MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2016

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Unit Trading Price

	Nine Months Ended September 30, 2016 (Per unit)	Year Ended December 31, 2015 (Per unit)
Opening price	$0.13	$0.47
Closing price	$0.08	$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 Third Quarter Report

During the third quarter of 2016, LREIT continued to focus on the execution of its divestiture, debt restructuring, and post-fire Fort McMurray initiatives.

Operating Results

LREIT completed the third quarter of 2016 with negative funds from operations (FFO) of $1.6 million, compared to negative FFO of $1.9 million during the third quarter of 2015, resulting in a favourable variance of $0.3 million. The improvement in FFO in comparison to the preceding quarters of 2016 was more significant, reflecting a favourable variance of $2.7 million as compared to both the first and second quarters of 2016.

Overall, LREIT completed the third quarter of 2016 with a loss and comprehensive loss of $11.1 million, compared to a loss and comprehensive loss of $27.3 million during the third quarter of 2015. The decrease in the loss mainly reflects a favourable variance in the fair value adjustments of the investment properties, as well as a decrease in interest expense, partially offset by a decrease in net operating income. The decrease in net operating income is primarily due to the sale of Colony Square in November, 2015, and the sales of Beck Court and Willowdale Gardens in May, 2016, as well as a decrease in the net operating income of the Fort McMurray property portfolio.

The variance in the fair value adjustments primarily pertains to reductions in the carrying value of the Fort McMurray properties, which were more pronounced in the third quarter of 2015, compared to the third quarter of 2016. The unfavourable fair value adjustments in the both the third quarter of 2016 and 2015 were driven by an increase in the uncertainty associated with the extent and timing of a recovery of the Fort McMurray rental market and were compounded in the third quarter of 2015 with reduced expectations for operating results.

Notwithstanding the decrease in net operating income compared to the third quarter of 2015, the third quarter of 2016 represents an improvement in comparison to the preceding quarters of 2016. The return of homeowners displaced by the wildfire and the commencement of the post-fire rebuild during the third quarter of 2016 have bolstered economic activity in the region, moderating the impact of the low-level of oil sands development activity and resulting in a recovery in the occupancy levels. The average occupancy level of LREIT's Fort McMurray properties increased from 58% during the second quarter of 2016 to 76% during the third quarter of 2016, representing a return in average occupancy to a level which has not been experienced since the beginning of fiscal 2015. The rental rates of the Fort McMurray properties, however, continue to remain at reduced levels in comparison to the prior year. The reduced rental rate levels, together with the uncertainty which surrounds the extent and/or duration of the post-fire rental market recovery continue to limit the ability of the Trust to sustain operations.

Cash Flow Results

During the first nine months of 2016, LREIT continued to require additional sources of capital to fund operating activities, as well as debt service obligations and capital expenditure requirements. For the nine month period ended September 30, 2016, the cash outflow from operating activities amounted to $0.4 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was $5.4 million, compared to a cash outflow from operating activities of $2.6 million and a cash shortfall of $11.6 million during the same period in 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

As previously reported, throughout 2016, in response to the liquidity challenges facing the Trust, LREIT reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements as more particularly described below.

As of September 30, 2016, mortgage renewal, amendment, and forbearance agreements have been obtained for six mortgage loans on six properties and all deferred debt service payments have been paid in full, with the exception of $0.3 million in debt service payments which remain in arrears with respect to three mortgage loans on three Fort McMurray properties with an aggregate principal balance of $81.0 million. In September 2016, the lender of the three mortgage loans that remain in default issued a demand letter and notice to enforce security, but has taken no further action against the Trust and remains in discussion with the Trust regarding the restructuring of the loans.

Deferred debt service payments with respect to five mortgage loans on eight properties, with an aggregate principal balance of $65.4 million were paid in full during the third quarter of 2016. However, the lender maintained that there are service fees outstanding with respect to these mortgage loans and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at September 30, 2016 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loan.

The Trust is optimistic that its lenders and service providers will continue to support its efforts to stabilize its operations.

Outlook & Continuing Operations

LREIT will continue to maintain its focus on divestiture, debt restructuring, and post-fire operational initiatives in Fort McMurray, including the conversion of units into furnished suites at select properties in order to aptly meet the needs of the rental housing market.

Under the divestiture program, the Trust completed the sale of Elgin Lodge on October 1, 2016, which generated net cash proceeds of approximately $4.3 million that were used to reduce the outstanding balance of the revolving loan from 2668921 Manitoba Ltd. Shelter Canadian Properties Ltd. and 2668921 Manitoba Ltd. are continuing to support LREIT through the deferral of interest and fees and the advancing of funds under the revolving loan. During the three and nine months ended September 30, 2016, 2668921 Manitoba Ltd. provided net advances under the revolving loan of $2.1 million and $9.6 million, respectively.

While the longer-term prospects for the Fort McMurray region continue to be closely linked to oil sands development activity, the recent increase in the demand for rental accommodations is expected to positively impact the operating results of the Trust for the remainder of the year and in 2017.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 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 nine months ended September 30, 2016 and accompanying notes and with reference to the Annual Report for 2015, the First and Second Quarter reports 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 September 30, 2016 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of September 30, 2016 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the nine months ended September 30, 2016 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the nine months ended September 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 sold 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 September 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

	September 30 2016	December 31 2015	December 31 2014
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 262,136,363	$ 278,524,804	$ 442,773,600
Total long-term financial liabilities (1)	$ 254,554,833	$ 279,529,237	$ 327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.9 %	6.0 %	5.7 %
- Total debt	6.6 %	6.4 %	6.3 %

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 5,096,608	$ 7,568,402	$ 13,527,722	$ 24,257,892
Net operating income	$ 2,606,793	$ 4,266,094	$ 6,090,298	$ 13,576,020
Income (loss) before discontinued operations	$ (10,614,965)	$ (27,333,719)	$ 2,259,269	$ (66,244,169)
Income (loss) and comprehensive income (loss)	$ (11,136,578)	$ (27,276,615)	$ 1,752,846	$ (65,909,270)
Funds from Operations (FFO) *	$ (1,579,111)	$ (1,904,147)	$ (10,202,991)	$ (5,384,305)
Cash Flows				
Cash provided by (used in) operating activities	$ 724,682	$ (2,830,238)	$ (421,852)	$ (2,611,304)
Adjusted Funds from Operations (AFFO) *	$ (1,980,475)	$ (2,135,701)	$ (11,048,335)	$ (5,528,671)
Per Unit				
Net operating income * - basic and diluted	$ 0.123	$ 0.202	$ 0.288	$ 0.642
Income (loss) before discontinued operations * - basic and diluted	$ (0.502)	$ (1.292)	$ 0.107	$ (3.132)
Income (loss) and comprehensive Income (loss) - basic and diluted	$ (0.527)	$ (1.290)	$ 0.083	$ (3.116)
Funds from Operations (FFO) * - basic and diluted	$ (0.075)	$ (0.090)	$ (0.482)	$ (0.255)
Cash provided by (used in) operating activities - basic and diluted	$ 0.034	$ (0.134)	$ (0.020)	$ (0.123)
Adjusted Funds from Operations (AFFO) * - basic and diluted	$ (0.094)	$ (0.101)	$ (0.522)	$ (0.261)

(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 seniors' 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.

