LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2016	December 31 2015
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$205,069,517**	$216,434,958
Loan receivable (Note 7)	**4,000,000**	-
Restricted cash	**3,187,506**	2,850,478
Total non-current assets	**212,257,023**	219,285,436
Current assets		
Cash	**948,668**	407,513
Rent and other receivables	**749,316**	419,815
Deposits and prepaids	**1,464,435**	1,037,538
Defeasance assets (Note 6)	**2,499,289**	2,580,343
	5,661,708	4,445,209
Assets held for sale (Note 8)	**55,998,786**	54,794,159
Total current assets	**61,660,494**	59,239,368
TOTAL ASSETS	**$273,917,517**	$278,524,804
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 9)	**$ 27,447,073**	$122,080,890
Total non-current liabilities	**27,447,073**	122,080,890
Current liabilities		
Trade and other payables (Note 10)	**3,395,563**	1,735,601
Current portion of long-term debt (Note 9)	**216,473,663**	141,300,008
Deposits from tenants	**1,830,300**	1,510,790
	221,699,526	144,546,399
Liabilities held for sale (Note 8)	**14,756,513**	14,772,534
Total current liabilities	**236,456,039**	159,318,933
Total liabilities	**263,903,112**	281,399,823
Total equity (deficit)	**10,014,405**	(2,875,019)
TOTAL LIABILITIES AND EQUITY	**$273,917,517**	$278,524,804

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

The accompanying notes are an integral part of these financial statements
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Rentals from investment properties	**$ 3,979,652**	$ 7,957,771	**$ 8,431,114**	$ 16,689,490
Property operating costs	**2,155,504**	3,400,827	**4,947,609**	7,379,564
Net operating income	**1,824,148**	4,556,944	**3,483,505**	9,309,926
Interest income	**39,735**	22,271	**56,988**	47,163
Interest expense (Note 11)	**(5,764,385)**	(5,855,496)	**(11,420,565)**	(12,264,500)
Trust expense	**(558,510)**	(458,683)	**(1,114,940)**	(850,542)
Gain (loss) on sale of investment property (Note 8) (Note 4)	**20,986**	(201,215)	**20,986**	(201,215)
Fair value adjustments (Note 12)	**24,952,489**	(33,054,460)	**21,848,260**	(34,951,282)
Income (loss) before discontinued operations	**20,514,463**	(34,990,639)	**12,874,234**	(38,910,450)
Income (loss) from discontinued operations (Note 8)	**(25,742)**	170,030	**15,190**	277,795
Income (loss) and comprehensive income (loss)	**$ 20,488,721**	$ (34,820,609)	**$ 12,889,424**	$ (38,632,655)
Income (loss) per unit before discontinued operations: Basic and diluted	**$ 0.970**	$ (1.654)	**$ 0.609**	$ (1.840)
Income (loss) per unit from discontinued operations: Basic and diluted	**$ (0.001)**	$ 0.008	**$ 0.001**	$ 0.013
Income (loss) per unit: Basic and diluted	**$ 0.969**	$ (1.646)	**$ 0.610**	$ (1.827)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Six Months Ended June 30	
	2016	**2015**
Issued capital (Note 14)		
Balance, beginning of period	**$ 125,641,529**	$116,841,529
Balance, end of period	**125,641,529**	116,841,529
Contributed surplus		
Balance, beginning of period	**17,027,907**	17,027,907
Balance, end of period	**17,027,907**	17,027,907
Cumulative (deficit) earnings		
Balance, beginning of period	**(62,394,420)**	36,371,223
Income (loss) and comprehensive income (loss)	**12,889,424**	(38,632,655)
Balance, end of period	**(49,504,996)**	(2,261,432)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(74,350,035)
Balance, end of period	**(83,150,035)**	(74,350,035)
Total equity	**$ 10,014,405**	$ 57,257,969

