MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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Unit Trading Price

	Six Months Ended June 30, 2016 (Per unit)	Year Ended December 31, 2015 (Per unit)
Opening price	$0.13	$0.47
Closing price	$0.12	$0.13

Lanesborough Real Estate Investment Trust ("LREIT") units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G".

CHIEF EXECUTIVE OFFICER'S MESSAGE
2016 Second Quarter Report

During the second quarter of 2016, LREIT maintained its focus on the execution of its divestiture program and debt restructuring initiatives in a continued effort to stabilize operations. In addition, the Trust has been engaged in responding to the aftermath of the Fort McMurray wildfire which resulted in a full scale evacuation of the City and destroyed approximately 10% of the City's structures. To date, the damages resulting from the wildfire are estimated to be in excess of $3.5 billion. None of LREIT's Fort McMurray properties incurred structural damage as a result of the wildfire; however, all properties did sustain smoke damage to varying degrees. The Trust has been working closely with its insurance adjuster and contractors in order to fully restore and prepare its properties to accommodate the increased demand for rental housing, which has developed in the aftermath of the fire.

As at August 1, 2016, the occupancy at the Fort McMurray properties was 71%, compared to an average of 52% and 58% in the first and second quarters of 2016, respectively.

Operating Results

LREIT completed the second quarter of 2016 with negative funds from operations (FFO) of $4.3 million, compared to negative FFO of $1.6 million in the second quarter of 2015. The decrease in FFO is mainly due to a decrease in the net operating income of the Fort McMurray portfolio, as well as the sale of Colony Square on November 1, 2015 and Beck Court on May 1, 2016, partially offset by a decrease in interest expense.

Overall, LREIT completed the second quarter of 2016 with net income of $20.5 million, compared to a net loss of $34.8 million during the second quarter of 2015. The increase in net income primarily reflects a favourable variance in the fair value adjustments of the investment properties, partially offset by the same factors that caused the reduction in FFO noted above.

The positive fair value adjustments reflect an increase in the carrying value of the Fort McMurray properties, as revenue expectations for the Fort McMurray portfolio have improved due to the increased demand for accommodations associated with the return of displaced residents and those involved in the Fort McMurray rebuilding effort.

Cash Flow Results

During the first six months of 2016, LREIT continued to require additional sources of capital to fund operating activities, as well as the debt service obligations and capital expenditure requirements of the Trust. For the six month period ended June 30, 2016, the cash outflow from operating activities amounted to $1.1 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was $3.3 million, compared to a cash inflow from operating activities of $0.2 million and a cash shortfall of $8.0 million during the same periods of 2015. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by the net proceeds from the sale of Beck Court and Willowdale Gardens.

Liquidity and Capital Resources

In response to the liquidity challenges facing the Trust, LREIT requested concessions from its lenders and commenced making debt service payments in accordance with the requested concessions in February 2016. At March 31, 2016, the trust had successfully renegotiated one mortgage loan agreement, renewed three mortgage loans, and obtained a forbearance agreement on one mortgage loan, all of which resulted in a reduction to the Trust's monthly debt service requirements.

Due to the uncertainty with respect to LREIT's ability to collect rental revenues and with respect to the timing and extent of business interruption insurance proceeds in the wake of the wildfire, LREIT withheld the June 2016 debt service payments related to the mortgages on all of its Fort McMurray properties and focused the Trust's limited cash resources on the restoration and leasing of its properties. Consequently, the Trust was in default of the debt service requirements on ten mortgage loans with an aggregate principal balance of $184,745,635 at June 30, 2016. Subsequent to June 30, 2016, the Trust repaid the amounts withheld for one mortgage loan with a principal balance of $24,892,930 in full and is no longer in default of the terms of its forbearance agreement.

As of the date of this report, the Trust's lenders have not taken action to enforce their security in response to the defaults and management of the Trust believes that ongoing discussions will result in arrangements that will help the Trust stabilize its operations.

Continuing Operations and Ongoing Initiatives

During the second quarter of 2016, the following measures were taken as part of the ongoing effort to address the liquidity concerns of the Trust:

- On May 1, 2016, the Trust completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. Divestiture activities are currently focused on the sale of the property classified as held for sale, Woodland Park, as well as the two seniors' housing complexes, Chateau St. Michael's and Elgin Lodge.

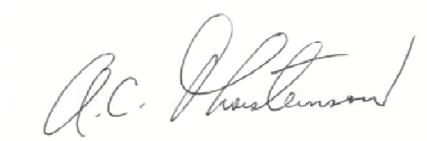
- On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date of the debentures to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5% and to defer all payments of interest to the amended maturity date.

- In conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum. Shelter Canadian Properties Limited and 2668921 Manitoba Ltd. continued to participate equitably in LREIT's debt restructuring initiatives by providing the deferral of property management fees, service fees, and interest on the revolving loan as well as interest on the second mortgage loan acquired by 2668921 Manitoba Ltd. during the first quarter of 2016.

- In an effort to promptly restore operations and meet the increased demand for accommodations that has transpired in the wake of the wildfire, the suites and common areas of the Trust's properties have been professionally cleaned and restored. Select renovations and the conversion of units to furnished suites are underway in order to more aptly address the current needs of prospective tenants.

Outlook

In addition to property restoration and leasing efforts, LREIT will maintain its focus on the divestiture program and debt restructuring initiatives, all of which are key aspects of LREIT's strategy to remain a going concern. It is anticipated that the post-fire rental market conditions in Fort McMurray will have a positive impact on the operating results of the Trust; however, the extent and duration of the impact remains uncertain at this time. The longer term prospects for the region will continue to be closely linked to oil sands development activity.



ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of the Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the six months ended June 30, 2016 and accompanying notes and with reference to the Annual Report for 2015, the First Quarter report for 2016, the audited consolidated financial statements for the years ended December 31, 2015 and 2014, and the Annual Information Form ("AIF") dated March 11, 2016. Throughout this MD&A, it is not our intent to reproduce information that is located in these other reported documents, but rather to highlight some of the key points and refer you to these documents for more detailed information.

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects, and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions or dispositions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including, but not limited to, risks associated with the uncertainty of LREIT's status as, and its ability to continue as, a going concern, concentration of portfolio in one market, dependence on natural resources industries, commodity price risks, current economic conditions, reliance on Shelter Canadian Properties Limited ("Shelter") or its parent company 2668921 Manitoba Ltd. for interim funding, success of the divestiture program, events of default under financing agreements, debt financing, real property ownership, liquidity, interest and financing risk, credit risk, market risk, competition, availability of cash for distributions, insurance risk, tax related risk factors, public market issues, future property acquisitions, availability of suitable investments, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, multi-unit residential sector risk, environmental risks, supply risk, utility and property tax risk, government regulation, changes in legislation and investment eligibility, rent control risk, the nature of Units, legal rights attaching to the Units, the structural subordination of Units, dilution, relationship with the property manager, reliance on key personnel, risks associated with disclosure controls and procedures on internal control over financial reporting, certain additional risks associated with debentures, including potential default on interest payments and principal repayment under the Series G debentures, subordination of security interests securing the Series G debentures, limited covenant protection in the Series G Trust Indenture, redemption of Series G debentures prior to maturity, and an inability of LREIT to purchase Series G debentures on a change of control, the Alberta Government's royalty framework, substitutions for residential rental units, and litigation risks. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither LREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price Information

All purchase prices set forth herein are disclosed prior to closing costs, other adjustments on closing and GST, where applicable.

Financial Statements

Throughout this report, the condensed consolidated financial statements as of June 30, 2016 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of June 30, 2016 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the six months ended June 30, 2016 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the six months ended June 30, 2016 will be referred to as the "Statement of Cash Flows".

Operating Segments

The investment properties of LREIT are separated into three operating segments:

- Fort McMurray Properties (twelve properties): Accounting for approximately 76% (December 31, 2015 - Thirteen properties, 73%) of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

- Other Investment Properties (three properties): The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 16% (December 31, 2015 - 13%) of the residential suites in the portfolio of investment properties.

- Held for Sale (one property) and/or Sold Properties (four properties): The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, which is classified as held for sale at June 30, 2016; Beck Court, which was sold on May 1, 2016; Willowdale Gardens, which was sold on May 1, 2016; 156/204 East Lake Blvd., which was sold on April 1, 2015 and Colony Square, which was sold on November 1, 2015. Woodland Park, the one property classified as held for sale, accounts for approximately 8% (December 31, 2015 - two properties classified as held for sale, 14%) of the suites in the portfolio of investment properties.

The operating results for the two seniors' housing complexes are classified under "Discontinued operations" in the Income Statement of the Trust. The income and expense analyses which are contained throughout this report do not include the two seniors' housing complexes, except where noted.

FINANCIAL SUMMARY

	June 30	December 31	
	2016	2015	2014
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 273,917,517	$ 278,524,804	$ 442,773,600
Total long-term financial liabilities (1)	$ 255,428,420	$ 279,529,237	$ 327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.8 %	6.0 %	5.7 %
- Total debt	6.5 %	6.4 %	6.3 %

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 3,979,652	$ 7,957,771	$ 8,431,114	$ 16,689,490
Net operating income	$ 1,824,148	$ 4,556,944	$ 3,483,505	$ 9,309,926
Income (loss) before discontinued operations	$ 20,514,463	$ (34,990,639)	$ 12,874,234	$ (38,910,450)
Income (loss) and comprehensive income (loss)	$ 20,488,721	$ (34,820,609)	$ 12,889,424	$ (38,632,655)
Funds from Operations (FFO) *	$ (4,343,306)	$ (1,564,934)	$ (8,623,880)	$ (3,480,158)
Cash Flows				
Cash provided by (used in) operating activities	$ 265,838	$ 511,072	$ (1,146,534)	$ 218,934
Adjusted Funds from Operations (AFFO) *	$ (4,464,442)	$ (1,782,376)	$ (9,067,860)	$ (3,392,970)
Per Unit				
Net operating income *				
- basic and diluted	$ 0.086	$ 0.215	$ 0.165	$ 0.440
Income (loss) before discontinued operations *				
- basic and diluted	$ 0.970	$ (1.654)	$ 0.609	$ (1.840)
Income (loss) and comprehensive Income (loss)				
- basic and diluted	$ 0.969	$ (1.646)	$ 0.610	$ (1.827)
Funds from Operations (FFO) *				
- basic and diluted	$ (0.205)	$ (0.074)	$ (0.408)	$ (0.165)
Cash provided by (used in) operating activities				
- basic and diluted	$ 0.013	$ 0.024	$ (0.054)	$ 0.010
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.211)	$ (0.084)	$ (0.429)	$ (0.160)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability, the revolving loan from 2668921 Manitoba Ltd., an interest rate swap liability and mortgage bonds. The mortgage bonds are included at face value.

(2) Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with International Financial Reporting Standards (IFRS) or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in this report.

EXECUTIVE SUMMARY

Overview

LREIT owns a portfolio of 16 multi-unit residential real estate properties, 13 of which are located in Fort McMurray, Alberta, and two senior's housing complexes which are classified under discontinued operations. LREIT's primary objective is to maximize the income producing potential and market value of its real estate portfolio through the execution of strategic acquisition, development, management and divesture activities. Most recently, LREIT's near-term focus has been on divestiture and debt restructuring initiatives, with the objective of addressing the liquidity concerns of the Trust.

Wildfire

In May 2016, the City of Fort McMurray was evacuated as a result of a wildfire that destroyed approximately 10% of the structures in Fort McMurray and caused estimated damages in excess of $3.5 billion. LREIT has been diligently engaged in responding to the aftermath of the fire, working closely with its insurance adjuster and contractors in order to fully prepare its properties for the return of its tenants as well as to accommodate the increase in demand from residents displaced by the wildfire and workers engaged in the rebuilding effort.

None of LREIT's properties incurred structural damage as a result of the wildfire; however, all of the Fort McMurray properties did sustain smoke damage to varying degrees. All of the restoration costs are expected to be covered by insurance, as are the rental losses incurred as a result of the wildfire. To date, all of the suites and common areas at the properties in Fort McMurray have been professionally cleaned and restored.

