LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30 2016	December 31 2015
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$198,489,600**	$216,434,958
Loan receivable (Note 6)	**4,000,000**	-
Restricted cash	**2,836,318**	2,850,478
Total non-current assets	**205,325,918**	219,285,436
Current assets		
Cash	**1,293,822**	407,513
Rent and other receivables	**582,913**	419,815
Deposits and prepaids	**1,041,088**	1,037,538
Defeasance assets (Note 7)	**-**	2,580,343
	2,917,823	4,445,209
Assets held for sale (Note 8)	**53,892,622**	54,794,159
Total current assets	**56,810,445**	59,239,368
TOTAL ASSETS	**$262,136,363**	$278,524,804
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 9)	**$ 39,297,722**	$122,080,890
Total non-current liabilities	**39,297,722**	122,080,890
Current liabilities		
Trade and other payables (Note 10)	**4,371,611**	1,735,601
Current portion of long-term debt (Note 9)	**203,187,283**	141,300,008
Deposits from tenants	**1,737,662**	1,510,790
	209,296,556	144,546,399
Liabilities held for sale (Note 8)	**14,664,258**	14,772,534
Total current liabilities	**223,960,814**	159,318,933
Total liabilities	**263,258,536**	281,399,823
Total deficit	**(1,122,173)**	(2,875,019)
TOTAL LIABILITIES AND EQUITY	**$262,136,363**	$278,524,804

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Rentals from investment properties	**$ 5,096,608**	$ 7,568,402	**$ 13,527,722**	$ 24,257,892
Property operating costs	**2,489,815**	3,302,308	**7,437,424**	10,681,872
Net operating income	**2,606,793**	4,266,094	**6,090,298**	13,576,020
Interest income	**46,638**	21,648	**103,626**	68,811
Interest expense (Note 11)	**(3,992,561)**	(5,736,630)	**(15,413,126)**	(18,001,130)
Trust expense	**(414,325)**	(512,363)	**(1,529,265)**	(1,362,905)
Gain (loss) on sale of investment property (Note 8) (Note 4)	**-**	-	**20,986**	(201,215)
Fair value adjustments (Note 12)	**(8,861,510)**	(25,372,468)	**12,986,750**	(60,323,750)
Income (loss) before discontinued operations	**(10,614,965)**	(27,333,719)	**2,259,269**	(66,244,169)
Income (loss) from discontinued operations (Note 8)	**(521,613)**	57,104	**(506,423)**	334,899
Income (loss) and comprehensive income (loss)	**$ (11,136,578)**	$ (27,276,615)	**$ 1,752,846**	$ (65,909,270)
Income (loss) per unit before discontinued operations: Basic and diluted	**$ (0.502)**	$ (1.292)	**$ 0.107**	$ (3.132)
Income (loss) per unit from discontinued operations: Basic and diluted	**$ (0.025)**	$ 0.002	**$ (0.024)**	$ 0.016
Income (loss) per unit: Basic and diluted	**$ (0.527)**	$ (1.290)	**$ 0.083**	$ (3.116)

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY

	Nine Months Ended September 30	
	2016	**2015**
Issued capital (Note 14)		
Balance, beginning and end of period	**$ 125,641,529**	$116,841,529
Contributed surplus		
Balance, beginning and end of period	**17,027,907**	17,027,907
Cumulative (deficit) earnings		
Balance, beginning of period	**(62,394,420)**	36,371,223
Income (loss) and comprehensive income (loss)	**1,752,846**	(65,909,270)
Balance, end of period	**(60,641,574)**	(29,538,047)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(74,350,035)
Total (deficit) equity	**$ (1,122,173)**	$ 29,981,354

