LANESBOROUGH REIT

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2015

## LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | September 30 2015 | December 31 2014 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment properties (Note 4) | **$275,334,435** | $406,619,555 |
| Defeasance assets | **2,618,370** | 2,731,947 |
| Restricted cash | **3,429,230** | 3,480,259 |
| **Total non-current assets** | **281,382,035** | 412,831,761 |
| **Current assets** | | |
| Cash | **590,689** | 1,963,735 |
| Rent and other receivables | **584,405** | 1,663,043 |
| Deposits and prepaids | **1,563,362** | 1,190,396 |
| | **2,738,456** | 4,817,174 |
| Assets held for sale (Note 5) | **93,273,705** | 25,124,665 |
| **Total current assets** | **96,012,161** | 29,941,839 |
| **TOTAL ASSETS** | **$377,394,196** | $442,773,600 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Long-term debt (Note 6) | **$162,830,148** | $101,953,013 |
| **Total non-current liabilities** | **162,830,148** | 101,953,013 |
| **Current liabilities** | | |
| Trade and other payables (Note 7) | **29,712,302** | 17,495,580 |
| Current portion of long-term debt (Note 6) | **138,060,562** | 210,073,719 |
| Deposits from tenants | **2,046,625** | 2,514,508 |
| | **169,819,489** | 230,083,807 |
| Liabilities held for sale (Note 5) | **14,763,205** | 14,846,156 |
| **Total current liabilities** | **184,582,694** | 244,929,963 |
| **Total liabilities** | **347,412,842** | 346,882,976 |
| **Total equity** | **29,981,354** | 95,890,624 |
| **TOTAL LIABILITIES AND EQUITY** | **$377,394,196** | $442,773,600 |

Approved by the Board of Trustees

*"Charles Loewen"* *"Cheryl Barker"*

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 September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Rentals from investment properties | **$ 7,568,402** | $ 9,924,262 | **$ 24,257,892** | $ 28,808,159 |
| Property operating costs | **3,302,308** | 3,820,309 | **10,681,872** | 12,275,488 |
| **Net operating income** | **4,266,094** | 6,103,953 | **13,576,020** | 16,532,671 |
| Interest income | **21,648** | 27,770 | **68,811** | 619,767 |
| Interest expense (Note 8) | **(5,736,630)** | (6,240,075) | **(18,001,130)** | (18,940,300) |
| Trust expense | **(512,363)** | (554,533) | **(1,362,905)** | (1,774,482) |
| Gain (loss) on sale of investment property (Note 5) | **-** | - | **(201,215)** | 71,235 |
| Fair value adjustments (Note 9) | **(25,372,468)** | (157,887) | **(60,323,750)** | (842,479) |
| Income recovery on Parsons Landing | **-** | - | **-** | 98,499 |
| **Loss before discontinued operations** | **(27,333,719)** | (820,772) | **(66,244,169)** | (4,235,089) |
| Income from discontinued operations (Note 5) | **57,104** | 25,304 | **334,899** | 292,940 |
| **Loss and comprehensive loss** | **$ (27,276,615)** | $ (795,468) | **$ (65,909,270)** | $ (3,942,149) |
| Loss per unit before discontinued operations: Basic and diluted | **$ (1.292)** | $ (0.039) | **$ (3.132)** | $ (0.203) |
| Income per unit from discontinued operations: Basic and diluted | **$ 0.002** | $ 0.001 | **$ 0.016** | $ 0.014 |
| Loss per unit: Basic and diluted | **$ (1.290)** | $ (0.038) | **$ (3.116)** | $ (0.189) |

## LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2015** | **2014** |
| **Issued capital** (Note 11) | | |
| Balance, beginning of period | **$116,841,529** | $116,100,394 |
| Units issued on: | | |
| Exercise of options | **-** | 22,780 |
| Exercise of warrants | **-** | 718,355 |
| Balance, end of period | **116,841,529** | 116,841,529 |
| **Contributed surplus** | | |
| Balance, beginning of period | **17,027,907** | 17,091,850 |
| Value of deferred units granted | **-** | 56,250 |
| Value of unit options granted | **-** | 60,156 |
| Warrants exercised | **-** | (126,731) |
| Warrants purchased under normal course issuer bid | **-** | (52,711) |
| Balance, end of period | **17,027,907** | 17,028,814 |
| **Cumulative earnings** | | |
| Balance, beginning of period | **36,371,223** | 58,609,804 |
| Loss and comprehensive loss | **(65,909,270)** | (3,942,149) |
| Balance, end of period | **(29,538,047)** | 54,667,655 |
| **Cumulative distributions to unitholders** | | |
| Balance, beginning and end of period | **(74,350,035)** | (74,350,035) |
| **Total equity** | **$ 29,981,354** | $114,187,963 |

## LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating activities** | | | | |
| Loss and comprehensive loss | **$ (27,276,615)** | $ (795,468) | **$ (65,909,270)** | $ (3,942,149) |
| Adjustments to reconcile income to cash flows | | | | |
| Fair value adjustments (Note 9) | **25,372,468** | 157,887 | **60,323,750** | 842,479 |
| Loss (gain) on sale of properties | **-** | - | **201,215** | (71,235) |
| Loss on warrant repurchases | **-** | 42,400 | **-** | 79,742 |
| Accrued rental revenue | **35,188** | (311,872) | **291,054** | (520,339) |
| Gain on debenture repurchases | **-** | - | **(11,654)** | - |
| Unit-based compensation | **-** | 18,750 | **-** | 116,406 |
| Interest income | **(21,648)** | (27,770) | **(68,811)** | (619,767) |
| Interest received | **22,329** | 30,288 | **71,328** | 451,870 |
| Interest expense | **5,967,053** | 6,553,517 | **18,778,209** | 19,666,815 |
| Interest paid | **(5,653,999)** | (4,521,445) | **(15,784,677)** | (15,127,153) |
| Cash provided by (used in) operations | **(1,555,224)** | 1,146,287 | **(2,108,856)** | 876,669 |
| Decrease (increase) in rent and other receivables | **(65,705)** | (20,058) | **550,967** | 73,936 |
| Decrease (increase) in deposits and prepaids | **(12,257)** | 239,876 | **(375,792)** | (684,832) |
| Increase (decrease) in tenant deposits | **(214,680)** | (85,207) | **(502,519)** | 317,765 |
| Increase (decrease) in trade and other payables | **(982,372)** | (817,988) | **(175,104)** | 337,346 |
| | **(2,830,238)** | 462,910 | **(2,611,304)** | 920,884 |
| **Cash provided by (used in) financing activities** | | | | |
| Proceeds of mortgage loan financing | **3,300,000** | - | **39,800,000** | 50,000,000 |
| Repayment of mortgage loans on refinancing | **(8,506,709)** | - | **(33,614,684)** | (8,104,208) |
| Repayment of interest rate swap liability | **-** | - | **(1,601,000)** | - |
| Payment of acquisition payable of Parsons Landing | **-** | - | **-** | (44,006,731) |
| Redemption of mortgage bonds | **-** | - | **(6,000,000)** | (10,000,000) |
| Repayment of long-term debt | **(1,967,346)** | (1,337,324) | **(5,339,867)** | (4,297,778) |
| Prepayment of mortgage loans | **-** | - | **(3,000,000)** | - |
| Proceeds of revolving loan facility | **3,000,000** | 1,700,000 | **7,204,000** | 20,109,136 |
| Repayment of revolving loan facility | **-** | - | **(3,704,000)** | (11,014,136) |
| Proceeds of Shelter Canadian Properties Limited advances | **8,900,000** | - | **11,400,000** | - |
| Repayment of Shelter Canadian Properties Limited advances | **(2,500,000)** | - | **(2,500,000)** | - |
| Expenditures on transaction costs | **(108,686)** | (75,287) | **(2,884,232)** | (2,698,445) |
| Exercise of options | **-** | - | **-** | 22,780 |
| Exercise of warrants | **-** | 114,000 | **-** | 591,624 |
| Debentures purchased and cancelled under normal course issuer bid | **-** | - | **(51,346)** | - |
| Warrants purchased and cancelled under normal course issuer bid | **-** | (74,040) | **-** | (132,453) |
| | **2,117,259** | 327,349 | **(291,129)** | (9,530,211) |
| **Cash provided by (used in) investing activities** | | | | |
| Capital expenditures on investment properties | **(146,883)** | (762,700) | **(517,274)** | (1,682,825) |
| Capital expenditures on investment properties held for sale | **-** | - | **(171,356)** | - |
| Capital expenditures on property and equipment | **(119,859)** | (16,517) | **(119,859)** | (135,444) |
| Decrease in defeasance assets | **37,900** | 36,972 | **113,577** | 110,876 |
| Proceeds of mortgage loans receivable | **-** | - | **-** | 9,491,016 |
| Proceeds of sale | **-** | - | **2,441,375** | (6,877) |
| Change in restricted cash | **497,024** | 577,340 | **77,338** | 132,925 |
| | **268,182** | (164,905) | **1,823,801** | 7,909,671 |
| **Cash increase (decrease)** | **(444,797)** | 625,354 | **(1,078,632)** | (699,656) |
| **Add (deduct) decrease (increase) in cash from discontinued operations** (Note 5) | **(53,130)** | (35,389) | **(294,414)** | (72,233) |
| | **(497,927)** | 589,965 | **(1,373,046)** | (771,889) |
| **Cash, beginning of period** | **1,088,616** | 1,393,887 | **1,963,735** | 2,755,741 |
| **Cash, end of period** | **$ 590,689** | $ 1,983,852 | **$ 590,689** | $ 1,983,852 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## SEPTEMBER 30, 2015

### *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 |
| Warrants expiring December 23, 2015 | LRT.WT.A |

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

### *2 Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three and nine months ended September 30, 2015 and 2014 ("Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on November 9, 2015.

