CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of the Trust. In accordance with National Instrument 51-102, the Trust discloses that its independent auditors have not reviewed the condensed interim consolidated financial statements for the period ended June 30, 2018.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2018	December 31 2017
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$158,239,261**	$178,309,735
Loan receivable (Note 6)	**4,000,000**	4,000,000
Restricted cash	**2,418,142**	2,400,176
Total non-current assets	**164,657,403**	184,709,911
Current assets		
Cash	**927,043**	1,638,918
Rent and other receivables	**407,991**	459,234
Deposits and prepaids	**1,212,154**	1,121,155
	2,547,188	3,219,307
Assets held for sale (Note 7)	**29,987,990**	34,199,238
Total current assets	**32,535,178**	37,418,545
TOTAL ASSETS	**$197,192,581**	$222,128,456
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 8)	**$137,107,001**	$ 58,585,292
Total non-current liabilities	**137,107,001**	58,585,292
Current liabilities		
Trade and other payables (Note 9)	**17,138,761**	8,815,147
Current portion of long-term debt (Note 8)	**103,191,889**	186,307,203
Deposits from tenants	**1,316,239**	1,407,522
	121,646,889	196,529,872
Liabilities held for sale (Note 7)	**3,576,096**	3,655,117
Total current liabilities	**125,222,985**	200,184,989
Total liabilities	**262,329,986**	258,770,281
Total deficit	**(65,137,405)**	(36,641,825)
TOTAL LIABILITIES AND EQUITY	**$197,192,581**	$222,128,456

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 LOSS

	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Rentals from investment properties	**$ 4,449,474**	$ 4,880,593	**$ 8,916,977**	$ 9,525,108
Property operating costs	**2,828,493**	2,406,449	**5,647,063**	4,818,851
Net operating income	**1,620,981**	2,474,144	**3,269,914**	4,706,257
Interest income	**50,758**	44,612	**100,584**	90,224
Interest expense (Note 10)	**(3,749,689)**	(3,713,754)	**(7,395,823)**	(7,400,008)
Trust expense	**(322,573)**	(357,490)	**(703,447)**	(772,968)
Gain (loss) on sale of investment property (Note 4) (Note 7)	**(48,077)**	-	**(82,959)**	58,377
Fair value adjustments (Note 11)	**(8,399,644)**	(7,346,907)	**(23,505,387)**	(10,273,086)
Loss before discontinued operations	**(10,848,244)**	(8,899,395)	**(28,317,118)**	(13,591,204)
Income (loss) from discontinued operations (Note 7)	**(152,608)**	(10,543)	**(178,462)**	35,547
Loss and comprehensive loss	**$ (11,000,852)**	$ (8,909,938)	**$ (28,495,580)**	$ (13,555,657)
Loss per unit before discontinued operations: Basic and diluted	**$ (0.513)**	$ (0.421)	**$ (1.339)**	$ (0.643)
Income (loss) per unit from discontinued operations: Basic and diluted	**$ (0.007)**	$ (0.001)	**$ (0.008)**	$ 0.002
Loss per unit: Basic and diluted	**$ (0.520)**	$ (0.422)	**$ (1.347)**	$ (0.641)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Six Months Ended June 30	
	2018	**2017**
Issued capital (Note 13)		
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	**(28,495,580)**	(13,555,657)
Balance, end of period	**(124,656,806)**	(77,680,201)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(83,150,035)
Total deficit	**$ (65,137,405)**	$ (18,160,800)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Operating activities				
Loss and comprehensive loss	**$ (11,000,852)**	$ (8,909,938)	**$ (28,495,580)**	$ (13,555,657)
Adjustments to reconcile income to cash flows				
Fair value adjustments (Note 11)	**8,399,644**	7,346,907	**23,505,387**	10,273,086
Loss (gain) on sale of properties (Note 4)	**48,077**	-	**82,959**	(58,377)
Accrued rental revenue	**(48,481)**	(1,212)	**(67,634)**	11,848
Interest income	**(50,758)**	(44,612)	**(100,584)**	(90,224)
Interest received	**51,208**	44,591	**100,471**	90,483
Interest expense	**3,803,137**	3,757,446	**7,500,562**	7,492,306
Interest paid	**(2,561,932)**	(2,323,874)	**(5,037,800)**	(4,909,226)
Cash (used in) operations	**(1,359,957)**	(130,692)	**(2,512,219)**	(745,761)
(Increase) decrease in rent and other receivables	**(704)**	(139,932)	**119,873**	(75,170)
(Increase) in deposits and prepaids	**(409,042)**	(497,691)	**(84,084)**	(538,456)
Increase (decrease) in tenant deposits	**32,142**	29,734	**(88,692)**	35,326
Increase (decrease) in trade and other payables	**370,309**	(112,546)	**16,028**	(745,883)
	(1,367,252)	(851,127)	**(2,549,094)**	(2,069,944)
Cash provided by financing activities				
Repayment of mortgage loans on refinancing	**(1,000,000)**	-	**(4,200,000)**	-
Repayment of long-term debt	**(1,247,432)**	(878,861)	**(2,151,231)**	(1,746,405)
Proceeds of revolving loan facility (Note 15)	**-**	2,100,000	**-**	4,900,000
Proceeds of Shelter Canadian Properties Limited advances (Note 15)	**3,800,000**	-	**9,100,000**	-
Expenditures on transaction costs	**(29,605)**	(141,162)	**(423,923)**	(177,536)
	1,522,963	1,079,977	**2,324,846**	2,976,059
Cash (used in) investing activities				
Capital expenditures on investment properties	**(221,283)**	(158,139)	**(311,437)**	(329,883)
Capital expenditures on investment properties held for sale	**(10,994)**	578	**(89,474)**	(1,766)
Capital expenditures on property and equipment	**-**	(127,272)	**-**	(146,523)
Proceeds of sale (Note 4) (Note 7)	**21,185**	-	**9,813**	(106,107)
Change in restricted cash	**(106,558)**	(51,865)	**(16,162)**	(93,670)
	(317,650)	(336,698)	**(407,260)**	(677,949)
Cash (decrease) increase	**(161,939)**	(107,848)	**(631,508)**	228,166
Add (deduct) decrease (increase) in cash from discontinued operations (Note 7)	**(76,503)**	20,581	**(80,367)**	(9,481)
	(238,442)	(87,267)	**(711,875)**	218,685
Cash, beginning of period	**1,165,485**	1,012,720	**1,638,918**	706,768
Cash, end of period	**$ 927,043**	$ 925,453	**$ 927,043**	$ 925,453