As previously reported, LREIT's near-term focus has been on the divestiture program, debt restructuring, and post-fire operation initiatives, with the objective of addressing the liquidity concerns of the Trust and positioning LREIT to aptly accommodate the increased demand from returning residents and the migration of workers taking part in the rebuilding effort.

2016 Third Quarter Operating Results

Key Financial Indicators

	Three Months Ended September 30		Favourable (Unfavourable) Variance	
	2016	2015	Amount	%
Rentals from investment properties	$ 5,096,608	$ 7,568,402	$ (2,471,794)	(33)%
Net operating income	$ 2,606,793	$ 4,266,094	$ (1,659,301)	(39)%
Interest expense	$ (3,992,561)	$ (5,736,630)	$ 1,744,069	30 %
Fair value adjustments	$ (8,861,510)	$ (25,372,468)	$ 16,510,958	65 %
Income (loss) and comprehensive income (loss)	$ (11,136,578)	$ (27,276,615)	$ 16,140,037	59 %
Funds from operations (FFO)	$ (1,579,111)	$ (1,904,147)	$ 325,036	17 %

Key Financial Indicators

	Nine Months Ended September 30		Favourable (Unfavourable) Variance	
	2016	2015	Amount	%
Rentals from investment properties	$ 13,527,722	$ 24,257,892	$ (10,730,170)	(44)%
Net operating income	$ 6,090,298	$ 13,576,020	$ (7,485,722)	(55)%
Interest expense	$ (15,413,126)	$ (18,001,130)	$ 2,588,004	14 %
Fair value adjustments	$ 12,986,750	$ (60,323,750)	$ 73,310,500	122 %
Income (loss) and comprehensive income (loss)	$ 1,752,846	$ (65,909,270)	$ 67,662,116	103 %
Funds from operations (FFO)	$ (10,202,991)	$ (5,384,305)	$ (4,818,686)	(89)%

LREIT completed the three and nine month periods ended September 30, 2016 with negative FFO of $1,579,111 and $10,202,991, respectively, compared to negative FFO of $1,904,147 and $5,384,305, respectively, during the same periods in 2015. On a basic per unit basis, FFO increased by $0.015 during the third quarter of 2016 to negative $0.075 and decreased by $0.227 during the first nine months of 2016 to negative $0.482. The increase in FFO during the third quarter of 2016, compared to the second quarter of 2016, mainly reflects a decrease in interest expense, partially offset by a reduction in net operating income. The decrease in FFO during the first nine months of 2016, compared to the first nine months of 2015, was primarily the result of a decrease in the Trust's net operating income, partially offset by a reduction in interest expense. The decreases in the Trust's net operating income for the three and nine month periods ended September 30, 2016, compared to the comparable periods in 2015, were principally driven by a reduction in the net operating income of held for sale and/or sold properties due to the sales of Colony Square, on November 1, 2015 and Beck Court and Willowdale Gardens on May 1, 2016, and a reduction in the net operating income of the Fort McMurray property portfolio primarily due to reductions in occupancy levels in the first and second quarters of 2016 and reductions in the average rental rates in all three quarters of 2016 in comparison to 2015.

Notwithstanding the decrease in net operating income compared to the third quarter of 2015, the current quarter represents a significant improvement in comparison to the preceding quarters of 2016. The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild during the third quarter of 2016 have bolstered economic activity and demand for rental accommodations in the region, moderating the impact of the low-level of oil sands development activity and resulting in a significant recovery in occupancy levels.

The average occupancy level of the Fort McMurray properties increased from 66% during the third quarter of 2015 to 76% during the third quarter of 2016. The average occupancy level of the Fort McMurray properties decreased from 71% during the first nine months of 2015 to 62% during the first nine months of 2016. During the three and nine month periods ended September 30, 2016, the average monthly rental rate of the Fort McMurray properties decreased by $379 or 18% and $455 or 21%, respectively, compared to the same periods in the prior year.

Overall, LREIT completed the three and nine month periods ended September 30, 2016 with a loss and comprehensive loss of $11,136,578 and an income and comprehensive income of $1,752,846, respectively, compared to a loss and comprehensive loss of $27,276,615 and $65,909,270, respectively, during the same three and nine 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 September 30, 2016, the unrestricted cash balance of LREIT was $1,293,822 and the working capital deficit was $1,460,440.

During the first nine months of 2016, the cash outflow from operating activities amounted to $421,852, compared to a cash outflow from operating activities of $2,611,304 during the first nine months of 2015. Although the relatively low-levels of oil sands development activity throughout 2015 and 2016 have continued to exert downward pressure on the general economic condition of Fort McMurray, the entry of displaced homeowners and the rebuilding efforts, which have commenced in the aftermath of the Fort McMurray wildfire, improved occupancy during the third quarter of 2016 and are likely to continue to bolster economic activity and demand for rental accommodations in the region in the near-term. Notwithstanding, LREIT required additional sources of cash during the first nine months of 2016 to fund the cash shortfall from operating activities, as well as the monthly debt service obligations and capital expenditures.

For the nine month period ended September 30, 2016, after accounting for regular mortgage principal repayments, capital expenditures, and transaction costs, the cash shortfall was $5,399,198, compared to a cash shortfall of $11,643,892 during the same period in 2015. The reduction in the cash shortfall is mainly due to a decrease in mortgage loan principal repayments and a decrease in expenditures on transaction costs. 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

As previously reported, throughout 2016, in response to the liquidity challenges facing the Trust, LREIT reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements as more particularly described below.

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

Deferred debt service payments with respect to five mortgage loans on eight properties, with an aggregate principal balance of $65,400,547 were paid in full during the third quarter of 2016. However, the lender maintained that there are service fees outstanding with respect to these mortgage loans and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at September 30, 2016 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loan.

Deferral of Interest Payment on Revolving Loan Facility

During the first nine months of 2016, the Trust deferred payments of interest on the revolving loan facility for the period from February 2016 to September 2016 in the amount of $1,031,871. Subsequent to September 30, 2016, the Trust deferred the payment of interest on the revolving loan facility for October 2016 in the amount of $59,985. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan in the aggregate principal amount of $12,900,000 or the deferred interest, and 2668921 Manitoba Ltd. has not demanded repayment.

