LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

Independent Auditor's Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

Opinion

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiary (the "Trust"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Trust has incurred a net loss before discontinued operations of $45,816,864 during the year ended December 31, 2018 and, as of that date is in default of one mortgage loan. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Trust's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis and the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained the Annual Report and Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jeff Eckstein.

Winnipeg, Manitoba

MNP LLP

March 20, 2019

Chartered Professional Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2018	December 31 2017
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$149,215,522**	$178,309,735
Loan receivable (Note 7)	**4,000,000**	4,000,000
Restricted cash (Note 8)	**2,461,552**	2,400,176
Total non-current assets	**155,677,074**	184,709,911
Current assets		
Cash	**562,612**	1,638,918
Rent and other receivables (Note 9)	**390,433**	459,234
Deposits and prepaids (Note 10)	**980,824**	1,121,155
	1,933,869	3,219,307
Assets held for sale (Note 11)	**26,831,178**	34,199,238
Total current assets	**28,765,047**	37,418,545
TOTAL ASSETS	**$184,442,121**	$222,128,456
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	**$149,132,973**	$ 58,585,292
Total non-current liabilities	**149,132,973**	58,585,292
Current liabilities		
Trade and other payables (Note 13)	**1,879,928**	8,815,147
Current portion of long-term debt (Note 12)	**111,829,427**	186,307,203
Deposits from tenants	**1,174,074**	1,407,522
	114,883,429	196,529,872
Liabilities held for sale (Note 11)	**3,571,245**	3,655,117
Total current liabilities	**118,454,674**	200,184,989
Total liabilities	**267,587,647**	258,770,281
Total deficit	**(83,145,526)**	(36,641,825)
TOTAL LIABILITIES AND EQUITY	**$184,442,121**	$222,128,456

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31 2018	2017
Rentals from investment properties	**$ 17,063,264**	$ 19,052,202
Property operating costs	**11,439,451**	10,248,700
Net operating income	**5,623,813**	8,803,502
Interest income	**206,506**	189,425
Interest expense (Note 14)	**(14,916,720)**	(13,930,662)
Trust expense	**(1,255,190)**	(1,463,535)
Gain (loss) on sale of investment property (Note 5) (Note 11)	**(161,848)**	55,070
Fair value adjustments (Note 15)	**(35,313,425)**	(25,530,987)
Loss before discontinued operations	**(45,816,864)**	(31,877,187)
Loss from discontinued operations (Note 11)	**(686,837)**	(159,495)
Loss and comprehensive loss	**$ (46,503,701)**	$ (32,036,682)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (2.166)**	$ (1.507)
Loss per unit from discontinued operations:		
Basic and diluted	**$ (0.032)**	$ (0.008)
Loss per unit:		
Basic and diluted	**$ (2.198)**	$ (1.515)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Year Ended December 31	
	2018	**2017**
Issued capital (Note 17)		
Balance, beginning and end of period	**$ 125,641,529**	$ 125,641,529
Contributed surplus		
Balance, beginning and end of period	**17,027,907**	17,027,907
Cumulative deficit		
Balance, beginning of period	**(96,161,226)**	(64,124,544)
Loss and comprehensive loss	**(46,503,701)**	(32,036,682)
Balance, end of period	**(142,664,927)**	(96,161,226)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(83,150,035)
Total deficit	**$ (83,145,526)**	$ (36,641,825)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2018	2017
Operating activities		
Loss and comprehensive loss	**$ (46,503,701)**	$ (32,036,682)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 15)	**35,313,425**	25,530,987
Fair value adjustment - Property and equipment (Note 11)	**7,950**	136,875
Loss (gain) on sale of properties (Note 5) (Note 11)	**161,848**	(55,070)
Accrued rental revenue	**29,135**	(7,775)
Interest income	**(207,118)**	(189,425)
Interest received	**207,002**	188,328
Interest expense	**15,115,257**	14,112,320
Interest paid	**(9,086,517)**	(9,469,392)
Cash (used in) operations	**(4,962,719)**	(1,789,834)
(Increase) decrease in rent and other receivables	**40,799**	(32,829)
(Increase) decrease in deposits and prepaids	**145,150**	(350,175)
Decrease in tenant deposits	**(226,047)**	(126,138)
Decrease in trade and other payables	**(140,035)**	(363,354)
	(5,142,852)	(2,662,330)
Cash provided by financing activities		
Repayment of mortgage loans on refinancing	**(4,700,000)**	(4,475,000)
Repayment of long-term debt	**(6,067,086)**	(3,508,348)
Proceeds of revolving loan facility (Note 20)	**22,400,000**	7,700,000
Proceeds of Shelter Canadian Properties Limited advances (Note 20)	**9,100,000**	6,000,000
Repayment of Shelter Canadian Properties Limited advances (Note 20)	**(15,100,000)**	-
Expenditures on transaction costs	**(462,918)**	(665,641)
	5,169,996	5,051,011
Cash (used in) investing activities		
Capital expenditures on investment properties	**(853,662)**	(1,366,727)
Capital expenditures on investment properties held for sale	**(139,864)**	(4,076)
Capital expenditures on property and equipment	**(7,950)**	(214,390)
Proceeds of sale (Note 5) (Note 11)	**(4,319)**	(109,415)
Change in restricted cash (Note 8) (Note 11)	**(69,343)**	261,906
	(1,075,138)	(1,432,702)
Cash (decrease) increase	**(1,047,994)**	955,979
Deduct increase in cash from discontinued operations (Note 11)	**(28,312)**	(23,829)
	(1,076,306)	932,150
Cash, beginning of period	**1,638,918**	706,768
Cash, end of period	**$ 562,612**	$ 1,638,918

The accompanying notes are an integral part of these financial statements

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, December 9, 2009 and June 21, 2018. The Trust and its subsidiaries earn income from real estate investments in Canada.

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

Units	LRT.UN
Series G Debentures due June 30, 2022	LRT.DB.G

Prior to June 1, 2018, the Trust's units and Series G Debentures traded on the Toronto Stock Exchange.