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Operating activities				
Income (loss) and comprehensive income (loss)	**$ 20,488,721**	$ (34,820,609)	**$ 12,889,424**	$ (38,632,655)
Adjustments to reconcile income to cash flows				
Fair value adjustments (Note 12)	**(24,952,489)**	33,054,460	**(21,848,260)**	34,951,282
Fair value adjustment - Property and equipment (Note 8)	**141,448**	-	**355,942**	-
Loss (gain) on sale of properties	**(20,986)**	201,215	**(20,986)**	201,215
Accrued rental revenue	**24,892**	108,521	**55,375**	255,866
Gain on debenture repurchases	**-**	(5,678)	**-**	(11,654)
Interest income	**(39,735)**	(22,271)	**(56,988)**	(47,163)
Interest received	**26,414**	21,907	**43,371**	48,999
Interest expense	**5,995,852**	6,094,428	**11,884,585**	12,811,156
Interest paid	**(1,590,897)**	(5,472,042)	**(4,883,631)**	(10,130,678)
Cash provided by (used in) operations	**73,220**	(840,069)	**(1,581,168)**	(553,632)
Decrease (increase) in rent and other receivables	**(460,790)**	936,981	**(364,106)**	616,672
Decrease (increase) in deposits and prepaids	**(349,828)**	6,494	**(420,861)**	(363,535)
Increase (decrease) in tenant deposits	**421,506**	(153,081)	**353,294**	(287,839)
Increase (decrease) in trade and other payables	**581,730**	560,747	**866,307**	807,268
	265,838	511,072	**(1,146,534)**	218,934
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**-**	20,500,000	**-**	36,500,000
Repayment of mortgage loans on refinancing	**-**	(15,217,585)	**-**	(23,607,975)
Repayment of interest rate swap liability	**-**	(1,601,000)	**-**	(1,601,000)
Redemption of mortgage bonds	**-**	-	**-**	(6,000,000)
Repayment of long-term debt	**(430,367)**	(3,179,494)	**(1,621,721)**	(4,872,521)
Prepayment of mortgage loans	**(5,456,865)**	(3,000,000)	**(12,956,865)**	(3,000,000)
Proceeds of revolving loan facility	**500,000**	3,334,000	**11,400,000**	4,204,000
Repayment of revolving loan facility	**(3,900,000)**	(2,404,000)	**(3,900,000)**	(3,704,000)
Proceeds of Shelter Canadian Properties Limited advances	**650,000**	2,500,000	**650,000**	2,500,000
Repayment of Shelter Canadian Properties Limited advances	**(650,000)**	-	**(650,000)**	-
Expenditures on transaction costs	**(17,381)**	(2,554,651)	**(77,762)**	(2,775,546)
Debentures purchased and cancelled under normal course issuer bid	**-**	(17,322)	**-**	(51,346)
	(9,304,613)	(1,640,052)	**(7,156,348)**	(2,408,388)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(4,580)**	(122,939)	**(143,413)**	(370,391)
Capital expenditures on investment properties held for sale	**-**	(171,356)	**-**	(171,356)
Capital expenditures on property and equipment	**(141,448)**	-	**(355,942)**	-
Decrease in defeasance assets	**42,621**	37,967	**81,054**	75,677
Proceeds of sale	**9,420,067**	2,441,375	**9,420,067**	2,441,375
Change in restricted cash	**(374,224)**	(583,918)	**(338,586)**	(419,686)
	8,942,436	1,601,129	**8,663,180**	1,555,619
Cash increase (decrease)	**(96,339)**	472,149	**360,298**	(633,835)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 8)	**430,538**	(101,442)	**180,857**	(241,284)
	334,199	370,707	**541,155**	(875,119)
Cash, beginning of period	**614,469**	717,909	**407,513**	1,963,735
Cash, end of period	**$ 948,668**	$ 1,088,616	**$ 948,668**	$ 1,088,616

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

1 Organization

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

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

Units	LRT.UN
Series G Debentures due June 30, 2018	LRT.DB.G

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

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three and six months ended June 30, 2016 and 2015 ("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 August 9, 2016.

The Financial Statements of the Trust reflect the operations of the Trust, LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars. The 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: (i) the Trust's concentration of investment properties in Fort McMurray, (ii) the deterioration of the Fort McMurray rental apartment market over the past several years and, in particular, the significant deterioration that occurred as a result of the decline in oil prices that began in the fourth quarter of 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the tightening of lending conditions in Fort McMurray, (v) the Trust's limited cash and working capital resources, and (vi) the Trust's highly leveraged capital structure.

The Trust incurred an income before discontinued operations of $20,514,463 for the three months ended June 30, 2016 (2015 - a loss of $34,990,639) and $12,874,234 for the six months ended June 30, 2016 (2015 - a loss of $38,910,450). The Trust generated cash from operating activities of $265,838 for the three months ended June 30, 2016 (2015 - $511,072) and incurred a cash deficiency of $1,146,534 for the six months ended June 30, 2016 (2015 - generated cash of $218,934). 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 $327,938 for the three months ended June 30, 2016 (2015 - $5,517,368) and $3,345,372 for the six months ended June 30, 2016 (2015 - $7,970,880).

In addition, the Trust has a working capital deficit of $239,686 as at June 30, 2016 (December 31, 2015 - working capital of $115,955).

2 Basis of presentation and continuing operations (continued)

During the first quarter of 2016, the Trust, after informing the effected lenders of its intentions, defaulted on the debt service requirements of twelve mortgage loans in the aggregate amount of $193,999,150 related to all thirteen properties in its Fort McMurray portfolio. The Trust was subsequently able to renew three mortgage loans, inclusive of interest rate and deferred payment concessions; receive amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secure a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan, covering approximately 60% of the mortgage loan debt that was in default.

During the second quarter of 2016, the Trust informed the lenders of its Fort McMurray properties that, due to the potential negative repercussions of the Fort McMurray wildfire with respect to the collection of rents, LREIT would temporarily be deferring its June debt service payments pending the receipt of business interruption insurance proceeds. As a result, the Trust was in default on the debt service payments of ten mortgage loans in the aggregate amount of $184,745,635 related to all thirteen properties in its Fort McMurray portfolio as at June 30, 2016.

Failure to comply with debt service obligations and debt covenant requirements are events of default that allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements.

The defaults are discussed in more detail below.

During the first six months of 2016, the Trust withheld principal payments of $72,751 and interest payments of $103,152 on a first mortgage loan in the amount of $12,840,134 related to a property in its Fort McMurray portfolio. As a result, the Trust is in default of its debt service obligations to the lender. Subsequent to June 30, 2016, the Trust repaid principal payments of nil and interest payments of $18,813 with respect to this mortgage loan. As of the date of this report, the lender has taken no action against the Trust and continues to engage in discussions with respect to the restructuring of the mortgage loan.