Deferral of property management fee and service fee payments

During the first nine months of 2016, the Trust deferred the payment of property management fees and service fees in the amounts of $428,026 and $581,053, respectively, to Shelter in regard to its services for the period from March 2016 to September 2016. Subsequent to September 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of October 2016 and November 2016 and service fees in the aggregate amount of $79,494 for the month of October 2016.

Continuing Operations and Ongoing Initiatives

On the basis of the information presented above, it is evident that there are factors that cause 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 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 limited availability of mortgage lending in Fort McMurray;
(v) the Trust's limited cash and working capital resources; and,
(vi) the Trust's highly leveraged capital structure.

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 continuing in its efforts to accommodate the increase in demand for rental housing from homeowners displaced by the wildfire and from workers engaged in the Fort McMurray rebuilding effort.

A summary of LREIT's progress in 2016 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

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.

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

Current divestiture activities focus on the sale of the remaining seniors' housing complex, the property classified as held for sale and other properties with consideration of the overall debt reduction requirements of the Trust.

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. In addition, renovations are being performed at select properties in order to improve their marketability and units are being converted to fully furnished suites in order to better suit the needs of prospective tenants in the post-fire market environment.

The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild have resulted in increased economic activity and demand for rental accommodations 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 is highly dependent on the timing and extent of a recovery in oil sands development activity, and which in the near-term is dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray;
(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 at prices which exceed the indebtedness related to such properties.

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 September 30, 2016, the real estate portfolio of LREIT consisted of 15 multi-unit residential investment 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 debt restructuring and divestiture 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 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.

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

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

Post-Wildfire Environment

As previously reported, 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. In addition, renovations at select properties are being performed in order to improve their marketability and units are being converted into fully furnished suites that better suit the needs of prospective tenants in the post-fire market environment.

Increased economic activity in the Fort McMurray region, which has been driven by the entry of homeowners displaced by the wildfire into the rental market and the commencing of the post-fire rebuild, has resulted in an increase to the average occupancy level of the portfolio. During the third quarter of 2016, the average occupancy level of the Trust's properties in Fort McMurray was 76%, compared to 58% during the second quarter of the year. There is no assurance, however, of the degree to which the increased demand will alleviate the liquidity concerns outlined above.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2016

As of September 30, 2016, the property portfolio of LREIT consists of 18 rental properties, as follows: 15 properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one property classified as assets held for sale on the Statement of Financial Position; and two properties 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 properties in the LREIT real estate portfolio as at September 30, 2016 is provided below.

Real Estate Portfolio as of September 30, 2016

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy September 30 2016
INVESTMENT PROPERTIES					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	77 %
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	25 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	59 %
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	67 %
Woodland Park (1)	Fort McMurray	37,865,000	March 2007	107	81 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	83 %
Lakewood Townhomes (2)	Fort McMurray	18,632,769	July 2007	47	85 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	99 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	77 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	76 %
Westhaven Manor	Edson	4,050,000	May 2007	48	60 %
Manitoba					
Highland Tower (3)	Thompson	5,700,000	January 2005	77	65 %
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	71 %
Ontario					
Elgin Lodge (5)	Port Elgin	18,122,000	June 2006	115	78 %
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 September 30, 2016 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".

(5) The property was sold subsequent to September 30, 2016.

Recent Changes in the Property Portfolio

During the first nine 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 for tax purposes 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 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 for tax purposes of approximately $4,300,000.

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

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's, and the property classified as held for sale, Woodland Park. As part of the expanded divestiture program to address the debt reduction needs of the Trust, 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 September 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 5,096,608	$ 7,568,402	$ (2,471,794)	(33)%
Property operating costs	2,489,815	3,302,308	812,493	25 %
Net operating income	2,606,793	4,266,094	(1,659,301)	(39)%
Interest income	46,638	21,648	24,990	115 %
Interest expense	(3,992,561)	(5,736,630)	1,744,069	30 %
Trust expense	(414,325)	(512,363)	98,038	19 %
Loss before the following	(1,753,455)	(1,961,251)	207,796	11 %
Fair value adjustments - Investment properties	(8,861,510)	(25,372,468)	16,510,958	65 %
Loss before discontinued operations	(10,614,965)	(27,333,719)	16,718,754	61 %
Income (loss) from discontinued operations	(521,613)	57,104	(578,717)	(1,013)%
Loss and comprehensive loss	$ (11,136,578)	$ (27,276,615)	$ 16,140,037	59 %

Analysis of Income (Loss)

	Nine Months Ended September 30		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 13,527,722	$ 24,257,892	$ (10,730,170)	(44)%
Property operating costs	7,437,424	10,681,872	3,244,448	30 %
Net operating income	6,090,298	13,576,020	(7,485,722)	(55)%
Interest income	103,626	68,811	34,815	51 %
Interest expense	(15,413,126)	(18,001,130)	2,588,004	14 %
Trust expense	(1,529,265)	(1,362,905)	(166,360)	(12)%
Loss before the following	(10,748,467)	(5,719,204)	(5,029,263)	(88)%
Gain (loss) on sale of investment property	20,986	(201,215)	222,201	110 %
Fair value adjustments - Investment properties	12,986,750	(60,323,750)	73,310,500	122 %
Income (loss) before discontinued operations	2,259,269	(66,244,169)	68,503,438	103 %
Income (loss) from discontinued operations	(506,423)	334,899	(841,322)	(251)%
Income (loss) and comprehensive income (loss)	$ 1,752,846	$ (65,909,270)	$ 67,662,116	103 %

Analysis of Income (Loss) per Unit

	Three Months Ended September 30			
	2016	2015	Change	
Loss before discontinued operations - basic and diluted	$ (0.502)	$ (1.292)	$ 0.790	61 %
Income (loss) from discontinued operations - basic and diluted	(0.025)	0.002	(0.027)	(1,350)%
Loss and comprehensive loss - basic and diluted	$ (0.527)	$ (1.290)	$ 0.763	59 %

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30			
	2016	2015	Change	
Income (loss) before discontinued operations - basic and diluted	$ 0.107	$ (3.132)	$ 3.239	103 %
Income (loss) from discontinued operations - basic and diluted	(0.024)	0.016	(0.040)	(250)%
Income (loss) and comprehensive income (loss) - basic and diluted	$ 0.083	$ (3.116)	$ 3.199	103 %

Overall Results

LREIT completed the three and nine month periods ended September 30, 2016 with a loss and comprehensive loss of $11,136,578 and an income and comprehensive income of $1,752,846, respectively, compared to a loss and comprehensive loss of $27,276,615 and $65,909,270, respectively, during the three and nine month periods ended September 30, 2015. The decrease in the loss/increase in income for the three and nine month periods ended September 30, 2016 mainly reflects a favourable 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 held for sale and/or sold properties and a decrease in the net operating income of the Fort McMurray property portfolio.