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

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 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 unaudited interim condensed consolidated financial statements of the Trust for the three and six months ended June 30, 2018 and 2017 ("Financial Statements") have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on August 23, 2018.

The Trust's independent auditors did not perform a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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.

2 Basis of presentation and continuing operations (continued)

The Trust incurred a loss before discontinued operations of $10,848,244 for the three months ended June 30, 2018 (2017 - a loss of $8,899,395) and $28,317,118 for the six months ended June 30, 2018 (2017 - a loss of $13,591,204). The Trust incurred a cash deficiency from operating activities, after working capital adjustments, of $1,367,252 for the three months ended June 30, 2018 (2017 - $851,127) and $2,549,094 for the six months ended June 30, 2018 (2017 - $2,069,944). 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 $2,876,566 for the three months ended June 30, 2018 (2017 - $2,155,983) and $5,525,159 for the six months ended June 30, 2018 (2017 - $4,472,057).

The Trust has a working capital deficit of $747,687 as at June 30, 2018 (December 31, 2017 - working capital deficit of $402,631). The calculation of working capital excludes the revolving loan balance, the Shelter unsecured 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.

As of June 30, 2018, the Trust was in default of a mortgage loan with an aggregate principal balance of $27,834,465, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to previous defaults under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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.

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.

During the six months ended June 30, 2018, the Trust received $9,100,000 of advances from Shelter bringing the unsecured loan balance to $15,100,000 as of June 30, 2018.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved the removal of the restriction contained in the Declaration of Trust 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 was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remained 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.

