LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2017	December 31 2016
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$195,391,325**	$198,099,131
Loan receivable (Note 6)	**4,000,000**	4,000,000
Restricted cash	**2,691,158**	2,650,066
Total non-current assets	**202,082,483**	204,749,197
Current assets		
Cash	**1,012,720**	706,768
Rent and other receivables	**339,434**	394,131
Deposits and prepaids	**826,970**	780,126
	2,179,124	1,881,025
Assets held for sale (Note 7)	**38,471,213**	38,772,107
Total current assets	**40,650,337**	40,653,132
TOTAL ASSETS	**$242,732,820**	$245,402,329
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 8)	**$ 69,951,230**	$112,396,096
Total non-current liabilities	**69,951,230**	112,396,096
Current liabilities		
Trade and other payables (Note 9)	**2,588,211**	3,207,534
Current portion of long-term debt (Note 8)	**174,023,099**	128,921,415
Deposits from tenants	**1,533,952**	1,529,110
	178,145,262	133,658,059
Liabilities held for sale (Note 7)	**3,887,190**	3,953,317
Total current liabilities	**182,032,452**	137,611,376
Total liabilities	**251,983,682**	250,007,472
Total deficit	**(9,250,862)**	(4,605,143)
TOTAL LIABILITIES AND EQUITY	**$242,732,820**	$245,402,329

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31	
	2017	**2016**
Rentals from investment properties	**$ 4,644,515**	$ 4,451,462
Property operating costs	**2,412,402**	2,792,105
Net operating income	**2,232,113**	1,659,357
Interest income	**45,612**	17,253
Interest expense (Note 10)	**(3,686,254)**	(5,656,180)
Trust expense	**(415,478)**	(556,430)
Gain on sale of investment property (Note 7) (Note 4)	**58,377**	-
Fair value adjustments (Note 11)	**(2,926,179)**	(3,104,229)
Loss before discontinued operations	**(4,691,809)**	(7,640,229)
Income from discontinued operations (Note 7)	**46,090**	40,932
Loss and comprehensive loss	**$ (4,645,719)**	$ (7,599,297)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (0.222)**	$ (0.361)
Income per unit from discontinued operations:		
Basic and diluted	**$ 0.002**	$ 0.002
Loss per unit:		
Basic and diluted	**$ (0.220)**	$ (0.359)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Three Months Ended March 31 2017	2016
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	**(64,124,544)**	(62,394,420)
Loss and comprehensive loss	**(4,645,719)**	(7,599,297)
Balance, end of period	**(68,770,263)**	(69,993,717)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(83,150,035)
Total deficit	**$ (9,250,862)**	$ (10,474,316)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2017	Three Months Ended March 31 2016
Operating activities		
Loss and comprehensive loss	**$ (4,645,719)**	$ (7,599,297)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 11)	**2,926,179**	3,104,229
Fair value adjustment - Property and equipment (Note 7)	**-**	214,494
Gain on sale of properties	**(58,377)**	-
Accrued rental revenue	**13,060**	30,483
Interest income	**(45,612)**	(17,253)
Interest received	**45,892**	16,957
Interest expense	**3,734,860**	5,888,733
Interest paid	**(2,585,352)**	(3,292,734)
Cash used in operations	**(615,069)**	(1,654,388)
Decrease in rent and other receivables	**64,762**	96,684
Increase in deposits and prepaids	**(40,765)**	(71,033)
Increase (decrease) in tenant deposits	**5,592**	(68,212)
Increase (decrease) in trade and other payables	**(633,337)**	284,577
	(1,218,817)	(1,412,372)
Cash provided by (used in) financing activities		
Repayment of long-term debt	**(867,544)**	(1,191,354)
Prepayment of mortgage loans	**-**	(7,500,000)
Proceeds of revolving loan facility	**2,800,000**	10,900,000
Expenditures on transaction costs	**(36,374)**	(60,381)
	1,896,082	2,148,265
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(171,744)**	(138,833)
Capital expenditures on investment properties held for sale	**(2,344)**	-
Capital expenditures on property and equipment	**(19,251)**	(214,494)
Decrease in defeasance assets	**-**	38,433
Proceeds of sale	**(106,107)**	-
Change in restricted cash	**(41,805)**	35,638
	(341,251)	(279,256)
Cash increase	**336,014**	456,637
Deduct increase in cash from discontinued operations (Note 7)	**(30,062)**	(249,681)
	305,952	206,956
Cash, beginning of period	**706,768**	407,513
Cash, end of period	**$ 1,012,720**	$ 614,469