The favourable variances in the fair value adjustments of the investment properties are primarily due to the significant reductions in the carrying value of the Fort McMurray properties that occured throughout 2015 as a result of deterioration in the expectations of operating results and increased uncertainty as to the extent and/or timing of a recovery of the Fort McMurray rental market. The third quarter of 2016 experienced a less pronounced reduction in the carrying value of the Fort McMurray portfolio, caused by increased uncertainty resulting from the prolonged nature of the economic downturn, in comparison to the third quarter of 2015. The favourable variance for the nine months ended September 30, 2016 was compounded by an increase in the carrying value of the Fort McMurray properties in the second quarter of 2016, 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, and the sales of Beck Court and Willowdale Gardens, in May, 2016, 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 nine months of 2016.

The decrease in the net operating income of held for sale/sold properties is primarily due to the sale of Colony Square, in November, 2015, and the sales of Beck Court and Willowdale Gardens, in May, 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 continues to exert downward pressure on the general economic and rental market conditions in Fort McMurray. The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild are factors that are currently moderating the downward pressure, as evidenced by the increase in the average occupancy level from 58% during the second quarter of 2016 to 76% during the third quarter of 2016. The extent and duration of their impact on the future operating results of the Trust remain uncertain at this time.

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 third quarter of 2016 with negative FFO of $1,579,111, compared to negative FFO of $1,904,147 during the third quarter of 2015, representing a favourable variance of $325,036. On a basic per unit basis, FFO improved by $0.015, from negative $0.090 during the third quarter of 2015 to negative $0.075 during the third quarter of 2016.

The favourable variance in FFO during the third quarter of 2016, compared to the third quarter of 2015, mainly reflects a decrease in interest expense, largely offset by a decrease in net operating income. The decrease in interest expense was primarily driven by a reduction in the balance of mortgage loan debt as well as interest rate reductions for both the revolving loan from 2668921 Manitoba Ltd. and the Series G debentures, all of which are described in greater detail throughout this report. The decrease in net operating income was primarily due to the sale of Colony Square on November 1, 2016, the sales of Beck Court and Willowdale Gardens on May 1, 2016, and a decrease in the net operating income of the Fort McMurray property portfolio.

LREIT completed the first nine months of 2016 with negative FFO of $10,202,991, compared to negative FFO of $5,384,305, representing an unfavourable variance of $4,818,686. On a basic per unit basis, FFO decreased by $0.227, from negative $0.255 during the first nine months of 2015 to negative $0.482 during the first nine months of 2016.

The unfavourable variance in FFO during the first nine months of 2016, compared to the first nine months of 2015, mainly reflects a decrease in net operating income, partially offset by a decrease in interest expense. The decrease in net operating income and interest expense were primarily driven by the same factors discussed in the third quarter narrative above; however, during the nine month period ended September 30, 2016, the impact of the decline in the net operating income of the Fort McMurray property portfolio exceeded the impact of the decline in interest expense resulting in an unfavourable variance in FFO.

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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Income (loss) and comprehensive income (loss)	$ (11,136,578)	$(27,276,615)	$ 1,752,846	$ (65,909,270)
Add (deduct):				
Loss (gain) on sale of properties	-	-	(20,986)	201,215
Fair value adjustment - Property and equipment	695,957	-	1,051,899	-
Fair value adjustment - Investment properties	8,861,510	25,372,468	(12,986,750)	60,323,750
Funds from operations (FFO) *	$ (1,579,111)	$ (1,904,147)	$ (10,202,991)	$ (5,384,305)
FFO per unit *				
- basic and diluted	$ (0.075)	$ (0.090)	$ (0.482)	$ (0.255)

* 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 summarized 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 nine months of 2016 and the first nine 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 September 30			Nine Months Ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 3,970,850	$ 4,208,373	$ (237,523)	$ 9,553,722	$ 13,826,198	$ (4,272,476)
Other investment properties	395,530	484,234	(88,704)	1,246,648	1,479,328	(232,680)
Sub-total	4,366,380	4,692,607	(326,227)	10,800,370	15,305,526	(4,505,156)
Held for sale and/or sold properties (1)	730,228	2,875,795	(2,145,567)	2,727,352	8,952,366	(6,225,014)
Total	$ 5,096,608	$ 7,568,402	$ (2,471,794)	$ 13,527,722	$ 24,257,892	$(10,730,170)

Occupancy Level, by Quarter (2)

	2016			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	52 %	58 %	76 %	62 %
Other investment properties	72 %	74 %	69 %	72 %
Total	54 %	60 %	75 %	63 %
Held for sale and/or sold properties (3)	75 %	64 %	86 %	74 %

	2015					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray properties	76 %	71 %	66 %	71 %	54 %	67 %
Other investment properties	85 %	86 %	83 %	85 %	79 %	83 %
Total	77 %	73 %	68 %	73 %	56 %	69 %
Held for sale and/or sold properties (3)	89 %	88 %	87 %	88 %	81 %	87 %

Average Monthly Rents, by Quarter

	2016			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	$1,699	$1,599	$1,700	$1,666
Other investment properties	$969	$960	$945	$958
Total	$1,576	$1,491	$1,573	$1,547
Held for sale and/or sold properties (3)	$1,783	$2,036	$2,546	$1,997

	2015					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray properties	$2,158	$2,127	$2,079	$2,121	$1,980	$2,086
Other investment properties	$949	$967	$973	$963	$971	$965
Total	$1,954	$1,931	$1,892	$1,926	$1,810	$1,897
Held for sale and/or sold properties (3)	$1,239	$1,220	$1,223	$1,227	$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 nine months ended September 30, 2016, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, decreased by $326,227 or 7% and $4,505,156 or 29%, 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 the depressed level of oil sands development activity in the region, the impact of which was tempered during the third quarter of 2016 by the entry of homeowners displaced by the wildfire into the rental market and an influx of workers involved in the rebuilding effort. As a result, the average occupancy level for the Fort McMurray portfolio increased from 66% during the third quarter of 2015 to 76% during the third quarter of 2016. The average occupancy level for the Fort McMurray portfolio decreased from 71% during the first nine months of 2015 to 62% during the first nine months of 2016.