Given the unprecedented and difficult circumstances, it has been necessary to focus LREIT's limited cash resources on the restoration and leasing of its properties. Consequently, LREIT withheld the payment of the June 2016 debt service obligations on all Fort McMurray mortgage loan debt pending the receipt of business interruption insurance proceeds. An overview of the mortgage loan defaults and the actions taken by management to address the liquidity concerns are discussed throughout this MD&A.

2016 Second Quarter Operating Results

Key Financial Indicators

	Three Months Ended June 30		Favourable (Unfavourable) Variance	
	2016	2015	Amount	%
Rentals from investment properties	$ 3,979,652	$ 7,957,771	$ (3,978,119)	(50)%
Net operating income	$ 1,824,148	$ 4,556,944	$ (2,732,796)	(60)%
Interest expense	$ (5,764,385)	$ (5,855,496)	$ 91,111	2 %
Fair value adjustments	$ 24,952,489	$ (33,054,460)	$ 58,006,949	175 %
Income (loss) and comprehensive income (loss)	$ 20,488,721	$ (34,820,609)	$ 55,309,330	159 %
Funds from operations (FFO)	$ (4,343,306)	$ (1,564,934)	$ (2,778,372)	(178)%

Key Financial Indicators

	Six Months Ended June 30		Favourable (Unfavourable) Variance	
	2016	2015	Amount	%
Rentals from investment properties	$ 8,431,114	$ 16,689,490	$ (8,258,376)	(49)%
Net operating income	$ 3,483,505	$ 9,309,926	$ (5,826,421)	(63)%
Interest expense	$ (11,420,565)	$ (12,264,500)	$ 843,935	7 %
Fair value adjustments	$ 21,848,260	$ (34,951,282)	$ 56,799,542	163 %
Income (loss) and comprehensive income (loss)	$ 12,889,424	$ (38,632,655)	$ 51,522,079	133 %
Funds from operations (FFO)	$ (8,623,880)	$ (3,480,158)	$ (5,143,722)	(148)%

LREIT completed the three and six months ended June 30, 2016 with negative FFO of $4,343,306 and $8,623,880, respectively, compared to negative FFO of $1,564,934 and $3,480,158, respectively, during the same period in 2015. On a basic per unit basis, FFO decreased by $0.131 during the second quarter of 2016 to negative $0.205 and by $0.243 during the first six months of 2016 to negative $0.408. The decrease in FFO was primarily the result of a decrease in the Trust's net operating income, principally driven by significant reductions in the occupancy levels and rental rates of the Fort McMurray portfolio, as well as the sale of Colony Square on November 1, 2015 and Beck Court on May 1, 2016, partially offset by a decrease in interest expense, all of which are discussed in greater detail throughout this MD&A.

The average occupancy level of the Fort McMurray properties decreased significantly from 71% and 74% during the second quarter and the first six months of 2015, respectively, to 58% and 55% during the second quarter and the first six months of 2016, respectively, and the average monthly rental rate decreased by $528 and $494 or 25% and 23%, compared to the second quarter and the first six months of 2015, respectively.

Overall, LREIT completed the three and six months ended June 30, 2016 with net income of $20,488,721 and $12,889,424, respectively, compared to a net loss of $34,820,609 and $38,632,655, respectively, during the same three and six month periods in the prior year. In addition to the factors discussed above, the increase in net income mainly reflects a favourable variance in the fair value adjustments to the investment properties, which is explained in greater detail in the "Analysis of Operating Results - Fair Value Adjustments" section of this report.

Liquidity and Capital Resources

Liquidity refers to the Trust's overall ability to generate and have sufficient resources available to fund the ongoing operating, investing, and financing activities of the Trust. LREIT requires working capital for use in the day to day operations of its properties, as well as in order to fund the regular mortgage loan principal payments, transaction costs for debt financing, and capital expenditures.

As of June 30, 2016, the unrestricted cash balance of LREIT was $948,668 and the working capital deficit was $239,686.

During the first six months of 2016, the cash outflow from operating activities amounted to $1,146,534, compared to a cash inflow from operating activities of $218,934 during the first six months of 2015. Although the relatively low-levels of oil sands development activity throughout 2015 and into 2016 have continued to exert downward pressure on the general economic condition of Fort McMurray, the re-entry of displaced residents and the rebuilding efforts, which have commenced in the aftermath of the Fort McMurray wildfire, are likely to bolster economic activity in the region in the near-term. Notwithstanding, LREIT required significant additional sources of cash during the first quarter of 2016 to fund the cash shortfall from operating activities, as well as the monthly debt service obligations and capital expenditures.

For the six month period ended June 30, 2016, after accounting for regular mortgage principal repayments, capital expenditures, and transaction costs, the cash shortfall was $3,345,372, compared to a cash shortfall of $7,970,880 during the same period in 2015. The reduction in the cash shortfall for the six months ended June 30, 2016 in comparison to the six months ended June 30, 2015 was the result of the withholding of debt service payments during 2016 as described below. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by the net proceeds from the sale of Beck Court and Willowdale Gardens.

Mortgage Loan Defaults and Covenant Breaches

In response to the liquidity challenges facing the Trust, LRET requested debt service concessions from lenders and commenced making debt service payments that reflect the requested concessions in February 2016. By March 31, 2016, the trust successfully renegotiated one mortgage loan agreement, renewed three mortgage loans, and obtained a forbearance agreement on one mortgage loan, all of which incorporated terms that reduced the Trust's monthly debt service payments.

Due to the uncertainty with respect to LREIT's ability to collect rental revenues and with respect to the timing and extent of business interruption insurance proceeds in the wake of the wildfire, LREIT withheld the June 2016 debt service payments related to the mortgages on all of its Fort McMurray properties and focused the Trust's limited cash resources on the restoration and leasing of its properties. Consequently, the Trust was in default of the debt service requirements on ten mortgage loans with an aggregate principal balance of $184,745,635 at June 30, 2016.

It is anticipated that the debt service payments withheld in June 2016 will be paid using the net proceeds of the business interruption insurance claim.

Failure to comply with debt service obligations and debt covenants are considered to be 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. Notwithstanding, the lenders have not commenced any enforcement activity against LREIT or the indebted properties as of the date of this report.

Deferral of Interest Payment on Revolving Loan Facility

Commencing February 2016, the Trust deferred payment of interest on the revolving loan facility. The aggregate amount deferred during the first six months of 2016 was $826,221. Subsequent to June 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $69,095. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust.

Deferral of property management fee and service fee payments

During the first six months of 2016, the Trust deferred payment of the property management fees payable to Shelter in the amount of $261,698 and with respect to its services for the period from March 2016 to June 2016. Subsequent to June 30, 2016, the Trust deferred payment of property management fees in the aggregate amount of $108,409 for the months of July 2016 and August 2016. The Trust also deferred the payment of service fees in the amount of $344,428 for the period from March 2016 to June 2016. Subsequent to June 30, 2016, the Trust deferred payment of service fees in the aggregate amount of $79,678 for the month of July 2016.

Continuing Operations and Ongoing Initiatives

On the basis of the information presented above, it is evident that there are factors that cause significant doubt as to the ability of the Trust to continue as a going concern, including:

(i) the Trust's concentration of investment properties in Fort McMurray;
(ii) the deterioration of the Fort McMurray rental apartment market over the past several years, resulting from the decreased oil sands development activity;
(iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray;
(iv) the tightening of lending conditions in Fort McMurray;
(v) the Trust's limited cash and working capital resources; and,
(vi) the Trust's highly leveraged capital structure.

In an effort to meet the ongoing funding obligations of the Trust and sustain operations, LREIT has continued to pursue debt restructuring arrangements with its lenders as well as concessions from Shelter and its parent, 2668921 Manitoba Ltd., with respect to the payment of property management and service fees and revolving loan interest, respectively. Other measures taken in order to address the liquidity challenges facing LREIT include the continued expansion of the divestiture program and the continuation of cost reduction and other initiatives in order to improve the operating performance of the Trust. In addition, the Trust is working diligently to accommodate the increase in demand for rental housing from residents displaced by the wildfire and workers engaged in the Fort McMurray rebuilding effort.

A summary of LREIT's progress with respect to these initiatives is provided below.

Debt Restructuring - Debentures & Revolving Loan

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% and to defer all payments of interest to the amended maturity date.

In conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum.

Divestitures

The Trust continues to make progress with respect to the expanded divestiture program. On May 1, 2016, the Trust completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. The combined net proceeds of $9.4 million were used to fully repay a $5.4 million second mortgage loan with a secured charge over Willowdale Gardens and to pay down the revolving loan from 2668921 Manitoba Ltd. by approximately $3.9 million, creating liquidity to help sustain operations.

Current divestiture activities are focused on the sale of the property classified as held for sale, Woodland Park, as well as the two seniors' housing complexes, Chateau St. Michael's and Elgin Lodge.

Fort McMurray Wildfire Response

LREIT has been diligently engaged in responding to the operational repercussions of the May 2016 Fort McMurray wildfire. All of the suites and common areas of the Trust's properties in Fort McMurray have been professionally cleaned and restored and renovations at select properties are underway in order to improve their marketability and covert units into fully furnished suites in order to better suit the needs of prospective tenants in the post-fire market environment.

The re-entry of residents displaced by the wildfire and the commencement of the post-fire rebuild have resulted in increased economic activity in the region; however, there is no assurance of the degree to which the increased demand will alleviate the liquidity concerns outlined above.

Risks and Uncertainties

Notwithstanding the effort and initiatives undertaken by management, the continuation of the Trust's ability to operate as a going concern into the foreseeable future will be 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 the restructuring of the Trust's debt to the degree necessary and duration required 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 the near-term is highly dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray as well as the timing and extent of a recovery in oil sands development activity;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) the ability of LREIT to complete additional property sales.

A more detailed description of key risks is provided in the "Operating Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Brief History and Overview

LREIT is an unincorporated closed-end real estate investment trust which was established on April 23, 2002 under the laws of the Province of Manitoba. LREIT became a publicly traded entity on August 30, 2002. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G".

The core business activities of LREIT include acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada with a focus on multi-unit residential properties. Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT. LREIT's real estate portfolio is primarily focused in Fort McMurray, Alberta.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter provides asset management services to LREIT pursuant to the terms of a Services Agreement. Shelter is also responsible for the property management function for the investment properties of LREIT pursuant to the terms of a Property Management Agreement.

Investment Properties

As of June 30, 2016, the real estate portfolio of LREIT consisted of 15 multi-unit residential properties (the "investment properties"), one multi-unit residential property which is classified as held for sale (the "investment properties held for sale") and two seniors' housing complexes (the "discontinued operations").

The Financial Statements of LREIT provide segmented results for investment properties, with "Fort McMurray", "Other" and "Held for sale and/or sold" properties representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information. Operating results for discontinued operations are disclosed separately on the Income Statement.

Strategy and Operations

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio through the implementation of sound financial management practices and operating procedures, responsive management services and proactive leasing strategies.

Current Initiatives

Most recently, the Trust has focused on divestiture and debt restructuring initiatives in order to address the liquidity issues facing LREIT. In addition, the Trust has been responding to the operational repercussions of the May 2016 Fort McMurray wildfire by preparing its properties for the return of tenants and for the increased demand for accommodations during the rebuild.

Debt Restructuring - Debentures & Revolving Loan

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% and to defer all payments of interest to the amended maturity date.

In conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum.

Divestiture Program

As noted above, LREIT has instituted a divestiture program which together with the debt-restructuring initiatives undertaken by management, is part of the Trust's strategy to address the operating cash deficiencies that resulted from the rapid decline in oil sands development activity that began in the fourth quarter of 2014 and its corresponding impact on the Fort McMurray rental market. The main objective of the program is to improve working capital in order to assist LREIT in meeting its ongoing funding obligations and sustain operations into the foreseeable future.

The Trust continues to make progress with respect to the expanded divestiture program. On May 1, 2016, the Trust completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. The combined net proceeds of $9.4 million were used to fully repay a $5.4 million second mortgage loan with a secured charge over Willowdale Gardens and to pay down the revolving loan from 2668921 Manitoba Ltd. by approximately $3.9 million, creating liquidity to help sustain operations.

Currently, divestiture activities are focused on the sale of the property classified as held for sale, Woodland Park, as well as the two seniors' housing complexes, Chateau St. Michael's and Elgin Lodge.