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

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX, it does not anticipate satisfying such requirements in the foreseeable future and that it intends to transition the listings to the TSX Venture Exchange (TXSV) or other stock exchange in Canada.

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

2 *Basis of presentation and continuing operations*

The interim condensed consolidated financial statements of the Trust for the three months ended March 31, 2017 and 2016 ("Financial Statements") have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*. Accordingly, certain information and note disclosure 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 May 8, 2017.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation (2016 - 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 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 and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $4,691,809 for the three months ended March 31, 2017 (2016 - a loss of $7,640,229). The Trust incurred a cash deficiency from operating activities of $1,218,817 for the three months ended March 31, 2017 (2016 - $1,412,372). 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 $2,316,074 for the three months ended March 31, 2017 (2016 - $3,017,434).

2 Basis of presentation and continuing operations (continued)

In addition, the Trust has a working capital deficit of $415,939 as at March 31, 2017 (December 31, 2016 - $1,333,161).

As of March 31, 2017, the Trust is current with respect to all debt service payments. However, the lender of five mortgage loans on eight properties with an aggregate principal balance of $64,693,639, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at March 31, 2017 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans. In the event that full repayment is demanded on the mortgage loans in 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 has achieved and is continuing to pursue debt restructuring arrangements with certain of its lenders, pursuing additional property sales under 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 remaining seniors' housing complex, the one property classified as held for sale, the Lakewood Townhomes Condominium Sales Program, and the sale of other properties with consideration of the debt reduction needs 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 and, in the near term, is also dependent on the demand for rental accomodations 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 ability of the Trust to complete additional property sales at prices which exceed the indebtedness related to such properties.

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

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

2 Basis of presentation and continuing operations (continued)

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, 2016 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at May 8, 2017.

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. Management does not anticipate a significant impact on the consolidated financial statements as the single approach to classifying financial assets is not expected to result in a reclassification of LREIT'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, with earlier adoption permitted. LREIT'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, management does not anticipate a significant impact on the consolidated financial statements to result from the adoption of IFRS 15.

(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. LREIT's leasing activity is primarily comprised of the leasing of residential units under operating leases. LREIT also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and LREIT has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

2 Basis of presentation and continuing operations (continued)

Future changes to significant accounting policies (continued)

(iv) 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, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as a result of the clarifications in the amendment.

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, 2016.

4 Investment properties

	Three Months Ended March 31	
	2017	2016
Balance, beginning of period	$198,099,131	$216,434,958
Additions - capital expenditures	171,744	138,833
Fair value adjustments (Note 11)	(2,602,400)	(3,104,229)
Dispositions	(277,150)	-
Investment properties transferred to held for sale (Note 7)	-	(28,946,095)
Balance, end of period	$195,391,325	$184,523,467

During the first quarter of 2017, the Trust did not sell any property classified as investment properties except 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.

During the first quarter of 2016, the Trust did not sell any property classified as investment properties, however, $28,946,095 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:

	March 31 2017		December 31 2016	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.25 %	8.25 %
Other	5.25 %	7.50 %	5.25 %	7.50 %

(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:

	March 31 2017		December 31 2016	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.25 %	10.25 %
Other	7.25 %	9.50 %	7.25 %	9.50 %

(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 (2016 - 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 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.