Notwithstanding the improvement in the occupancy levels of the Fort McMurray property portfolio during the third quarter of 2016, the rental rates of the Fort McMurray properties remain at a significantly reduced level compared to the prior year. In comparison to the prior year, the average monthly rental rate decreased by $379 per suite or 18%, and $455 per suite or 21% during the three and nine month periods ended September 30, 2016, respectively. 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 $2,145,567 and $6,225,014 during the three and nine month periods ended September 30, 2016, respectively, the total revenue of LREIT decreased by $2,471,794 or 33% during the third quarter of 2016, compared to the third quarter of 2015, and decreased by $10,730,170 or 44% during the first nine months of 2016, compared to the first nine months of 2015. The decreases in revenue from held for sale and/or sold properties for the three and nine month periods ended September 30, 2016 were primarily due to the sale of Colony Square, on November 1, 2015 and the sales of Beck Court and Willowdale Gardens, on May 1, 2016. The nine month period revenue results were also impacted by a decrease in the revenue of Woodland Park, the Fort McMurray property which is classified as held-for-sale.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Fort McMurray properties	$ 2,008,924	$ 1,857,738	$ 151,186	$ 5,514,627	$ 6,049,528	$ (534,901)
Other investment properties	259,489	256,921	2,568	789,087	820,326	(31,239)
Sub-total	2,268,413	2,114,659	153,754	6,303,714	6,869,854	(566,140)
Held for sale and/or sold properties	221,402	1,187,649	(966,247)	1,133,710	3,812,018	(2,678,308)
Total	$ 2,489,815	$ 3,302,308	$ (812,493)	$ 7,437,424	$10,681,872	$ (3,244,448)

During the three and nine months ended September 30, 2016, property operating costs decreased by $812,493 or 25% and $3,244,448 or 30%, 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/or sold properties, primarily due to the sale of Colony Square on November 1, 2015 and the sale of Beck Court and Willowdale Gardens on May 1, 2016. The nine month comparative was also impacted by a decrease in the property operating costs of the Fort McMurray properties, mainly due to a decrease in property taxes, management fee expenses and utilities. The decrease was tempered by an increase in the operating costs of the Fort McMurray properties during the third quarter of 2016 as a result of renovations completed to prepare suites to more aptly meet tenants' needs.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Three Months Ended September 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 1,961,926	$ 2,350,635	$ (388,709)	(17)%	75 %	55 %	49 %	56 %
Other investment properties	136,041	227,313	(91,272)	(40)%	5 %	5 %	34 %	47 %
Sub-total	2,097,967	2,577,948	(479,981)	(19)%	80 %	60 %	48 %	55 %
Held for sale and/or sold properties	508,826	1,688,146	(1,179,320)	(70)%	20 %	40 %	70 %	59 %
Total	$ 2,606,793	$ 4,266,094	$ (1,659,301)	(39)%	100 %	100 %	51 %	56 %

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Nine Months Ended September 30		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 4,039,095	$ 7,776,670	$ (3,737,575)	(48)%	66 %	57 %	42 %	56 %
Other investment properties	457,561	659,002	(201,441)	(31)%	8 %	5 %	37 %	45 %
Sub-total	4,496,656	8,435,672	(3,939,016)	(47)%	74 %	62 %	42 %	55 %
Held for sale and/or sold properties	1,593,642	5,140,348	(3,546,706)	(69)%	27 %	38 %	58 %	57 %
Total	$ 6,090,298	$ 13,576,020	$ (7,485,722)	(55)%	100 %	100 %	45 %	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 nine month periods ended September 30, 2016, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $479,981 or 19% and $3,939,016 or 47%, respectively, compared to the same periods in the prior year. The operating margin, excluding held for sale and/or sold properties, decreased from 55% during the third quarter of 2015 to 48% during the third quarter of 2016, and from 55% during the first nine months of 2015 to 42% during the first nine 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.

After including held for sale and/or sold properties, the total net operating income of LREIT during the three and nine month periods ended September 30, 2016, decreased by $1,659,301 or 39% and $7,485,722 or 55%, 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, and the sale of Beck Court and Willowdale Gardens, on May 1, 2016. The net operating income for the nine month period ended September 30, 2016 was also impacted by a decrease in the revenue of Woodland Park, the Fort McMurray property which is classified as held-for-sale.

Interest Expense

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 September 30			Nine Months Ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Investment Properties						
Mortgage Loans	$ 3,476,777	$ 4,516,845	$ (1,040,068)	$ 12,089,079	$ 14,159,316	$ (2,070,237)
Mortgage Bonds	-	-	-	-	490,715	(490,715)
Debentures	310,135	646,714	(336,579)	2,174,445	1,938,946	235,499
Revolving Loan	205,649	573,071	(367,422)	1,149,602	1,412,153	(262,551)
	3,992,561	5,736,630	(1,744,069)	15,413,126	18,001,130	(2,588,004)
Discontinued Operations						
Mortgage Loans	289,161	230,423	58,738	753,181	777,079	(23,898)
Total - interest expense	$ 4,281,722	$ 5,967,053	$ (1,685,331)	$ 16,166,307	$ 18,778,209	$ (2,611,902)

Cash and Non-cash Component

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Total cash component	$ 3,644,338	$ 5,354,832	$ (1,710,494)	$ 12,467,422	$ 16,163,541	$ (3,696,119)
Non-cash component						
Accretion of mortgage bonds	-	-	-	-	213,774	(213,774)
Amortization of transaction costs	637,384	612,221	25,163	3,698,885	2,241,599	1,457,286
Change in fair value of interest rate swaps	-	-	-	-	159,295	(159,295)
Total non-cash component	637,384	612,221	25,163	3,698,885	2,614,668	1,084,217
Total - interest expense	$ 4,281,722	$ 5,967,053	$ (1,685,331)	$ 16,166,307	$ 18,778,209	$ (2,611,902)

During the three months ended September 30, 2016, total interest expense decreased by $1,685,331 or 28%, compared to the same period in the prior year. The decrease mainly reflects a decrease in mortgage loans interest of $1,040,068, a decrease in revolving loan interest of $367,422 and a decrease in debenture interest of $336,579.

The decrease in mortgage loan interest is primarily due to the sale of Colony Square on November 1, 2015, the sales of Beck Court and Willowdale Gardens on May 1, 2016, and the assignment of the mortgage loan debt relating to these properties, 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 nine months of 2016.

The decrease in debentures interest mainly reflects the reduction in the Series G debenture interest rate from 9.5% to 5%, effective June 30, 2016, in accordance with the amended terms of the Series G debentures.

The decrease in revolving loan interest mainly reflects the reduction of the interest rate from 12% to 5%, effective July 1, 2016.