Wildfire Aftermath

LREIT has been diligently engaged in responding to the operational repercussions of the May 2016 Fort McMurray wildfire. All of the suites and common areas of the Trust's properties in Fort McMurray have been professionally cleaned and restored and renovations at select properties are underway in order to improve their marketability and covert units into fully furnished suites to better suit the needs of prospective tenants in the post-fire market environment.

The re-entry of residents displaced by the wildfire and the commencement of the post-fire rebuild have resulted in increased economic activity in the region; however, there is no assurance of the degree to which the increased demand will alleviate the liquidity concerns outlined above.

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2016

As of June 30, 2016, the property portfolio of LREIT consists of 18 rental properties: 15 of which are classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one of which is classified as assets held for sale on the Statement of Financial Position and two of which are seniors' housing complexes accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 18 properties has a total purchase price of $338,010,488 and encompasses 1,489 suites.

A list of all of the properties in the LREIT real estate portfolio as at June 30, 2016 is provided below.

Real Estate Portfolio as of June 30, 2016

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy June 30 2016
INVESTMENT PROPERTIES					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	50 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	73 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	67 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	33 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	62 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	59 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	54 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	54 %
Woodland Park (1)	Fort McMurray	37,865,000	March 2007	107	45 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	59 %
Lakewood Townhomes (2)	Fort McMurray	18,632,769	July 2007	47	45 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	40 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	40 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	79 %
Westhaven Manor	Edson	4,050,000	May 2007	48	69 %
Manitoba					
Highland Tower (3)	Thompson	5,700,000	January 2005	77	69 %
Total - Investment properties		**312,288,488**	Total suites	**1,281**	
DISCONTINUED OPERATIONS (SENIORS' HOUSING COMPLEXES) (4)					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	75 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	82 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 338,010,488**		**1,489**	

Notes to the Property Portfolio:

(1) The property is classified as held for sale.

(2) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of December 31, 2015 has been reduced to 47 to account for the sale of 17 condominium units. One unit is unoccupied and held as available for sale and is not included in the occupancy statistic.

(3) Includes the cost of major renovations and asset additions.

(4) The seniors' housing complexes represent a distinct line of business which the Trust intends to dispose of under a coordinated plan, and are categorized as "discontinued operations".

Recent Changes in the Property Portfolio

During the first six months of 2016, LREIT sold two properties under its expanded divestiture program at a combined gross selling price of $32,000,000.

- On May 1, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

- On May 1, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

Current divestiture activities are focused on the sale of the two seniors' housing complexes (Chateau St. Michael's and Elgin Lodge) and the remaining property classified as held for sale (Woodland Park). As part of the expanded divestiture program, other properties have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Three Months Ended June 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 3,979,652	$ 7,957,771	$ (3,978,119)	(50)%
Property operating costs	2,155,504	3,400,827	1,245,323	37 %
Net operating income	1,824,148	4,556,944	(2,732,796)	(60)%
Interest income	39,735	22,271	17,464	78 %
Interest expense	(5,764,385)	(5,855,496)	91,111	2 %
Trust expense	(558,510)	(458,683)	(99,827)	(22)%
Loss before the following	(4,459,012)	(1,734,964)	(2,724,048)	(157)%
Gain on sale of investment property	20,986	(201,215)	222,201	n/a
Fair value adjustments - Investment properties	24,952,489	(33,054,460)	58,006,949	175 %
Income (loss) before discontinued operations	20,514,463	(34,990,639)	55,505,102	159 %
Income (loss) from discontinued operations	(25,742)	170,030	(195,772)	(115)%
Income (loss) and comprehensive income (loss)	$ 20,488,721	$ (34,820,609)	$ 55,309,330	159 %

Analysis of Income (Loss)

	Six Months Ended June 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 8,431,114	$ 16,689,490	$ (8,258,376)	(49)%
Property operating costs	4,947,609	7,379,564	2,431,955	33 %
Net operating income	3,483,505	9,309,926	(5,826,421)	(63)%
Interest income	56,988	47,163	9,825	21 %
Interest expense	(11,420,565)	(12,264,500)	843,935	7 %
Trust expense	(1,114,940)	(850,542)	(264,398)	(31)%
Loss before the following	(8,995,012)	(3,757,953)	(5,237,059)	(139)%
Gain (loss) on sale of investment property	20,986	(201,215)	222,201	110 %
Fair value adjustments - Investment properties	21,848,260	(34,951,282)	56,799,542	163 %
Income (loss) before discontinued operations	12,874,234	(38,910,450)	51,784,684	133 %
Income from discontinued operations	15,190	277,795	(262,605)	(95)%
Income (loss) and comprehensive income (loss)	$ 12,889,424	$ (38,632,655)	$ 51,522,079	133 %

Analysis of Income (Loss) per Unit

	Three Months Ended June 30						
	2016		2015		Change		
Income (loss) before discontinued operations - basic and diluted	$	0.970	$	(1.654)	$	2.624	159 %
Income (loss) from discontinued operations - basic and diluted		(0.001)		0.008		(0.009)	113%
Income (loss) and comprehensive income (loss) - basic and diluted	$	0.969	$	(1.646)	$	2.615	159 %

Analysis of Income (Loss) per Unit

	Six Months Ended June 30						
	2016		2015		Change		
Income (loss) before discontinued operations - basic and diluted	$	0.609	$	(1.840)	$	2.449	133 %
Income from discontinued operations - basic and diluted		0.001		0.013		(0.012)	(92)%
Income (loss) and comprehensive income (loss) - basic and diluted	$	0.610	$	(1.827)	$	2.437	133 %

Overall Results

LREIT completed the three and six month periods ended June 30, 2016 with net income of $20,488,721 and $12,889,424, respectively, compared to a net loss of $34,820,609 and $38,632,655, respectively, during the three and six month period ended June 30, 2015. The increase in the net income for the three and six month periods ended June 30, 2016 mainly reflects a favorable variance in the fair value adjustments of the investment properties, as well as a reduction in interest expense, partially offset by a decrease in the net operating income of the Fort McMurray property portfolio and a decrease in the net operating income of held for sale and/or sold properties.

The favorable variance in the fair value adjustment of the investment properties is primarily due to an increase in the carrying value of the Fort McMurray properties, as revenue expectations for the Fort McMurray portfolio were adjusted to reflect the increase in demand for rental accommodations associated with the return of displaced residents who have lost their homes and those involved with the rebuilding efforts.

The decrease in interest expense is mainly the result of the sale of Colony Square in November 2015, as well as lump-sum payments made on mortgage loans in the third and fourth quarters of 2015 and the full repayment of two second mortgage loans during the first six months of 2016.

The decline in the net operating income of the Fort McMurray portfolio is primarily the result of the sustained low-level of oil sands development activity which continued to exert downward pressure on the general economic and rental market conditions of Fort McMurray throughout 2015 and during the first six months of 2016. While the re-entry of residents displaced by the wildfire and the commencement of the post-fire rebuild are factors that have resulted in increased economic activity in the region, the impact of these factors on the operating results for the second quarter of 2016 has been negligible and will not begin to be realized until the third quarter of 2016.

The decrease in the net operating income of held for sale/sold properties is primarily due to the sale of Colony Square on November 1, 2015.

Funds from Operations (FFO)

LREIT considers "Funds from Operations" ("FFO") to be a meaningful supplemental measure of operating performance. FFO is a non-IFRS financial metric widely used by the real estate industry and is considered by many analysts to provide a reasonable indication of the past and recurring operating performance of a real estate property portfolio. Since FFO is a non-IFRS financial measurement it should not be construed as an alternative to net income or cash flow from operating activities, as determined in accordance with IFRS.

LREIT completed the second quarter of 2016 with negative FFO of $4,343,306, representing a decrease of $2,778,372, compared to the second quarter of 2015. On a basic per unit basis, FFO decreased by $0.131, from negative $0.074 during the second quarter of 2015 to negative $0.205 during the second quarter of 2016.

LREIT completed the first six months of 2016 with negative FFO of $8,623,880, representing a decrease of $5,143,722, compared to the first six months of 2015. On a basic per unit basis, FFO decreased by $0.243, from negative $0.165 during the second quarter of 2015 to negative $0.408 during the second quarter of 2016.

The decrease in FFO was primarily driven by the results of the Fort McMurray property portfolio, reflecting a significant decrease in occupancy levels and rental rates, and by the sale of Colony Square on November 1, 2015, partially offset by a decrease in interest expense.

A reconciliation between FFO and the closest IFRS comparable measure, loss and comprehensive loss, is provided in the chart below.

Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Loss and comprehensive loss	$ 20,488,721	$(34,820,609)	$ 12,889,424	$ (38,632,655)
Add (deduct):				
Loss (gain) on sale of properties	(20,986)	201,215	(20,986)	201,215
Fair value adjustment - Property and equipment	141,448	-	355,942	-
Fair value adjustment - Investment properties	(24,952,489)	33,054,460	(21,848,260)	34,951,282
Funds from operations (FFO) *	$ (4,343,306)	$ (1,564,934)	$ (8,623,880)	$ (3,480,158)
FFO per unit *				
- basic and diluted	$ (0.205)	$ (0.074)	$ (0.408)	$ (0.165)

* FFO has been calculated in accordance with the recommendations of RealPac. The method that is used by LREIT for calculating FFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers. The FFO per unit amounts have been calculated on a basis consistent with that prescribed by IFRS for calculating earnings per unit.

Segmented Results

The investment properties of LREIT are separated into three operating segments, as noted below.

Fort McMurray Properties (twelve properties)

Accounting for approximately 76% of the residential suites in the portfolio of investment properties (December 31, 2015 - Thirteen properties, 73%), the twelve multi-unit residential rental properties in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

The rental revenue, operating costs and interest expense which are attributable to units sold under the condominium sales program at Lakewood Townhomes are also included in this operating segment.

Other Investment Properties (three properties)

The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 16% (December 31, 2015 - 13%) of the residential suites in the portfolio of investment properties.

Held for Sale (one property) and/or Sold Properties (four properties)

The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park; Beck Court, which was sold on May 1, 2016; Willowdale Gardens, which was sold on May 1, 2016; 156/204 East Lake Blvd., which was sold on April 1, 2015 and Colony Square, which was sold on November 1, 2015. Woodland Park, the one property classified as held for sale, accounts for approximately 8% of the suites in the portfolio of investment properties (December 31, 2015 - two held for sale properties, 14%).

Rental Revenues

The rental revenue of LREIT during the first six months of 2016 and the first six months of 2015 was primarily derived from the leasing of residential units or commercial space, prior to the divestiture of the remaining commercial space upon the sale of Colony Square on November 1, 2015. Rental revenue includes rental revenue from all investment properties, revenue from the sale of condominium units at Lakewood Townhomes, and rental revenue from investment properties sold during the year prior to their sale.

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 2,838,555	$ 4,614,248	$ (1,775,693)	$ 5,582,872	$ 9,617,825	$ (4,034,953)
Other investment properties	432,116	505,506	(73,390)	851,118	995,094	(143,976)
Sub-total	3,270,671	5,119,754	(1,849,083)	6,433,990	10,612,919	(4,178,929)
Held for sale and/or sold properties (1)	708,981	2,838,017	(2,129,036)	1,997,124	6,076,571	(4,079,447)
Total	$ 3,979,652	$ 7,957,771	$ (3,978,119)	$ 8,431,114	$ 16,689,490	$ (8,258,376)

Occupancy Level, by Quarter (2)

	2016		
	Q1	Q2	6 Month Average
Fort McMurray properties	52 %	58 %	55 %
Other investment properties	72 %	74 %	73 %
Total	54 %	60 %	57 %
Held for sale and/or sold properties (3)	75 %	64 %	70 %

	2015					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	76 %	71 %	74 %	66 %	54 %	67 %
Other investment properties	85 %	86 %	86 %	83 %	79 %	83 %
Total	77 %	73 %	75 %	68 %	56 %	69 %
Held for sale and/or sold properties (3)	89 %	88 %	89 %	87 %	81 %	87 %

Average Monthly Rents, by Quarter

	2016		
	Q1	Q2	6 Month Average
Fort McMurray properties	$1,699	$1,599	$1,649
Other investment properties	$969	$960	$964
Total	$1,576	$1,491	$1,534
Held for sale and/or sold properties (3)	$1,783	$2,036	$1,873

	2015					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray properties	$2,158	$2,127	$2,143	$2,079	$1,980	$2,086
Other investment properties	$949	$967	$958	$973	$971	$965
Total	$1,954	$1,931	$1,943	$1,892	$1,810	$1,897
Held for sale and/or sold properties (3)	$1,239	$1,220	$1,229	$1,223	$1,219	$1,224

(1) Includes revenue from Woodland Park, as well as Beck Court, Willowdale Gardens, 156/204 East Lake Blvd. and Colony Square prior to their respective sales dates of May 1, 2016, May 1, 2016, April 1, 2015 and November 1, 2015.