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

	March 31 2017	December 31 2016
ASSETS		
Investment properties held for sale (a)	$ 31,021,627	$ 31,343,062
Assets in discontinued operations		
Property and equipment	7,441,736	7,422,485
Cash (bank indebtedness)	(17,256)	(47,318)
Restricted cash	19,508	18,795
Rent and other receivables	1,098	24,502
Deposits, prepaids and other	4,500	10,581
	7,449,586	7,429,045
Assets held for sale	$ 38,471,213	$ 38,772,107
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 3,659,944	$ 3,712,306
Trade and other payables	211,891	226,406
Deposits from tenants	15,355	14,605
Liabilities held for sale	$ 3,887,190	$ 3,953,317

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

Income information relating to discontinued operations are as follows:

	Three Months Ended March 31 2017	Three Months Ended March 31 2016
Rental income	$ 426,160	$ 1,378,405
Property operating expenses	331,464	890,426
Net operating income	94,696	487,979
Interest expense	(48,606)	(232,553)
Fair value adjustment	-	(214,494)
Income from discontinued operations	$ 46,090	$ 40,932

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended March 31 2017	Three Months Ended March 31 2016
Cash inflow from operating activities	$ 65,934	$ 312,659
Cash inflow (outflow) from financing activities	(15,908)	152,116
Cash outflow from investing activities	(19,964)	(215,094)
Increase in cash from discontinued operations	$ 30,062	$ 249,681

(a) Investment properties held for sale

	March 31 2017	December 31 2016
Woodland Park	$ 31,021,627	$ 31,343,062

	Three Months Ended March 31 2017	Three Months Ended March 31 2016
Balance, beginning of period	$ 31,343,062	$ 31,960,000
Investment properties transferred to held for sale (Note 4)	-	28,946,095
Additions - capital expenditures	2,344	-
Fair value adjustments (Note 11)	(323,779)	-
Balance, end of period	$ 31,021,627	$ 60,906,095

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

(a) Investment properties held for sale (continued)

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

During 2016, the Trust sold Beck Court on May 1, 2016 and Willowdale Gardens on May 1, 2016:

Property	Selling Price	Selling Costs and Other	Net Cash Proceeds after debt repaid/assumed	Carrying Value	Gain(Loss) on Sale
Beck Court	$ 23,000,000	$ (8,094)	$ 3,471,953	$ (22,975,000)	$ 16,906
Willowdale Gardens	9,000,000	(10,920)	5,948,114	(8,985,000)	4,080
	$ 32,000,000	$ (19,014)	$ 9,420,067	$ (31,960,000)	$ 20,986

8 Long-term debt

	March 31 2017	December 31 2016
Secured debt		
Mortgage loans (a)	$ 192,144,104	$ 192,674,077
Revolving loan from 2668921 Manitoba Ltd. (b)	25,100,000	22,300,000
Debentures	24,810,800	24,810,800
Total secured debt	242,054,904	239,784,877
Accrued interest payable	2,909,457	2,610,724
Unamortized transaction costs		
Mortgage loans	(964,102)	(1,047,413)
Revolving loan from 2668921 Manitoba Ltd.	(25,930)	(30,677)
Total unamortized transaction costs	(990,032)	(1,078,090)
	243,974,329	241,317,511
Less current portion		
Mortgage loans	(148,521,136)	(106,278,394)
Revolving loan from 2668921 Manitoba Ltd.	(25,100,000)	(22,300,000)
Accrued interest payable	(800,539)	(811,941)
Unamortized transaction costs	398,576	468,920
Total current portion	(174,023,099)	(128,921,415)
	$ 69,951,230	$ 112,396,096

8 *Long-term debt (continued)*

(a) Mortgage loans

	Weighted average interest rates		Amount	
	March 31 2017	December 31 2016	March 31 2017	December 31 2016
First mortgage loans				
Fixed rate	5.1%	5.1%	$ 79,975,008	$ 80,471,688
Variable rate	6.1%	6.1%	107,030,432	107,209,774
Total first mortgage loans	5.6%	5.6%	$ 187,005,440	$ 187,681,462
Second mortgage loans				
Total second mortgage loans	11.8%	11.8%	$ 5,138,664	$ 4,992,615
All mortgage loans				
Fixed rate	5.5%	5.5%	$ 85,113,672	$ 85,464,303
Variable rate	6.1%	6.1%	107,030,432	107,209,774
Total mortgage loans	5.8%	5.8%	$ 192,144,104	$ 192,674,077