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	**2015**	**2016**	**2015**
Operating activities				
Income (loss) and comprehensive income (loss)	**$ (11,136,578)**	$ (27,276,615)	**$ 1,752,846**	$ (65,909,270)
Adjustments to reconcile income to cash flows				
Fair value adjustments (Note 12)	**8,861,510**	25,372,468	**(12,986,750)**	60,323,750
Fair value adjustment - Property and equipment (Note 8)	**695,957**	-	**1,051,899**	-
Loss (gain) on sale of properties	**-**	-	**(20,986)**	201,215
Accrued rental revenue	**6,146**	35,188	**61,521**	291,054
Gain on debenture repurchases	**-**	-	**-**	(11,654)
Interest income	**(46,638)**	(21,648)	**(103,626)**	(68,811)
Interest received	**46,198**	22,329	**89,569**	71,328
Interest expense	**4,281,722**	5,967,053	**16,166,307**	18,778,209
Interest paid	**(3,342,423)**	(5,653,999)	**(8,226,054)**	(15,784,677)
Cash provided by (used in) operations	**(634,106)**	(1,555,224)	**(2,215,274)**	(2,108,856)
Decrease (increase) in rent and other receivables	**151,716**	(65,705)	**(212,390)**	550,967
Decrease (increase) in deposits and prepaids	**425,024**	(12,257)	**4,163**	(375,792)
Increase (decrease) in tenant deposits	**(102,774)**	(214,680)	**250,520**	(502,519)
Increase (decrease) in trade and other payables	**884,822**	(982,372)	**1,751,129**	(175,104)
	724,682	(2,830,238)	**(421,852)**	(2,611,304)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**-**	3,300,000	**-**	39,800,000
Repayment of mortgage loans on refinancing	**-**	(8,506,709)	**-**	(33,614,684)
Repayment of interest rate swap liability	**-**	-	**-**	(1,601,000)
Redemption of mortgage bonds	**-**	-	**-**	(6,000,000)
Repayment of long-term debt	**(1,693,715)**	(1,967,346)	**(3,315,436)**	(5,339,867)
Prepayment of mortgage loans	**-**	-	**(12,956,865)**	(3,000,000)
Proceeds of revolving loan facility	**2,800,000**	3,000,000	**14,200,000**	7,204,000
Repayment of revolving loan facility	**(700,000)**	-	**(4,600,000)**	(3,704,000)
Proceeds of Shelter Canadian Properties Limited advances	**-**	8,900,000	**650,000**	11,400,000
Repayment of Shelter Canadian Properties Limited advances	**-**	(2,500,000)	**(650,000)**	(2,500,000)
Expenditures on transaction costs	**(272,921)**	(108,686)	**(350,683)**	(2,884,232)
Debentures purchased and cancelled under normal course issuer bid	**-**	-	**-**	(51,346)
Repayment of defeased liability (Note 7)	**(2,499,289)**	-	**(2,499,289)**	-
	(2,365,925)	2,117,259	**(9,522,273)**	(291,129)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(712,436)**	(146,883)	**(855,849)**	(517,274)
Capital expenditures on investment properties held for sale	**(12,571)**	-	**(12,571)**	(171,356)
Capital expenditures on property and equipment	**(86,865)**	(119,859)	**(442,807)**	(119,859)
Decrease in defeasance assets (Note 7)	**2,499,289**	37,900	**2,580,343**	113,577
Proceeds of sale	**-**	-	**9,420,067**	2,441,375
Change in restricted cash	**349,774**	497,024	**11,188**	77,338
	2,037,191	268,182	**10,700,371**	1,823,801
Cash increase (decrease)	**395,948**	(444,797)	**756,246**	(1,078,632)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 8)	**(50,794)**	(53,130)	**130,063**	(294,414)
	345,154	(497,927)	**886,309**	(1,373,046)
Cash, beginning of period	**948,668**	1,088,616	**407,513**	1,963,735
Cash, end of period	**$ 1,293,822**	$ 590,689	**$ 1,293,822**	$ 590,689

1 *Organization*

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

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

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

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

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three and nine months ended September 30, 2016 and 2015 ("Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on November 9, 2016.

The Financial Statements of the Trust reflect the operations of the Trust, LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties 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 doubt regarding the appropriateness of the going concern assumption and the use of accounting principles applicable to a going concern because of the material uncertainties caused by: (i) the Trust's concentration of investment properties in Fort McMurray, (ii) the deterioration of the Fort McMurray rental apartment market that occurred as a result of the decline in oil prices that began in 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the limited availability of mortgage lending in Fort McMurray, (v) the Trust's limited cash and working capital resources, and (vi) the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $10,614,965 for the three months ended September 30, 2016 (2015 - a loss of $27,333,719) and an income of $2,259,269 for the nine months ended September 30, 2016 (2015 - a loss of $66,244,169). The Trust generated cash from operating activities of $724,682 for the three months ended September 30, 2016 (2015 - incurred a cash deficiency of $2,830,238) and incurred a cash deficiency of $421,852 for the nine months ended September 30, 2016 (2015 - incurred a cash deficiency of $2,611,304). 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 $2,053,826 for the three months ended September 30, 2016 (2015 - $5,173,012) and $5,399,198 for the nine months ended September 30, 2016 (2015 - $11,643,892).