2 *Basis of presentation and continuing operations*

The consolidated financial statements of the Trust for the years ended December 31, 2018 and 2017 ("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 20, 2019.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation, which is a wholly owned operating subsidiary under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties 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 going concern basis assumes that the Trust will continue in operation for the foreseeable future and be able to realize its assets and settle its obligations in the normal course of business. There is significant doubt regarding the appropriateness of the going concern assumption and the use of accounting principles applicable to a going concern because of the material uncertainties caused by: the Trust's concentration of investment properties in Fort McMurray; the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity; the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; the limited availability of mortgage lending in Fort McMurray; the Trust's limited cash and working capital resources; the Trust's reliance on financing from Shelter Canadian Properties Limited ("Shelter") and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $45,816,864 for the year ended December 31, 2018 (2017 - $31,877,187). The Trust incurred a cash deficiency from operating activities, after working capital adjustments, of $5,142,852 for year ended December 31, 2018 (2017 - $2,662,330). After the deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $12,674,332 for the year ended December 31, 2018 (2017 - $8,421,512).

2 Basis of presentation and continuing operations (continued)

The Trust has a working capital deficit of $2,237,891 as at December 31, 2018 (December 31, 2017 - $402,631). The calculation of working capital excludes the revolving loan balance, the Shelter loan balance, and the current portion of long-term debt, but includes the current portion of accrued interest and fees. The calculation of working capital also excludes "held for sale" assets and liabilities, the tenant security deposit liability, and the security deposit balance in restricted cash.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement and one mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations, and is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property classified as held for sale. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

In the event that repayment is demanded with respect to the mortgage loan that remains in default, the Trust would not be able to satisfy the associated obligation with its current resources.

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern and in order to improve liquidity, meet ongoing funding obligations and sustain operations, management has achieved and is continuing to pursue debt restructuring arrangements with certain of its lenders, property sales under its divestiture program, cost reduction measures and other efforts to improve operating results.

2 Basis of presentation and continuing operations (continued)

During 2018, forbearance agreements were executed for four mortgage loans, secured by a total of seven properties, in the aggregate principal amount of $43,147,240 as of December 31, 2018. The loans were in default prior to the execution of the forbearance agreements as the lender of the mortgage loans indicated that there were service fees outstanding with respect to previous defaults under the loans and that until such fees were paid the loans would remain in default. The forbearance agreements required an initial aggregate repayment of $1,700,000, which was paid on March 1, 2018; aggregate repayments totaling $633,000 in 2018, which were paid on May 1, 2018 and September 1, 2018; and future aggregate repayments of $2,666,000 and $2,333,000 in 2019 and 2020, respectively. Three of the forbearance agreements expire on May 1, 2021 with the fourth forbearance agreement set to expire on December 1, 2021.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

During the year ended December 31, 2018, the Trust received $22,400,000 of advances from 2668921 Manitoba Ltd. bringing the revolving loan balance to $52,400,000 as of December 31, 2018.

Subsequent to December 31, 2018, additional advances of $4,500,000 were provided under the revolving loan facility and $500,000 was repaid.

Current divestiture activities are focused on the sale of condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs and debt reduction requirements of the Trust.

2 Basis of presentation and continuing operations (continued)

Continuation of the Trust's operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: the willingness and ability of Shelter and/or its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility or other forms of financial support to the Trust; the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow the Trust to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the ability of the Trust to complete additional property sales at prices which exceed the indebtedness related to such properties.

The success of management's planned actions in response to the material uncertainty that exists with respect to the Trust's ability to remain a going concern, as described above, cannot be assured and may be subject to material change at any time.

If the going concern basis was not appropriate for these consolidated financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classification used. These adjustments would be material.

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 20, 2019.

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.

3 Significant accounting policies (continued)

(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".

(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 and improvements	Straight-line	2.5%
Furniture, equipment and appliances	Straight-line	5% - 33.3%

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

3 Significant accounting policies (continued)

(c) Property and Equipment (continued)

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 receivables are considered to be trade receivables that do not contain a significant financing component and are, therefore, measured at the undiscounted transaction price.

Loan and other receivables are initially recorded at fair value and are subsequently classified and measured at amortized cost.

The Trust follows the simplified ‘expected credit loss’ (“ECL”) impairment approach, which requires expected lifetime losses to be recognized from initial recognition of a financial asset, other than a financial asset classified and measured at fair value through profit or loss ("FVTPL"), regardless of whether there has been an actual loss event.

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 immediately available for use by the Trust, are carried as restricted cash.

(f) Assets and liabilities of properties held for sale

Investment properties held for sale
Investment properties are transferred to held for sale when it is expected that the carrying amount 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 Board of 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

Discontinued operations
A discontinued operation is a part of the Trust's business that:
- It has disposed or has classified as held for sale and that represents a major line of its 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 face of the Consolidated Statement of Comprehensive Loss and the assets and liabilities are presented separately on the face of the Consolidated Statement of Financial Position.

The Trust has classified the seniors' housing complex, which is owned by a wholly owned subsidiary company, as a discontinued operation. The Trust intends to dispose of assets, such as the seniors' housing complex, that do not meet the definition of assets of qualifying REITs, as defined by the *Income Tax Act* (Canada).

3 Significant accounting policies (continued)

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

Discontinued operations (continued)

Non-current assets and liabilities classified as held for sale are recorded as follows:

Investment Properties	- fair value
All other assets	- lower of carrying value or fair value less selling costs
Long-term Debt	- carrying value
All other liabilities	- carrying value

(g) Mortgage loans and debentures

Mortgage loans and debentures are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and debentures are subsequently measured at amortized cost using the effective interest rate method. Interest is recognized on an accrual basis using the effective interest rate method. All mortgage loans and debentures with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and debentures 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 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.

3 Significant accounting policies (continued)

(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.

Premiums received to terminate leases are recognized in the Consolidated Statements of Comprehensive Loss 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 rewards 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.

3 Significant accounting policies (continued)

(k) Income taxes (continued)

(ii) Wholly owned subsidiary companies (continued)

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.