2 Basis of presentation and continuing operations (continued)

Subsequent to June 30, 2018, additional advances of $17,200,000 were provided under the revolving loan facility and were used to repay the unsecured loan advances from Shelter in full and to fund operations.

Current divestiture activities focus on the sale of the remaining seniors' housing complex; the Lakewood Townhomes Condominium Sales Program; the property held for sale, inclusive of the condominium sales program for the remaining 29 townhouses that comprise part of the property; and other properties with consideration of the overall debt reduction requirements of the Trust. The timing and terms of property sales is uncertain.

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 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 condensed 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, 2017 audited financial statements, except for the first-time adoption of IFRS 9, IFRS 15 and IAS 40. The Financial Statements are based on IFRS standards issued and effective as at August 23, 2018.

2 Basis of presentation and continuing operations (continued)

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:

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.

Adoption of accounting standards

(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. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard as the single approach to classifying financial assets did not result in a reclassification of the Trust's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.

(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.

2 Basis of presentation and continuing operations (continued)

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.

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, 2017.

4 Investment properties

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Balance, beginning of period	$165,569,174	$195,391,325	$178,309,735	$198,099,131
Additions - capital expenditures	221,283	158,139	311,437	329,883
Fair value adjustments (Note 11)	(7,551,196)	(6,608,841)	(20,104,000)	(9,211,241)
Dispositions	-	-	(277,911)	(277,150)
Balance, end of period	$158,239,261	$188,940,623	$158,239,261	$188,940,623

During the second quarter of 2018, the Trust did not sell any property classified as investment properties.

During the first six months of 2018, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $322,000. The sale resulted in net cash shortfall of $11,372 after selling costs of $78,972 and the mortgage loan repayment of $254,400. The condominium unit had a carrying value of $277,911 and the sale resulted in a loss on sale of investment properties of $34,882.

4 *Investment properties* (continued)

During the first six months of 2017, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $360,000. The sale resulted in net cash shortfall of $106,107 after selling costs of $24,472 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 $58,377.

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 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:

	June 30 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.

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

	June 30 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 %

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

(iii) *Direct comparison*. The direct comparison method may occasionally be used when appropriate information is available, typically from an appraiser or realtor, such as the sale price of a comparable property or an offer to purchase a given property. In certain situations, properties with condominium title may be valued based on the selling price of comparable condominium units, net of selling and condominium conversion costs. Key assumptions associated with the above methods include the appropriateness of each comparison as well as the extent of selling and condominium conversion costs. The direct comparison method was factored into the valuation analysis prepared for Lakewood Townhomes (2017 - Lakewood Townhomes).

6 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.

7 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:

	June 30 2018	December 31 2017
ASSETS		
Investment properties held for sale (a)	$ 22,413,014	$ 26,695,124
Assets in discontinued operations		
Property and equipment	7,500,000	7,500,000
Cash (bank indebtedness)	56,878	(23,489)
Restricted cash	4,975	6,779
Rent and other receivables	315	1,098
Deposits, prepaids and other	12,808	19,726
	7,574,976	7,504,114
Assets held for sale	$ 29,987,990	$ 34,199,238
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	$ 3,425,527	$ 3,509,300
Trade and other payables	137,923	135,762
Deposits from tenants	12,646	10,055
Liabilities held for sale	$ 3,576,096	$ 3,655,117

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

Income information relating to discontinued operations are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Rental income	$ 366,773	$ 429,217	$ 733,494	$ 855,377
Property operating expenses	465,933	396,068	807,217	727,532
Net operating income (loss)	(99,160)	33,149	(73,723)	127,845
Interest expense	(53,448)	(43,692)	(104,739)	(92,298)
Income (loss) from discontinued operations	$ (152,608)	$ (10,543)	$ (178,462)	$ 35,547

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Cash (outflow) inflow from operating activities	$ (122,582)	$ (1,138)	$ (154,892)	$ 64,796
Cash inflow from financing activities	200,863	94,611	233,455	78,703
Cash inflow (outflow) from investing activities	(1,778)	(114,054)	1,804	(134,018)
Increase (decrease) in cash from discontinued operations	$ 76,503	$ (20,581)	$ 80,367	$ 9,481