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

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust incurred a loss before discontinued operations of $27,333,719 for the three months ended September 30, 2015 (2014 - $820,772) and $66,244,169 for the nine months ended September 30, 2015 (2014 - $4,235,089). The Trust incurred a cash deficiency from operating activities of $2,830,238 for the three months ended September 30, 2015 (2014 - generated cash of $462,910) and $2,611,304 for the nine months ended September 30, 2015 (2014 - generated cash of $920,884). After deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $5,173,012 for the three months ended September 30, 2015 (2014 - $1,728,918) and $11,643,892 for the nine months ended September 30, 2015 (2014 - $7,893,608). In addition, the Trust has a working capital deficit of $27,014,263 as at September 30, 2015 (December 31, 2014 - $12,715,808). Although the Trust is in compliance with the debt service coverage requirements on all mortgage loans at September 30, 2015, at December 31, 2014, the Trust was in breach of debt service coverage requirements on three mortgage loans and a related interest rate swap liability.

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

### *2 Basis of presentation and continuing operations (continued)*

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 25 properties to the date of the Financial Statements, has successfully renewed mortgage loans at maturity, has extended the maturity date for the Series G debentures to 2018, has successfully eliminated covenant breaches on ten mortgage loans through refinancing, obtaining modified loan terms from lenders, and/or improved operations, has repaid all outstanding mortgage bond debt, and has obtained additional credit support from Shelter Canadian Properties Limited and its parent company 2668921 Manitoba Ltd. in the form of unsecured interest-free advances and the renewal of the revolving loan facility.

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

**Statement of compliance**

The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same accounting policies under IFRS as disclosed in the December 31, 2014 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at November 9, 2015.

The December 31, 2014 annual report is available on SEDAR at www.sedar.com.

**Income taxes**

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

**Future changes to significant accounting policies**

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

*(i) IFRS 9 - Financial Instruments*

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

*(ii) IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts, excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

### *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, 2014.

### *4 Investment properties*

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance, beginning of period | $297,810,020 | $420,902,857 | $406,619,555 | $421,040,369 |
| Additions - capital expenditures | 146,883 | 762,700 | 517,274 | 1,682,825 |
| Fair value adjustments (Note 9) | (22,622,468) | (157,887) | (64,885,639) | (842,479) |
| Dispositions | - | - | - | (373,045) |
| Investment properties transferred to held for sale | - | - | (66,916,755) | - |
| Balance, end of period | $275,334,435 | $421,507,670 | $275,334,435 | $421,507,670 |

**Weighted average capitalization and discount rates**

Investment properties and investment properties transferred to held for sale have been valued using methods consistent with those used in the annual Financial Statements with the following weighted average capitalization and discount rates:

| | Capitalization Rate | | Discount Rate | |
|---|---|---|---|---|
| | Range | Weighted Average | Range | Weighted Average |
| September 30, 2015 | 4.50% - 8.00% | 6.70 % | 6.50% - 10.00% | 8.70 % |
| December 31, 2014 | 4.75% - 8.00% | 6.70 % | 6.75% - 10.00% | 8.70 % |

Income properties have been valued using the capitalized net operating income method, the discounted cash flow method and the direct comparison method.

The capitalized net operating income method and the discounted cash flow method are level 3 in the fair value hierarchy. The direct comparison method is a level 2 in the fair value hierarchy.

### 5 *Assets and liabilities of properties held for sale*

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

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

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

| | | |
|---|---|---|
| Investment Properties | - | fair value |
| All other assets | - | lower of carrying value or fair value |

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

The results of discontinued operations are presented separately on the face of the Condensed Consolidated Statement of Comprehensive Loss and the assets and liabilities are presented separately on the face of the Condensed Consolidated Statement of Financial Position.

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

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

Assets and liabilities held for sale are as follows:

| | September 30 2015 | December 31 2014 |
|---|---|---|
| **ASSETS** | | |
| **Investment properties held for sale (a)** | $ 67,750,000 | $ - |
| **Assets in discontinued operations** | | |
| Property and equipment | 25,134,838 | 25,014,979 |
| Cash | 318,105 | 23,691 |
| Restricted cash | 23,667 | 49,976 |
| Rent and other receivables | 12,696 | 4,446 |
| Deposits, prepaids and other | 34,399 | 31,573 |
| | 25,523,705 | 25,124,665 |
| **Assets held for sale** | $ 93,273,705 | $ 25,124,665 |
| **LIABILITIES** | | |
| **Liabilities in discontinued operations** | | |
| Long term debt | $ 14,240,288 | $ 14,298,793 |
| Trade and other payables | 260,297 | 250,107 |
| Deposits from tenants | 262,620 | 297,256 |
| **Liabilities held for sale** | $ 14,763,205 | $ 14,846,156 |