In addition, the Trust has a working capital deficit of $1,460,440 as at September 30, 2016 (December 31, 2015 - working capital of $115,955).

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

During 2016, the Trust reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements.

As of September 30, 2016, mortgage renewal, amendment, and forbearance agreements have been obtained for six mortgage loans on six properties and all deferred debt service payments have been paid in full, with the exception of $331,515 in debt service payments which remain in arrears with respect to three mortgage loans on three Fort McMurray properties with an aggregate principal balance of $80,965,428. In September 2016, the lender of the three mortgage loans that remain in default issued a demand letter and notice to enforce security, but has taken no further action against the Trust and remains in discussion with the Trust regarding the restructuring of the loans.

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

Deferred debt service payments with respect to five mortgage loans on eight properties, with an aggregate principal balance of $65,400,547 were paid in full during the third quarter of 2016. However, the lender maintained that there are service fees outstanding with respect to these mortgage loans 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 September 30, 2016 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.

During the first nine months of 2016, the Trust deferred the payment of property management fees and service fees in the aggregate amount of $428,026 and $581,053, respectively, to Shelter Canadian Properties Limited (Shelter) with respect to its services for the period of March, 2016 to September, 2016.

During the first nine months of 2016, the Trust deferred payment of interest on the revolving loan facility in the aggregate amount of $1,031,871. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. may request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan in the aggregate principal amount of $12,900,000 or the deferred interest, and 2668921 Manitoba Ltd. has taken no action against the Trust.

In the event that full repayment is demanded on the revolving loan, the mortgage loans in default of debt service requirements and the mortgage loans in default of servicing fee payments, as of the date of this report, the Trust would be unable to satisfy these obligations with its current resources.

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern and in order to improve liquidity, meet ongoing funding obligations and sustain operations, management is pursuing debt restructuring arrangements with certain of its lenders, requesting concessions from Shelter with respect to the payment of property management and service fees, expanding its divestiture program and is continuing with cost reduction measures and marketing 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 and other properties with consideration of the debt reduction needs of the Trust. The timing and terms of property sales is uncertain.

2 Basis of presentation and continuing operations (continued)

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

Statement of compliance

The Financial Statements of the Trust have been prepared in accordance with IFRS using the same presentation and accounting policies under IFRS as disclosed in the December 31, 2015 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at November 9, 2016.

Future changes to significant accounting policies

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

(i) IFRS 9 - Financial Instruments

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

(ii) IFRS 15 - Revenue from Contracts with Customers

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

2 Basis of presentation and continuing operations (continued)

Future changes to significant accounting policies (continued)

(iii) IFRS 16 - Leases

IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

Adoption of accounting standards

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

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

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

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

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

3 Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the Financial Statements date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of the asset or liability affected. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Trust's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Trust's consolidated financial statements for the year ended December 31, 2015.

4 Investment properties

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Balance, beginning of period	$205,069,517	$297,810,020	$216,434,958	$406,619,555
Additions - capital expenditures	712,436	146,883	855,849	517,274
Fair value adjustments (Note 12)	(7,292,353)	(22,622,468)	10,144,888	(64,885,639)
Investment properties transferred to held for sale (Note 8)	-	-	(28,946,095)	(66,916,755)
Balance, end of period	$198,489,600	$275,334,435	$198,489,600	$275,334,435

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

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

5 Valuations of investment properties and investment properties held for sale

Investment properties and investment properties held for sale have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to normalized net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

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

	September 30 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.00 %	8.00 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Other	5.25 %	7.50 %	5.25 %	7.50 %

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

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

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

	September 30 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.00 %	10.00 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
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 (2015 - 156/204 East Lake Blvd., Colony Square, Beck Court, Willowdale Gardens and 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 *Defeasance assets and defeased liability*

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets matured on June 1, 2016 and were placed in escrow. On July 1, 2016, the Defeasance Assets were used to extinguish the Defeased Liability.

7 Defeasance assets and defeased liability (continued)

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

	Recorded as	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Interest income on Defeasance Assets	Interest income	$ -	$ 13,674	$ 22,095	$ 41,146
Interest expense on Defeased Liability	Interest expense	-	(35,490)	(69,840)	(107,135)
Amortization of transaction costs	Interest expense	-	(2,708)	(2,759)	(8,050)
		$ -	$ (24,524)	$ (50,504)	$ (74,039)

8 Assets and liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations. In addition, other properties have been targeted for sale and will be classified as investment properties held for sale, in accordance with IFRS, where a sale is determined to be highly probable.