(a) Investment properties held for sale

	June 30 2018	December 31 2017
Woodland Park	$ 22,413,014	$ 26,695,124

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Balance, beginning of period	$ 24,220,665	$ 31,021,627	$ 26,695,124	$ 31,343,062
Additions - capital expenditures	10,994	(578)	89,474	1,766
Fair value adjustments (Note 11)	(848,448)	(738,066)	(3,401,387)	(1,061,845)
Dispositions	(970,197)	-	(970,197)	-
Balance, end of period	$ 22,413,014	$ 30,282,983	$ 22,413,014	$ 30,282,983

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

(a) Investment properties held for sale (continued)

During the first six months of 2018, the Trust sold three condominium units at Woodland Park for an aggregate gross proceeds of $1,005,000. The sale resulted in net cash proceeds of $21,185 after selling costs of $82,881 and the mortgage loan repayment of $900,934. The condominium units had an aggregate carrying value of $970,197 and the sale resulted in a loss on sale of investment properties of $48,077.

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

(b) Long-term debt
The mortgage loan secured by the senior's home classified as discontinued operations with a principal balance of $3,425,527 matured on May 31, 2018 and is overholding pending completion of an annual credit review.

8 Long-term debt

	June 30 2018	December 31 2017
Secured debt		
Mortgage loans (a)	$ 181,593,872	$ 187,206,443
Revolving loan from 2668921 Manitoba Ltd.	30,000,000	30,000,000
Debentures	24,810,800	24,810,800
Total secured debt	236,404,672	242,017,243
Accrued interest and fees payable	5,343,258	3,846,114
Unamortized transaction costs		
Mortgage loans	(1,449,040)	(960,035)
Revolving loan from 2668921 Manitoba Ltd.	-	(10,827)
Total unamortized transaction costs	(1,449,040)	(970,862)
	240,298,890	244,892,495
Less current portion		
Mortgage loans	(72,449,487)	(155,907,526)
Revolving loan from 2668921 Manitoba Ltd.	(30,000,000)	(30,000,000)
Accrued interest and fees payable	(1,256,114)	(806,791)
Unamortized transaction costs	513,712	407,114
Total current portion	(103,191,889)	(186,307,203)
	$ 137,107,001	$ 58,585,292

8 *Long-term debt (continued)*

(a) Mortgage loans

	Weighted average interest rates		Amount	
	June 30 2018	December 31 2017	June 30 2018	December 31 2017
First mortgage loans				
Fixed rate	4.8%	4.7%	$ 98,207,331	$ 102,020,638
Variable rate	6.6%	6.4%	77,638,771	79,688,009
Total first mortgage loans	5.6%	5.4%	$ 175,846,102	$ 181,708,647
Second mortgage loans				
Total second mortgage loans	9.0%	9.0%	$ 5,747,770	$ 5,497,796
All mortgage loans				
Fixed rate	5.0%	4.9%	$ 103,955,101	$ 107,518,434
Variable rate	6.6%	6.4%	77,638,771	79,688,009
Total mortgage loans	5.7%	5.5%	$ 181,593,872	$ 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.

As of June 30, 2018, the Trust was in default of the payment of service fees on a mortgage loan in the aggregate principal amount of $27,834,465. The Trust continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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.

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

With the exception of one mortgage loan with a principal balance of $3,535,214 that matured on April 30, 2018 and is overholding pending completion of an annual credit review, all mortgages, secured by the investment properties, which have matured prior to the date of the Financial Statements have been renewed, refinanced or are under a forbearance agreement.