(2) The occupancy level represents the portion of potential revenue that was achieved.

(3) Includes Woodland Park, as well as Beck Court, Willowdale Gardens, and the residential portion of Colony Square prior to their respective sales dates of May 1, 2016, May 1, 2016, and November 1, 2015.

During the three and six months ended June 30, 2016, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, decreased by $1,849,083 or 36% and $4,178,929 or 39%, respectively, as compared to the same periods in the prior year. The decrease in revenue is almost entirely due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

The revenue results of the Fort McMurray property portfolio continue to reflect challenging rental market conditions due to decreased oil sands development activity in the region, which resulted from the decline in the price of oil that began in the fourth quarter of 2014 and has continued to remain at depressed levels. The average occupancy level for the Fort McMurray portfolio decreased from 71% during the second quarter of 2015 to 58% during the second quarter of 2016 and the average monthly rental rate decreased by $528 per suite or 25%. The average occupancy level for the Fort McMurray portfolio decreased from 74% during for the first six months of 2015 to 55% during the first six months of 2016 and the average monthly rental rate decreased by $494 per suite or 23%.

While the re-entry of residents displaced by the wildfire and the commencement of the post fire rebuild effort are factors that have resulted in increased economic activity in the region, as evidenced by the increase in average occupancy level of the Fort McMurray portfolio to 71% as of August 1, 2016, the impact of these factors on the operating results for the second quarter of 2016 was negligible.

Notwithstanding the improvement in the occupancy levels of the Fort McMurray property portfolio subsequent to the period ended June 30, 2016, the rental rates of the Fort McMurray properties remain at a significantly reduced level compared to the prior year. The reduced rental rate level, together with the uncertainty with respect to the extent and/or duration of the post-fire rental market recovery, are key factors that cast significant doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve the operating performance of the Trust are discussed in the "Liquidity and Capital Resources" section of this report.

After accounting for the decrease in revenue from held for sale and/or sold properties of $2,129,036 and $4,079,447 in the three and six month periods ended June 30, 2016, respectively, the total revenue of LREIT decreased by $3,978,119 or 50% during the second quarter of 2016, compared to the second quarter of 2015 and decreased by $8,258,376 or 49% during the first six months of 2016, compared to the first six months of 2015. The decrease in revenue from held for sale and/or sold properties for the three and six month periods ended June 30, 2016 was primarily due to the sale of Colony Square on November 1, 2015; a decrease in revenue related to Woodland Park, the Fort McMurray property classified as held-for-sale and the sale of Beck Court on May 1, 2016.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 1,598,135	$ 1,907,139	$ (309,004)	$ 3,505,703	$ 4,191,790	$ (686,087)
Other investment properties	249,213	263,957	(14,744)	529,598	563,405	(33,807)
Sub-total	1,847,348	2,171,096	(323,748)	4,035,301	4,755,195	(719,894)
Held for sale and/or sold properties	308,156	1,229,731	(921,575)	912,308	2,624,369	(1,712,061)
Total	$ 2,155,504	$ 3,400,827	$ (1,245,323)	$ 4,947,609	$ 7,379,564	$ (2,431,955)

During the three and six months ended June 30, 2016, property operating costs decreased by $1,245,323 or 37% and $2,431,955 or 33%, respectively, as compared to the same periods in the prior year. The decreases mainly reflect a decrease in the property operating costs of held for sale and/or sold properties, primarily due to the sale of Colony Square on November 1, 2015 and a decrease in the property operating costs of the Fort McMurray properties, primarily due to decreases in maintenance and management fee expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Three Months Ended June 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 1,240,420	$ 2,707,109	$ (1,466,689)	(54)%	68 %	59 %	44 %	59 %
Other investment properties	182,903	241,549	(58,646)	(24)%	10 %	5 %	42 %	48 %
Sub-total	1,423,323	2,948,658	(1,525,335)	(52)%	78 %	64 %	44 %	58 %
Held for sale and/or sold properties	400,825	1,608,286	(1,207,461)	(75)%	22 %	35 %	57 %	57 %
Total	$ 1,824,148	$ 4,556,944	$ (2,732,796)	(60)%	100 %	99 %	46 %	57 %

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Six Months Ended June 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 2,077,169	$ 5,426,035	$ (3,348,866)	(62)%	60 %	58 %	37 %	56 %
Other investment properties	321,520	431,689	(110,169)	(26)%	9 %	5 %	38 %	43 %
Sub-total	2,398,689	5,857,724	(3,459,035)	(59)%	69 %	63 %	37 %	55 %
Held for sale and/or sold properties	1,084,816	3,452,202	(2,367,386)	(69)%	27 %	37 %	54 %	57 %
Total	$ 3,483,505	$ 9,309,926	$ (5,826,421)	(63)%	100 %	100 %	41 %	56 %

* Operating margin is a measurement of the relative profitability of the investment properties and represents the amount of net operating income which is derived from rental revenues, on a percentage basis. Operating margin is calculated by dividing net operating income by rental revenue.

During the three and six month period ended June 30, 2016, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1,525,335 or 52% and $3,459,035 or 59%, respectively, compared to the same periods in the prior year. The operating margin, excluding held for sale and/or sold properties, decreased from 58% during the second quarter of 2015 to 44% during the second quarter of 2016, and from 55% during the first six months of 2015 to 37% during the first six months of 2016. The decreases in net operating income and the operating margin, excluding held for sale and/or sold properties, primarily reflect the decreased revenue results of the Fort McMurray property portfolio, partially offset by a decrease in operating costs, as analyzed in the preceding sections of this report.

After including held for sale and/or sold properties, the total net operating income of LREIT during the three and six month period ended June 30, 2016, decreased by $2,732,796 or 60% and $5,826,421 or 63%, respectively, compared to the same periods in the prior year. The decrease in net operating income from held for sale and/or sold properties is primarily due to the sale of Colony Square on November 1, 2015; a decrease in revenue related to Woodland Park, the Fort McMurray property classified as held-for-sale and the sale of Beck Court on May 1, 2016.

Interest Expense

General

A breakdown of total interest expense, including a summary of the cash and non-cash components of interest expense is included in the table below.

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Investment Properties						
Mortgage Loans	4,069,980	4,767,174	(697,194)	8,612,302	9,633,072	(1,020,770)
Mortgage Bonds	-	-	-	-	490,715	(490,715)
Debentures	1,214,436	654,494	559,942	1,864,310	1,292,232	572,078
Revolving Loan	479,969	433,828	46,141	943,953	848,481	95,472
	5,764,385	5,855,496	(91,111)	11,420,565	12,264,500	(843,935)
Discontinued Operations						
Mortgage Loans	231,467	238,932	(7,465)	464,020	546,656	(82,636)
Total - interest expense	$ 5,995,852	$ 6,094,428	$ (98,576)	$ 11,884,585	$ 12,811,156	$ (926,571)

Cash and Non-cash Component

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Total cash component	$ 4,225,096	$ 5,329,037	$ (1,103,941)	$ 8,823,084	$ 10,808,709	$ (1,985,625)
Non-cash component						
Accretion of mortgage bonds	-	-	-	-	213,774	(213,774)
Amortization of transaction costs	1,770,756	797,059	973,697	3,061,501	1,629,378	1,432,123
Change in fair value of interest rate swaps	-	(31,668)	31,668	-	159,295	(159,295)
Total non-cash component	1,770,756	765,391	1,005,365	3,061,501	2,002,447	1,059,054
Total - interest expense	$ 5,995,852	$ 6,094,428	$ (98,576)	$ 11,884,585	$ 12,811,156	$ (926,571)

During the three and six months ended June 30, 2016, total interest expense decreased by $98,576 or 2% and $926,571 or 7%, respectively, compared to the same periods in the prior year. The decrease in total interest expense during the second quarter of 2016 mainly reflects a decrease in mortgage loans interest of $697,194, partially offset by an increase in debenture interest of $559,942. The decrease in total interest expense during the first six months of 2016 mainly reflects a decrease in mortgage loans interest of $1,020,770 and a decrease in mortgage bond interest of $490,715, partially offset by an increase in debenture interest of $572,078.

The decrease in mortgage loan interest is primarily due to the sale of Colony Square on November 1, 2015, as well as lump-sum payments made concurrently with the refinancing of three mortgage loans in Fort McMurray in the third and fourth quarters of 2015 and the full repayment of two second mortgage loans during the first six months of 2016. The decrease in mortgage bond interest is due to the redemption of the remaining $6,000,000 mortgage bonds during the first quarter of 2015. The increase in debenture interest mainly reflects the acceleration of the amortization of transaction costs.

Cash vs. Non-Cash Component of Interest

During the three and six months ended June 30, 2016, the total cash component of interest expense decreased by $1,103,941 and $1,985,625, respectively, compared to the same periods in the prior year, primarily due to the sale of Colony Square, lump-sum principal payments and repayment of the second mortgage loans discussed above.

During the three and six months ended June 30, 2016, the total non-cash component of interest expense increased by $1,005,365 and $1,059,054, respectively, compared to the same periods in the prior year. The increase in the non-cash component of interest expense mainly reflects an increase in the amortization of transaction costs related to forbearance and servicing fees and the accelerated amortization of transaction costs as a result of amending the Series G debenture terms and the sale of two properties during the second quarter of 2016. The increase during the three month period ended June 30, 2016 from these factors was partially offset by transaction costs that were fully expensed in the first quarter of 2016 due to the early renewal of four mortgage loans.

Trust Expense

Included within trust expense are service fees, professional fees, unit-based compensation, gains/losses on debenture and warrant repurchases and other administrative costs not directly attributable to the investment properties.

During the second quarter of 2016, trust expense increased by 99,827 or 22%, compared to the second quarter of 2015. The increase is mainly due to costs incurred in obtaining the Series G debenture extension and modification of terms, partially offset by decreased service fees due to the reduction in the number of properties being managed as a result of divestitures.

During the first six months of 2016, trust expense increased by $264,398 or 31%, compared to the first six months of 2015. The increase is mainly due to the fact that trust expense was comparatively low in the prior year, mainly due to the one time recovery of financing fees in the first quarter of 2015, as well as the factors discussed above.

Fair Value Adjustments

Investment Properties

During the three and six month periods ending June 30, 2016, LREIT recorded a gain related to fair value adjustments on its investment properties and investment properties held for sale of $24,952,489 and $21,848,260, respectively, compared to a loss related to fair value adjustments of $33,054,460 and $34,951,282, respectively, during the same periods of the prior year, representing a variance of $58,006,949 and $56,799,542 for the two periods, respectively.

The gains related to fair value adjustments were primarily due to an increase in the carrying value of the Fort McMurray properties of $24,957,742 and $21,991,613, during the three and six month periods ending June 30, 2016, respectively, as revenue expectations for the Fort McMurray portfolio were increased during the second quarter of 2016 to reflect the impact of the improved rental market conditions resulting from the economic activity associated with the aftermath of the May 2016 Fort McMurray wildfire.

After accounting for fair value adjustments, capital expenditures, and investment properties transferred to held for sale and/or sold properties, the carrying value of investment properties decreased by $11,365,441 and the carrying value of properties held for sale increased by $1,397,114 during the first six months of 2016.

Discontinued Operations

Income from discontinued operations includes the net operating income, interest expense and fair value adjustment for the seniors' housing complexes.