During the nine months ended September 30, 2016, total interest expense decreased by $2,611,902 or 14%, respectively, compared to the same period in the prior year. The decrease mainly reflects a decrease in mortgage loans interest of $2,070,237, a decrease in mortgage bond interest of $490,715 and a decrease in revolving loan interest of 262,551, partially offset by an increase in debenture interest of $235,499. The decreases in mortgage loan interest and revolving loan interest are mainly due to the same factors discussed in the proceeding paragraphs. The decrease in mortgage loan interest was partially offset by an increase from the amortization of transaction costs related to forbearance and servicing fees and the accelerated amortization of transaction costs as a result of the sale of two properties during the second quarter 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 transaction costs amortization as a result of amending the Seires G debenture terms.

Cash vs. Non-Cash Component of Interest

During the three and nine month periods ended September 30, 2016, the total cash component of interest expense decreased by $1,710,494 and $3,696,119, respectively, compared to the same periods in the prior year, primarily driven by the same factors discussed in the proceeding paragraphs, with the exception of factors related to the amortization of transaction costs.

During the nine months ended September 30, 2016, the total non-cash component of interest expense increased by $1,084,217, compared to the first nine months of 2015. 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, 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.

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 third quarter of 2016, trust expense decreased by $98,038 or 19%, compared to the third quarter of 2015. The decrease is mainly due to decreased service fees due to the reduction in the number of properties being managed as a result of divestitures.

During the first nine months of 2016, trust expense increased by $166,360 or 12%, compared to the first nine months of 2015. The increase is mainly due to costs incurred in obtaining the Series G debenture extension in 2016 and the one time recovery of financing fees in the first quarter of 2015, partially offset by a decrease in service fees due to the reduction in the number of properties being managed as a result of divestitures.

Fair Value Adjustments

Investment Properties

During the three month period ended September 30, 2016, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $8,861,510, compared to a loss related to fair value adjustments of $25,372,468 during the same period of the prior year, representing a variance of $16,510,958.

During the nine month period ended September 30, 2016, LREIT recorded a gain related to fair value adjustments on its investment properties and investment properties held for sale of $12,986,750, compared to a loss related to fair value adjustments of $60,323,750 during the same period of the prior year, representing a variance of $73,310,500.

The losses from fair value adjustments during 2015 reflect the deterioration in operating result expectations that occured throughout the year combined with increased uncertainties as to the timing and extent of a recovery of the Fort McMurray rental market.

During the second quarter of 2016, a gain related to fair value adjustments of $24,952,489 was recorded as revenue expectations for the Fort McMurray portfolio were increased 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.

The gain related to fair value adjustments during the second quarter of 2016 was partially offset by a $8,861,510 loss related to fair value adjustment recorded in the third quarter of 2016, reflecting the increased uncertainty of a recovery of the Fort McMurray rental market associated with the prolonged nature of the economic downturn in the region, and a $3,104,229 loss related to fair value adjustment in the first quarter of 2016.

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 $17,945,358 and the carrying value of properties held for sale decreased by $159,472 during the first nine 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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Rental income	$ 1,354,052	$ 1,304,498	$ 4,070,715	$ 4,026,081
Property operating costs	890,547	1,016,971	2,772,058	2,914,103
Net operating income	463,505	287,527	1,298,657	1,111,978
Interest expense	(289,161)	(230,423)	(753,181)	(777,079)
Fair value adjustment	(695,957)	-	(1,051,899)	-
Income from discontinued operations	$ (521,613)	$ 57,104	$ (506,423)	$ 334,899

During the three and nine month periods ended September 30, 2016, income from discontinued operations decreased by $578,717 and $841,322, respectively, compared to the same periods in the prior year, primarily due to the fair value adjustments made during the first nine months of 2016 primarily related to reductions in the anticipated selling price and to selling costs associated with the sale of Elgin Lodge, partially offset by an increase in net operating income.

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
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 5,096,608	$ 3,979,652	$ 4,451,462	$ 5,957,332
Net operating income	$ 2,606,793	$ 1,824,148	$ 1,659,357	$ 2,575,846
Income (loss) for the period before discontinued operations	$(10,614,965)	$ 20,514,463	$ (7,640,229)	$(30,150,728)
Income (loss) and comprehensive income (loss)	$(11,136,578)	$ 20,488,721	$ (7,599,297)	$(32,856,373)
Funds from Operations (FFO)	$ (1,579,111)	$ (4,343,306)	$ (4,280,574)	$ (3,042,062)
PER UNIT				
Net operating income				
- basic and diluted	$ 0.123	$ 0.086	$ 0.078	$ 0.122
Income (loss) for the period before discontinued operations				
- basic and diluted	$ (0.502)	$ 0.970	$ (0.361)	$ (1.426)
Income (loss) and comprehensive income (loss)				
- basic and diluted	$ (0.527)	$ 0.969	$ (0.359)	$ (1.554)
Funds from Operations (FFO)				
- basic and diluted	$ (0.075)	$ (0.205)	$ (0.202)	$ (0.144)

Quarterly Analysis

	2015			2014
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 7,568,402	$ 7,957,771	$ 8,731,719	$ 9,483,539
Net operating income	$ 4,266,094	$ 4,556,944	$ 4,752,982	$ 5,242,793
Loss for the period before discontinued operations	$(27,333,719)	$(34,990,639)	$ (3,919,811)	$(16,643,003)
Loss and comprehensive loss	$(27,276,615)	$(34,820,609)	$ (3,812,046)	$(18,296,432)
Funds from Operations (FFO)	$ (1,904,147)	$ (1,564,934)	$ (1,915,224)	$ (877,026)
PER UNIT				
Net operating income				
- basic	$ 0.202	$ 0.215	$ 0.225	$ 0.248
- diluted	$ 0.202	$ 0.215	$ 0.225	$ 0.247
Loss for the period before discontinued operations				
- basic and diluted	$ (1.292)	$ (1.654)	$ (0.185)	$ (0.788)
Loss and comprehensive loss				
- basic and diluted	$ (1.290)	$ (1.646)	$ (0.180)	$ (0.866)
Funds from Operations (FFO)				
- basic and diluted	$ (0.090)	$ (0.074)	$ (0.091)	$ (0.042)

Rental Revenue and Net Operating Income

The decline in oil prices experienced during the fourth quarter of 2014 and throughout 2015 and 2016 has resulted in a decreased level of oil sands development activity in Fort McMurray, which in turn has exerted downward pressure on the general economic and rental market conditions of the region. The economic downturn in the region has continued to negatively impact the quarterly operating results of LREIT by means of increased vacancies and reduced rental rates; however, during the third quarter of 2016, the downward pressure caused by reduced oil sands development activity was tempered by an increase in economic activity associated with entry of homeowners displaced by the wildfire into the rental market and the influx of workers participating in the Fort McMurray rebuilding effort. During the third quarter of 2016, the average occupancy level of the Trust's Fort McMurray properties increased to 76%, compared to 58% during the second quarter of 2016.