9 *Trade and other payables*

	June 30 2018	December 31 2017
Accounts payable	$ 1,215,923	$ 2,230,589
Accrued payables	577,599	313,249
Prepaid rent	245,239	271,309
Advances from Shelter (Note 15)	15,100,000	6,000,000
	$ 17,138,761	$ 8,815,147

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

10 Interest expense

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Mortgage loan interest	$ 2,653,714	$ 2,772,892	$ 5,277,883	$ 5,536,113
Revolving loan interest	373,973	325,726	743,836	622,493
Debenture interest	310,135	310,135	620,270	620,270
Shelter advances interest	162,287	-	259,427	-
Amortization of transaction costs	249,580	305,001	494,407	621,132
	$ 3,749,689	$ 3,713,754	$ 7,395,823	$ 7,400,008

11 Fair value adjustments

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Fair value adjustments - investment properties (Note 4)	$ (7,551,196)	$ (6,608,841)	$ (20,104,000)	$ (9,211,241)
Fair value adjustments - investment properties held for sale (Note 7)	(848,448)	(738,066)	(3,401,387)	(1,061,845)
	$ (8,399,644)	$ (7,346,907)	$ (23,505,387)	$ (10,273,086)

12 Per unit calculations

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Loss before discontinued operations	$ (10,848,244)	$ (8,899,395)	$ (28,317,118)	$ (13,591,204)
Income (loss) from discontinued operations	(152,608)	(10,543)	(178,462)	35,547
Loss and comprehensive loss	$ (11,000,852)	$ (8,909,938)	$ (28,495,580)	$ (13,555,657)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of units:				
Units	20,557,320	20,557,320	20,557,320	20,557,320
Deferred units	591,576	591,576	591,576	591,576
Total basic and diluted	21,148,896	21,148,896	21,148,896	21,148,896

13 *Units and deferred units*

As of June 30, 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.

14 *Unit option plan*

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

	Six Months Ended June-30-18		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	

15 *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. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. 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 $179,053 for the three months ended June 30, 2018 (2017 - $205,469) and $356,788 for the six months ended June 30, 2018 (2017 - $395,927).

15 Related party transactions (continued)

Property management agreement (continued)
Included in trade and other payables at June 30, 2018 is a balance of $8,592 payable to Shelter (December 31, 2017 - $8,302 receivable) 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 $225,124 for the three months ended June 30, 2018 (2017 - $224,529) and $450,740 for the six months ended June 30, 2018 (2017 - $449,121).

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 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 $19,217 for the six months ended June 30, 2018 (2017 - $18,900).

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 $65,325 for the six months ended June 30, 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	n/a

***** 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.

15 Related party transactions (continued)

Financing (continued)

Revolving loan (continued)

During the first six months ended June 30, 2018, the Trust received advances of nil (2017 - $4,900,000) and repaid advances of nil (2017 - nil) against the revolving loan, resulting in a balance of $30,000,000 (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 $373,973 for the three months ended June 30, 2018 (2017 - $325,726) and $743,836 for the six months ended June 30, 2018 (2017 - $622,493) is included in interest expense.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved the removal of the restriction contained in the Declaration of Trust 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 was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remained 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 revolving loan facility was considered and approved by the independent Trustees.

Shelter loan advances

During the six months ended June 30, 2018, Shelter made unsecured loan advances totaling $9,100,000 to the Trust (2017 - nil), the terms of which provide 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 six months ended June 30, 2018, the Trust made repayments of nil (2017 - nil), resulting in an outstanding unsecured loan balance of $15,100,000 at June 30, 2018 (December 31, 2017 - $6,000,000). The unsecured loan is included in trade and other payables.

Interest on the Shelter advances of $162,287 for the three months ended June 30, 2018 (2017 - nil) and $259,427 for the six months ended June 30, 2018 (2017 - nil) is included in interest expense.

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan. 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. On April 1, 2017, the mortgage loan was renewed at an interest rate of 9% per annum and matures on March 31, 2019. The amended mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of June 30, 2018, the amount owing on the mortgage loan was $5,747,770 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

15 Related party transactions (continued)

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.

16 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
As of June 30, 2018, the Trust was in default of a mortgage loan with an aggregate principal balance of $27,834,465, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to previous defaults under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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.

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.