Assets and liabilities held for sale are as follows:

	September 30 2016	December 31 2015
ASSETS		
Investment properties held for sale (a)	$ 31,800,528	$ 31,960,000
Assets in discontinued operations		
Property and equipment (b)	21,740,908	22,350,000
Cash	293,293	423,356
Restricted cash	23,391	20,419
Rent and other receivables	8,983	7,152
Deposits, prepaids and other	25,519	33,232
	22,092,094	22,834,159
Assets held for sale	$ 53,892,622	$ 54,794,159
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (c)	$ 14,063,919	$ 14,196,924
Trade and other payables	288,928	287,847
Deposits from tenants	311,411	287,763
Liabilities held for sale	$ 14,664,258	$ 14,772,534

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

Income information relating to discontinued operations are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Rental income	$ 1,354,052	$ 1,304,498	$ 4,070,715	$ 4,026,081
Property operating expenses	890,547	1,016,971	2,772,058	2,914,103
Net operating income	463,505	287,527	1,298,657	1,111,978
Interest expense (d)	(289,161)	(230,423)	(753,181)	(777,079)
Fair value adjustment	(695,957)	-	(1,051,899)	-
Income (loss) from discontinued operations	$ (521,613)	$ 57,104	$ (506,423)	$ 334,899

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Cash inflow from operating activities	$ 178,310	$ 94,497	$ 637,143	$ 376,977
Cash (outflow) inflow from financing activities	(39,237)	79,213	(321,427)	10,987
Cash outflow from investing activities	(88,279)	(120,580)	(445,779)	(93,550)
Increase (decrease) in cash from discontinued operations	$ 50,794	$ 53,130	$ (130,063)	$ 294,414

(a) Investment properties held for sale

	September 30 2016	December 31 2015
Beck Court	$ -	$ 22,975,000
Willowdale Gardens	-	8,985,000
Woodland Park	31,800,528	-
	$ 31,800,528	$ 31,960,000

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

(a) Investment properties held for sale (continued)

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Balance, beginning of period	$ 33,357,114	$ 70,500,000	$ 31,960,000	$ -
Investment properties transferred to held for sale (Note 4)	-	-	28,946,095	66,916,755
Additions - capital expenditures	12,571	-	12,571	171,356
Fair value adjustments (Note 12)	(1,569,157)	(2,750,000)	2,841,862	4,561,889
Dispositions	-	-	(31,960,000)	(3,900,000)
Balance, end of period	$ 31,800,528	$ 67,750,000	$ 31,800,528	$ 67,750,000

Properties are classified as held for sale when it is expected that the carrying value will be recovered principally through sale rather than their continued use and when it is expected that the sale will occur within the next twelve months.

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

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

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

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

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

(a) Investment properties held for sale (continued)

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

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

(b) Property and equipment

September 30, 2016	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Carrying Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,881,812	417,544	(902,210)	21,397,146
Furniture, equipment and appliances	393,198	25,263	(38,898)	379,563
	26,407,110	442,807	(941,108)	25,908,809
Fair value adjustments	(3,116,002)	(1,051,899)	-	(4,167,901)
	$ 23,291,108	$ (609,092)	$ (941,108)	$ 21,740,908

December 31, 2015	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Carrying Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,754,064	127,748	(902,210)	20,979,602
Furniture, equipment and appliances	391,209	1,989	(38,898)	354,300
	26,277,373	129,737	(941,108)	25,466,002
Fair value adjustments	(321,286)	(2,794,716)	-	(3,116,002)
	$ 25,956,087	$ (2,664,979)	$ (941,108)	$ 22,350,000

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

(b) Property and equipment (continued)

The carrying value in property and equipment is comprised of the following:

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Balance, beginning of period	$ 22,350,000	$ 25,014,979	$ 22,350,000	$ 25,014,979
Additions - capital expenditures	86,865	119,859	442,807	119,859
Fair value adjustments	(695,957)	-	(1,051,899)	-
Balance, end of period	$ 21,740,908	$ 25,134,838	$ 21,740,908	$ 25,134,838

Subsequent to September 30, 2016, LREIT sold Elgin Lodge for gross proceeds of $14,500,000. The sale resulted in net cash proceeds of approximately $4,330,000, after closing costs and adjustments and the repayment of mortgage loan debt. The net cash proceeds were used to repay the revolving loan. The sale of Elgin Lodge resulted in a capital loss for tax purposes of approximately $5,200,000.