It is anticipated that the post-fire rental market conditions in Fort McMurray will continue to have a positive impact on the operating results of the Trust; 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.

Gains from fair value adjustments were most pronounced in the second quarter of 2016 and amounted to $24,952,489 due to an increase in the carrying value of the Fort McMurray properties of $24,957,742. The fair value gain reflected improved revenue expectations for the Fort McMurray portfolio due to the improved rental market conditions resulting from the economic activity associated with the aftermath of the May 2016 Fort McMurray wildfire.

Losses from fair value adjustments were 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. A loss from fair value adjustments of $8,861,510 was also realized in the third quarter of 2016 as a result of increased uncertainty with respect to the timing and extent of a recovery of the Fort McMurray economy in recognition of the prolonged nature of the downturn.

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 third quarter of 2016, the fourth quarter of 2015 and in the fourth quarter of 2014, in the amounts of $695,957, $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, the cash component of trust expense, the net increase or decrease in working capital items (disclosed as "working capital adjustments"), and interest paid/interest received 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 September 30		Increase
	2016	2015	(Decrease) in Cash
Net operating income			
Investment properties	$ 2,606,793	$ 4,266,094	$ (1,659,301)
Discontinued operations	463,505	287,527	175,978
Total net operating income	3,070,298	4,553,621	(1,483,323)
Accrued rent receivable	6,146	35,188	(29,042)
Net operating income - cash basis	3,076,444	4,588,809	(1,512,365)
Trust expense	(414,325)	(512,363)	98,038
Unit-based compensation	-	-	-
Trust expense - cash basis	(414,325)	(512,363)	98,038
Interest paid			
Investment properties	(3,111,566)	(5,423,239)	2,311,673
Discontinued operations	(230,857)	(230,760)	(97)
Total interest paid	(3,342,423)	(5,653,999)	2,311,576
Interest received	46,198	22,329	23,869
Interest expense - cash basis	(3,296,225)	(5,631,670)	2,335,445
Cash used in operating activities, before working capital adjustments	(634,106)	(1,555,224)	921,118
Working capital adjustments, net	1,358,788	(1,275,014)	2,633,802
Cash provided by (used in) operating activities	$ 724,682	$ (2,830,238)	$ 3,554,920

During the third quarter of 2016, the net cash used in operating activities, excluding working capital adjustments, decreased by $921,118, compared to the third quarter of 2015. The decrease mainly reflects a decrease in interest paid of $2,311,576, partially offset by a decrease in the cash component of net operating income of $1,512,365.

After providing for working capital adjustments, the net cash provided by operating activities was $724,682 during the third quarter of 2016, compared to net cash used by operating activities of $2,830,238 during the same period in the prior year, representing a favourable variance of $3,554,920.

Cash from Operating Activities

	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015	Increase (Decrease) in Cash
Net operating income			
Investment properties	$ 6,090,298	$ 13,576,020	$ (7,485,722)
Discontinued operations	1,298,657	1,111,978	186,679
Total net operating income	7,388,955	14,687,998	(7,299,043)
Accrued rent receivable	61,521	291,054	(229,533)
Net operating income - cash basis	7,450,476	14,979,052	(7,528,576)
Trust expense	(1,529,265)	(1,362,905)	(166,360)
Gain on debenture repurchases	-	(11,654)	11,654
Trust expense - cash basis	(1,529,265)	(1,374,559)	(154,706)
Interest paid			
Investment properties	(7,533,574)	(15,083,183)	7,549,609
Discontinued operations	(692,480)	(701,494)	9,014
Total interest paid	(8,226,054)	(15,784,677)	7,558,623
Interest received	89,569	71,328	18,241
Interest expense - cash basis	(8,136,485)	(15,713,349)	7,576,864
Cash used in operating activities, before working capital adjustments	(2,215,274)	(2,108,856)	(106,418)
Working capital adjustments, net	1,793,422	(502,448)	2,295,870
Cash used in operating activities	$ (421,852)	$ (2,611,304)	$ 2,189,452

During the first nine months of 2016, the net cash used in operating activities, before working capital adjustments, increased by $106,418, compared to the first nine months of 2015. The unfavourable variance mainly reflects a decrease in the cash component of net operating income of $7,528,576 and an increase in the cash component of Trust expense by $154,706, almost entirely offset by a decrease in interest paid of $7,558,623.

After providing for working capital adjustments, the net cash used in operating activities decreased by $2,189,452 during the first nine months of 2016, compared to the first nine months of 2015.

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

The decrease in interest paid for both the three month and nine month periods is mainly due to the same factors discussed in the "Interest Expense" section of this MD&A. The decrease in interest paid also reflects the deferral of interest payments on the revolving loan facility and the deferral of interest payments in accordance with mortgage loan renewal, amendment, and forbearance agreements. In addition, the decrease in interest paid for the nine months ended September 30, 2016, compared to the same period in the prior year, was impacted by the amended terms of the Series G debentures, which incorporates the deferral of interest payments from June 30, 2016 to the maturity of the debentures on June 30, 2022. The decrease in interest paid for the three months ended September 30, 2016, compared to the same period in the prior year, was partially offset by the full payment of debt service obligations during the third quarter of 2016 that were previously deferred in accordance with requested mortgage loan concessions.

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 $3,992,561 and $15,413,126, for the three and nine month periods ended September 30, 2016, respectively, as reported on the Statements of Comprehensive Income and interest paid of $3,342,423 and $8,226,054 for the three and nine month periods ended September 30, 2016, respectively, as reported on the Statements of Cash Flow.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash outflow of $9,522,273 during the first nine months of 2016. The net cash outflow mainly reflects the prepayment of mortgage loans, the repayment of long-term debt and the repayment of the defeased liability upon maturity, 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 nine months of 2016, the cash used in financing activities for the regular repayment of mortgage loan and defeased mortgage loan principal for both investment properties and discontinued operations amounted to $3,315,436, compared to $5,339,867 during the first nine months of 2015.

The decrease is mainly due to the fact that regular principal repayments were comparatively low during the first nine months of 2016, as a result of payments made in accordance with the terms of renewal and forbearance agreements, as discussed in the preceding sections of this report, and full repayment of mortgage loans related to the sales of Colony Square, Beck Court and Willowdale Gardens.

Revolving Loan Facility

During the first nine months of 2016, net proceeds from the revolving loan amounted to $9,600,000 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 reduce the interest rate on the revolving loan facility to 5%, effective July 1, 2016. The payment of interest has been deferred since February 2016.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $10,700,371 during the first nine 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, investment properties held for sale, and property and equipment.