Analysis of Income from Discontinued Operations

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

During the three and six month periods ended June 30, 2016, income from discontinued operations decreased by $195,772 and $262,605, respectively, compared to the same periods in the prior year, primarily due to the fair value adjustments made during the first six months of 2016.

SUMMARY OF QUARTERLY RESULTS

The summary of quarterly results is intended to provide readers with an overview of key trends and other factors affecting variations in the quarterly results of LREIT.

Quarterly Analysis

	2016		2015	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 3,979,652	$ 4,451,462	$ 5,957,332	$ 7,568,402
Net operating income	$ 1,824,148	$ 1,659,357	$ 2,575,846	$ 4,266,094
Income (loss) for the period before discontinued operations	$ 20,514,463	$ (7,640,229)	$(30,150,728)	$(27,333,719)
Income (loss) and comprehensive income (loss)	$ 20,488,721	$ (7,599,297)	$(32,856,373)	$(27,276,615)
Funds from Operations (FFO)	$ (4,343,306)	$ (4,280,574)	$ (3,042,062)	$ (1,904,147)
PER UNIT				
Net operating income - basic and diluted	$ 0.086	$ 0.078	$ 0.122	$ 0.202
Income (loss) for the period before discontinued operations - basic and diluted	$ 0.970	$ (0.361)	$ (1.426)	$ (1.292)
Income (loss) and comprehensive income (loss) - basic and diluted	$ 0.969	$ (0.359)	$ (1.554)	$ (1.290)
Funds from Operations (FFO) - basic and diluted	$ (0.205)	$ (0.202)	$ (0.144)	$ (0.090)

Quarterly Analysis

	2015		2014	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 7,957,771	$ 8,731,719	$ 9,483,539	$ 9,924,262
Net operating income	$ 4,556,944	$ 4,752,982	$ 5,242,793	$ 6,103,953
Loss for the period before discontinued operations	$(34,990,639)	$ (3,919,811)	$(16,643,003)	$ (820,772)
Loss and comprehensive loss	$(34,820,609)	$ (3,812,046)	$(18,296,432)	$ (795,468)
Funds from Operations (FFO)	$ (1,564,934)	$ (1,915,224)	$ (877,026)	$ (637,581)
PER UNIT				
Net operating income - basic	$ 0.215	$ 0.225	$ 0.248	$ 0.290
- diluted	$ 0.215	$ 0.225	$ 0.247	$ 0.213
Loss for the period before discontinued operations - basic and diluted	$ (1.654)	$ (0.185)	$ (0.788)	$ (0.039)
Loss and comprehensive loss - basic and diluted	$ (1.646)	$ (0.180)	$ (0.866)	$ (0.038)
Funds from Operations (FFO) - basic and diluted	$ (0.074)	$ (0.091)	$ (0.042)	$ (0.030)

Rental Revenue and Net Operating Income

Rental market conditions in Fort McMurray continue to exert downward pressure on the rental revenue and net operating income results of LREIT. The decline in oil prices experienced in the fourth quarter of 2014, throughout 2015, and into 2016 has resulted in a decreased level of oil sands development activity in the region, which in turn has resulted in increased vacancies and reduced rental rates in the Fort McMurray rental market to June 30, 2016.

It is anticipated that the post-fire rental market conditions in Fort McMurray will have a positive impact on the operating results of the Trust commencing in the third quarter of 2016; however, the extent and duration of the impact is uncertain.

The Fort McMurray rental market is also affected by seasonal variations in demand, with stronger levels of demand typically being experienced in the second and third quarters of the year.

Loss before Discontinued Operations

The two main factors that can cause quarterly variations in net income/loss before discontinued operations, in addition to variations in net operating income, are changes in the fair value of investment properties and changes in interest expense.

A gain from fair value adjustments of $24,952,489 was realized during the second quarter of 2016 due to an increase in the carrying value of the Fort McMurray properties of $24,957,742, as revenue expectations for the Fort McMurray portfolio were increased to reflect the impact of the improved rental market conditions that resulted from the economic activity associated with the aftermath of the May 2016 Fort McMurray wildfire.

Prior to the second quarter of 2016 losses were realized from fair value adjustments with losses most pronounced in the second, third and fourth quarters of 2015, as well as the fourth quarter of 2014, and amounted to $33,054,460, $25,372,468, $27,120,099 and $15,685,280, respectively, as revenue and occupancy expectations from the Fort McMurray portfolio were continuously lowered to reflect reductions in oil sands development activity and increasing levels of uncertainty with respect to the timing and extent of the recovery of the Fort McMurray economy.

Financing activities such as the acquisition, discharge, paydown and refinancing of the mortgage loan debt of investment properties, as well as changes in the balance of the revolving loan and mortgage bonds, affect quarterly variations in interest expense.

Loss and Comprehensive Loss

With the exception of fair value adjustments, the operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, do not contribute significantly to variations in the quarterly financial results. Losses from fair value adjustments with respect to the seniors' housing complexes were most pronounced in the fourth quarter of 2015 and in the fourth quarter of 2014, in the amount of $2,794,716 and $1,734,126, respectively.

ANALYSIS OF CASH FLOWS

Operating Activities

Net cash flow from operating activities primarily reflects the cash component of net operating income, net of interest paid, the cash component of trust expense, and the net increase or decrease in working capital items (disclosed as "working capital adjustments") for both investment properties and the two seniors' housing complexes classified as discontinued operations. The calculation of the cash component of net operating income excludes "accrued rent receivable" and the calculation of the cash component of trust expense excludes "unit based compensation" and "loss on warrant repurchases".

Cash from Operating Activities

	Three Months Ended June 30		Increase
	2016	2015	(Decrease) in Cash
Net operating income			
Investment properties	$ 1,824,148	$ 4,556,944	$ (2,732,796)
Discontinued operations	347,173	408,962	(61,789)
Total net operating income	2,171,321	4,965,906	(2,794,585)
Accrued rent receivable	24,892	108,521	(83,629)
Net operating income - cash basis	2,196,213	5,074,427	(2,878,214)
Trust expense	(558,510)	(458,683)	(99,827)
Gain on debenture repurchases	-	(5,678)	5,678
Unit-based compensation	-	-	-
Trust expense - cash basis	(558,510)	(464,361)	(94,149)
Interest paid			
Investment properties	(1,360,088)	(5,236,352)	3,876,264
Discontinued operations	(230,809)	(235,690)	4,881
Total interest paid	(1,590,897)	(5,472,042)	3,881,145
Interest received	26,414	21,907	4,507
Interest expense - cash basis	(1,564,483)	(5,450,135)	3,885,652
Cash provided by (used in) operating activities, before working capital adjustments	73,220	(840,069)	913,289
Working capital adjustments, net	192,618	1,351,141	(1,158,523)
Cash provided by (used in) operating activities	$ 265,838	$ 511,072	$ (245,234)

During the second quarter of 2016, the net cash provided by operating activities, excluding working capital adjustments, increased by $913,289, compared to the second quarter of 2015. The variance primarily reflects a decrease in the cash component of interest paid of $3,881,145, partially offset by a decrease in net operating income of $2,878,214.

After providing for working capital adjustments, the net cash provided by operating activities decreased by $245,234 during the second quarter of 2016, compared to the second quarter of 2015.

Cash from Operating Activities

	Six Months Ended June 30 2016	Six Months Ended June 30 2015	Increase (Decrease) in Cash
Net operating income			
Investment properties	$ 3,483,505	$ 9,309,926	$ (5,826,421)
Discontinued operations	835,152	824,451	10,701
Total net operating income	4,318,657	10,134,377	(5,815,720)
Accrued rent receivable	55,375	255,866	(200,491)
Net operating income - cash basis	4,374,032	10,390,243	(6,016,211)
Trust expense	(1,114,940)	(850,542)	(264,398)
Gain on debenture repurchases	-	(11,654)	11,654
Trust expense - cash basis	(1,114,940)	(862,196)	(252,744)
Interest paid			
Investment properties	(4,422,008)	(9,659,944)	5,237,936
Discontinued operations	(461,623)	(470,734)	9,111
Total interest paid	(4,883,631)	(10,130,678)	5,247,047
Interest received	43,371	48,999	(5,628)
Interest expense - cash basis	(4,840,260)	(10,081,679)	5,241,419
Cash provided by (used in) operating activities, before working capital adjustments	(1,581,168)	(553,632)	(1,027,536)
Working capital adjustments, net	434,634	772,566	(337,932)
Cash used in operating activities	$ (1,146,534)	$ 218,934	$ (1,365,468)

During the first six months of 2016, the net cash used in operating activities, before working capital adjustments, increased by $1,027,536, compared to the first six months of 2015. The variance mainly reflects a decrease in the cash component of net operating income of $6,016,211, partially offset by a decrease in interest paid of $5,247,047.

The decrease in the cash component of net operating income for both the three month and six month periods is mainly due to the same factors discussed in the "Net Operating Income and Operating Margin" section of this report, namely a decline in the occupancy and rental rates experienced by the Fort McMurray Portfolio.

After providing for working capital adjustments, the net cash used in operating activities is $1,146,534 during the first six months of 2016, compared to the net cash provided by operating activities of $218,934 for the first six months of 2015.

The decrease in interest paid for both the three month and six month periods is mainly due to the same factors discussed in the "Interest Expense" section of this MD&A. In addition, the decrease in interest paid reflects the deferral of interest payments in accordance with the requested concessions for reduced debt service payments, as discussed in the preceding sections of this report; the deferral of all Fort McMurray debt service payments for June 2016 and a decrease in interest paid as a result of the amended terms of the Series G debentures.

These factors, in addition to the exclusion from interest paid of other non-cash items such as regular monthly interest accruals, amortization of transaction costs, accretion of mortgage bonds and change in fair value of interest rate swaps, account for the difference between interest expense of $5,764,385 and $11,420,565 on the Statements of Comprehensive Income and interest paid of $1,590,897 and $4,883,631 on the Statements of Cash Flow for the three month and six month periods, respectively.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash outflow of $7,156,348 during the first six months of 2016. The net cash outflow mainly reflects the prepayment of mortgage loans and repayment of long-term debt, partially offset by the net proceeds of the revolving loan facility.

Prepayment of Mortgage Loans

During the first quarter of 2016, an interest-only second mortgage loan, secured by assets of 2668921 Manitoba Ltd., in the amount of $7,500,000 was fully repaid. The repayment was funded by advances from the revolving loan facility.

During the second quarter of 2016, an interest-only second mortgage loan in the amount of $5,456,865 was fully repaid. The repayment was funded by the net proceeds from the sale of Willowdale Gardens.

Repayment of Long-term Debt

During the first six months of 2016, the cash outflow for regular repayment of mortgage loan and defeased mortgage loan principal for both investment properties and discontinued operations amounted to $1,621,721, compared to $4,872,521 during the first six months of 2015.

The decrease in regular principal repayments reflects comparatively high payments as a result of lump sum payments made, in accordance with loan agreements, in the second quarter of 2015, and comparatively low payments in the second quarter of 2016 as a result of payments made in accordance with the requested concessions discussed in the preceding sections of this report; the withholding of the June 2016 debt service payments related to the Fort McMurray properties as a result of the May 2016 wildfire, and full repayment of the Colony Square mortgage loan in conjunction with the sale of the property on November 1, 2016.

Revolving Loan Facility

During the first six months of 2016, net proceeds from the revolving loan amounted to $7,500,000 and served as a funding source for the mortgage loan prepayments, the cash outflow from operating activities, mortgage loan principal payments, transaction costs, and capital expenditures.

Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three year term at an interest rate of 12% with a maximum balance of $18,000,000. On June 21, 2016, 2668921 Manitoba Ltd. agreed to a reduction of the interest rate on the revolving loan facility to 5%, effective July 1, 2016.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $8,663,180 during the first six months of 2016. The net cash inflow mainly reflects proceeds from sale of properties and a decrease in defeasance assets, partially offset by capital expenditures on investment properties and property and equipment and an increase in restricted cash.