As of March 31, 2017, the Trust was in default of five mortgage loans in the aggregate principal amount of $64,693,639 related to eight 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, except for one mortgage loan in forbearance with a balance of $25,170,364 and one mortgage loan with a balance of $3,212,873 that are currently overholding past their maturity dates of February 28, 2017 and March 1, 2017, respectively.

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

(b) Revolving loan

The Trust obtained a revolving loan from 2668921 Manitoba Limited (the parent company of Shelter). The revolving loan is for a three year term, maturing June 30, 2018, with a maximum balance of $30,000,000. On July 1, 2016, the interest rate was reduced from 12% to 5%. On November 14, 2016, the maximum balance was increased from $18,000,000 to $30,000,000. Advances on the revolving loan are made at the discretion of 2668921 Manitoba Ltd. and the revolving loan is payable on demand.

9 *Trade and other payables*

	March 31 2017	December 31 2016
Accounts payable	$ 1,925,863	$ 2,390,614
Accrued payables	273,131	506,655
Prepaid rent	389,217	310,265
	$ 2,588,211	$ 3,207,534

10 *Interest expense*

	Three Months Ended March 31 2017	2016
Mortgage loan interest	$ 2,763,221	$ 3,313,569
Revolving loan interest	296,767	463,984
Debenture interest	310,135	589,257
Amortization of transaction costs	316,131	1,289,370
	$ 3,686,254	$ 5,656,180

11 *Fair value adjustments*

Fair value adjustments consist of the following:

	Three Months Ended March 31 2017	2016
Fair value adjustments - investment properties (Note 4)	$ (2,602,400)	$ (3,104,229)
Fair value adjustments - investment properties held for sale (Note 7)	(323,779)	-
	$ (2,926,179)	$ (3,104,229)

12 *Per unit calculations*

	Three Months Ended March 31 2017	2016
Loss before discontinued operations	$ (4,691,809)	$ (7,640,229)
Income from discontinued operations	46,090	40,932
Loss	$ (4,645,719)	$ (7,599,297)

12 Per unit calculations (continued)

	Three Months Ended March 31 2017	Three Months Ended March 31 2016
Weighted average number of units:		
Units	20,557,320	20,252,386
Deferred units	591,576	896,510
Total basic and diluted	21,148,896	21,148,896

13 Units

	Three Months Ended March 31, 2017		Year Ended December 31, 2016	
	Units	Amount	Units	Amount
Outstanding, beginning of period	20,557,320	$125,641,529	20,252,386	$125,641,529
Redemption of deferred units	-	-	304,934	-
Outstanding, end of period	20,557,320	$125,641,529	20,557,320	$125,641,529

14 Unit option plan

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

	Three Months Ended March-31-17		Year Ended December 31, 2016	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	240,000	$ 0.99	446,000	$ 0.71
Cancelled, July 10, 2016	-	-	(20,000)	0.60
Cancelled, July 10, 2016	-	-	(10,000)	0.65
Cancelled, December 12, 2016	-	-	(176,000)	0.34
Cancelled, February 18, 2017	(5,000)	1.11	-	-
Outstanding, end of period	235,000	$ 0.98	240,000	$ 0.99
Vested, end of period	235,000		240,000	

At March 31, 2017 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.60	40,000	40,000	November 19, 2017
0.65	20,000	20,000	January 15, 2018
1.11	175,000	175,000	May 19, 2019
	235,000	235,000	

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 an officer and 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, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts and compensation for reimbursable expenses from the investment properties owned by the Trust. 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 $190,458 for the three months ended March 31, 2017 (2016 - $174,055).

Included in trade and other payables at March 31, 2017 is a balance of $254,135 payable to Shelter (December 31, 2016 - $247,215) 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, fair value gains (losses) and defeasance assets. Service fees are included in trust expense.