During the first six months of 2016, the Trust withheld principal payments of $545,345 and interest payments of $558,068 on five first mortgage loans in the amount of $66,500,642 related to eight properties in its Fort McMurray portfolio. As a result, the Trust is in default of its debt service obligations to the lender. During the first quarter of 2016, the affected lender demanded repayment of the loans, but as of the date of this report the loans have not been repaid by the Trust. Subsequent to June 30, 2016, the Trust withheld principal payments of $137,799 and interest payments of $284,668 and repaid principal payments of nil and interest payments of $244,627 with respect to these mortgage loans. As of the date of this report, the lender has taken no further action against the Trust and continues to engage in discussions with respect to the restructuring of the mortgage loans.

2 Basis of presentation and continuing operations (continued)

During the first quarter of 2016, the Trust withheld debt service payments on a $24,431,365 first mortgage loan related to a property in its Fort McMurray portfolio. In addition, at December 31, 2015, the Trust was in breach of the annual 1.25:1 debt service coverage ratio requirement and the annual 2.5:1 debt-to-equity ratio requirement of the mortgage loan. Effective March 1, 2016, the Trust entered into a forbearance agreement with the lender for a one-year term, expiring February 28, 2017, at an increased interest rate of prime plus 4%, and with minimum monthly interest-only payments of 3.25%. The forbearance agreement provides for any unpaid interest above the minimum payment, forbearance and consulting fees to be capitalized and added to the principal balance of the loan over the term of the forbearance agreement. As of June 30, 2016 the first mortgage balance of $24,892,930 included total interest capitalized to the principal balance of $280,071 and forbearance and consulting fees capitalized of $359,000. As a result of the potential impact of the wildfire on the collection of rents, the Trust withheld its June 2016 interest obligation of $69,430 under the forbearance agreement and was in default of the terms of the agreement. Subsequent to June 30, 2016, the Trust repaid all interest withheld and is no longer in default of the terms of the forbearance agreement.

During the first quarter of 2016, the Trust withheld debt service payments on a $37,943,930 first mortgage loan related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust and lender agreed to terms of renewal for the mortgage loan for a two-year term, effective May 1, 2016, providing for the deferral of 40% of the monthly interest payments until the maturity date of the mortgage loan. The terms of the renewal also require a lump-sum payment to the lender of $5,500,000 on May 1, 2017. As of June 30, 2016 the first mortgage balance of $37,963,021 included total interest capitalized to the principal balance in accordance with the terms of the renewal of $303,249. As a result of the potential impact of the wildfire on the collection of rents, the Trust withheld the June 2016 interest payment of $113,662 and principal payment of $89,445 due under the terms of the renewal. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to June 30, 2016, the Trust repaid principal of nil and interest payments of nil related to the withheld debt service. As of the date of this report, the lender has taken no action against the Trust with respect to the default.

During the first quarter of 2016, the Trust withheld debt service payments on two first mortgage loans in the aggregate principal amount of $42,294,376 related to two properties in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. During the second quarter of 2016, the Trust was able to renew the mortgages for a two-year term, effective February 1, 2016, on an interest only basis, at a reduced interest rate, encompassing the deferral of 40% of the monthly interest payments until the maturity date of the loans. As of June 30, 2016 the aggregate principal balance of the mortgage loans of $42,548,896 included total interest capitalized to the principal balances in accordance with the terms of the renewals of $338,940. As a result of the potential impact of the wildfire on the collection of rents, the Trust withheld the June 2016 interest payment of $127,392 due under the terms of the renewal. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to June 30, 2016, the Trust repaid interest payments of nil related to the withheld debt service. As of the date of this report, the lender has taken no action against the Trust with respect to the default.

2 Basis of presentation and continuing operations (continued)

During the first quarter of 2016, the Trust withheld debt service payments on a second mortgage loan in the amount of $4,571,609 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to the default, but prior to the end of the first quarter of 2016, 2668921 Manitoba Ltd. acquired the mortgage from the previous lender, extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date.

During the first quarter of 2016, the Trust withheld debt service payments on a second mortgage loan in the amount of $5,417,099. As a result, the Trust defaulted on its debt service obligations to the lender. During the second quarter of 2016, the mortgage loan was repaid in full using proceeds from the May 1, 2016 sale of a property held as security for the mortgage.

During the first quarter of 2016, the Trust deferred the payment of property management fees in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the amount of $86,711 for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016.

During the first quarter of 2016, the Trust deferred payment of interest on the revolving loan facility for February 2016 and March 2016 in the aggregate amount of $346,253. Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust.

In the event that full repayment is demanded on the revolving loan and the nine mortgage loans with an aggregate principal balance of $159,852,693 which remain in a position of default as of the date of this report, the Trust would be unable to satisfy these obligations 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 is pursuing debt restructuring arrangements with certain of its lenders, is requesting concessions from Shelter Canadian Properties Limited with respect to the payment of property management and service fees, is expanding its divestiture program and is continuing with cost reduction measures and other efforts to improve operating results.

Current divestiture activities focus on the sale of the two seniors' housing complexes, the property classified as held for sale and other properties with consideration of the overall cash needs of the Trust. The timing and terms of property sales is uncertain.