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

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

Income information relating to discontinued operations are as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Rental income | $ 1,304,498 | $ 1,282,270 | $ 4,026,081 | $ 3,864,870 |
| Property operating expenses | 1,016,971 | 943,524 | 2,914,103 | 2,845,415 |
| **Net operating income** | 287,527 | 338,746 | 1,111,978 | 1,019,455 |
| Interest expense | (230,423) | (313,442) | (777,079) | (726,515) |
| **Income from discontinued operations** | $ 57,104 | $ 25,304 | $ 334,899 | $ 292,940 |

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

Cash flow information relating to discontinued operations are as follows.

| | Three Months Ended September 30 2015 | Three Months Ended September 30 2014 | Nine Months Ended September 30 2015 | Nine Months Ended September 30 2014 |
|---|---|---|---|---|
| Cash inflow from operating activities | $ 94,497 | $ 84,099 | $ 376,977 | $ 444,199 |
| Cash inflow (outflow) from financing activities | 79,213 | (30,955) | 10,987 | (231,827) |
| Cash outflow from investing activities | (120,580) | (17,755) | (93,550) | (140,139) |
| **Increase in cash from discontinued operations** | $ 53,130 | $ 35,389 | $ 294,414 | $ 72,233 |

**(a) Investment properties held for sale**

| | September 30 2015 | December 31 2014 |
|---|---|---|
| Colony Square | $ 67,750,000 | $ - |

| | Three Months Ended September 30 2015 | Three Months Ended September 30 2014 | Nine Months Ended September 30 2015 | Nine Months Ended September 30 2014 |
|---|---|---|---|---|
| Balance, beginning of period | $ 70,500,000 | $ - | $ - | $ - |
| Investment properties transferred to held for sale | - | - | 66,916,755 | - |
| Additions - capital expenditures | - | - | 171,356 | - |
| Fair value adjustments | (2,750,000) | - | 4,561,889 | - |
| Dispositions | - | - | (3,900,000) | - |
| Balance, end of period | $ 67,750,000 | $ - | $ 67,750,000 | $ - |

During the first nine months of 2015, the Trust sold the following property:

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

### *6 Long-term debt*

| | September 30 2015 | December 31 2014 |
|---|---|---|
| **Secured debt** | | |
| Mortgage loans (a) | $ 275,245,676 | $ 278,704,067 |
| Interest rate swap liability | - | 1,441,705 |
| Mortgage bonds | - | 5,786,226 |
| Debentures (b) | 24,810,800 | 24,873,800 |
| Defeased liability | 2,537,093 | 2,584,460 |
| Total secured debt | 302,593,569 | 313,390,258 |
| **Accrued interest payable** | 1,855,110 | 1,478,261 |
| **Unamortized transaction costs** | | |
| Mortgage loans | (2,807,663) | (1,758,930) |
| Mortgage bonds | - | (153,325) |
| Debentures | (744,813) | (915,989) |
| Defeased liability | (5,493) | (13,543) |
| Total unamortized transaction costs | (3,557,969) | (2,841,787) |
| | 300,890,710 | 312,026,732 |
| **Less current portion** | | |
| Mortgage loans | (135,359,051) | (202,908,513) |
| Interest rate swap liability | - | (1,441,705) |
| Mortgage bonds | - | (5,786,226) |
| Defeased liability | (2,537,093) | (63,602) |
| Accrued interest payable | (1,855,111) | (1,478,261) |
| Transaction costs | 1,690,693 | 1,604,588 |
| Total current portion | (138,060,562) | (210,073,719) |
| | $ 162,830,148 | $ 101,953,013 |
| **Current portion of unamortized transaction costs** | | |
| Mortgage loans | $ 1,439,355 | $ 1,212,781 |
| Mortgage bonds | - | 153,325 |
| Debentures | 245,845 | 227,698 |
| Defeased liability | 5,493 | 10,784 |
| | $ 1,690,693 | $ 1,604,588 |

## *6 Long-term debt (continued)*

### (a) Mortgage loans

| | Weighted average interest rates | | Amount | |
|---|---|---|---|---|
| | September 30 2015 | December 31 2014 | September 30 2015 | December 31 2014 |
| **First mortgage loans** | | | | |
| Fixed rate | 4.4% | 4.5% | $ 165,993,185 | $ 171,581,117 |
| Variable rate | 6.7% | 6.9% | 88,846,204 | 89,116,663 |
| Total first mortgage loans | 5.2% | 5.3% | 254,839,389 | 260,697,780 |
| **Second mortgage loans** | | | | |
| Fixed rate | 11.8% | 11.8% | 4,500,000 | 4,500,000 |
| Variable rate | 10.7% | 11.1% | 15,906,287 | 13,506,287 |
| Total second mortgage loans | 10.9% | 11.3% | 20,406,287 | 18,006,287 |
| **Total** | 5.6% | 5.7% | $ 275,245,676 | $ 278,704,067 |

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of September 30, 2015, the Trust is in compliance with the covenant requirements on all mortgage loans.