(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.

3 *Significant accounting policies (continued)*

(n) Financial instruments

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 9 - *Financial Instruments*. Upon initial recognition, all financial assets and liabilities are measured at fair value, except for trade receivables that do not contain a significant financing component, which are measured at the transaction price. As a practical expedient, IFRS 15 - *Revenue from Contracts with Customers* permits entities to presume that a trade receivable does not have a significant financing component if the expected term is less than one year.

The measurement amount at initial recognition of a financial asset or financial liability that is not classified as fair value through profit or loss ("FVTPL") is adjusted by transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of a financial asset or financial liability that is measured at FVTPL is recognized immediately in profit or loss. Trade receivables that do not have a significant financing component are measured at their transaction price.

Financial Assets

Financial assets are classified and measured based on the Trust's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification of the financial asset is determined at the time of initial recognition and is based on the nature and purpose of the financial asset. Subsequent to initial recognition, financial assets are measured based on (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) fair value through profit or loss ("FVTPL").

A summary of the three classifications is as follows:

Classification	Definition	Measurement
Amortized cost	A financial asset is classified and measured at amortized cost if it is held by the Trust with the objective to collect the contractual cash flows from the asset and if the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	After initial recognition, the financial asset is measured at amortized cost using the effective interest rate method, except for a trade receivable without a significant financing component, which is measured at its transaction price. Interest income is recognized using the effective interest rate method.
Fair value through other comprehensive income ("FVTOCI")	A financial asset is classified and measured at FVTOCI when its objective is achieved by both collecting contractual cash flows and by selling the financial asset, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	After initial recognition, changes in the fair value of the financial assets are recognized in other comprehensive income. Interest income is calculated using the effective interest rate method and impairment gains and losses are recognized immediately in profit and loss.
Fair value through profit or loss ("FVTPL")	A financial asset is classified as measured at FVTPL when it does not qualify for classification and measurement at amortized cost or FVTOCI.	After initial recognition, the financial asset is measured at fair value, with changes in value recognized through profit and loss.

3 Significant accounting policies (continued)

(n) Financial instruments (continued)

LREIT's financial assets are, as follows:

Financial Assets	Classification and Measurement
Cash	Amortized cost
Restricted cash (including tenant's security deposits)	Amortized cost
Deposits	Amortized cost
Rent and other receivables	Amortized cost
Loan receivable	Amortized cost

The Trust follows the simplified 'expected credit loss' ("ECL") impairment approach, which requires expected lifetime losses to be recognized from initial recognition of a financial asset, other than a financial asset measured at FVTPL, regardless of whether there has been an actual loss event.

The Trust derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Any gain or loss on derecognition is recognized through profit and loss and any fair value changes previously recognized through other comprehensive income are recycled to profit and loss.

3 *Significant accounting policies (continued)*

(n) Financial instruments (continued)

Financial Liabilities

Debt and equity instruments are accounted for as financial liabilities or as equity based on the substance of the contractual obligation and the definitions of a financial liability and an equity instrument. Financial liabilities are classified and measured as either amortized cost or FVTPL. A summary of the two classifications is, as follows:

Classification	Definition	Measurement
Fair value through profit or loss ("FVTPL")	A financial liability is classified and measured as FVTPL when it is designated as FVTPL, as discussed below, or when it is held for trading. A financial liability may be designated as FVTPL when (i) such designation eliminates or significantly reduces an accounting mismatch in the treatment of related or associated financial assets and financial liabilities, (ii) a contract contains one or more embedded derivatives, or (iii) a group of financial liabilities, or a combination of financial assets and liabilities, is managed with its performance evaluated on a fair value basis. A financial liability is considered to be held for trading if the financial liability has been acquired primarily for the purpose of repurchasing it in the near term; or, if on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or, if it is a derivative that is not designated and effective as a hedging instrument.	After initial recognition, the financial liability is measured at fair value, with changes in value recognized through profit and loss.
Amortized cost	All other liabilities.	After initial recognition, the financial liability is measured at amortized cost using the effective interest method. Interest expense is calculated using the effective interest rate method.

LREIT's financial liabilities are, as follows:

Financial Liability	Classification and Measurement
Trade and other payables	Amortized cost
Deposits from tenants	Amortized cost
Mortgage loans	Amortized cost
Revolving loan	Amortized cost
Debentures	Amortized cost

The Trust derecognizes a financial liability when, and only when, the Trust's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3 Significant accounting policies (continued)

(o) Future changes to significant accounting policies

The following standards will be effective for subsequent annual periods.

(i) IFRS 16 - Leases

IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Trust's leasing activity is primarily comprised of the leasing of residential units under operating leases. The Trust also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and the Trust has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

(p) Adoption of accounting standards

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments (“IFRS 9”) replaces IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 provides new guidance on the classification and measurement of all financial assets and liabilities, as well as a new Expected Credit Loss (“ECL”) impairment model and a substantially reformed model of hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. LREIT adopted the new standard on January 1, 2018 and has applied the standard retrospectively to the fiscal year ended December 31, 2017. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard. Financial assets, which include: cash, restricted cash, deposits, rent and other receivables and the loan receivable were previously classified as Loans and Receivables under IAS 39 and are now classified as Amortized Cost under IFRS 9. Financial liabilities, which include: trade and other payables, tenant deposits, mortgage loans, the revolving loan from 2668921 Manitoba Ltd. and the Series G debentures were previously classified as Other Liabilities under IAS 39 are now classified as Amortized Cost under IFRS 9. The change in classification of these assets and liabilities did not result in any changes in their measurement. The classification and measurement of LREIT’s financial assets and liabilities under the new standard are summarized in Note 3 (n) - Financial Instruments.

(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, 2018. The Trust's primary source of revenue is generated from leases and such revenue is out of scope of IFRS 15. The other revenue sources are from coin income, miscellaneous income, food and housekeeping services and similar activities where the revenue generated and the service delivery occur at the same time. As a result, there was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

3 Significant accounting policies (continued)

(p) Adoption of accounting standards (continued)

(iii) IAS 40 - Investment Property ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

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. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable.