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: (i) 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 the opportunity to stabilize its operations; (ii) the Trust's ability to renew or refinance debt as it matures; (iii) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, reduce or defer property management and service fees and/or provide other forms of financial support to the Trust; (iv) 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; (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and, (vi) ability of LREIT to complete additional property sales.

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 balance sheet 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 the December 31, 2015 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at August 9, 2016.

Future changes to significant accounting policies

The following standards will be effective for subsequent annual periods. The Trust is currently evaluating the impact of these standards on its Financial Statements:

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted.

(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, with earlier adoption permitted.

2 Basis of presentation and continuing operations (continued)

Future changes to significant accounting policies (continued)

(iii) 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.

Adoption of accounting standards

Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1"): Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to the financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

These amendments did not result in a material impact to these condensed consolidated financial statements.

3 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. In the process of applying the Trust's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Trust's consolidated financial statements for the year ended December 31, 2015.

4 *Investment properties*

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Balance, beginning of period	$184,523,467	$338,053,430	$216,434,958	$406,619,555
Additions - capital expenditures	4,580	122,939	143,413	370,391
Fair value adjustments (Note 12)	20,541,470	(40,366,349)	17,437,241	(42,263,171)
Investment properties transferred to held for sale (Note 8)	-	-	(28,946,095)	(66,916,755)
Balance, end of period	$205,069,517	$297,810,020	$205,069,517	$297,810,020

During the first six months of 2016 and 2015, the Trust did not sell any property classified as investment properties, however, $28,946,095 (2015 - $66,916,755) was transferred to investment properties held for sale.

Investment properties have been valued using the methods and key assumptions in Note 5: *Valuations of investment properties and investment properties held for sale*.

5 *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 assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

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

	June 30 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	8.00 %	8.00 %	8.00 %	8.00 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Other	5.25 %	7.50 %	5.25 %	7.50 %

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

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

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

	June 30 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	10.00 %	10.00 %	10.00 %	10.00 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
Other	7.25 %	9.50 %	7.25 %	9.50 %

6 *Defeasance assets and defeased liability*

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Defeased Liability has a balance of $2,487,704 at June 30, 2016 (December 31, 2015 - $2,520,859), was due July 1, 2016, bearing interest at 5.65%, was repayable in monthly payments of $17,191 and was amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets matured on June 1, 2016 and the balance was placed in escrow. On July 1, 2016, the Defeasance Assets were used to extinguish the Defeased Liability.

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

	Recorded as	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Interest income on Defeasance Assets	Interest income	$ 8,954	$ 13,608	$ 22,095	$ 27,472
Interest expense on Defeased Liability	Interest expense	(34,804)	(35,713)	(69,840)	(71,645)
Amortization of transaction costs	Interest expense	-	(2,683)	(2,759)	(5,342)
		$ (25,850)	$ (24,788)	$ (50,504)	$ (49,515)

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 through 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.

8 Assets and liabilities of properties held for sale

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

Assets and liabilities held for sale are as follows:

	June 30 2016	December 31 2015
ASSETS		
Investment properties held for sale (a)	$ 33,357,114	$ 31,960,000
Assets in discontinued operations		
Property and equipment	22,350,000	22,350,000
Cash	242,499	423,356
Restricted cash	21,977	20,419
Rent and other receivables	-	7,152
Deposits, prepaids and other	27,196	33,232
	22,641,672	22,834,159
Assets held for sale	$ 55,998,786	$ 54,794,159
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 14,109,141	$ 14,196,924
Trade and other payables	325,825	287,847
Deposits from tenants	321,547	287,763
Liabilities held for sale	$ 14,756,513	$ 14,772,534

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

All mortgages which have matured prior to June 30, 2016 have been renewed or refinanced. Subsequent to June 30, 2016, one mortgage loan in the amount of $10,000,000 matured and is overholding past the maturity date. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements.

Income information relating to discontinued operations are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Rental income	$ 1,338,258	$ 1,349,063	$ 2,716,663	$ 2,721,583
Property operating expenses	991,085	940,101	1,881,511	1,897,132
Net operating income	347,173	408,962	835,152	824,451
Interest expense	(231,467)	(238,932)	(464,020)	(546,656)
Fair value adjustment	(141,448)	-	(355,942)	-
Income (loss) from discontinued operations	$ (25,742)	$ 170,030	$ 15,190	$ 277,795

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Cash inflow from operating activities	$ 146,174	$ 134,527	$ 458,833	$ 282,480
Cash outflow from financing activities	(434,306)	(36,235)	(282,190)	(68,226)
Cash (outflow) inflow from investing activities	(142,406)	3,150	(357,500)	27,030
Increase (decrease) in cash from discontinued operations	$ (430,538)	$ 101,442	$ (180,857)	$ 241,284

(a) Investment properties held for sale

	June 30 2016	December 31 2015
Beck Court	$ -	$ 22,975,000
Willowdale Gardens	-	8,985,000
Woodland Park	33,357,114	-
	$ 33,357,114	$ 31,960,000

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

(a) Investment properties held for sale (continued)

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Balance, beginning of period	$ 60,906,095	$ 66,916,755	$ 31,960,000	$ -
Investment properties transferred to held for sale (Note 4)	-	-	28,946,095	66,916,755
Additions - capital expenditures	-	171,356	-	171,356
Fair value adjustments (Note 12)	4,411,019	7,311,889	4,411,019	7,311,889
Dispositions	(31,960,000)	(3,900,000)	(31,960,000)	(3,900,000)
Balance, end of period	$ 33,357,114	$ 70,500,000	$ 33,357,114	$ 70,500,000

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 and when it is expected that the sale will occur within the next twelve months.