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

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

### (b) Debentures

The face value and carrying value of the 9.5% Series G debentures due June 30, 2018 is $24,810,800 (December 31, 2014 - $24,873,800).

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

On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expires on June 29, 2016.

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

During the nine months ended September 30, 2015, the Trust purchased and cancelled Series G debentures with a face value of $63,000 at an average price of $79.11 per $100.00.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## SEPTEMBER 30, 2015

### 7 *Trade and other payables*

| | September 30 2015 | December 31 2014 |
|---|---|---|
| Accounts payable - vendor invoices | $ 1,357,932 | $ 1,256,193 |
| Accrued payables | 687,599 | 708,197 |
| Prepaid rent | 766,771 | 1,031,190 |
| | 2,812,302 | 2,995,580 |
| Revolving loan from 2668921 Manitoba Ltd. (Note 14) | 18,000,000 | 14,500,000 |
| Interest-free advances from Shelter Canadian Properties Limited (Note 14) | 8,900,000 | - |
| | $ 29,712,302 | $ 17,495,580 |

### 8 *Interest expense*

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Mortgage loan interest | $ 4,536,527 | $ 4,326,620 | $ 13,572,675 | $ 12,616,854 |
| Change in fair value of interest rate swap | - | 440,729 | 159,295 | 283,303 |
| Mortgage bond interest | - | 135,000 | 123,616 | 446,918 |
| Accretion of mortgage bonds | - | 49,712 | 213,774 | 822,666 |
| Debenture interest | 589,257 | 595,608 | 1,767,770 | 1,777,114 |
| Amortization of transaction costs | 610,846 | 692,406 | 2,164,000 | 2,340,130 |
| Interest on acquisition payable | - | - | - | 653,315 |
| | $ 5,736,630 | $ 6,240,075 | $ 18,001,130 | $ 18,940,300 |

### 9 *Fair value adjustments*

Fair value adjustments consist of the following:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Fair value adjustments - investment properties (Note 4) | $ (22,622,468) | $ (157,887) | $ (64,885,639) | $ (842,479) |
| Fair value adjustments - investment properties held for sale (Note 5) | (2,750,000) | - | 4,561,889 | - |
| | $ (25,372,468) | $ (157,887) | $ (60,323,750) | $ (842,479) |

### *10 Per unit calculations*

| | Three Months Ended September 30 2015 | Three Months Ended September 30 2014 | Nine Months Ended September 30 2015 | Nine Months Ended September 30 2014 |
|---|---|---|---|---|
| Loss before discontinued operations | $ (27,333,719) | $ (820,772) | $ (66,244,169) | $ (4,235,089) |
| Income from discontinued operations | 57,104 | 25,304 | 334,899 | 292,940 |
| Loss | $ (27,276,615) | $ (795,468) | $ (65,909,270) | $ (3,942,149) |

| | Three Months Ended September 30 2015 | Three Months Ended September 30 2014 | Nine Months Ended September 30 2015 | Nine Months Ended September 30 2014 |
|---|---|---|---|---|
| Weighted average number of units: | | | | |
| Units | 20,252,386 | 20,171,435 | 20,252,386 | 20,048,190 |
| Deferred units | 896,510 | 854,578 | 896,510 | 839,446 |
| Total basic and diluted | 21,148,896 | 21,026,013 | 21,148,896 | 20,887,636 |

### *11 Units*

| | Nine Months Ended September 30, 2015 | | Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Units | Amount | Units | Amount |
| Outstanding, beginning of period | 20,252,386 | $116,841,529 | 19,423,011 | $116,100,394 |
| Units issued on: | | | | |
| Exercise of options | - | - | 67,000 | 22,780 |
| Exercise of warrants | - | - | 762,375 | 718,355 |
| Outstanding, end of period | 20,252,386 | $116,841,529 | 20,252,386 | $116,841,529 |

### *12 Warrants*

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants. Each warrant entitled the purchaser to purchase one unit at a price of $1.00 prior to March 9, 2015. On March 9, 2015, the warrants expired and the rights under 6,570,025 warrants were extinguished.

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000,000 trust unit purchase warrants. Each warrant entitles the purchaser to purchase one unit at a price of $0.75 prior to December 23, 2015. As of September 30, 2015, 13,509,200 warrants are outstanding (December 31, 2014 - 13,509,200 warrants).