(c) Long term debt

	September 30 2016	December 31 2015
Secured debt		
Mortgage loans	$ 14,063,919	$ 14,199,674
Unamortized transaction costs	-	(2,750)
Total long term debt	$ 14,063,919	$ 14,196,924

All mortgages which have matured prior to September 30, 2016 have been renewed or refinanced except one mortgage loan in the amount of $4,063,919 matured and is overholding past the maturity date. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of September 30, 2016, the Trust was in compliance with all covenant requirements.

(d) Interest expense

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Mortgage loan interest	$ 230,855	$ 229,048	$ 692,125	$ 699,480
Amortization of transaction costs	58,306	1,375	61,056	77,599
	$ 289,161	$ 230,423	$ 753,181	$ 777,079

9 *Long-term debt*

	September 30 2016	December 31 2015
Secured debt		
Mortgage loans (a)	$ 198,980,114	$ 230,897,904
Debentures (b)	24,810,800	24,810,800
Defeased liability (Note 7)	-	2,520,859
Revolving loan from 2668921 Manitoba Ltd. (c)	16,700,000	7,100,000
Total secured debt	240,490,914	265,329,563
Accrued interest payable	3,163,416	1,139,300
Unamortized transaction costs		
Mortgage loans	(1,135,248)	(2,352,726)
Debentures	-	(685,797)
Defeased liability	-	(2,759)
Revolving loan from 2668921 Manitoba Ltd.	(34,077)	(46,683)
Total unamortized transaction costs	(1,169,325)	(3,087,965)
	242,485,005	263,380,898
Less current portion		
Mortgage loans	(183,861,173)	(131,925,665)
Defeased liability	-	(2,520,859)
Revolving loan from 2668921 Manitoba Ltd.	(16,700,000)	(7,100,000)
Accrued interest payable	(3,163,416)	(1,139,300)
Transaction costs	537,306	1,385,816
Total current portion	(203,187,283)	(141,300,008)
	$ 39,297,722	$ 122,080,890
Current portion of unamortized transaction costs		
Mortgage loans and revolving loan	$ 537,306	$ 1,130,541
Debentures	-	252,516
Defeased liability	-	2,759
	$ 537,306	$ 1,385,816

9 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates		Amount	
	September 30 2016	December 31 2015	September 30 2016	December 31 2015
First mortgage loans				
Fixed rate	5.1%	4.6%	$ 80,804,011	$ 125,497,028
Variable rate	6.1%	6.9%	113,328,479	87,994,589
Total first mortgage loans	5.7%	5.5%	194,132,490	213,491,617
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,847,624	4,500,000
Variable rate	-%	10.4%	-	12,906,287
Total second mortgage loans	11.8%	10.7%	4,847,624	17,406,287
Total	5.8%	5.9%	$ 198,980,114	$ 230,897,904

As of September 30, 2016, the Trust was in default of eight mortgage loans in the aggregate principal amount of $146,365,975 related to eleven properties in its Fort McMurray portfolio.

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

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

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

9 Long-term debt (continued)

(b) Debentures

The Series G debentures bear interest at 5.0% (2015 - 9.5%) and are due on June 30, 2022. Interest is accrued and is payable on the due date.

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

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

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

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

On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expired on June 29, 2016. During the period from January 1, 2016 to June 29, 2016, the Trust did not purchase any Series G debentures under the normal course issuer bid.

(c) Revolving loan

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

10 *Trade and other payables*

	September 30 2016	December 31 2015
Accounts payable	$ 3,580,861	$ 798,373
Accrued payables	450,998	588,348
Prepaid rent	339,752	348,880
	$ 4,371,611	$ 1,735,601

11 *Interest expense*

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Mortgage loan interest	$ 2,897,699	$ 3,972,855	$ 9,137,047	$ 12,179,051
Revolving loan interest	205,649	563,672	1,149,602	1,393,624
Change in fair value of interest rate swap	-	-	-	159,295
Mortgage bond interest	-	-	-	123,616
Accretion of mortgage bonds	-	-	-	213,774
Debenture interest	310,135	589,257	1,488,648	1,767,770
Amortization of transaction costs	579,078	610,846	3,637,829	2,164,000
	$ 3,992,561	$ 5,736,630	$ 15,413,126	$ 18,001,130