(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.

4 Significant accounting judgments, estimates and assumptions (continued)

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.

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 2018 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 direct comparison method may occasionally be used when appropriate market comparables are available. 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	
	2018	2017
Balance, beginning of period	$178,309,735	$198,099,131
Additions - capital expenditures	853,661	1,366,727
Fair value adjustments (Note 15)	(29,392,052)	(20,878,973)
Dispositions	(555,822)	(277,150)
Balance, end of period	$149,215,522	$178,309,735

5 *Investment properties* (continued)

During 2018, the Trust sold two condominium units at Lakewood Townhomes for gross proceeds of $619,500. The sale resulted in a net cash shortfall of $25,883 after selling costs of $111,483 and the mortgage loan repayment of $533,900. The condominium units had a carrying value of $555,822 and the sale resulted in a loss on sale of investment properties of $47,804.

During 2017, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $360,000. The sale resulted in net cash shortfall of $109,415 after selling costs of $27,780 and the mortgage loan repayment of $441,635. The condominium unit had a carrying value of $277,150 and the sale resulted in a gain on sale of investment properties of $55,070.

Investment properties have been valued using the methods and key assumptions in Note 6: *Valuations of investment properties and investment properties held for sale*.

6 Valuations of investment properties and investment properties held for sale

Investment properties and investment properties held for sale 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 assumptions are the capitalization rates, which are based on reports from external knowledgeable property valuators, and normalized net operating income, which is based on actual net operating income results, adjusted for atypical or non-recurring items and differences from market (as determined by reference to comparable properties, historical data, appraisals and rental market reports) that are considered short-term in nature. 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 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.25 %	8.25 %
Other	7.00 %	8.00 %	7.00 %	8.00 %

(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 growth rates applied to the first year cash flows over the analysis period of the investment property, and the discount rate applied over the useful life of the investment property.

6 *Valuations of investment properties and investment properties held for sale (continued)*

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

	December 31 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.25 %	10.25 %
Other	9.00 %	10.00 %	9.00 %	10.00 %

(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 Lakewood Townhomes and Woodland Park (2017 - Lakewood Townhomes).

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

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. A 25-basis point increase in the capitalization rate would result in a $4,979,728 decrease in the estimated fair value of investment properties and a 25-basis point decrease in the capitalization rate would result in a $5,292,525 increase in the estimated fair value of investment properties. There are interrelationships between the capitalization rate, the discount rate and the growth rate.

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

7 *Loan receivable*

The loan receivable is comprised of a $4,000,000 vendor take-back second mortgage loan, bearing interest at 4.0% and due May 1, 2022. The loan requires interest only payments throughout the term and may be prepaid without penalty. The loan is secured by a second mortgage registered against Beck Court, which was sold on May 1, 2016. As a result, the Trust has recourse on the loan receivable and has reasonable assurance that it will be collected in full.

8 *Restricted cash*

	December 31 2018	December 31 2017
Tenant security deposits	$ 1,168,122	$ 1,401,120
Reserves required by mortgage loan agreements	1,293,430	999,056
	$ 2,461,552	$ 2,400,176

9 *Rent and other receivables*

	December 31 2018	December 31 2017
Rent receivable	$ 149,217	$ 199,956
Less: allowance for uncollectible accounts	(40,326)	(56,339)
	108,891	143,617
Other receivables	259,229	264,172
Deferred rent receivable	22,313	51,445
	$ 390,433	$ 459,234

10 *Deposits and prepaids*

	December 31 2018	December 31 2017
Deposits		
Property tax deposits	$ 362,076	$ 581,091
Other	200	4,170
	362,276	585,261
Prepaid expenses	618,548	535,894
	$ 980,824	$ 1,121,155

11 *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 Chateau St. Michael's seniors' housing complex in Moose Jaw, Saskatchewan, which is owned by a wholly owned subsidiary company, as discontinued operations. In addition, other properties have been targeted for sale and will be classified as investment properties held for sale, in accordance with IFRS, where a sale is determined to be highly probable.

The financial position, results of operations and cash flows for assets held for sale and discontinued operations are as follows:

	December 31 2018	December 31 2017
ASSETS		
Investment properties held for sale (a)	$ 19,296,621	$ 26,695,124
Assets in discontinued operations		
Property and equipment (b)	7,500,000	7,500,000
Cash (bank indebtedness)	2,594	(25,717)
Restricted cash	16,974	9,007
Rent and other receivables	81	1,098
Deposits, prepaids and other	14,908	19,726
	7,534,557	7,504,114
Assets held for sale	$ 26,831,178	$ 34,199,238
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (c)	$ 3,339,655	$ 3,509,300
Trade and other payables	214,134	135,762
Deposits from tenants	17,456	10,055
Liabilities held for sale	$ 3,571,245	$ 3,655,117

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2018	2017
Rental income	$ 1,561,867	$ 1,626,803
Property operating expenses	2,042,829	1,467,765
Net operating income (loss)	(480,962)	159,038
Interest income	612	-
Interest expense (d)	(198,537)	(181,658)
Fair value adjustment	(7,950)	(136,875)
Loss from discontinued operations	$ (686,837)	$ (159,495)

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

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2018	2017
Cash outflow from operating activities	$ (576,163)	$ (99,430)
Cash inflow from financing activities	620,391	325,633
Cash outflow from investing activities	(15,916)	(202,374)
Increase in cash from discontinued operations	$ 28,312	$ 23,829

(a) Investment properties held for sale

	December 31 2018	December 31 2017
Woodland Park	$ 19,296,621	$ 26,695,124

	Year Ended December 31 2018	2017
Balance, beginning of period	$ 26,695,124	$ 31,343,062
Additions - capital expenditures	139,864	4,076
Fair value adjustments (Note 15)	(5,921,373)	(4,652,014)
Dispositions	(1,616,994)	-
Balance, end of period	$ 19,296,621	$ 26,695,124

Properties are classified as held for sale when it is expected that the carrying value will be recovered principally through sale rather than their continued use in accordance with the accounting policy in Note 3 (f).