Investment properties held for sale are carried at fair value as at the financial statement date and reflect the prices that would 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 may or may not reflect the fair value the property is recorded at 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 5: Valuations of investment properties held for sale.

During the first six months of 2016, the Trust sold the following two properties classified as held for sale:

Property	Sale Date	Selling Price	Carrying Value	Selling Costs and Other	Gain(Loss) on Sale
Beck Court	May 1, 2016	$ 23,000,000	$ (22,975,000)	$ (8,094)	$ 16,906
Willowdale Gardens	May 1, 2016	9,000,000	(8,985,000)	(10,920)	4,080
		$ 32,000,000	$ (31,960,000)	$ (19,014)	$ 20,986

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

(a) Investment properties held for sale (continued)

During the first six months of 2015, the Trust sold the following property classified as held for sale:

Property	Sale Date	Selling Price	Carrying Value	Selling Costs and Other	Gain(Loss) on Sale
156/204 East Lake Blvd.	Apr 1, 2015	$ 4,000,000	$ (3,900,000)	$ (301,215)	$ (201,215)

9 Long-term debt

	June 30 2016	December 31 2015
Secured debt		
Mortgage loans (a)	$ 199,420,775	$ 230,897,904
Debentures (b)	24,810,800	24,810,800
Defeased liability	2,487,704	2,520,859
Revolving loan from 2668921 Manitoba Ltd. (c)	14,600,000	7,100,000
Total secured debt	241,319,279	265,329,563
Accrued interest payable	3,899,418	1,139,300
Unamortized transaction costs		
Mortgage loans	(1,259,559)	(2,352,726)
Debentures	-	(685,797)
Defeased liability	-	(2,759)
Revolving loan from 2668921 Manitoba Ltd.	(38,402)	(46,683)
Total unamortized transaction costs	(1,297,961)	(3,087,965)
	243,920,736	263,380,898
Less current portion		
Mortgage loans	(196,753,602)	(131,925,665)
Defeased liability	(2,487,704)	(2,520,859)
Revolving loan from 2668921 Manitoba Ltd.	(14,600,000)	(7,100,000)
Accrued interest payable	(3,899,418)	(1,139,300)
Transaction costs	1,267,061	1,385,816
Total current portion	(216,473,663)	(141,300,008)
	$ 27,447,073	$ 122,080,890
Current portion of unamortized transaction costs		
Mortgage loans and revolving loan	$ 1,267,061	$ 1,130,541
Debentures	-	252,516
Defeased liability	-	2,759
	$ 1,267,061	$ 1,385,816

9 *Long-term debt (continued)*

(a) Mortgage loans

	Weighted average interest rates		Amount	
	June 30 2016	December 31 2015	June 30 2016	December 31 2015
First mortgage loans				
Fixed rate	5.1%	4.6%	$ 82,064,548	$ 125,497,028
Variable rate	6.1%	6.9%	112,649,383	87,994,589
Total first mortgage loans	5.6%	5.5%	194,713,931	213,491,617
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,706,844	4,500,000
Variable rate	-%	10.4%	-	12,906,287
Total second mortgage loans	11.8%	10.7%	4,706,844	17,406,287
Total	5.8%	5.9%	$ 199,420,775	$ 230,897,904

As of June 30, 2016, the Trust was in default of ten mortgage loans in the aggregate principal amount of $184,745,635 related to all thirteen properties in its Fort McMurray portfolio.

Additional information related to the default of mortgage loans is provided in Note 2: *Basis of presentation and continuing operations*.

All mortgages which have matured prior to the date of the Financial Statements have been repaid, renewed or refinanced.

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

9 Long-term debt (continued)

(b) Debentures

The Series G debentures bear interest at 5.0% (2015 - 9.5%) 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.

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.

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date of the debentures to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5.0%, and to defer all payments of interest to the amended maturity date.

The amended terms were considered to be substantially different than the previous terms and the transaction was accounted for as an extinguishment of the original financial liability and the recognition of the new financial liability, resulting in the immediate amortization of $625,180 of transaction costs.

On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expired on June 29, 2016. During the six months ended June 30, 2016, the Trust did not purchase any Series G debentures under the normal course issuer bid.

(c) Revolving loan

The Trust obtained a revolving loan from 2668921 Manitoba Limited (the parent company of Shelter Canadian Properties Limited). The revolving loan is for a three year term, maturing June 30, 2018, at an interest rate of 12%, with a maximum balance of $18,000,000. On July 1, 2016, the interest rate was reduced to 5%.