Divestitures

On May 1, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

On May 1, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

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

Capital Expenditures

LREIT has a continuous capital improvement program with respect to its properties. The primary objectives of the program are to extend the useful life of the properties, increase the future productive capacity of the properties, and improve the quality of tenants' physical surroundings. LREIT distinguishes between sustaining and value-added capital expenditures. In general, sustaining capital expenditures reflect the cost of capital expenditures that are required in order to maintain the existing productive capacity of the properties. Value-added capital expenditures tend to be more discretionary in nature and primarily reflect the cost of major renovation and/or expansion projects that are aimed at increasing the future productive capacity of the properties. Given LREIT's working capital and liquidity position, the current focus of its capital improvement program is on sustaining capital expenditures and minimizing discretionary expenditures. However, some value-added expenditures are anticipated in the third quarter of 2016 as renovations at select properties and the conversion of units to fully furnished suites are underway to more aptly meet the needs of prospective tenants in the post-fire market environment.

During the first six months of 2016, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the two remaining seniors' homes, amounted to $499,355, compared to $541,747 during the first six months of 2015.

Management's estimate of sustaining vs. value-added capital expenditures is provided in the table below.

	Six Months Ended	
	June 30, 2016	June 30, 2015
Sustaining Capital Expenditures		
- Investment properties	$ 143,413	$ 541,747
- Property and equipment	355,942	-
Value-added capital expenditures	-	-
	$ 499,355	$ 541,747

Adjusted Funds from Operations (AFFO)

LREIT considers "Adjusted Funds from Operations" ("AFFO") to be a meaningful additional measure of operating performance. AFFO is a non-IFRS financial measure widely used by the real estate industry. However, AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

AFFO estimates the sustainable cash distribution capacity and cash flows of a real estate investment trust. AFFO is calculated by adjusting FFO for sustaining capital expenditures as well as certain other non-cash items.

A reconciliation between FFO and AFFO is provided in the chart below.

Adjusted Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Funds from operations (FFO)	$ (4,343,306)	$ (1,564,934)	$ (8,623,880)	$ (3,480,158)
Add (deduct):				
Straight-line rent adjustment	24,892	108,521	55,375	255,866
Accretion of debt component of mortgage bonds	-	-	-	213,774
Unit-based compensation	-	-	-	-
Change in fair value of interest rate swaps	-	(31,668)	-	159,295
Capital expenditures on investment properties **	(4,580)	(122,939)	(143,413)	(370,391)
Capital expenditures on investment properties held for sale **	-	(171,356)	-	(171,356)
Capital expenditures on property and equipment **	(141,448)	-	(355,942)	-
Adjusted funds from operations (AFFO) *	$ (4,464,442)	$ (1,782,376)	$ (9,067,860)	$ (3,392,970)
AFFO per unit * - basic and diluted	$ (0.211)	$ (0.084)	$ (0.429)	$ (0.160)

* AFFO does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating AFFO may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of AFFO is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements.

** The capital expenditures referred to in the table above are expenditures that by standard accounting definitions are accounted for as capital in accordance with IFRS and are expected to have a useful life beyond one year but are considered sustaining capital expenditures as they are not part of a major renovation or expansion project aimed at increasing future productive capacity.

As disclosed in the preceding chart, LREIT completed the first six months of 2016 with an AFFO deficiency of $9,067,860, compared to AFFO deficiency of $3,392,970 during the first six months of 2015. On a basic per unit basis, the AFFO deficiency increased by $0.269 per unit during the first six months of 2016, compared to the first six months of 2015.

A reconciliation between cash provided by operating activities and AFFO is provided in the chart below.

Reconciliation Between Cash Provided by (Used in) Operating Activities and Adjusted Funds from Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Cash used in operating activities	$ 265,838	$ 511,072	$ (1,146,534)	$ 218,934
Add (deduct):				
Working capital adjustments	(192,618)	(1,351,141)	(434,634)	(772,566)
Gain on debenture repurchases	-	5,678	-	11,654
Amortization of transaction costs	(1,770,756)	(797,059)	(3,061,501)	(1,629,378)
Differences in interest accruals	(2,620,878)	143,369	(3,925,836)	(679,867)
Capital expenditures on investment properties **	(4,580)	(122,939)	(143,413)	(370,391)
Capital expenditures on investment properties held for sale **	-	(171,356)	-	(171,356)
Capital expenditures on property and equipment **	(141,448)	-	(355,942)	-
Adjusted funds from operations (AFFO) *	$ (4,464,442)	$ (1,782,376)	$ (9,067,860)	$ (3,392,970)

* AFFO does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating AFFO may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of AFFO is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements.

** The capital expenditures referred to in the table above are expenditures that by standard accounting definitions are accounted for as capital in accordance with IFRS and are expected to have a useful life beyond one year but are considered sustaining capital expenditures as they are not part of a major renovation or expansion project aimed at increasing future productive capacity.

Distributions

Regular cash distributions are suspended given the debt reduction priorities and financial position of LREIT.

LIQUIDITY AND CAPITAL RESOURCES

General

Liquidity refers to the Trust's overall ability to generate and have sufficient funds available to fund the ongoing operating, investing, and financing activities of the Trust.

The decline in rental market conditions in Fort McMurray, as described in the preceding sections of this report, has affected operating cash flow to the extent that LREIT requires ongoing additional sources of cash to fund the cash outflow from operating activities, in addition to the regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures. LREIT will also require additional capital in order to fund the repayment of mortgage loans upon maturity or refinancing to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds.

	June 30 2016	December 31 2015
Unrestricted cash	$ 948,668	$ 407,513
Amount available on revolving loan *	3,400,000	10,900,000
Total available liquidity	$ 4,348,668	$ 11,307,513

* As of the date of this report, there is $2,800,000 available under the revolving loan facility.

Working Capital

LREIT requires working capital for use in the day-to-day operations of its properties. Working capital is a commonly used financial measurement of an entity's liquidity and ability to fund its short term operating obligations. It is generally derived by deducting current liabilities from current assets. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating working capital may differ from the method which is used by other issuers.

As of June 30, 2016, working capital deficit was $239,686, representing a decrease of $355,641, compared to the working capital as of December 31, 2015. Working capital excludes the current portion of long-term debt, "held for sale" assets and liabilities that are of a long-term nature, and the principal amount due on the revolving loan from 2668921 Manitoba Ltd. of $14,600,000 (December 31, 2015 - $7,100,000), and includes the tenant security deposit liability, net of the security deposit balance in restricted cash.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used by the Trust to assess the overall financial position of the Trust. During the first six months of 2016, the mortgage loan debt service coverage ratio, inclusive of debt service concessions granted under mortgage renewal, mortgage amendment and forbearance agreements and excluding mortgage prepayments, was 0.48, compared to 0.64 during the first six months of 2015.

Interest Coverage Ratio

The ratio of net operating income to the cash component of interest on mortgage loans assesses LREIT's ability to pay mortgage loan interest out of the net operating income of the Trust, including discontinued operations.

During the first six months of 2016, the interest coverage ratio decreased to 0.64, compared to 1.17 during the first six months of 2015. After including the cash component of interest on mortgage bonds and debentures, the interest coverage ratio decreased to 0.55 during the first six months of 2016, compared to 1.02 during the first six months of 2015.

The reduction in the debt service coverage ratio and interest coverage ratio during the first six months of 2016 reflects a decrease in operating income, partially offset by a decrease in debt service costs, compared to the first six months of 2015.

As indicated by the Debt Service Coverage and Interest Coverage Ratios, the operating performance of the Trust has decreased to the extent that net operating income is insufficient to fund the debt service or interest payment obligations of the Trust.

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for 2016 and for the next five years, is provided in the following chart. The chart reflects mortgage payments in accordance with the payment terms specified by the applicable mortgage loan and/or forbearance agreement.

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2016	2017/2018	2019/2020	2021 and beyond
Mortgage loans					
Investment properties (1)	$ 204,085,570	$ 6,141,933	$ 158,319,672	$ 27,949,824	$ 11,674,141
Discontinued operations	14,109,141	14,109,141	-	-	-
Total mortgage loans	218,194,711	20,251,074	158,319,672	27,949,824	11,674,141
Debentures	24,810,800	-	24,810,800	-	-
Total	$ 243,005,511	$ 20,251,074	$ 183,130,472	$ 27,949,824	$ 11,674,141

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

The amount due in the remainder of 2016 for mortgage loans on investment properties of $6,141,933 consists of one demand mortgage loan with a principal amount of $3,996,247 and regular principal payments of $2,145,686 for other mortgage loans.

All mortgages which have matured prior to the date of this report have been repaid, renewed or refinanced with the exception of one mortgage loan related to a property classified as discontinued operations in the amount of $10,000,000 which matured subsequent to June 30, 2016 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.

An analysis of mortgage loans is provided in the "Mortgage Loans" section of the MD&A.

Loan Defaults

During the first six months of 2016, LREIT remitted several debt service payments in accordance with modified mortgage loan terms that are still being negotiated with the associated lenders. In addition, in response to uncertainties created by the Fort McMurray wildfire, LREIT withheld all of its debt service payments in June 2016 on mortgages related to its Fort McMurray properties. The result was the withholding of interest that was otherwise payable under the terms of the existing mortgage loans and forbearance agreements.

Failure to comply with debt service obligations and debt covenants 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.

Additional detail is provided in the table below.

	As at June 30, 2016			Subsequent to June 30, 2016		
Mortgage loans in default	Aggregate principal balance (1)	Principal withheld	Interest withheld	Principal withheld (repaid)	Interest withheld (repaid)	
Millennium 1st mortgage loan	$ 12,840,134	$ 72,751	$ 103,152	$ -	$ (18,813)	(a)
Five 1st mortgage loans - Fort McMurray	66,500,641	545,345	558,068	137,799	40,041	(b)
Woodland Park 1st mortgage loan	24,892,942	-	69,430	-	(69,430)	(c)
Laird's Landing 1st mortgage loan	37,963,021	89,445	113,662	-	-	(d)
Two 1st mortgage loans - Fort McMurray	42,548,897	-	127,392	-	-	(e)
	$184,745,635	$ 707,541	$ 971,704	$ 137,799	$ (48,202)	

(1) The aggregate principal balance includes any capitalized interest, forbearance and consulting fees in accordance with the related mortgage loan or forbearance agreement.

(a) As of the date of this report, the Trust has not repaid the loan and the lender has taken no action against the Trust and continues to engage in discussions with respect to the restructuring of the mortgage loan.

(b) As of the date of this report, the Trust has not repaid the loans and the lender has not enforced their security. During the first quarter of 2016, the lender demanded repayment of the loans, but subsequently entered into a pre-negotiation agreement and continues to engage in discussions with the Trust with respect to the restructuring of the mortgage loans.

(c) The Trust entered into a forbearance agreement with the lender, effective March 1, 2016, for a one year term, expiring February 28, 2017, at an increased interest rate of prime plus 4%, and with minimum monthly interest only payments of 3.25%. The forbearance agreement provides for any unpaid interest above the minimum interest payment, forbearance and consulting fees to be capitalized and added to the principal balance of the loan over the term of the forbearance agreement. The Trust withheld its debt service payment for June 2016 and was in default of the terms of the forbearance agreement. Subsequent to June 30, 2016, the Trust repaid the amounts withheld in full and is no longer in default of the terms of the forbearance agreement.

(d) The Trust and lender agreed to terms of renewal for the mortgage loan for a two year term, effective May 1, 2016, providing for the deferral and capitalization of 40% of the monthly interest payments until the maturity date of the mortgage loan. The terms of the renewal also require a lump sum payment to the lender of $5,500,000 on May 1, 2017. The Trust withheld its debt service payment for June 2016 and was in default of the terms of the renewal agreement. Subsequent to June 30, 2016, the Trust repaid a portion of the withheld debt service. As of the date of this report, the lender has taken no action against the Trust with respect to the amounts withheld.

(e) The Trust was able to renew the mortgages for a two year term, effective February 1, 2016, on an interest only basis, at a reduced interest rate, encompassing the deferral and capitalization of 40% of the monthly interest payments until the maturity date of the loan. The Trust withheld its debt service payment for June 2016 and was in default of the terms of the renewal agreements. Subsequent to June 30, 2016, the Trust repaid a portion of the withheld debt service. As of the date of this report, the lender has taken no action against the Trust with respect to the amounts withheld.