Investment properties held for sale are carried at fair value, less selling costs, as at the financial statement date and reflect the prices that would reasonably be expected to be received for their sale in an orderly transaction between market participants that are motivated but not forced or otherwise compelled to enter into a transaction. Properties are actively marketed to recover appropriate values that reflect current market conditions and/or entity specific circumstances. The ultimate sales price obtained is subject to uncertainty and could be materially different from the fair value the property is recorded at as of the financial statement date. Gains or losses arising from differences between the sales price and the carrying value or arising from changes in the fair values between financial statement dates are included in income in the period in which they arise.

Investment properties held for sale have been valued using the methods and key assumptions in Note 6: Valuations of investment properties and investments properties held for sale.

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

(a) Investment properties held for sale (continued)

During 2018, the Trust sold five condominium units at Woodland Park for an aggregate gross proceeds of $1,650,000. The sales resulted in net cash proceeds of $21,564 after selling costs of $147,050 and the mortgage loan repayment of $1,481,386. The condominium units had an aggregate carrying value of $1,616,994 and the sales resulted in an aggregate loss on sale of investment properties of $114,044.

During 2017, the Trust did not sell any properties classified as held for sale.

(b) Property and equipment

December 31 2018	Cost, Beginning of Period	Additions	Disposals	Accumulated Amortization	Carrying Value
Land	$ 2,175,800	$ -	$ -	$ -	$ 2,175,800
Buildings and improvements	5,650,238	7,950	-	(902,210)	4,755,978
Furniture, equipment and appliances	284,223	-	-	(38,898)	245,325
	8,110,261	7,950	-	(941,108)	7,177,103
Fair value adjustments	330,847	(7,950)	-	-	322,897
	$ 8,441,108	$ -	$ -	$ (941,108)	$ 7,500,000

December 31 2017	Cost, Beginning of Period	Additions	Disposals	Accumulated Amortization	Carrying Value
Land	$ 2,175,800	$ -	$ -	$ -	$ 2,175,800
Buildings and improvements	5,437,316	212,922	-	(902,210)	4,748,028
Furniture, equipment and appliances	282,755	1,468	-	(38,898)	245,325
	7,895,871	214,390	-	(941,108)	7,169,153
Fair value adjustments	467,722	(136,875)	-	-	330,847
	$ 8,363,593	$ 77,515	$ -	$ (941,108)	$ 7,500,000

11 *Assets and liabilities of properties held for sale (continued)*

(c) Long-term debt

As of December 31, 2018, the mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

(d) Interest expense

	Year Ended December 31 2018	Year Ended December 31 2017
Mortgage loan interest	$ 187,421	$ 177,533
Amortization of transaction costs	11,116	4,125
	$ 198,537	$ 181,658

(e) 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 2018	December 31 2017
Property and equipment	$ 844,369	$ 836,419
Transaction costs	$ 12,870	$ 9,865

Unused tax losses expiring in:

	2018	2017
2037	$ 58,736	$ 58,736
2038	683,832	-
	$ 742,568	$ 58,736

12 Long-term debt

	December 31 2018	December 31 2017
Secured debt		
Mortgage loans (a)	$ 177,683,113	$ 187,206,443
Revolving loan from 2668921 Manitoba Ltd. (b)	52,400,000	30,000,000
Debentures (c)	24,810,800	24,810,800
Total secured debt	254,893,913	242,017,243
Accrued interest and fees payable	7,289,995	3,846,114
Unamortized transaction costs		
Mortgage loans	(1,221,508)	(960,035)
Revolving loan from 2668921 Manitoba Ltd.	-	(10,827)
Total unamortized transaction costs	(1,221,508)	(970,862)
	260,962,400	244,892,495
Less current portion		
Mortgage loans	(57,578,886)	(155,907,526)
Revolving loan from 2668921 Manitoba Ltd.	(52,400,000)	(30,000,000)
Accrued interest and fees payable	(2,291,832)	(806,791)
Unamortized transaction costs	441,291	407,114
Total current portion	(111,829,427)	(186,307,203)
	$ 149,132,973	$ 58,585,292

(a) Mortgage loans

	Weighted average interest rates		Amount	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
First mortgage loans				
Fixed rate	4.7%	4.7%	$ 95,447,892	$ 102,020,638
Variable rate	6.9%	6.4%	76,221,696	79,688,009
Total first mortgage loans	5.7%	5.4%	$ 171,669,588	$ 181,708,647
Second mortgage loans				
Fixed rate	9.0%	9.0%	$ 6,013,525	$ 5,497,796
All mortgage loans				
Fixed rate	4.9%	4.9%	$ 101,461,417	$ 107,518,434
Variable rate	6.9%	6.4%	76,221,696	79,688,009
Total mortgage loans	5.8%	5.5%	$ 177,683,113	$ 187,206,443

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.

12 *Long-term debt (continued)*

(a) Mortgage loan (continued)

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, for a property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property with the expired forbearance agreement. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

(b) Revolving loan

The Trust receives advances under a revolving loan facility from 2668921 Manitoba Ltd. (the parent company of Shelter). On July 1, 2018, the revolving loan was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date from June 30, 2018 to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. Advances on the revolving loan are made at the discretion of 2668921 Manitoba Ltd. and the revolving loan is payable on demand.

The loan is secured by second mortgage charges against the title of nine properties in Fort McMurray and the remaining seniors' housing complex in Moose Jaw, Saskatchewan; one third mortgage charge on a property in Fort McMurray; the assignment of a vendor-take-back mortgage; and by a $100,000,000 subordinate debenture from LREIT charging all of its present and after-acquired property.

(c) Debentures

The Series G debentures bear interest at 5.0% (2017 - 5.0%) and are due on June 30, 2022. Interest is accrued and is payable on the due date.

At any time prior to the maturity date, the Series G Debentures are redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, from time to time at LREIT's sole option on not more than 60 days' and not less than 30 days' prior notice.