### *13 Unit option plan*

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

| | Nine Months Ended September 30, 2015 | | Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Units | Weighted Average Exercise Price | Units | Weighted Average Exercise Price |
| Outstanding, beginning of period | 466,000 | $ 0.72 | 333,000 | $ 0.41 |
| Exercised, February 14, 2014 | - | - | (30,000) | 0.34 |
| Exercised, March 25, 2014 | - | - | (27,000) | 0.34 |
| Exercised, April 11, 2014 | - | - | (10,000) | 0.34 |
| Issued, May 19, 2014 | - | - | 200,000 | 1.11 |
| Outstanding, end of period | 466,000 | $ 0.72 | 466,000 | $ 0.72 |
| Vested, end of period | 466,000 | | 466,000 | |

At September 30, 2015 the following unit options were outstanding:

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

### *14 Related party transactions*

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

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

**14 *Related party transactions* (continued)**

**Property Management agreement (continued)**
The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $302,884 for the three months ended September 30, 2015 (2014 - $409,788) and $975,031 for the nine months ended September 30, 2015 (2014 - $1,212,373).

Included in trade and other payables at September 30, 2015 is a balance of $44,528 receivable from Shelter Canadian Properties Limited (December 31, 2014 - $10,210) in regard to outstanding property management fees.

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

The Trust incurred service fees of $313,797 for the three months ended September 30, 2015 (2014 - $331,234) and $949,583 for the nine months ended September 30, 2015 (2014 - $1,005,458).

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

The Trust incurred service fees payable to Shelter Canadian Properties Limited of nil for the three months ended September 30, 2015 (2014 - nil) and nil for the nine months ended September 30, 2015 (2014 - $24,932).

### *14 Related party transactions (continued)*

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

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

| Revolving Loan Term | | Renewal | Interest | Maximum | Maximum Loan |
|---|---|---|---|---|---|
| From | To | Fees | Rate | Interest Charge | Commitment |
| January 1, 2014 | September 30, 2014 | $ 25,000 | 12.00% | $ 1,181,357 | $ 15,000,000 |
| October 1, 2014 | June 30, 2015 | 25,000 | 12.00% | 1,375,000 | 15,000,000 |
| July 1, 2015 | June 30, 2018 | 25,000 | 12.00% | 6,480,000 | 18,000,000 |

During the nine months ended September 30, 2015, the Trust received advances of $7,204,000 (2014 - $20,109,136) and repaid advances of $3,704,000 (2014 - $11,014,136) against the revolving loan, resulting in a balance of $18,000,000 (December 31, 2014 - $14,500,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $563,672 for the three months ended September 30, 2015 (2014 - $289,450) and $1,393,624 for the nine months ended September 30, 2015 (2014 - $1,021,422) is included in interest expense.

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

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

During the nine months ended September 30, 2015, Shelter Canadian Properties Limited advanced $11,400,000 (2014 - nil) on an interest-free basis as an interim funding measure. The Trust made repayments of $2,500,000 (2014 - nil), resulting in an outstanding balance of $8,900,000 at September 30, 2015 (December 31, 2014 - nil). The balance of the interest free advances from Shelter Canadian Properties Limited is included in trade and other payables.

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

### *15 Financial instruments and risk management*

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

**Liquidity risk - debt covenant requirements**
At September 30, 2015, the Trust is in compliance with all debt service coverage requirements.

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

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

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

As at September 30, 2015, the weighted average term to maturity of the fixed rate mortgages on investment properties is 3.1 years (December 31, 2014 - 2.5 years).

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

| | Mortgage Loans | | | |
|---|---|---|---|---|
| September 30, 2015 | Normal Principal Installments | Principal Maturities | Debentures | Defeased Liability |
| 2015 - Remainder of year (1) | $ 1,678,667 | $ 42,366,683 | $ - | $ 16,235 |
| 2016 | 4,170,521 | 92,522,086 | - | 2,520,858 |
| 2017 | 3,430,786 | 19,805,864 | - | - |
| 2018 | 1,895,729 | 55,302,116 | 24,810,800 | - |
| 2019 | 830,001 | 27,302,754 | - | - |
| Thereafter | - | 25,940,469 | - | - |
| | $ 12,005,704 | $263,239,972 | $ 24,810,800 | $ 2,537,093 |

| September 30, 2015 | Subtotal | Other Payables (2) | Total |
|---|---|---|---|
| 2015 - Remainder of year (1) | $ 44,061,585 | $ 33,614,037 | $ 77,675,622 |
| 2016 | 99,213,465 | - | 99,213,465 |
| 2017 | 23,236,650 | - | 23,236,650 |
| 2018 | 82,008,645 | - | 82,008,645 |
| 2019 | 28,132,755 | - | 28,132,755 |
| Thereafter | 25,940,469 | - | 25,940,469 |
| | $302,593,569 | $ 33,614,037 | $336,207,606 |

### *15 Financial instruments and risk management (continued)*

**Liquidity risk - debt maturities (continued)**

(1) Subsequent to September 30, 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8,166,666. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3,000,000 on October 29, 2015. If the above chart was adjusted to reflect the renewal terms and the principal payment, the total repayment obligations for the remainder of 2015 would decrease to $66,758,955 and the total repayment obligations for 2016 would increase to $107,130,132.

(2) Other payables include trade and other payables, accrued interest payable and deposits from tenants. The revolving loan from 2668921 Manitoba Ltd. and the unsecured interest free advances from Shelter Canadian Properties Limited are also included in trade and other payables.