If the lenders of the nine mortgage loans, with an aggregate principal balance of $159,852,693, that remain in default as of the date of this report demanded repayment during 2016 and the "Summary of Contractual Obligations - Long-term Debt" chart above was adjusted to reflect the repayments, the total long-term debt due in 2016 would increase to $178,021,409, the total long-term debt due in 2017/2018 would decrease to $61,822,397, and the total long-term debt due in 2019/2020 and beyond would decrease to nil.

Debentures

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. As of June 30, 2016, the total face value of the 5.0% Series G debentures is $24,810,800.

The terms of the debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the Series G debentures after the repayment of mortgage loan indebtedness, 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. The extent of future debenture repayments, if any, is dependent on the extent and proceeds of property sales, the amount of mortgage loan indebtedness related to the properties sold and the balance of amounts owing to Shelter and/or its parent company 2668921 Manitoba Ltd.

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

Deferral of Interest Payment on Revolving Loan Facility

During the first six months of 2016, the Trust deferred payment of interest on the revolving loan facility in the aggregate amount of $826,221. Subsequent to June 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $69,095. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust. 2668921 Manitoba Ltd. continues to reiterate its support for LREIT's debt restructuring efforts and agreed to reduce the interest rate on the revolving loan from 12% to 5%, effective July 1, 2016, in conjunction with the approval of the amended terms of the Series G debentures.

Deferral of property management fee and service fee payment

During the first six months of 2016, the Trust deferred the payment of property management fees in the amount of $261,931 to Shelter. Subsequent to June 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of July 2016 and August 2016. Also, the Trust deferred the payment of service fees in the amount of $344,428 during the first six months of 2016. Subsequent to June 30, 2016, the Trust deferred the payment of service fees in the aggregate amount of $79,678 for the month of July 2016. Shelter continues to reiterate its support for LREIT's debt restructuring efforts.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During the first six months of 2016, funds in the amount of $65,000 were released from escrow following the completion of capital improvements or sale of property and $75,750 of new cash deposits were added to mortgage and capital improvement reserves. As of June 30, 2016, cash deposits in escrow for capital expenditures amount to $309,686.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. and interest free advances from Shelter represent the primary funding sources for any cash shortfall from the operating, investing and financing activities of LREIT. The net proceeds from property sales must be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, 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. The repayments to Shelter or 2668921 Manitoba Ltd. under the revolving loan from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds under the revolving loan facility, at the discretion of 2668921 Manitoba Ltd., for the payment of LREIT's ongoing funding obligations.

Revolving Loan Facility from 2668921 Manitoba Ltd.

LREIT utilizes advances made by 2668921 Manitoba Ltd., the parent company of Shelter, under a revolving loan facility. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time.

Effective July 1, 2015, the revolving loan facility was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. As of the date of this report, there is $2,800,000 available under the revolving loan facility.

As discussed in the preceding sections of this report, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum, effective July 1, 2016, in conjunction with the approval of the amendments to the Series G debentures.

The revolving loan is included in "Long-term debt" on the Statement of Financial Position of LREIT. Interest on the revolving loan facility is included in interest expense.

Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. are provided in the section of this report titled "Related Party Transactions".

Proceeds from the Sale of Select Properties

On May 1, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

On May 1, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

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

Upward Refinancing of Mortgage Loans

Upward refinancing of mortgage loan debt was a source of funds for LREIT during 2015; however, the opportunity to complete future upward refinancings is limited by the extent to which the existing property portfolio is leveraged, the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust, and market lending conditions. The upward refinancing of mortgage loans is not expected to be a viable source of funds in 2016.

Equity Offerings

LREIT may pursue equity offerings in the future as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

Outlook and Continuing Operations

After accounting for the cash outflow from operating activities, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed the first six months of 2016 with a cash shortfall of $3,345,372, compared to a cash shortfall of $7,970,880 during the first six months of 2015. LREIT is expected to incur an additional cash shortfall in the remainder of 2016.

In an effort to meet the ongoing funding obligations of the Trust and sustain operations, LREIT has continued to pursue debt restructuring arrangements with its lenders as well as concessions from Shelter and its parent, 2668921 Manitoba Ltd., with respect to the payment of property management and service fees and revolving loan interest, respectively. Other measures taken in order to address the liquidity challenges facing LREIT include the continued expansion of the divestiture program and the continuation of cost reduction and other initiatives in order to improve the operating performance of the Trust. In addition, the Trust is working diligently to accommodate the increase in demand for rental housing from displaced residents who lost their homes in the wildfire and from workers engaged in the Fort McMurray rebuilding effort.

Continuation of the Trust's operations into the foreseeable future will be 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 necessary and duration required 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 the near-term is highly dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray as well as the timing and extent of a recovery in oil sands development activity;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) the ability of LREIT to complete additional property sales.

CAPITAL STRUCTURE

The purchase price of the LREIT properties was primarily funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants.

LREIT utilizes the refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. In addition, as an interim source of funds, LREIT has obtained advances under a revolving loan facility from 2668921 Manitoba Ltd. and other periodic credit support from Shelter, as required.

Capital Structure

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Long-term debt	$ 27,447,073	10.8 %	$ 122,080,890	46.9 %
Current portion of long-term debt	216,473,663	85.3 %	141,300,008	54.2 %
Equity	10,014,405	3.9 %	(2,875,019)	(1.1)%
Total capitalization	$ 253,935,141	100.0 %	$ 260,505,879	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, debenture debt, a defeased liability, a revolving loan, and accrued interest payable, less unamortized transaction costs. On the Statement of Financial Position, the long-term debt of investment properties, including investment properties held for sale, is separated into current and non-current portions, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs.

Pursuant to the terms of the Declaration of Trust, LREIT is not permitted to incur mortgage indebtedness if such indebtedness would result in the total mortgage loan indebtedness of LREIT exceeding 75% of the "Appraised Value", as defined in the Declaration of Trust, of LREIT's total property portfolio.

Summary of Long-term Debt

	June 30 2016	December 31 2015	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 199,420,775	$ 230,897,904	$ (31,477,129)
Debentures	24,810,800	24,810,800	-
Defeased liability	2,487,704	2,520,859	(33,155)
Revolving loan from 2668921 Manitoba Ltd.	14,600,000	7,100,000	7,500,000
Total secured long-term debt	241,319,279	265,329,563	(24,010,284)
Accrued interest payable	3,899,418	1,139,300	2,760,118
Unamortized transaction costs	(1,297,961)	(3,087,965)	1,790,004
Total long-term debt - Investment properties	243,920,736	263,380,898	(19,460,162)
Long-term debt - Discontinued operations			
Mortgage loans	14,109,141	14,199,674	(90,533)
Unamortized transaction costs	-	(2,750)	2,750
Total long-term debt - Discontinued operations	14,109,141	14,196,924	(87,783)
Total long-term debt	$ 258,029,877	$ 277,577,822	$ (19,547,945)

As disclosed in the preceding chart, the total long-term debt of LREIT as of June 30, 2016 decreased by $19,547,945 or 7%, compared to the balance as of December 31, 2015. The decrease is comprised of a $24,010,284 decrease in the secured long-term debt of the Trust, partially offset by increases in accrued interest payable and a decrease in unamortized transaction costs of $2,760,118 and $1,790,004, respectively. The decrease in secured long-term debt mainly reflects a decrease in the balance of mortgage loans of $31,477,129, partially offset by a $7,500,000 increase in the balance of the revolving loan from 2668921 Manitoba Ltd. The change in the balance of the mortgage loans and the revolving loan mainly reflects the elimination of mortgage loans, including the prepayment of a $5,456,865 second mortgage loan secured by a second charge over Willowdale Gardens, with the sale of properties during the second quarter of 2016, as well as the prepayment, using proceeds from the revolving loan facility, of a $7,500,000 interest-only second mortgage loan in the Fort McMurray property portfolio, which was secured by the assets 2668921 Manitoba Ltd.

During the first six months of 2016, LREIT remitted several debt service payments in accordance with modified mortgage loan terms that are still being negotiated with the associated lenders. In addition, in response to uncertainties created by the Fort McMurray wildfire, LREIT withheld all of its debt service payments in June 2016 on mortgages related to its Fort McMurray properties. The result was the withholding of interest that was otherwise payable under the terms of the existing mortgage loans and forbearance agreements. The increase in accrued interest payable mainly reflects the amended terms of the Series G debentures, which defers the payment of interest until the extended maturity date of June 30, 2022, the withholding of debt service payments discussed above, as well as the deferral of interest payments on the revolving loan from 2668921 Manitoba Ltd.

The decrease in the balance of unamortized transaction costs during the quarter mainly reflects the accelerated amortization of transaction costs as a result of the early renewals of four mortgage loans during the first quarter of 2016 and the sale of two properties during the second quarter of 2016, as well as the immediate amortization of transaction costs as a result of the amended Series G debenture terms.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of June 30, 2016, the total mortgage loan debt of LREIT decreased by $31,567,662 compared to the amount payable as of December 31, 2015. As disclosed in the chart below, the decrease primarily reflects reductions in the balance of mortgage loans on sale of properties and as a result of the prepayment of a mortgage loan and regular repayments of principal on mortgage loans, partially offset by interest and forbearance fees capitalized to mortgage loan principal in accordance with mortgage renewal, mortgage amendment and forbearance agreements.

	Six Months Ended June 30, 2016		
	Total	Investment Properties	Seniors' Housing Complexes
Regular repayment of principal on mortgage loans	$ (1,588,566)	$ (1,498,033)	$ (90,533)
Prepayment of mortgage loans	(12,956,865)	(12,956,865)	-
Interest capitalized, net of repayment	1,538,689	1,538,689	-
Reduction of mortgage loans on sale of properties	(18,560,920)	(18,560,920)	-
Increase (decrease) in mortgage loans	(31,567,662)	(31,477,129)	(90,533)
Total mortgage loans - December 31, 2015	245,097,578	230,897,904	14,199,674
Total mortgage loans - June 30, 2016	$ 213,529,916	$ 199,420,775	$ 14,109,141

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount June 30, 2016	Percentage of Total
Investment Properties			
Fixed rate			
2017	6.8 %	$ 24,745,650	11.6 %
2018	5.0 %	19,622,149	9.2 %
2019	5.0 %	29,563,459	13.8 %
2025	4.4 %	12,840,134	6.0 %
	5.4 %	86,771,392	40.6 %
Demand/variable rate	6.1 %	112,649,383	52.8 %
Principal amount		199,420,775	93.4 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	4.7 %
Demand/variable rate	4.8 %	4,109,141	1.9 %
Principal amount		14,109,141	6.6 %
Total		$ 213,529,916	100.0 %

(1) The year of maturity is based on the contractual loan obligation and does not reflect the IFRS Financial Statement disclosure requirement to disclose fixed term loans which are secured by a demand promissory note and loans in breach of a covenant and/or default as a current liability.

(2) As of June 30, 2016, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.8%, 6.5% and 5.8%, respectively, compared to 5.9%, 6.5% and 6.0% at December 31, 2015.

Mortgage Loan Debt Summary

	2016		2015	
	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.4%	5.2%	4.8%	4.6%
Variable rate mortgage loans	6.1%	6.1%	7.3%	7.3%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.5%	6.4%	6.4%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	82%	88%	91%	79%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	91%	97%	100%	85%

	2015		2014	
	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.6%	4.7%	4.7%	4.7%
Variable rate mortgage loans	7.6%	7.5%	7.5%	7.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	6.3%	6.3%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	75%	70%	68%	66%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	82%	75%	75%	73%

* Excludes the revolving loan and advances from Shelter.

Mortgage Bonds

During 2015, LREIT repaid all outstanding mortgage bonds. The face value of the repaid mortgage bonds was $6,000,000.

Debentures

As of June 30, 2016, LREIT has 5% Series G debentures outstanding with a face value of $24,810,800, due June 30, 2022. Interest is payable on June 30, 2022 and is to be accrued on a non-compounded basis.

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 such property sales; 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.