12 Long-term debt (continued)

(c) Debentures (continued)

In the event that LREIT sells any of its properties, LREIT is required to use the net proceeds of such sales to redeem the Series G Debentures in whole or in part. Prior to making any redemption of the Series G Debentures, LREIT is required to use the net proceeds of such sales for the following purposes: (i) payment of all mortgage indebtedness relating to such properties; (ii) payment of all ordinary course expenses and liabilities relating to such properties; (iii) payment of all expenses relating to the cost of sale of such property; and (iv) repayment of any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter.

Included in accrued interest payable under long-term debt at December 31, 2018 is a balance of $4,279,863 (December 31, 2017 - $3,039,323) in regard to the deferred interest on the Series G debentures.

13 Trade and other payables

	December 31 2018	December 31 2017
Accounts payable	$ 1,153,181	$ 2,230,589
Accrued payables	508,346	313,249
Prepaid rent	218,401	271,309
Advances from Shelter (Note 20)	-	6,000,000
	$ 1,879,928	$ 8,815,147

14 Interest expense

	Year Ended December 31	
	2018	2017
Mortgage loan interest	$ 10,312,184	$ 10,453,899
Revolving loan interest (Note 20)	2,191,519	1,363,370
Debenture interest	1,240,540	1,240,540
Shelter advances interest (Note 20)	259,016	59,130
Amortization of transaction costs	913,461	813,723
	$ 14,916,720	$ 13,930,662

15 Fair value adjustments

	Year Ended December 31	
	2018	2017
Fair value adjustments - investment properties (Note 5)	$ (29,392,052)	$ (20,878,973)
Fair value adjustments - investment properties held for sale (Note 11)	(5,921,373)	(4,652,014)
	$ (35,313,425)	$ (25,530,987)

16 *Per unit calculations*

	Year Ended December 31 2018	2017
Loss before discontinued operations	$ (45,816,864)	$ (31,877,187)
Loss from discontinued operations	(686,837)	(159,495)
Loss and comprehensive loss	$ (46,503,701)	$ (32,036,682)

	Year Ended December 31 2018	2017
Weighted average number of units:		
Units	20,557,320	20,557,320
Deferred units	591,576	591,576
Total basic and diluted	21,148,896	21,148,896

17 *Units and deferred units*

As of December 31, 2018, there were 20,557,320 trust units issued at an amount of $125,641,529 (2017 - 20,557,320 and $125,641,529) and 591,576 (2017 - 591,576) deferred trust units outstanding and fully vested.

18 *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 shall not be less than the discounted market price of the units as determined under the policies of the TSX-V 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.

A summary of the status of the unit options and changes during the period is as follows:

	Year Ended December-31-18		Year Ended December 31, 2017	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	195,000	$ 1.06	240,000	$ 0.99
Cancelled, February 18, 2017	-	-	(5,000)	1.11
Cancelled, November 19, 2017	-	-	(40,000)	0.60
Cancelled, January 15, 2018	(20,000)	0.65	-	-
Outstanding, end of period	175,000	$ 1.11	195,000	$ 1.06
Vested, end of period	175,000		195,000	

The remaining unit options have an exercise price of $1.11 and expire on May 19, 2019.

19 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.

	Year Ended December 31	
	2018	2017
Outstanding and vested, beginning and end of year	591,576	591,576

20 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 is a related party as it has entered into a property management and service agreement and provides management services to the Trust. 2668921 Manitoba Ltd., the parent company of Shelter, is a related party through common control as 2668921 Manitoba Ltd. is owned by a family member of a Trustee of the Trust.

Property management agreement
The Trust has entered into a property management agreement with Shelter, the current term of which expires on December 31, 2024. Under the property management agreement, Shelter administers the day-to-day operations of the Trust's portfolio of investment properties, inclusive of the seniors' housing complex, for which Shelter assumed property management responsibility from the third party manager on June 1, 2018. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust and compensation for reimbursable expenses. Shelter is also entitled to 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 fees under the property management agreement payable to Shelter of $710,529 for the year ended December 31, 2018 (2017 - $778,243).

Included in trade and other payables at December 31, 2018 is a balance of $21,571 receivable from Shelter (December 31, 2017 - $8,302) in regard to outstanding amounts due under the property management agreement.

Services agreement
The Trust has entered into a services agreement with Shelter, the current term of which expires on December 31, 2024. Under the services agreement, Shelter 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 and fair value gains (losses). Service fees are included in trust expense.

The Trust incurred service fees payable to Shelter of $900,673 for the year ended December 31, 2018 (2017 - $899,627).

Services fee and renovation fee for Lakewood Townhomes condominium sales program
The Trust has entered into an agreement with Shelter in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter administers 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 to Shelter and Shelter is responsible for the payment of a fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fee to the external real estate broker due to market conditions, the fee payable to Shelter increases by the amount of the increase in the 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 of $34,836 for the year ended December 31, 2018 (2017 - $20,895).

20 Related party transactions (continued)

Services fee for the Woodland Park Townhomes condominium sales program
LREIT has entered into an agreement with Shelter in regard to the condominium sales program at Woodland Park. Under the agreement, Shelter will provide overall management services for the condominium sales program and will be paid a service fee equal to 6.5% of the gross sales proceeds. Shelter is responsible for the payment of a fixed percentage fee to an external real estate broker for providing brokerage services with respect to the condominium sales program.

The Trust incurred service fees payable to Shelter of $112,613 for the year ended December 31, 2018 (2017 - nil).

Financing

Revolving loan
A summary of the terms for the revolving loan facility from November 14, 2016 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
November 14, 2016	June 30, 2018	-	5.00%	$ 6,480,000 *	$ 30,000,000
July 1, 2018	December 31, 2019	-	5.00%/7.00% **	n/a	$ 100,000,000

***** The combined maximum interest charge allowable by 2668921 Manitoba Ltd. and any of its subsidiaries or affiliates including Shelter for the three-year term from July 1, 2015 to June 30, 2018 was $6,480,000.