10 *Trade and other payables*

	June 30 2016	December 31 2015
Accounts payable	$ 2,625,313	$ 798,373
Accrued payables	524,865	588,348
Prepaid rent	245,385	348,880
	$ 3,395,563	$ 1,735,601

11 *Interest expense*

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Mortgage loan interest	$ 2,925,779	$ 4,072,248	$ 6,239,348	$ 8,206,196
Revolving loan interest	479,969	424,429	943,953	829,952
Change in fair value of interest rate swap	-	(31,668)	-	159,295
Mortgage bond interest	-	-	-	123,616
Accretion of mortgage bonds	-	-	-	213,774
Debenture interest	589,256	596,790	1,178,513	1,178,513
Amortization of transaction costs	1,769,381	793,697	3,058,751	1,553,154
	$ 5,764,385	$ 5,855,496	$ 11,420,565	$ 12,264,500

12 *Fair value adjustments*

Fair value adjustments consist of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Fair value adjustments - investment properties (Note 4)	$ 20,541,470	$(40,366,349)	$ 17,437,241	$(42,263,171)
Fair value adjustments - investment properties held for sale (Note 8)	4,411,019	7,311,889	4,411,019	7,311,889
	$ 24,952,489	$(33,054,460)	$ 21,848,260	$(34,951,282)

13 Per unit calculations

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Income (loss) before discontinued operations	$ 20,514,463	$ (34,990,639)	$ 12,874,234	$ (38,910,450)
Income (loss) from discontinued operations	(25,742)	170,030	15,190	277,795
Income (loss)	$ 20,488,721	$ (34,820,609)	$ 12,889,424	$ (38,632,655)

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Weighted average number of units:				
Units	20,497,004	20,252,386	20,374,695	20,252,386
Deferred units	651,892	896,510	774,201	896,510
Total basic and diluted	21,148,896	21,148,896	21,148,896	21,148,896

14 Units

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Units	Amount	Units	Amount
Outstanding, beginning of period	20,252,386	$125,641,529	20,252,386	$116,841,529
Units issued on:				
Payment of distribution	-	-	67,692,308	8,800,000
Consolidation of units	-	-	(67,692,308)	-
Redemption of deferred units (Note 16)	304,934	-	-	-
Outstanding, end of period	20,557,320	$125,641,529	20,252,386	$125,641,529

Units issued on payment of distributions

As a result of realized capital gains, the Trust paid "special" distributions in the form of additional units on December 31, 2015. The distributions were followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distributions as were held prior to the distributions.

15 Unit option plan

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

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	446,000	$ 0.71	466,000	$ 0.72
Cancelled, July 14, 2015	-	-	(20,000)	1.11
Outstanding, end of period	446,000	$ 0.71	446,000	$ 0.71
Vested, end of period	446,000		446,000	

At June 30, 2016 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	176,000	176,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
1.11	180,000	180,000	May 19, 2019
	446,000	446,000	

Subsequent to June 30, 2016, 30,000 unit options were cancelled.

16 Deferred unit plan

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Outstanding and vested, beginning of period	896,510	896,510	896,510	896,510
Redeemed during the period	(304,934)	-	(304,934)	-
Outstanding and vested, end of period	591,576	896,510	591,576	896,510

Deferred units granted to Trustees totaled nil for the six months ended June 30, 2016 (2015 - nil). Deferred units redeemed totaled 304,934 for the six months ended June 30, 2016 (2015 - nil). Aggregate deferred units outstanding at June 30, 2016 were 591,576 (December 31, 2015 - 896,510). All deferred units outstanding as of June 30, 2016 were fully vested.

Unit-based compensation expense of nil for the six months ended June 30, 2016 (2015 - nil) relating to deferred units granted was recorded to unit-based compensation expense under trust expense.

17 Related party transactions

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

Property management agreement

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

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $186,350 for the three months ended June 30, 2016 (2015 - $322,284) and $360,405 for the six months ended June 30, 2016 (2015 - $672,147).

Included in trade and other payables at June 30, 2016 is a balance of $261,931 payable to Shelter Canadian Properties Limited (December 31, 2015 - $87,442 receivable) in regard to outstanding property management fees.

Services agreement

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

The Trust incurred service fees of $257,717 for the three months ended June 30, 2016 (2015 - $317,552) and $517,851 for the six months ended June 30, 2016 (2015 - $635,786).

Included in trade and other payables at June 30, 2016 is a balance of $344,428 (December 31, 2015 - nil) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

17 Related party transactions (continued)

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

The Trust incurred service fees payable to Shelter Canadian Properties Limited of nil for the three months ended June 30, 2016 (2015 - nil) and nil for the six months ended June 30, 2016 (2015 - nil).

Financing
Revolving loan
On January 1, 2014, the Trust had a $15 Million revolving loan facility from 2668921 Manitoba Ltd. for general operating purposes. The revolving loan facility was increased to $18 Million effective July 1, 2015.

A summary of the terms for the revolving loan facility from January 1, 2014 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
October 1, 2014	June 30, 2015	$ 25,000	12.00%	$ 1,375,000	$ 15,000,000
July 1, 2015	June 30, 2018	25,000	12.00%	6,480,000	18,000,000

During the six months ended June 30, 2016, the Trust received advances of $11,400,000 (2015 - $4,204,000) and repaid advances of $3,900,000 (2015 - $3,704,000) against the revolving loan, resulting in a balance of $14,600,000 (December 31, 2015 - $7,100,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $479,969 for the three months ended June 30, 2016 (2015 - $424,429) and $943,953 for the six months ended June 30, 2016 (2015 - $829,952) is included in interest expense.

Included in accrued interest payable at June 30, 2016 is a balance of $826,221 (December 31, 2015 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

The loan is secured by mortgage charges against the title of two seniors' housing complexes.

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

Effective July 1, 2016, the interest rate of the revolving loan was reduced to 5%.