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2015	20,252,386
- June 30, 2016	20,557,320
- August 9, 2016	20,557,320

As of June 30, 2016, LREIT had 20,557,320 units outstanding. The increase in the number of units outstanding as compared to December 31, 2015 was the result of the redemption of 304,934 deferred units during the second quarter of 2016.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan, and the Deferred Unit Plan of LREIT are provided in the Annual Information Form (AIF). The AIF is available on the SEDAR website at www.sedar.com.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Shelter currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. The Services Agreement expires December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to a Property Management Agreement. Shelter has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on-site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments, leasing commissions on renewal of 1.5% to 2.5% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of improvements and/or renovations. The Property Management Agreement expires December 31, 2024.

Property management fees are included in property operating costs. Leasing commissions and tenant improvement and renovation fees are capitalized to investment properties. During periods of major in-suite renovations or development, operating costs are capitalized to the cost of buildings and properties under development.

During the second quarter of 2016, fees payable to Shelter for investment properties included service fees and property management fees of $257,717 and $186,350, respectively, compared to $317,552 and $322,284, respectively, during the second quarter of 2015.

During the first six months of 2016, fees payable to Shelter for investment properties included service fees and property management fees of $517,851 and $360,405, respectively, compared to $635,786 and $672,147, respectively, during the first six months of 2015.

During the first six months of 2016, the Trust deferred the payment of property management fees in the amount of $261,931 to Shelter with respect to its services for the period from March 2016 to June 2016. Subsequent to June 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of July 2016 and August 2016. Also, the Trust deferred the payment of service fees in the amount of $344,428 during the first six months of 2016. Subsequent to June 30, 2016, the Trust deferred the payment of service fees in the aggregate amount of $79,678 for the month of July 2016.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

LREIT has entered into an agreement with Shelter, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter will administer the sales program and completion of the in-suite renovations. LREIT pays a service fee equal to 5% of the gross sales proceeds. Shelter 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 due to market conditions, the fee payable to Shelter increases by the amount of the increase in the fixed rate. LREIT also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During the first six months of 2016 and 2015, LREIT did not incur any service fees in regard to the condominium sales program.

Loans

Revolving Loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of June 30, 2016, the revolving loan facility was secured by mortgage charges against the title of two seniors' housing complexes.

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

Revolving Loan Term					
From	To	Renewal Fees	Interest Rate	Maximum Interest Charge	Maximum Loan Commitment
October 1, 2014	June 30, 2015	$ 25,000	12.00%	$ 1,375,000	$ 15,000,000
July 1, 2015	June 30, 2018	25,000	12.00%	6,480,000	18,000,000
July 1, 2016	June 30, 2018	-	5.00%	6,480,000	18,000,000

Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed and increased to a maximum of $18,000,000 at an interest rate of 12% to June 30, 2018, subject to a maximum interest payment of $6,480,000, plus the renewal fee. The renewal encompassed the payment of a $25,000 extension fee.

Effective July 1, 2016, the revolving loan interest rate was amended from 12% to 5%.

During the first six months of 2016, interest on the loan facility amounted to $943,953, compared to $829,952 during the first six months of 2015.

During the first six months of 2016, the Trust received advances of $11,400,000 and repaid $3,900,000 on the revolving loan, resulting in a balance of $14,600,000 at June 30, 2016. Subsequent to June 30, 2016, the Trust received advances of $800,000 and repaid $200,000, resulting in a balance of $15,200,000 as of the date of this report.

During the first six months of 2016, the Trust deferred payment of interest on the revolving loan facility for the period from February 2016 to June 2016 in the amount of $826,221. Subsequent to June 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $69,095. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust.

Approval

The terms of the revolving loan and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the loans. All necessary regulatory and unitholder approvals were obtained for the revolving loan and all renewals.

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan in the amount of $4,571,609, 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. Interest is capitalized monthly.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. In addition to the forward-looking statements provided throughout this MD&A, a summary of key risks is provided below; however, readers should also carefully consider the risks relating to LREIT as disclosed in Annual Report for 2015 and the Annual Information Form (AIF) dated March 11, 2016, both of which are available at www.sedar.com.

The key risks include the following:

Continuing Operations / Liquidity Risks

Material uncertainties exist as to LREIT's ability to remain a going concern due to various factors, including: (i) the Trust's concentration of investment properties in Fort McMurray, (ii) the deterioration of the Fort McMurray rental apartment market over the past several years and, in particular, the significant deterioration that occurred as a result of the decline in oil prices that began in the fourth quarter of 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the tightening of lending conditions in Fort McMurray, (v) the Trust's limited cash and working capital resources, and (vi) the Trust's highly leveraged capital structure.

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern, and in order to improve liquidity, meet ongoing funding obligations, and sustain operations management has achieved and is continuing to pursue debt restructuring arrangements with certain of its lenders, requesting concessions from Shelter with respect to the payment of property management and service fees, expanding its divestiture program and continuing with cost reduction measures and other efforts to improve operating results. In addition, the Trust is working diligently to accommodate the increase in demand for rental housing from displaced residents who lost their homes in wildfire and workers engaged in the Fort McMurray rebuilding effort.

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 the near term is highly dependent on the extent of economic activity associated with the post fire rebuild of Fort McMurray as well as the timing and extent of a recovery in oil sands development activity; (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and, (vi) ability of LREIT to complete additional property sales.

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

Concentration of the Portfolio of LREIT in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. The sale of properties which are located outside of Fort McMurray will also serve to increase the exposure of LREIT's portfolio to the Fort McMurray market.

At June 30, 2016, there were 18 properties in the real estate portfolio of LREIT, 13 of which were located in Fort McMurray, Alberta. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 85% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $224,908,987, which represents approximately 94% of the total aggregate carrying value of the investment property portfolio as at June 30, 2016.

The Fort McMurray properties, excluding one property classified as investment property held for sale, accounted for 66% of investment property revenue and 60% of the net operating income of the Trust during the first six months of 2016.

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a more restrictive capital market, a change in legislation and numerous other factors beyond the control of LREIT.

The decline in oil prices has resulted in a tightening of mortgage lending conditions for properties located in Fort McMurray.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties.

Loan Defaults and Covenant Breaches

Failure to comply with debt service obligations and debt covenants are considered to be 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.

In response to liquidity challenges, the Trust requested debt service concessions from lenders and commenced making debt service payments that reflect the requested concessions in February 2016. By March 31, 2016, the trust successfully renegotiated one mortgage loan agreement, renewed three mortgage loans, and obtained a forbearance agreement on a mortgage loan, all of which incorporated revised terms that reduced the Trust's monthly debt service payments.

Due to the uncertainty with respect to LREIT's ability to collect rental revenues and with respect to the timing and extent of business interruption insurance proceeds in the wake of the wildfire, LREIT withheld the June 2016 debt service payments related to the mortgages on all of its Fort McMurray properties and focused the Trust's limited cash resources on the restoration and leasing of its properties. Consequently, the Trust was in default of the debt service requirements on ten mortgage loans with an aggregate principal balance of $184,745,635 at June 30, 2016.

Additional details regarding the mortgage loans in default and the actions taken by management to remedy the situation are discussed in the "Liquidity and Capital Resources" section of this report.

Notwithstanding the progress made with respect to LREIT's debt restructuring initiatives, there is a risk that certain lenders may be unwilling to participate in the restructuring of the Trust's debt to the degree or for the duration necessary to sustain the Trust's operations. In such an event, the lender(s) could take action against LREIT and the indebted properties, such as calling for the acceleration of payments on the mortgage loans and/or enforcing their security in accordance with the underlying financing agreements.

Revolving Loan Facility From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan facility from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval and the willingness/ability of 2668921 Manitoba Ltd. to advance funds, as required. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary depending on the cash requirements of the Trust.

Subsequent to June 30, 2016, the Trust deferred payment of interest on the revolving loan facility for July 2016 in the amount of $69,095. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust.

As discussed in the preceding sections of this report, in conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum.

Credit Support from Shelter

Shelter has provided LREIT with interim funding on a periodic basis. The interim funding has been provided in the form of interest-free advances and deferred service and property management fees.

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

The continuation of interim funding from Shelter may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from other sources and the cash requirements of the Trust.

Divestiture Program

On May 1, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

On May 1, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

No condominium units were sold at Lakewood Townhomes during the first six months of 2016.

Additional information is provided in the "Analysis of Cash Flows - Investing Activities" and the "Overview of Operations and Investment Strategy" sections of this report.

Current divestiture activities focus on the sale of the two seniors' housing complexes, the remaining property classified as held for sale and other properties with consideration of the overall cash needs of the Trust, as well as the completion of the condominium sales program for Lakewood Townhomes.

There can be no assurance that LREIT will complete divestitures under the time frame or to the extent which is necessary to sustain operations for the foreseeable future.

Insurance Risk

LREIT takes steps to ensure that it has a level of property, comprehensive general liability, business interruption and other insurance coverage that is prudent for its business operations. These steps include consultations with insurance industry experts. However, there can be no guarantee that LREIT will be fully covered in regard to any specific loss it might incur.

In May 2016, a wildfire developed in Fort McMurray, Alberta which resulted in the evacuation of the entire city of Fort McMurray. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,084 suites or 85% of its total suites in the investment property portfolio. None of LREIT's properties incurred structural damage as a result of the wildfire; however, all of the Fort McMurray properties sustained smoke damage to varying degrees. It is anticipated that the insurance coverage of LREIT will be sufficient to cover all restoration costs and the rental loss incurred as a result of the wildfire; however, there remains a risk that proceeds of insurance, or timing of receipt thereof, may be inadequate to fully compensate LREIT for all of the losses it might incur as a result of the wildfire.

Credit Risk

Credit risk for LREIT arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The maximum exposure to this credit risk is equal to the carrying value of the amounts receivable. LREIT strives to mitigate this risk of credit loss by reviewing tenants' covenants, by obtaining security deposits whenever permitted by legislation and by limiting its exposure to any one tenant. The failure of LREIT's tenants to pay LREIT amounts owing on a timely basis or at all would have an adverse effect on LREIT's financial condition.

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At June 30, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $31,167,103 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of LREIT, in accordance with IFRS, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial Statement items which encompass estimates include the following:

- the determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- the determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates; and

- the determination of the status of the Trust for income tax purposes: qualification for the REIT Exception is subject to uncertainties in the interpretation and application of the SIFT Rules and can only be determined for a given year after the year has ended.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements are based on IFRS standards issued and effective as of the date of this report.

Future Changes In Accounting Policies

The following new or amended standards have been issued by the International Accounting Standards Board. The new standards are not expected to have an impact on shareholders' equity or net income, but may have a presentation impact on the financial statements.

- 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.

- IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS18 - 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.

- IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on the balance sheet by recognizing a right of use asset and a lease liability. 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.

TAXATION

Taxation of LREIT

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the federal income taxation of publicly listed or traded trusts, LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before June 30, 2016, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

The REIT Exception is applied on an annual basis. Previously, LREIT did not qualify for the REIT Exception and therefore was subject to the SIFT Rules in 2011 and 2012. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, LREIT qualified for the REIT Exception in 2013, 2014 and 2015.

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2016 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2016 or any subsequent year.

If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Please refer to the Annual Information Form for a more detailed discussion of the SIFT Rules.

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. If LREIT qualifies for the REIT Exception in a taxation year, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year, if any. Distributions (if any) in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions (if any) not included in income.

The cash distributions paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes, at such time. As a result, all of the distributions paid by LREIT since inception, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009, December 2010, December 2013 and December 2015.

If LREIT does not qualify for the REIT Exception, distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as to allow timely decisions regarding required disclosure.

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of LREIT have evaluated, or caused to be evaluated under their supervision, the effectiveness of DC&P as at December 31, 2015. Based on the evaluation performed, the CEO and CFO have concluded that the DC&P of the Trust are appropriately designed and were operating effectively as at December 31, 2015.

During the six months ended June 30, 2016, there were no changes to LREIT's DC&P. LREIT continuously reviews the design of the DC&P in order to provide reasonable assurance that material information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, as defined in National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Internal Control over Financial Reporting

LREIT's internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

In addition, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of LREIT have evaluated, or caused to be evaluated under their supervision, the effectiveness of ICFR as at December 31, 2015. Based on the evaluation performed, the CEO and CFO have concluded that the ICFR of the Trust are appropriately designed and were operating effectively as at December 31, 2015. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO") control framework.

During the six months ended June 30, 2016, no changes were made to the design of the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2016 Second Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 9, 2016