****** Interest is charged at 5% on the first $30,000,000 of advances and 7% thereafter.

During the year ended December 31, 2018, the Trust received advances of $22,400,000 (2017 - $7,700,000) and repaid advances of nil (2017 - nil) against the revolving loan, resulting in a balance of $52,400,000 (December 31, 2017 - $30,000,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $2,191,519 for the year ended December 31, 2018 (2017 - $1,363,370) is included in interest expense. Interest accrued on the revolving loan facility is $1,447,684 as of December 31, 2018 (December 31, 2017 - nil) and is included in the current portion of long-term debt.

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was amended to increase the limit on the maximum amount that may be advanced under the facility to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

The loan is secured by second mortgage charges against the title of eight properties in Fort McMurray and the remaining seniors' housing complex in Moose Jaw, Saskatchewan; one third mortgage charge on a property in Fort McMurray; the assignment of a vendor take-back mortgage; and by a $100,000,000 subordinate debenture from LREIT charging all of its present and after-acquired property.

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

20 Related party transactions (continued)

Financing (continued)

Shelter loan advances
During the year ended December 31, 2018, Shelter made loan advances totaling $9,100,000 to the Trust (2017 - $6,000,000), the terms of which provided for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During the year ended December 31, 2018, the Trust made repayments of $15,100,000 (2017 - nil), resulting in an outstanding loan balance of nil at December 31, 2018 (December 31, 2017 - $6,000,000). The loan was included in trade and other payables prior to being repaid in full.

Interest on the Shelter advances of $259,016 for the year ended December 31, 2018 (2017 - $59,130) is included in interest expense.

Nelson Ridge second mortgage loan
The second mortgage loan secured by the property known as Nelson Ridge is held by 2668921 Manitoba Ltd., bears interest at a rate of 9% per annum and matures on March 31, 2019. The mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of December 31, 2018, the amount owing on the mortgage loan was $6,013,525 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

Millennium Village first mortgage loan
On December 19, 2018, 2668921 Manitoba Ltd. purchased the Millennium first mortgage loan in the amount of $12,186,637, inclusive of accrued interest, which carries an interest rate of 4.4% and has a maturity date of May 1, 2025.

Subsequent to year end, new first mortgage loan financing was obtained and 2668921 Manitoba Ltd. surrendered the security it acquired on the purchase of the original first mortgage loan and assumed a second secured position. The new first mortgage loan in the amount of $2,500,000 bears interest at prime plus 1% and matures on January 1, 2020. Proceeds from the first mortgage loan were used to pay down the second mortgage loan held by 2668921 Manitoba Ltd. resulting in a balance of $9,686,637 for the second mortgage loan as of the date of this report.

Norglen Terrace second mortgage loan
Subsequent to year end, 2668921 Manitoba Ltd. agreed to fund principal payments for a mortgage loan with an outstanding balance of $2,080,538 as at December 31, 2018 by extending second mortgage loan financing to LREIT. The second mortgage loan requires interest only payments at 6% per annum and matures on July 1, 2020. The first mortgage loan requires a principal repayment of $500,000 every six months until the loan is paid in full commencing with a payment that was made on July 1, 2018. This payment was funded by an advance on the revolving loan facility from 2668921 Manitoba Ltd. Subsequent to year end, $1,000,000 was advanced under the second mortgage loan, $500,000 of which was used to pay down the first mortgage loan secured by the property and $500,000 of which was used to pay down the revolving loan facility.

20 Related party transactions (continued)

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, 2018 was $134,000 (2017 - $134,000).

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

21 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 strives to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk - defaults
The Trust remains in default of one mortgage loan, for a property classified as held for sale, with an aggregate principal balance of $24,418,992. A forbearance agreement expired on December 31, 2018 requiring the full repayment of the mortgage loan, which the Trust was not able to pay.

In the event that full repayment is demanded with respect to the mortgage loan in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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 or to meet its other obligations as they become due. Should the Trust default on its debt obligations, debt maturities may be accelerated by the lenders.

Liquidity risk is compounded by the material uncertainty that exists as of the date of this report with respect to the Trust's ability to remain a going concern. Continuation of the Trust's operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust; the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow LREIT to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices and in the near term is also dependent on the demand for rental accommodations during the post-fire rebuild; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

21 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
Liquidity risk is mitigated by the ongoing monitoring activities of the Trust's management; open communication with the Trust's lenders; the continued financial support from Shelter and its parent company, 2668921 Manitoba Ltd.; continuation of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

As at December 31, 2018, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.6 years (December 31, 2017 - 1.7 years).

The repayment obligations in regard to the financial liabilities of the Trust, at face value, are as follows:

	Mortgage Loans				
December 31, 2018	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2019	$ 10,104,727	$ 47,474,158	$ 52,400,000	$10,343,997	$120,322,882
2020	8,118,826	65,609,441	-	-	73,728,267
2021	1,574,999	33,400,361	-	-	34,975,360
Thereafter	1,030,127	10,370,474	24,810,800	-	36,211,401
	$ 20,828,679	$156,854,434	$ 77,210,800	$10,343,997	$265,237,910

(1) If the lender of the one mortgage loan that is in default as of the date of this report demanded repayment during 2019, the total repayment obligations due in 2019 and beyond would remain the same.

(2) Other debt includes a revolving loan with balance outstanding of $52,400,000, due December 31, 2019, and Series G debentures with balance outstanding of $24,810,800, due on June 30, 2022.

(3) Other payables include trade and other payables, accrued interest and fees payable and deposits from tenants.

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, 2018 the percentage of fixed rate mortgage loans to total mortgage loans on investment properties was 57% (December 31, 2017 - 57%).

The Trust has variable rate mortgage loans on investment properties totaling $76,221,696, or 43% of the total mortgage loans at December 31, 2018 (December 31, 2017 - $79,688,009 or 43%). Should interest rates change by 1%, interest expense would change by $762,217 per year.

As at December 31, 2018, the Trust has total mortgage principal maturities on investment properties which mature on or prior to December 31, 2020 of $122,349,237 representing 69% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,223,492 per year.