The Trust incurred service fees payable to Shelter of $224,592 for the three months ended March 31, 2017 (2016 - $260,133).

15 Related party transactions (continued)

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 $18,900 for the three months ended March 31, 2017 (2016 - nil).

Financing
Revolving loan
On January 1, 2016, the Trust had an $18,000,000 revolving loan facility from 2668921 Manitoba Ltd. for general operating purposes. The revolving loan facility was increased to $30,000,000 effective November 14, 2016.

A summary of the terms for the revolving loan facility from July 1, 2015 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
July 1, 2015	June 30, 2016	25,000	12.00 %	6,480,000 *	18,000,000
July 1, 2016	November 13, 2016	-	5.00 %	6,480,000 *	18,000,000
November 14, 2016	June 30, 2018	-	5.00 %	6,480,000 *	30,000,000

***** Notwithstanding the amendments to the revolving loan facility subsequent to July 1, 2015, the maximum interest charge allowable for the three-year term from July 1, 2015 to June 30, 2018 is $6,480,000.

During the three months ended March 31, 2017, the Trust received advances of $2,800,000 (2016 - $10,900,000) and repaid advances of nil (2016 - nil) against the revolving loan, resulting in a balance of $25,100,000 (December 31, 2016 - $22,300,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $296,767 for the three months ended March 31, 2017 (2016 - $463,984) is included in interest expense.

15 Related party transactions (continued)

Financing (continued)

Revolving loan (continued)

The loan is secured by mortgage charges against the title of the remaining seniors' housing complex and the assignment of a vendor take-back mortgage.

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

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.

As of March 31, 2017, the amount owing on the mortgage loan was $5,138,664, inclusive of accrued interest, and bore interest at a rate of 11.75% per annum. 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.

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

The lender of five mortgage loans on eight properties with an aggregate principal balance of $64,693,639, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at March 31, 2017 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loan. In the event that full repayment is demanded on the mortgage loans in default as of the date of this report, the Trust would be unable to satisfy these obligations with its current resources.

16 Financial instruments and risk management (continued)

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

As at March 31, 2017, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.2 years (December 31, 2016 - 2.4 years).

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

	Mortgage Loans				
March 31, 2017	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2017	$ 2,134,538	$ 56,703,767	$ -	$ 7,031,620	$ 65,869,925
2018	1,482,346	92,199,488	25,100,000	-	118,781,834
2019	385,225	27,302,754	-	-	27,687,979
2020	261,845	-	-	-	261,845
Thereafter	1,303,667	10,370,474	24,810,800	-	36,484,941
	$ 5,567,621	$186,576,483	$ 49,910,800	$ 7,031,620	$249,086,524

(1) If the lenders of the five mortgage loans that are in default as of the date of this report demanded repayment during 2017 and the chart above was adjusted to reflect the repayments, the total repayment obligations due in 2017 would increase to $112,766,000, the total long-term debt due in 2018 would decrease to $99,323,086, the total long-term debt due in 2019 would decrease to $250,652, and the total long-term debt due in 2020 and beyond would remain the same.

16 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)

(2) Other debt includes a revolving loan with balance outstanding of $25,100,000, maturing June 30, 2018, and Series G debentures with balance outstanding of $24,810,800, due on June 30, 2022.

(3) Other payables include trade and other payables, accrued interest 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 March 31, 2017 the percentage of fixed rate mortgage loans to total mortgage loans was 44% (December 31, 2016 - 44%).

The Trust has variable rate mortgage loans on investment properties totaling $107,030,432, or 56% of the total mortgage loans at March 31, 2017 (December 31, 2016 - 56%). Should interest rates change by 1%, interest expense would change by $1,070,304 per year.

As at March 31, 2017, the Trust has total mortgage principal maturities on investment properties which mature on or prior to March 31, 2020 of $179,544,334 representing 93% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,795,443 per year.