12 *Fair value adjustments*

Fair value adjustments consist of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Fair value adjustments - investment properties (Note 4)	$ (7,292,353)	$(22,622,468)	$ 10,144,888	$(64,885,639)
Fair value adjustments - investment properties held for sale (Note 8)	(1,569,157)	(2,750,000)	2,841,862	4,561,889
	$ (8,861,510)	$(25,372,468)	$ 12,986,750	$(60,323,750)

13 Per unit calculations

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Income (loss) before discontinued operations	$ (10,614,965)	$ (27,333,719)	$ 2,259,269	$ (66,244,169)
Income (loss) from discontinued operations	(521,613)	57,104	(506,423)	334,899
Income (loss)	$ (11,136,578)	$ (27,276,615)	$ 1,752,846	$ (65,909,270)

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Weighted average number of units:				
Units	20,557,320	20,252,386	20,436,014	20,252,386
Deferred units	591,576	896,510	712,882	896,510
Total basic and diluted	21,148,896	21,148,896	21,148,896	21,148,896

14 Units

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

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

15 Unit option plan

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

	Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	446,000	$ 0.71	466,000	$ 0.72
Cancelled, July 14, 2015	-	-	(20,000)	1.11
Cancelled, July 10, 2016	(20,000)	0.60	-	-
Cancelled, July 10, 2016	(10,000)	0.65	-	-
Outstanding, end of period	416,000	$ 0.71	446,000	$ 0.71
Vested, end of period	416,000		446,000	

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

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	176,000	176,000	December 12, 2016
0.60	40,000	40,000	November 19, 2017
0.65	20,000	20,000	January 15, 2018
1.11	180,000	180,000	May 19, 2019
	416,000	416,000	

16 Deferred unit plan

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

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

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

17 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter 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, 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, 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 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 property management fees payable to Shelter of $211,435 for the three months ended September 30, 2016 (2015 - $302,884) and $571,840 for the nine months ended September 30, 2016 (2015 - $975,031).

Included in trade and other payables at September 30, 2016 is a balance of $428,026 payable to Shelter (December 31, 2015 - $87,442 receivable) in regard to outstanding property management fees.

Services agreement
The Trust has entered into a services agreement with Shelter, 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 of $236,625 for the three months ended September 30, 2016 (2015 - $313,797) and $754,475 for the nine months ended September 30, 2016 (2015 - $949,583).

Included in trade and other payables at September 30, 2016 is a balance of $581,053 (December 31, 2015 - nil) payable to Shelter in regard to outstanding service fees.

17 Related party transactions (continued)

Financing

Revolving loan

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

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

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
October 1, 2014	June 30, 2015	$ 25,000	12.00%	$ 1,375,000	$ 15,000,000
July 1, 2015	June 30, 2016	25,000	5.00%	6,480,000	18,000,000

During the nine months ended September 30, 2016, the Trust received advances of $14,200,000 (2015 - $7,204,000) and repaid advances of $4,600,000 (2015 - $3,704,000) against the revolving loan, resulting in a balance of $16,700,000 (December 31, 2015 - $7,100,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $205,649 for the three months ended September 30, 2016 (2015 - $563,672) and $1,149,602 for the nine months ended September 30, 2016 (2015 - $1,393,624) is included in interest expense.

Included in accrued interest payable at September 30, 2016 is a balance of $1,031,871 (December 31, 2015 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

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

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

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

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan in the amount of $4,847,624, inclusive of accrued interest, with an interest rate of 11.75% and maturity date of November 1, 2016.

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

17 Related party transactions (continued)

Financing (continued)
Shelter advances
During the nine months ended September 30, 2016, Shelter advanced $650,000 (2015 - $11,400,000) on an interest-free basis as an interim funding measure. The Trust made repayments of $650,000 (2015 - $2,500,000), resulting in an outstanding balance of nil at September 30, 2016 (December 31, 2015 - nil).

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.

18 Financial instruments and risk management

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

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

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

Liquidity risk is compounded by the material uncertainty that exists as of the date of this report with respect to the Trust's ability to remain a going concern. Continuation of the Trust's operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: (i) the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow LREIT the opportunity to stabilize its operations; (ii) the Trust's ability to renew or refinance debt as it matures; (iii) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, reduce or defer property management and service fees and/or provide other forms of financial support to the Trust; (iv) the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices; (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and, (vi) ability of LREIT to complete additional property sales 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.

18 *Financial instruments and risk management (continued)*

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

As at September 30, 2016, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.7 years (December 31, 2015 - 3.0 years).