16 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
As at June 30, 2018, the weighted average term to maturity of the fixed rate mortgages on investment properties is 1.8 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				
June 30, 2018	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2018 - Remainder of year	$ 3,459,218	$ 32,697,004	$ 30,000,000	$ 23,798,258	$ 89,954,480
2019	6,280,818	45,605,584	-	-	51,886,402
2020	3,975,502	64,698,184	-	-	68,673,686
2021	545,916	12,931,045	-	-	13,476,961
Thereafter	1,030,127	10,370,474	24,810,800	-	36,211,401
	$ 15,291,581	$166,302,291	$ 54,810,800	$ 23,798,258	$260,202,930

(1) If the lender of the one mortgage loan that is in default as of the date of this report demanded repayment during 2018 and the chart above was adjusted to reflect the repayments, the total repayment obligations due in 2018 would increase to $117,788,945, the total long-term debt due in 2019 would decrease to $24,051,937, the total long-term debt due in 2020 and beyond would remain the same.

(2) Other debt includes a revolving loan with balance outstanding of $30,000,000, which matured on June 30, 2018, and Series G debentures with balance outstanding of $24,810,800, due on June 30, 2022. Subsequent to June 30, 2018, the revolving loan was renewed with a December 31, 2019 maturity date.

(3) Other payables include trade and other payables, accrued interest 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 June 30, 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 $77,638,771, or 43% of the total mortgage loans at June 30, 2018 (December 31, 2017 - $79,688,009 or 43%). Should interest rates change by 1%, interest expense would change by $776,388 per year.

As at June 30, 2018, the Trust has total mortgage principal maturities on investment properties which mature on or prior to June 30, 2020 of $80,457,399 representing 44% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $804,574 per year.

The Trust has not traded in derivative financial instruments.

16 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:

	June 30 2018	December 31 2017
Rent receivable overdue:		
0 to 30 days	$ 88,709	$ 98,925
31 to 60 days	28,840	35,456
More than 60 days	63,562	65,575
	$ 181,111	$ 199,956

	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Balance, beginning of period	$ 46,577	$ 97,230	$ 56,339	$ 109,748
Amount charged to bad debt expense relating to impairment of rent receivable	20,240	(33,860)	25,815	(20,962)
Amounts written off as uncollectible	(11,792)	(27,150)	(27,129)	(52,566)
Balance, end of period	$ 55,025	$ 36,220	$ 55,025	$ 36,220
Amount charged to bad debts as a percent of rentals from investment properties	0.45%	-0.69%	0.29%	-0.22%

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, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $27,088,121 (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 condensed consolidated financial statements.

16 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.

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 2018	December 31 2017	June 30 2018	December 31 2017
Financial assets				
Restricted cash	$ 2,418,142	$ 2,400,176	$ 1,892,493	$ 1,886,901
Cash	927,043	1,638,918	927,043	1,638,918
Rent and other receivables	407,991	459,234	407,991	459,234
Deposits	674,493	585,261	674,493	585,261
Financial liabilities				
Mortgages loans	181,593,872	187,206,443	200,778,160	204,615,479
Debentures	24,810,800	24,810,800	2,114,733	2,721,945
Trade and other payables	17,138,761	8,815,147	17,138,761	8,815,147
Deposits from tenants	1,316,239	1,407,522	1,316,239	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.

16 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 4.71% and 5.95%.
- 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.

17 Reconciliation of liabilities arising from financing activities

	Six Months Ended June 30, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (2,151,231)	$ (2,060,842)	$ (90,389)
Repayment of mortgage loans on refinancing	(4,200,000)	(4,200,000)	-
Reduction of mortgage loans on sale of properties	(1,155,334)	(1,155,334)	-
Non cash - interest and fees capitalized, net of repayment	1,803,605	1,803,605	-
Decrease in mortgage loans	(5,702,960)	(5,612,571)	(90,389)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - June 30, 2018	$ 185,019,399	$ 181,593,872	$ 3,425,527

18 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.

