	47,306,909	17,495,580	47,306,909
Deposits from tenants	2,514,508	2,518,165	2,514,508	2,518,165

20 *Financial instruments and risk management (continued)*

Fair values (continued)
The fair value of the financial assets and liabilities are included as an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. With the exception of mortgage bonds and debentures, the fair value of financial instruments were estimated using valuation methods that are classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data using the following methods and assumptions:

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.
- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- The fair value of the defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
- In regard to mortgages loans and mortgage guarantee fees:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 1.97% and 5.51%.
  - The fair value of the swap mortgage is estimated based on the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity, using discount rates currently available for debt of similar terms and remaining maturities.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.
- The fair value of mortgage bonds approximates the face value due to the short term maturity.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

21 Management of capital

The capital structure of the Trust is comprised of the following:

	December 31 2014	December 31 2013
Mortgage loans	$276,945,137	$242,676,762
Interest rate swap liability	1,441,705	1,188,106
Mortgage bonds	5,632,901	14,158,213
Debentures	23,957,811	24,521,378
Equity	95,890,624	117,452,013
	$403,868,178	$399,996,472

The Trust manages capital in order to safeguard its ability to continue as a going concern and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units, debentures or other securities of the Trust.
- Mortgage debt financing is arranged to optimise the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including debenture debt.

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may (i) issue units, debentures or mortgage debt and other securities, such as trust unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units, debentures or trust unit purchase warrants; and/or (v) reduce debt.

Market requirements for attracting capital may vary in ways that the Trust may not be able to accurately predict.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

22 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties"). An operating segment is also established for properties sold.

An operating segment was established for Parsons Landing in order to segregate the operations of the property as a result of a fire and the subsequent reconstruction and re-leasing of the property.

Revenue is primarily derived from the operations of residential real estate comprised of multi family rental properties.

Year ended December 31, 2014:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	22,737,066	11,003,126	1,065	4,550,441	-	38,291,698
Property operating costs	9,237,202	5,608,388	103,437	1,567,207	-	16,516,234
Net operating income	13,499,864	5,394,738	(102,372)	2,983,234	-	21,775,464
Interest income	28,849	21,778	341	6,138	600,503	657,609
Interest expense	11,986,070	2,468,357	-	3,804,230	6,222,268	24,480,925
Income (loss) before discontinued operations	(18,876,595)	7,078,956	(102,031)	(912,894)	(8,065,528)	(20,878,092)
Cash from (used in) operating activities	2,730,634	2,898,045	(255,009)	(415,813)	(6,399,536)	(1,441,679)
Cash from (used in) financing activities	(2,545,483)	(1,690,510)	(876)	704,902	(3,378,094)	(6,910,061)
Cash from (used in) investing activities	(711,361)	(1,302,911)	-	(224,681)	9,634,287	7,395,334
Total assets excluding assets held for sale at December 31, 2014	247,255,342	113,268,746	-	53,588,461	3,536,386	417,648,935

Year ended December 31, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	24,422,889	10,892,024	3,425,499	1,588,352	-	40,328,764
Property operating costs	8,707,915	5,277,117	1,593,323	541,640	-	16,119,995
Net operating income	15,714,974	5,614,907	1,832,176	1,046,712	-	24,208,769
Interest income	73,229	11,262	37,492	2,801	1,147,956	1,272,740
Interest expense	11,384,536	3,756,848	516,994	3,703,722	7,861,479	27,223,579
Income (loss) before discontinued operations	6,235,907	5,235,984	3,344,923	8,898,126	(9,025,566)	14,689,374
Cash from (used in) operating activities	5,728,756	2,015,236	1,388,337	300,516	(8,196,283)	1,236,562
Cash from (used in) financing activities	(3,620,136)	(884,323)	(15,602,893)	1,543,087	377,389	(18,186,876)
Cash from (used in) investing activities	(1,355,509)	(931,915)	14,399,089	(1,804,977)	7,791,090	18,097,778
Total assets excluding assets held for sale at December 31, 2013	267,258,190	107,485,081	366,541	53,557,016	12,919,628	441,586,456

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

23 Commitments

Management Contracts
The Trust has retained the following third party managers to provide on-site management services to the seniors' housing complexes:

Property	Manager	Term Expiring
Chateau St. Michael's	Integrated Life Care Inc.	October 31, 2015
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016

24 Contingencies

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and an estimate of the costs to satisfy such claims is recorded. Although the outcome of legal and other claims are not reasonably determined, management believes that any such outcome will not be material.

25 Subsequent event

Divestiture program
Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

Revolving loan
Subsequent to December 31, 2014, the Trust received advances of $100,000 and repaid $1,300,000 on the revolving loan, resulting in a balance of $13,300,000 as of the date of the Financial Statements.

Beck Court upward refinancing
Subsequent to December 31, 2014, the first mortgage loan of Beck Court was upward refinanced resulting in net proceeds of approximately $7.4 Million after transaction costs.

Mortgage bonds repayment
Subsequent to December 31, 2014, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000 from the net proceeds of the Beck Court upward refinancing.

26 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of LREIT are subject to the control of the trustees, pursuant to the terms of the Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited ("Shelter") with the right to appoint one trustee.

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr. Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is an entrepreneur, formerly President of Big Freight Systems Inc. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter.

The Chief Financial Officer and Secretary of LREIT is Mr. Gary Benjaminson, CA, MBA, Senior Manager - Corporate Accounting and Reporting for Shelter. Mr. Benjaminson was appointed to the position on August 26, 2014.

Administrator of the Trust

Shelter has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of LREIT and to perform the accounting and reporting functions of LREIT.

Property Management

Shelter has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the investment properties in the LREIT portfolio. Shelter manages all of the investment properties except for the seniors' housing complexes, where the Trust has retained third party property managers to provide on-site management services, due to the nature of the operations.

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Transfer Agent and Registrar

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Calgary, Alberta T2P 2Z1

Auditors

MNP LLP
Chartered Accountants
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Winnipeg, Manitoba R3B 3K6

Unit Listing

Toronto Stock Exchange (TSX)	
Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G
Trust unit purchase warrant	LRT.WT.A

Legal Counsel

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Unitholder and Investor Contact

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