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

	Mortgage Loans			
September 30, 2016	Normal Principal Installments (1)	Principal Maturities (2)	Revolving Loan	Debentures
2016 - Remainder of year	$ 1,127,133	$ 3,938,769	$ -	$ -
2017	8,841,095	52,744,959	-	-
2018	1,285,595	95,132,768	16,700,000	-
2019	385,225	27,302,754	-	-
2020	261,845	-	-	-
Thereafter	1,303,667	10,370,474	-	24,810,800
	$ 13,204,560	$189,489,724	$16,700,000	$24,810,800

September 30, 2016	Subtotal Long-term Debt Obligations (3)	Other Payables (4)	Total
2016 - Remainder of year	$ 5,065,902	$ 9,272,689	$ 14,338,591
2017	61,586,054	-	61,586,054
2018	113,118,363	-	113,118,363
2019	27,687,979	-	27,687,979
2020	261,845	-	261,845
Thereafter	36,484,941	-	36,484,941
	$ 244,205,084	$ 9,272,689	$253,477,773

(1) The normal principal installments amount in the chart above for 2017 of $8,841,095 includes a one-time lump-sum principal repayment of $5,500,000 for a first mortgage loan in accordance with the terms of the renewal agreement.

(2) Includes $3,714,170 of future capitalized interest per the terms of forbearance and certain debt renewal agreements and mortgage loan amendments.

(3) If the lenders of the 8 mortgage loans that are in default as of the date of this report demanded repayment during 2016 and the chart above was adjusted to reflect the repayments, the total long-term debt due in the remainder of 2016 would increase to $150,874,133, the total long-term debt due in 2017 would decrease to $36,636,785, the total long-term debt due in 2018 would decrease to $16,939,937, 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.

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

18 Financial instruments and risk management (continued)

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At September 30, 2016 the percentage of fixed rate mortgage loans to total mortgage loans was 43% (December 31, 2015 - 56%).

The Trust has variable rate mortgage loans on investment properties totaling $113,328,479, or 57% of the total mortgage loans at September 30, 2016 (December 31, 2015 - 44%). Should interest rates change by 1%, interest expense would change by $1,133,285 per year.

As at September 30, 2016, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to September 30, 2019 of $186,286,547 representing 94% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,862,865 per year.

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

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

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

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

	September 30 2016	December 31 2015
Rent receivable overdue:		
0 to 30 days	$ 139,791	$ 51,497
31 to 60 days	91,081	4,562
More than 60 days	198,343	42,795
	$ 429,215	$ 98,854

18 Financial instruments and risk management (continued)

Credit risk (continued)

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Balance, beginning of period	$ 70,119	$ 23,461	$ 31,502	$ 18,789
Amount charged to bad debt expense relating to impairment of rent receivable	66,514	19,621	134,913	41,675
Amounts written off as uncollectible	(8,142)	(3,120)	(37,924)	(20,502)
Balance, end of period	$ 128,491	$ 39,962	$ 128,491	$ 39,962
Amount charged to bad debts as a percent of rentals from investment properties	1.31%	0.26%	1.00%	0.17%

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, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $29,521,820 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

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

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

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

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

18 Financial instruments and risk management (continued)

Fair values

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

	Carrying Value		Fair Value	
	September 30 2016	December 31 2015	September 30 2016	December 31 2015
Financial assets				
Defeasance assets	$ -	$ 2,580,343	$ -	$ -
Restricted cash	2,836,318	2,850,478	2,321,277	2,192,702
Cash	1,293,822	407,513	1,293,822	407,513
Rent and other receivables	582,913	419,815	582,913	419,815
Deposits	591,720	558,108	591,720	558,108
Financial liabilities				
Mortgages loans	198,980,114	230,897,904	216,996,520	232,347,987
Debentures	24,810,800	24,810,800	5,502,799	11,901,341
Defeased liability	-	2,520,859	-	-
Trade and other payables	4,371,611	1,735,601	4,371,611	1,735,601
Deposits from tenants	1,737,662	1,510,790	1,737,662	1,510,790

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

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.
- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- The defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 3.61% and 4.69%.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.

19 *Segmented financial information*

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties"). An operating segment is also established for Investment Properties Held for sale and/or sold. Prior period results have been restated to reflect these segments.