**Interest rate risk**

Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At September 30, 2015 the percentage of fixed rate mortgage loans to total mortgage loans was 62% (December 31, 2014 - 63%).

The Trust has variable rate mortgage loans on investment properties totaling $104,752,491, or 38% of the total mortgage loans at September 30, 2015 (December 31, 2014 - 37%). Should interest rates change by 1%, interest expense would change by $1,047,525 per year.

As at September 30, 2015, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to September 30, 2018 of $111,932,873 representing 41% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,119,329 per year.

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

**Credit risk**

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

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

### *15 Financial instruments and risk management (continued)*

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

| | September 30 2015 | December 31 2014 |
|---|---|---|
| Rent receivable overdue: | | |
| 0 to 30 days | $ 64,431 | $ 48,222 |
| 31 to 60 days | 4,822 | 3,087 |
| More than 60 days | 46,102 | 23,482 |
| | $ 115,355 | $ 74,791 |

A reconciliation of allowance for doubtful accounts is as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance, beginning of period | $ 23,461 | $ 23,016 | $ 18,789 | $ 32,751 |
| Amount charged to bad debt expense relating to impairment of rent receivable | 19,621 | 10,224 | 41,675 | 28,991 |
| Amounts written off as uncollectible | (3,120) | (14,221) | (20,502) | (42,723) |
| Balance, end of period | $ 39,962 | $ 19,019 | $ 39,962 | $ 19,019 |
| Amount charged to bad debts as a percent of rentals from investment properties | 0.26% | 0.10% | 0.17% | 0.10% |

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 September 30, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $54,206,728 (December 31, 2014 - $64,874,902) which expires between 2015 and 2022 (December 31, 2014 - expires between 2015 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 condensed 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.

## *15 Financial instruments and risk management (continued)*

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

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

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

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | September 30 2015 | December 31 2014 | September 30 2015 | December 31 2014 |
| **Financial assets** | | | | |
| Defeasance assets | $ 2,618,370 | $ 2,731,947 | $ - | $ - |
| Restricted cash | 3,429,230 | 3,480,259 | 2,738,520 | 3,181,875 |
| Cash | 590,689 | 1,963,735 | 590,689 | 1,963,735 |
| Rent and other receivables | 584,405 | 1,663,043 | 584,405 | 1,663,043 |
| Deposits | 962,818 | 532,230 | 962,818 | 532,230 |
| **Financial liabilities** | | | | |
| Mortgages loans | 275,245,676 | 278,704,067 | 278,580,597 | 282,108,110 |
| Mortgage bonds | - | 5,786,226 | - | 6,000,000 |
| Debentures | 24,810,800 | 24,873,800 | 18,092,226 | 24,131,239 |
| Defeased liability | 2,537,093 | 2,584,460 | - | - |
| Trade and other payables | 29,712,302 | 17,495,580 | 29,712,302 | 17,495,580 |
| Deposits from tenants | 2,046,625 | 2,514,508 | 2,046,625 | 2,514,508 |

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

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

### *15 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 2.40% and 5.47%.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.
- The fair value of mortgage bonds was based on the face value due to the short term maturity.

### *16 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 September 30, 2015:

| | Investment Properties | | | | |
|---|---|---|---|---|---|
| | Fort McMurray | Other | Held for sale and/or sold | Trust | Total |
| Rental revenue | 4,909,882 | 1,318,619 | 1,339,901 | - | 7,568,402 |
| Property operating costs | 2,043,992 | 571,841 | 686,475 | - | 3,302,308 |
| Net operating income | 2,865,890 | 746,778 | 653,426 | - | 4,266,094 |
| Interest income | 3,722 | 994 | 1,802 | 15,130 | 21,648 |
| Interest expense | 3,783,199 | 325,736 | 376,814 | 1,250,881 | 5,736,630 |
| Income (loss) before discontinued operations | (22,535,209) | (578,807) | (2,471,588) | (1,748,115) | (27,333,719) |
| Cash from (used in) operating activities | (1,018,436) | 416,265 | 80,376 | (2,402,940) | (2,924,735) |
| Cash from (used in) financing activities | 637,348 | (165,475) | (746,781) | 2,312,954 | 2,038,046 |
| Cash from (used in) investing activities | 39,658 | (300,575) | 612,919 | 36,760 | 388,762 |