17 Related party transactions (continued)

Financing (continued)
Nelson Ridge second mortgage loan
On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan in the amount of $4,706,844, inclusive of accrued interest, with an interest rate of 11.75% and maturity date of November 1, 2016.

Immediately following the purchase, 2668921 Manitoba Ltd. extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date. The amended mortgage loan terms provide for the deferred interest to be capitalized to the principal balance of the mortgage loan.

Shelter advances
During the six months ended June 30, 2016, Shelter Canadian Properties Limited advanced $650,000 (2015 - $2,500,000) on an interest-free basis as an interim funding measure. The Trust made repayments of $650,000 (2015 - nil), resulting in an outstanding balance of nil at June 30, 2016 (December 31, 2015 - nil).

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

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

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

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: (i) 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 the opportunity to stabilize its operations; (ii) the Trust's ability to renew or refinance debt as it matures; (iii) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, reduce or defer property management and service fees and/or provide other forms of financial support to the Trust; (iv) 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; (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and, (vi) ability of LREIT to complete additional property sales.

18 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; expansion of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

The risk associated with the refinancing of maturing debt is partially mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. However, should the Trust default on its debt obligations debt maturities may be accelerated by the lenders.

As at June 30, 2016, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.9 years (December 31, 2015 - 3.0 years).

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

	Mortgage Loans				
June 30, 2016	Normal Principal Installments (1)	Principal Maturities (2)	Revolving Loan	Debentures	Defeased Liability
2016 - Remainder of year	$ 2,145,686	$ 3,996,247	$ -	$ -	$2,487,704
2017	8,136,350	53,551,450	-	-	-
2018	1,127,564	95,504,308	14,600,000	24,810,800	-
2019	385,225	27,302,754	-	-	-
2020	261,845	-	-	-	-
Thereafter	1,303,667	10,370,474	-	-	-
	$ 13,360,337	$190,725,233	$14,600,000	$24,810,800	$2,487,704

June 30, 2016	Subtotal Long-term Debt Obligations (3)	Other Payables (4)	Total
2016 - Remainder of year	$ 8,629,637	$ 9,125,281	$ 17,754,918
2017	61,687,800	-	61,687,800
2018	136,042,672	-	136,042,672
2019	27,687,979	-	27,687,979
2020	261,845	-	261,845
Thereafter	11,674,141	-	11,674,141
	$ 245,984,074	$ 9,125,281	$255,109,355

(1) The normal principal installments amount in the chart above for 2017 of $8,136,350 includes a one-time lump-sum principal repayment of $5,500,000 for a first mortgage loan in accordance with the terms of the renewal agreement.

(2) Includes $4,664,795 of future capitalized interest per the terms of forbearance and certain debt renewal agreements and mortgage loan amendments.

(3) If the lenders of the 9 mortgage loans that are in default as of the date of this report demanded repayment during 2016 and the chart above was adjusted to reflect the repayments, the total long-term debt due in the remainder of 2016 would increase to $166,399,972, the total long-term debt due in 2017 would decrease to $37,011,597, the total long-term debt due in 2018 would decrease to $39,410,800, and the total long-term debt due in 2019 and beyond would decrease to nil.

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

18 Financial instruments and risk management (continued)

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 June 30, 2016 the percentage of fixed rate mortgage loans to total mortgage loans was 44% (December 31, 2015 - 56%).

The Trust has variable rate mortgage loans on investment properties totaling $112,649,383, or 56% of the total mortgage loans at June 30, 2016 (December 31, 2015 - 44%). Should interest rates change by 1%, interest expense would change by $1,126,494 per year.

As at June 30, 2016, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to June 30, 2019 of $73,931,258 representing 37% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $739,313 per year.

With the exception of the interest rate swap arrangement eliminated in the first quarter of 2015, the Trust has not traded in financial instruments.

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

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

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

	June 30 2016	December 31 2015
Rent receivable overdue:		
0 to 30 days	$ 489,423	$ 51,497
31 to 60 days	8,222	4,562
More than 60 days	90,394	42,795
	$ 588,039	$ 98,854

18 Financial instruments and risk management (continued)

Credit risk (continued)

	Three Months Ended June 30 2016	Three Months Ended June 30 2015	Six Months Ended June 30 2016	Six Months Ended June 30 2015
Balance, beginning of period	$ 33,071	$ 25,430	$ 31,502	$ 18,789
Amount charged to bad debt expense relating to impairment of rent receivable	53,227	13,765	68,399	22,054
Amounts written off as uncollectible	(16,179)	(15,734)	(29,782)	(17,382)
Balance, end of period	$ 70,119	$ 23,461	$ 70,119	$ 23,461
Amount charged to bad debts as a percent of rentals from investment properties	1.34%	0.17%	0.81%	0.13%

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 June 30, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $31,167,103 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

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

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

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

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

18 Financial instruments and risk management (continued)

Fair values

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

	Carrying Value		Fair Value	
	June 30 2016	December 31 2015	June 30 2016	December 31 2015
Financial assets				
Defeasance assets	$ 2,499,289	$ 2,580,343	$ -	$ -
Restricted cash	3,187,506	2,850,478	2,606,035	2,192,702
Cash	948,668	407,513	948,668	407,513
Rent and other receivables	749,316	419,815	749,316	419,815
Deposits	845,717	558,108	845,717	558,108
Financial liabilities				
Mortgages loans	199,420,775	230,897,904	219,806,690	232,347,987
Debentures	24,810,800	24,810,800	4,237,665	11,901,341
Defeased liability	2,487,704	2,520,859	-	-
Trade and other payables	3,395,563	1,735,601	3,395,563	1,735,601
Deposits from tenants	1,830,300	1,510,790	1,830,300	1,510,790

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

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.
- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- The defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
  - 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 3.65% and 5.47%.
- 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.