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

Three months ended September 30, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,970,850	395,530	730,228	-	5,096,608
Property operating costs	2,008,924	259,489	221,402	-	2,489,815
Net operating income	1,961,926	136,041	508,826	-	2,606,793
Interest income	4,172	303	1,121	41,042	46,638
Interest expense	2,723,520	134,060	614,871	520,110	3,992,561
Income (loss) before discontinued operations	(7,305,731)	(743,193)	(1,674,080)	(891,961)	(10,614,965)
Cash from (used in) operating activities	515,049	25,690	200,075	(194,442)	546,372
Cash from (used in) financing activities	75,196	(24,731)	(10,652)	(2,366,501)	(2,326,688)
Cash from (used in) investing activities	(450,651)	(1,847)	(22,370)	2,600,338	2,125,470

Three months ended September 30, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	4,208,373	484,234	2,875,795	-	7,568,402
Property operating costs	1,857,738	256,921	1,187,649	-	3,302,308
Net operating income	2,350,635	227,313	1,688,146	-	4,266,094
Interest income	3,233	376	2,909	15,130	21,648
Interest expense	3,581,802	119,979	783,968	1,250,881	5,736,630
Income (loss) before discontinued operations	(19,413,870)	(893,135)	(5,278,599)	(1,748,115)	(27,333,719)
Cash from (used in) operating activities	(1,276,659)	106,213	648,651	(2,402,940)	(2,924,735)
Cash from (used in) financing activities	935,449	139,776	(1,350,133)	2,312,954	2,038,046
Cash from (used in) investing activities	(211,456)	(273,471)	836,929	36,760	388,762

19 Segmented financial information (continued)

Nine months ended September 30, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	9,553,722	1,246,648	2,727,352	-	13,527,722
Property operating costs	5,514,627	789,087	1,133,710	-	7,437,424
Net operating income	4,039,095	457,561	1,593,642	-	6,090,298
Interest income	9,044	906	3,081	90,595	103,626
Interest expense	9,473,897	403,700	2,126,275	3,409,254	15,413,126
Income (loss) before discontinued operations	5,426,201	(693,981)	2,371,136	(4,844,087)	2,259,269
Cash from (used in) operating activities	(658,390)	68,847	623,564	(1,093,016)	(1,058,995)
Cash from (used in) financing activities	2,084,506	(47,959)	(9,899,298)	(1,338,095)	(9,200,846)
Cash from (used in) investing activities	(1,013,057)	1,696	9,587,662	2,569,849	11,146,150
Total assets excluding discontinued operations (Note 8) at September 30, 2016	189,274,398	13,450,013	32,652,455	4,667,403	240,044,269

Nine months ended September 30, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	13,826,198	1,479,328	8,952,366	-	24,257,892
Property operating costs	6,049,528	820,326	3,812,018	-	10,681,872
Net operating income	7,776,670	659,002	5,140,348	-	13,576,020
Interest income	13,609	2,651	7,432	45,119	68,811
Interest expense	11,286,448	346,023	2,409,616	3,959,043	18,001,130
Income (loss) before discontinued operations	(59,386,475)	(907,468)	(676,596)	(5,273,630)	(66,244,169)
Cash from (used in) operating activities	(2,176,755)	275,740	2,711,705	(3,798,971)	(2,988,281)
Cash from (used in) financing activities	1,971,914	(67,138)	(5,795,393)	3,588,501	(302,116)
Cash from (used in) investing activities	(646,833)	(215,099)	2,663,180	116,103	1,917,351
Total assets excluding discontinued operations (Note 8) at December 31, 2015	176,920,334	14,059,384	61,651,889	3,059,038	255,690,645

20 Contingencies

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

21 Subsequent events

Deferral of property management fee and service fee payments
Subsequent to September 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of October 2016 and November 2016. Also, the Trust deferred the payment of service fees in the aggregate amount of $79,494 for the month of October 2016.

Deferral of revolving loan interest payment
Subsequent to September 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $59,985. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has not demanded repayment of the loan.

Sale of discontinued property (Note 8)
Subsequent to September 30, 2016, LREIT sold Elgin Lodge for gross proceeds of $14,500,000. The sale resulted in net cash proceeds of approximately $4,330,000, after closing costs and adjustments and the repayment of mortgage loan debt. The net cash proceeds were used to repay the revolving loan. The sale of Elgin Lodge resulted in a capital loss for tax purposes of approximately $5,200,000.

Revolving loan
Subsequent to September 30, 2016, the Trust received advances of $850,000 and repaid $4,650,000 on the revolving loan, resulting in a balance of $12,900,000 as of the date of the Financial Statements.

22 Comparative figures

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