Three months ended September 30, 2014:

| | Investment Properties | | | | |
|---|---|---|---|---|---|
| | Fort McMurray | Other | Held for sale and/or sold | Trust | Total |
| Rental revenue | 7,174,069 | 1,299,992 | 1,450,201 | - | 9,924,262 |
| Property operating costs | 2,483,101 | 571,256 | 765,952 | - | 3,820,309 |
| Net operating income | 4,690,968 | 728,736 | 684,249 | - | 6,103,953 |
| Interest income | 8,627 | 2,030 | 983 | 16,130 | 27,770 |
| Interest expense | 4,419,016 | 210,915 | 406,831 | 1,203,313 | 6,240,075 |
| Income (loss) before discontinued operations | (794,103) | 450,553 | 1,264,495 | (1,741,717) | (820,772) |
| Cash from (used in) operating activities | 810,735 | 416,144 | 844,311 | (1,692,379) | 378,811 |
| Cash from (used in) financing activities | (332,078) | (465,068) | (569,449) | 1,724,899 | 358,304 |
| Cash from (used in) investing activities | (77,061) | 21,577 | (114,884) | 23,218 | (147,150) |

### 16 *Segmented financial information (continued)*

Nine months ended September 30, 2015:

| | Investment Properties | | | | |
|---|---|---|---|---|---|
| | Fort McMurray | Other | Held for sale and/or sold | Trust | Total |
| Rental revenue | 16,013,877 | 3,943,707 | 4,300,308 | - | 24,257,892 |
| Property operating costs | 6,733,806 | 1,791,503 | 2,156,563 | - | 10,681,872 |
| Net operating income | 9,280,071 | 2,152,204 | 2,143,745 | - | 13,576,020 |
| Interest income | 15,674 | 4,889 | 3,129 | 45,119 | 68,811 |
| Interest expense | 11,925,452 | 951,044 | 1,165,591 | 3,959,043 | 18,001,130 |
| Income (loss) before discontinued operations | (67,761,106) | 116,747 | 6,673,820 | (5,273,630) | (66,244,169) |
| Cash from (used in) operating activities | (1,458,124) | 1,525,493 | 743,321 | (3,798,971) | (2,988,281) |
| Cash from (used in) financing activities | 976,212 | (1,286,889) | (3,579,940) | 3,588,501 | (302,116) |
| Cash from (used in) investing activities | (607,155) | (282,329) | 2,690,732 | 116,103 | 1,917,351 |
| Total assets excluding discontinued operations (Note 5) at September 30, 2015 | 235,230,732 | 45,437,362 | 68,126,395 | 3,076,002 | 351,870,491 |

Nine months ended September 30, 2014:

| | Investment Properties | | | | |
|---|---|---|---|---|---|
| | Fort McMurray | Other | Held for sale and/or sold | Trust | Total |
| Rental revenue | 20,696,031 | 3,813,171 | 4,298,957 | - | 28,808,159 |
| Property operating costs | 8,120,482 | 1,825,039 | 2,329,967 | - | 12,275,488 |
| Net operating income | 12,575,549 | 1,988,132 | 1,968,990 | - | 16,532,671 |
| Interest income | 26,598 | 5,114 | 3,031 | 585,024 | 619,767 |
| Interest expense | 12,116,263 | 635,002 | 1,221,263 | 4,967,772 | 18,940,300 |
| Income (loss) before discontinued operations | (356,253) | 506,620 | 1,767,175 | (6,152,631) | (4,235,089) |
| Cash from (used in) operating activities | 1,766,982 | 1,246,184 | 1,180,977 | (3,717,458) | 476,685 |
| Cash from (used in) financing activities | (1,602,927) | (1,081,377) | (634,895) | (5,979,185) | (9,298,384) |
| Cash from (used in) investing activities | (710,921) | (129,942) | (696,860) | 9,587,533 | 8,049,810 |
| Total assets excluding discontinued operations (Note 5) at December 31, 2014 | 300,843,803 | 46,437,500 | 66,831,246 | 3,536,386 | 417,648,935 |

### 17 *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.

### 18 *Subsequent event*

**Revolving loan**
Subsequent to September 30, 2015, the Trust received advances of nil and repaid $13,500,000 on the revolving loan, resulting in a balance of $4,500,000 as of the date of the Financial Statements.

**Advances from Shelter Canadian Properties Limited**
Subsequent to September 30, 2015, the Trust received advances of $4,215,000 and repaid advances of $13,115,000, resulting in a balance of nil as of the date of the Financial Statements.

### *18 Subsequent event (continued)*

**Divestiture program**

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000. The net proceeds of approximately $28,100,000, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13,500,000. The sale of Colony Square resulted in a capital gain of approximately $29,800,000. Management expects to declare a special distribution to Unitholders in order to prevent LREIT from having taxable income as a result of this capital gain.

As a condition of the sale, LREIT agreed to place $1,540,000 in escrow on closing of the sale to cover rent and recoveries for any commercial space that was vacant as of the date of the sale. The amount in escrow will be released monthly to the purchaser while the commercial space remains vacant for a period of up to two years from the date of the sale. If the vacant commercial space is leased in accordance with the terms of the agreement, any remaining funds in escrow will be returned to LREIT.

**Mortgage renewal terms**

Subsequent to September 30, 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8,166,666. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3,000,000 on October 29, 2015. The principal payment was funded by additional advances from Shelter Canadian Properties Limited.

### *19 Comparative figures*

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