19 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. Prior period results have been restated to reflect these segments.

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

Three months ended June 30, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	2,838,555	432,116	708,981	-	3,979,652
Property operating costs	1,598,135	249,213	308,156	-	2,155,504
Net operating income	1,240,420	182,903	400,825	-	1,824,148
Interest income	2,435	296	925	36,079	39,735
Interest expense	3,229,908	135,338	665,728	1,733,411	5,764,385
Income (loss) before discontinued operations	18,555,283	44,591	4,168,027	(2,253,438)	20,514,463
Cash from (used in) operating activities	332,094	50,862	11,410	(274,702)	119,664
Cash from (used in) financing activities	344,362	(68,698)	(9,513,931)	367,960	(8,870,307)
Cash from (used in) investing activities	(457,357)	(3,726)	9,614,847	(68,922)	9,084,842

Three months ended June 30, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	4,614,248	505,506	2,838,017	-	7,957,771
Property operating costs	1,907,139	263,957	1,229,731	-	3,400,827
Net operating income	2,707,109	241,549	1,608,286	-	4,556,944
Interest income	5,097	449	2,066	14,659	22,271
Interest expense	3,817,594	114,599	796,585	1,126,718	5,855,496
Income (loss) before discontinued operations	(36,001,194)	(94,857)	2,672,954	(1,567,542)	(34,990,639)
Cash from (used in) operating activities	648,408	140,050	859,234	(1,271,147)	376,545
Cash from (used in) financing activities	196,640	(104,223)	(3,006,435)	1,310,201	(1,603,817)
Cash from (used in) investing activities	(385,114)	(17,077)	1,962,202	37,968	1,597,979

19 Segmented financial information (continued)

Six months ended June 30, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	5,582,872	851,118	1,997,124	-	8,431,114
Property operating costs	3,505,703	529,598	912,308	-	4,947,609
Net operating income	2,077,169	321,520	1,084,816	-	3,483,505
Interest income	4,872	603	1,960	49,553	56,988
Interest expense	6,750,377	269,640	1,511,404	2,889,144	11,420,565
Income (loss) before discontinued operations	12,731,932	49,212	4,045,216	(3,952,126)	12,874,234
Cash from (used in) operating activities	(1,173,439)	43,157	423,489	(898,574)	(1,605,367)
Cash from (used in) financing activities	2,009,310	(23,228)	(9,888,646)	1,028,406	(6,874,158)
Cash from (used in) investing activities	(562,406)	3,543	9,610,032	(30,489)	9,020,680
Total assets excluding discontinued operations (Note 6) at March 31, 2016	195,840,379	14,156,329	33,990,478	7,288,659	251,275,845

Six months ended June 30, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	9,617,825	995,094	6,076,571	-	16,689,490
Property operating costs	4,191,790	563,405	2,624,369	-	7,379,564
Net operating income	5,426,035	431,689	3,452,202	-	9,309,926
Interest income	10,376	2,275	4,523	29,989	47,163
Interest expense	7,704,646	226,044	1,625,648	2,708,162	12,264,500
Income (loss) before discontinued operations	(39,972,605)	(14,333)	4,602,003	(3,525,515)	(38,910,450)
Cash from (used in) operating activities	(900,096)	169,527	2,063,054	(1,396,031)	(63,546)
Cash from (used in) financing activities	1,036,465	(206,914)	(4,445,260)	1,275,547	(2,340,162)
Cash from (used in) investing activities	(435,377)	58,372	1,826,251	79,343	1,528,589
Total assets excluding discontinued operations (Note 6) at December 31, 2015	176,920,334	14,059,384	61,651,889	3,059,038	255,690,645

20 Contingencies

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

21 Subsequent events

Revolving loan
Subsequent to June 30, 2016, the Trust received advances of $800,000 and repaid $200,000 on the revolving loan, resulting in a balance of $15,200,000 as of the date of the Financial Statements.

Deferral of principal and interest payments: Mortgage loans on Fort McMurray properties
Subsequent to June 30, 2016, the net amount of interest and principal withheld increased by $40,041 and $137,799, respectively, related to five mortgage loans in the aggregate principle amount of $66,500,641; the net amount of interest withheld decreased by $18,813 related to one mortgage loan in the aggregate principal amount of $12,840,134; and the Trust repaid all interest previously withheld in the amount of $69,430 on one mortgage loan in the aggregate principal amount of $24,892,942 and is no longer in default of the terms of the related forbearance agreement. As of the date of this report, the Trust has not repaid the loans and the lenders have not enforced their security or taken further action against the Trust. The lenders continue to engage in discussions with the Trust with respect to the restructuring of the mortgage loans.

Deferral of property management fee and service fee payments
Subsequent to June 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of July 2016 and August 2016. Also, the Trust deferred the payment of service fees in the aggregate amount of $79,678 for the month of July 2016.

Deferral of revolving loan interest payment
Subsequent to June 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $69,095. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust.

22 Comparative figures

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