18 Segmented financial information (continued)

Three months ended June 30, 2018:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,693,273	369,677	386,524	-	4,449,474
Property operating costs	2,145,605	389,788	293,100	-	2,828,493
Net operating income	1,547,668	(20,111)	93,424	-	1,620,981
Interest income	7,540	600	1,891	40,727	50,758
Interest expense	2,342,304	146,652	408,845	851,888	3,749,689
Loss before discontinued operations	(7,863,595)	(640,860)	(1,210,055)	(1,133,734)	(10,848,244)
Cash from (used in) operating activities	(271,340)	(78,630)	(95,019)	(799,395)	(1,244,384)
Cash from (used in) financing activities	354,726	111,900	37,478	817,996	1,322,100
Cash from (used in) investing activities	(256,666)	(38,653)	(20,008)	(831)	(316,158)

Three months ended June 30, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,800,949	391,025	688,619	-	4,880,593
Property operating costs	1,883,781	300,223	222,445	-	2,406,449
Net operating income	1,917,168	90,802	466,174	-	2,474,144
Interest income	3,444	289	679	40,200	44,612
Interest expense	2,311,044	120,871	641,090	640,749	3,713,754
Income (loss) before discontinued operations	(6,881,602)	(147,450)	(912,305)	(958,038)	(8,899,395)
Cash from (used in) operating activities	(293,413)	(24,120)	66,425	(598,881)	(849,989)
Cash from (used in) financing activities	440,272	46,934	(100,153)	598,313	985,366
Cash from (used in) investing activities	(225,574)	(2,271)	2,253	2,948	(222,644)

Six months ended June 30, 2018:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	7,349,353	787,825	779,799	-	8,916,977
Property operating costs	4,353,123	746,070	547,870	-	5,647,063
Net operating income	2,996,230	41,755	231,929	-	3,269,914
Interest income	14,359	1,188	2,893	82,144	100,584
Interest expense	4,722,833	286,189	752,441	1,634,360	7,395,823
Loss before discontinued operations	(20,310,257)	(1,786,439)	(3,967,083)	(2,253,339)	(28,317,118)
Cash used in operating activities	(463,876)	(142,802)	(162,601)	(1,624,637)	(2,393,916)
Cash from (used in) financing activities	331,641	233,982	31,544	1,494,224	2,091,391
Cash from (used in) investing activities	(240,053)	(97,659)	(74,588)	2,950	(409,350)
Total assets excluding discontinued operations (Note 7) at June 30, 2018	151,318,556	10,968,534	22,669,171	4,661,344	189,617,605

18 Segmented financial information (continued)

Six months ended June 30, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	7,371,036	774,218	1,379,854	-	9,525,108
Property operating costs	3,743,618	604,955	470,278	-	4,818,851
Net operating income	3,627,418	169,263	909,576	-	4,706,257
Interest income	7,846	569	1,356	80,453	90,224
Interest expense	4,590,345	250,821	1,306,443	1,252,399	7,400,008
Income (loss) before discontinued operations	(9,991,486)	(197,519)	(1,457,357)	(1,944,842)	(13,591,204)
Cash from (used in) operating activities	(535,955)	(36,627)	(9,023)	(1,553,135)	(2,134,740)
Cash from (used in) financing activities	1,462,310	54,845	(166,767)	1,546,968	2,897,356
Cash from (used in) investing activities	(533,613)	(11,425)	7,009	(5,902)	(543,931)
Total assets excluding discontinued operations (Note 7) at December 31, 2017	170,345,640	12,318,910	27,141,421	4,818,371	214,624,342

19 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.

20 Subsequent events

Revolving loan facility renewal/amendment
Effective July 1, 2018, the revolving loan facility was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date of the facility to December 31, 2019. The interest rate under the amended facility remained 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.

Revolving loan
Subsequent to June 30, 2018, the Trust received advances of $17,200,000 and repaid nil on the revolving loan, resulting in a balance of $47,200,000 as of the date of the Financial Statements. The revolving loan advances were used to fully repay the outstanding unsecured loan from Shelter in the amount of $15,100,000 and to fund operations.

Shelter advances
Subsequent to June 30, 2018, the Trust received advances from Shelter of nil and repaid $15,100,000, resulting in an unsecured loan balance of nil as of the date of the issuance of the Financial Statements.

Mortgage renewal
Subsequent to June 30, 2018, one mortgage loan with a principal balance of $2,617,600 matured and was renewed for a 24 month term, maturing on July 1, 2020, at interest rate of 6%. An initial paydown of $500,000 was paid on July 25, 2018 concurrent with the execution of the Extension Agreement. An additional paydown of $500,000 is due every 6 months thereafter throughout the term or until the loan is repaid in full.