The Trust has not traded in derivative financial instruments.

21 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 and a reconciliation of allowance for doubtful accounts:

	December 31 2018	December 31 2017
Rent receivable overdue:		
0 to 30 days	$ 66,485	$ 98,925
31 to 60 days	28,623	35,456
More than 60 days	54,109	65,575
	$ 149,217	$ 199,956

	Year Ended December 31 2018	Year Ended December 31 2017
Balance, beginning of period	$ 56,339	$ 109,748
Amount charged to bad debt expense relating to impairment of rent receivable	55,070	17,291
Amounts written off as uncollectible	(71,083)	(70,700)
Balance, end of period	$ 40,326	$ 56,339
Amount charged to bad debts as a percent of rentals from investment properties	0.32%	0.09%

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, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $26,653,465 (December 31, 2017 - $27,512,300) which expires in 2022 (December 31, 2017 - expires in 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.

21 Financial instruments and risk management (continued)

Credit risk (continued)
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
A comparison of the carrying value and fair value of the financial instruments of the Trust is provided below.

	Carrying Value		Fair Value	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
Financial assets				
Loan receivable	$ 4,000,000	$ 4,000,000	$ 3,394,749	$ 3,249,574
Restricted cash	2,461,552	2,400,176	1,809,786	1,886,901
Cash	562,612	1,638,918	562,612	1,638,918
Rent and other receivables	390,433	459,234	390,433	459,234
Deposits	362,276	585,261	362,276	585,261
Financial liabilities				
Mortgage loans	177,683,113	187,206,443	170,693,775	204,615,479
Debentures	24,810,800	24,810,800	2,232,972	2,721,945
Trade and other payables	1,879,928	8,815,147	1,879,928	8,815,147
Deposits from tenants	1,174,074	1,407,522	1,174,074	1,407,522

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 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.

21 Financial instruments and risk management (continued)

Fair values (continued)

- In regard to mortgage loans:
  - 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 4.59% and 6.70%.
- 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 loans receivable 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 rate used to calculate the fair value was 4.86%.

22 Reconciliation of liabilities arising from financing activities

	Year Ended December 31, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (6,067,085)	$ (5,890,824)	$ (176,261)
Repayment of mortgage loans on refinancing	(4,700,000)	(4,700,000)	-
Reduction of mortgage loans on sale of properties	(2,015,288)	(2,015,288)	-
Non cash - interest and fees capitalized, net of repayment	3,082,782	3,082,782	-
Decrease in mortgage loans	(9,699,591)	(9,523,330)	(176,261)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - December 31, 2018	$ 181,022,768	$177,683,113	$3,339,655

23 Management of capital

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

	December 31 2018	December 31 2017
Mortgage loans *	$176,461,605	$186,246,408
Revolving loan from 2668921 Manitoba Ltd. *	52,400,000	29,989,173
Debentures *	24,810,800	24,810,800
Deficit	(83,145,526)	(36,641,825)
	$170,526,879	$204,404,556

***** Amounts are inclusive of unamortized transaction costs.

23 Management of capital (continued)

The Trust manages capital in order to maintain 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.
- 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 to help sustain operations.

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.

24 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 Investment Properties Held for sale and/or sold.

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

24 *Segmented financial information (continued)*

Year ended December 31, 2018:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	13,983,159	1,521,070	1,559,035	-	17,063,264
Property operating costs	8,832,893	1,380,779	1,225,779	-	11,439,451
Net operating income	5,150,266	140,291	333,256	-	5,623,813
Interest income	28,625	2,724	11,135	164,022	206,506
Interest expense	9,434,275	513,791	1,266,751	3,701,903	14,916,720
Loss before discontinued operations	(32,210,672)	(1,857,670)	(6,957,775)	(4,790,747)	(45,816,864)
Cash used in operating activities	(1,750,801)	(282,619)	(430,857)	(2,102,415)	(4,566,692)
Cash from (used in) financing activities	1,661,958	559,584	473,330	1,854,733	4,549,605
Cash from (used in) investing activities	(555,162)	(260,334)	(248,822)	5,099	(1,059,219)
Total assets excluding discontinued operations (Note 11) at December 31, 2018	141,485,952	11,136,424	19,698,021	4,587,167	176,907,564

Year ended December 31, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	14,983,563	1,568,568	2,500,071	-	19,052,202
Property operating costs	8,086,147	1,230,211	932,342	-	10,248,700
Net operating income	6,897,416	338,357	1,567,729	-	8,803,502
Interest income	19,315	1,475	3,371	165,264	189,425
Interest expense	9,249,944	485,464	1,512,363	2,682,891	13,930,662
Income (loss) before discontinued operations	(22,712,326)	(588,485)	(4,593,277)	(3,983,099)	(31,877,187)
Cash from (used in) operating activities	(174,701)	26,762	631,397	(3,046,358)	(2,562,900)
Cash from (used in) financing activities	2,169,524	(24,464)	(738,868)	3,319,186	4,725,378
Cash from (used in) investing activities	(1,262,855)	(37,147)	74,473	(4,799)	(1,230,328)
Total assets excluding discontinued operations (Note 11) at December 31, 2017	170,345,640	12,318,910	27,141,421	4,818,371	214,624,342

25 *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 outcomes of legal and other claims are not reasonably determined, management believes that any such outcomes will not be material.

26 Subsequent events

Woodland Park
On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property with the expired forbearance agreement. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

Revolving loan
Subsequent to December 31, 2018, the Trust received advances of $4,500,000 and repaid $500,000 on the revolving loan, resulting in a balance of $56,400,000 as of the date of the Financial Statements. The revolving loan advances were used to fund operations.

Norglen Terrace - Second Mortgage Loan
Subsequent to December 31, 2018, the Trust received advances of $1,000,000 from the Norglen second mortgage loan held by 2668921 Manitoba Ltd., $500,000 of which was used to pay down the first mortgage loan secured by the property and $500,000 of which was used to pay down the revolving loan facility.

Mortgage renewal
On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations that was overholding past its maturity date. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.