With the exception of the interest rate swap arrangement eliminated in the first quarter of 2015, the Trust has not traded in derivative 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 and a reconciliation of allowance for doubtful accounts:

	March 31 2017	December 31 2016
Rent receivable overdue:		
0 to 30 days	$ 162,951	$ 76,506
31 to 60 days	52,894	55,348
More than 60 days	53,707	171,519
	$ 269,552	$ 303,373

16 Financial instruments and risk management (continued)

Credit risk (continued)

	Three Months Ended March 31 2017	2016
Balance, beginning of period	$ 109,748	$ 31,502
Amount charged to bad debt expense relating to impairment of rent receivable	12,898	15,172
Amounts written off as uncollectible	(25,416)	(13,603)
Balance, end of period	$ 97,230	$ 33,071
Amount charged to bad debts as a percent of rentals from investment properties	0.28%	0.34%

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 March 31, 2017, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $29,100,153 (December 31, 2016 - $29,312,604) which expires between 2017 and 2022 (December 31, 2016 - expires between 2017 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.

16 Financial instruments and risk management (continued)

Fair values

A comparison of the carrying value and fair value of the financial instruments of the Trust is provided below.

	Carrying Value		Fair Value	
	March 31 2017	December 31 2016	March 31 2017	December 31 2016
Financial assets				
Restricted cash	$ 2,691,158	$ 2,650,066	$ 2,239,933	$ 2,127,195
Cash	1,012,720	706,768	1,012,720	706,768
Rent and other receivables	339,434	394,131	339,434	394,131
Deposits	488,582	186,172	488,582	186,172
Financial liabilities				
Mortgages loans	192,144,104	192,674,077	208,640,064	209,179,279
Debentures	24,810,800	24,810,800	4,749,575	5,830,338
Trade and other payables	2,588,211	3,207,534	2,588,211	3,207,534
Deposits from tenants	1,533,952	1,529,110	1,533,952	1,529,110

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.
- 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 3.82% and 4.90%.
- 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 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 March 31, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,570,087	383,193	691,235	-	4,644,515
Property operating costs	1,859,837	304,732	247,833	-	2,412,402
Net operating income	1,710,250	78,461	443,402	-	2,232,113
Interest income	4,402	280	677	40,253	45,612
Interest expense	2,279,301	129,950	665,353	611,650	3,686,254
Loss before discontinued operations	(3,109,884)	(50,069)	(545,052)	(986,804)	(4,691,809)
Cash used in operating activities	(242,542)	(12,507)	(75,448)	(954,254)	(1,284,751)
Cash from (used in) financing activities	1,022,038	7,911	(66,614)	948,655	1,911,990
Cash from (used in) investing activities	(308,039)	(9,154)	4,756	(8,850)	(321,287)
Total assets excluding discontinued operations (Note 7) at March 31, 2017	186,454,955	12,768,730	31,411,348	4,648,202	235,283,235

Three Months ended March 31, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	2,744,317	419,002	1,288,143	-	4,451,462
Property operating costs	1,907,568	280,385	604,152	-	2,792,105
Net operating income	836,749	138,617	683,991	-	1,659,357
Interest income	2,437	307	1,035	13,474	17,253
Interest expense	3,520,469	134,302	845,676	1,155,733	5,656,180
Income (loss) before discontinued operations	(5,823,350)	4,621	(122,811)	(1,698,688)	(7,640,228)
Cash from (used in) operating activities	(1,514,301)	(7,705)	589,579	(623,872)	(1,556,299)
Cash from (used in) financing activities	1,664,948	45,470	(552,215)	660,446	1,818,649
Cash from (used in) investing activities	(96,281)	7,269	(4,815)	38,433	(55,394)
Total assets excluding discontinued operations (Note 7) at December 31, 2016	188,686,260	12,737,785	31,932,743	4,616,496	237,973,284

18 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.

19 Subsequent events

Revolving loan
Subsequent to March 31, 2017, the Trust received advances of $1,000,000 and repaid nil on the revolving loan, resulting in a balance of $26,100,000 as of the date of the Financial Statements.