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 for tax purposes 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 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 for tax purposes of approximately $4,300,000.

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

Current divestiture activities focus on the sale of the remaining seniors' housing complex, the property classified as held for sale and other properties with consideration of the overall debt reduction requirements 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. Notwithstanding the focus on sustaining capital expenditures, certain value-added expenditures were incurred during the third quarter of 2016 as renovations at select properties and the conversion of units to furnished suites were completed in order to more aptly meet the needs of prospective tenants in the post-fire market environment.

During the first nine 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 $1,311,227, compared to $808,489 during the first nine months of 2015.

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

	Nine Months Ended September 30	
	2016	2015
Sustaining Capital Expenditures		
- Investment properties	$ 464,058	$ 688,630
- Property and equipment	442,807	119,859
Value-added capital expenditures	404,362	-
	$ 1,311,227	$ 808,489

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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Funds from operations (FFO)	$ (1,579,111)	$ (1,904,147)	$ (10,202,991)	$ (5,384,305)
Add (deduct):				
Straight-line rent adjustment	6,146	35,188	61,521	291,054
Accretion of debt component of mortgage bonds	-	-	-	213,774
Change in fair value of interest rate swaps	-	-	-	159,295
Sustaining capital expenditures on investment properties **	(308,074)	(146,883)	(451,487)	(517,274)
Sustaining capital expenditures on investment properties held for sale **	(12,571)	-	(12,571)	(171,356)
Sustaining capital expenditures on property and equipment **	(86,865)	(119,859)	(442,807)	(119,859)
Adjusted funds from operations (AFFO) *	$ (1,980,475)	$ (2,135,701)	$ (11,048,335)	$ (5,528,671)
AFFO per unit * - basic and diluted	$ (0.094)	$ (0.101)	$ (0.522)	$ (0.261)

* 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 nine months of 2016 with an AFFO deficiency of $11,048,335, compared to AFFO deficiency of $5,528,671 during the first nine months of 2015. On a basic per unit basis, the AFFO deficiency increased by $0.261 per unit during the first nine months of 2016, compared to the first nine 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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Cash used in operating activities	$ 724,682	$ (2,830,238)	$ (421,852)	$ (2,611,304)
Add (deduct):				
Working capital adjustments	(1,358,788)	1,275,014	(1,793,422)	502,448
Gain on debenture repurchases	-	-	-	11,654
Amortization of transaction costs	(637,384)	(612,221)	(3,698,885)	(2,241,599)
Differences in interest accruals	(301,475)	298,486	(4,227,311)	(381,381)
Sustaining capital expenditures on investment properties **	(308,074)	(146,883)	(451,487)	(517,274)
Sustaining capital expenditures on investment properties held for sale **	(12,571)	-	(12,571)	(171,356)
Sustaining capital expenditures on property and equipment **	(86,865)	(119,859)	(442,807)	(119,859)
Adjusted funds from operations (AFFO) *	$ (1,980,475)	$ (2,135,701)	$ (11,048,335)	$ (5,528,671)

* 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 continued depression of 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.

	September 30 2016	December 31 2015
Unrestricted cash	$ 1,293,822	$ 407,513
Amount available on revolving loan *	1,300,000	10,900,000
Total available liquidity	$ 2,593,822	$ 11,307,513

* As of the date of this report, there is $5,100,000 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 September 30, 2016, working capital deficit was $1,460,440, representing a decrease of $1,576,395, 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 $16,700,000 (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 nine 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 0.53, compared to 0.76 during the first nine 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 nine months of 2016, the interest coverage ratio decreased to 0.75, compared to 1.14 during the first nine months of 2015. After including the cash component of interest on the revolving loan facility, mortgage bonds and debentures, the interest coverage ratio decreased to 0.59 during the first nine months of 2016, compared to 0.91 during the first nine months of 2015.

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

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)	$ 202,694,284	$ 5,065,902	$ 158,004,417	$ 27,949,824	$ 11,674,141
Discontinued operations	14,063,919	14,063,919	-	-	-
Total mortgage loans	216,758,203	19,129,821	158,004,417	27,949,824	11,674,141
Debentures	24,810,800	-	-	-	24,810,800
Total	$ 241,569,003	$ 19,129,821	$ 158,004,417	$ 27,949,824	$ 36,484,941

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

The amount due during the remainder of 2016 for mortgage loans on investment properties of $5,065,902 consists of one demand mortgage loan with a principal amount of $3,938,769 and regular principal payments of $1,127,133 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 $4,109,141, which matured on September 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

As previously reported, throughout 2016, in response to the liquidity challenges facing the Trust, LREIT reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements.

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

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

As a result, the financial statements reflect the mortgage loan balances of the three mortgage loans in arrears and the five mortgage loans where the lender maintained that there are service fees outstanding as current liabilities.

The following chart reflects the mortgage payment arrears and the estimated maximum service fee charges related to the above noted mortgages:

Summary of debt service payments in default

	As at September 30, 2016			Subsequent to September 30, 2016	
Property	Aggregate principal balance	Principal withheld	Interest withheld	Principal withheld (repaid)	Interest withheld (repaid)
Laird's Landing	$ 38,032,569	$ 89,445	$ 114,678	$ -	$ -
Parsons Landing	35,134,890	-	104,254	-	-
Lakewood Townhomes	7,797,969	-	23,138	-	-
	$ 80,965,428	$ 89,445	$ 242,070	$ -	$ -

The aggregate principal balance includes any capitalized interest in accordance with the related mortgage loan agreement, as well as amounts of principal and interest withheld above.

Summary of maximum service fees payable

	As at September 30, 2016	
Property	Aggregate principal balance	Estimate of maximum service fees payable
Nelson Ridge Estates	$ 29,089,619	$ 394,448
Lakewood Apartments	17,023,634	230,571
Gannet Place / Parkland Apartments	5,694,344	77,144
Lunar Apartments / Whimbrel Terrace	6,980,164	94,563
Snowbird Mannor / Skyview Apartments	6,612,786	89,586
	$ 65,400,547	$ 886,312

The Financial Statements as of September 30, 2016 include the accrual of the estimated maximum service fees in Trade and other payables on the Statement of Financial Position.

Events of default allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements.

If the eight mortgage loans with an aggregate principal balance of $146,365,975 which are classified as being in default for financial statement purposes as of the date of this report were to be called by the lenders in 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 $164,938,052, the total long-term debt due in 2017/2018 would decrease to $36,876,722, the total long-term debt due in 2019/2020 would decrease to $512,497, and the total long-term debt due in 2021 and beyond would remain the same.

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 September 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 repayments on the Series G debentures, 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.

Deferral of Interest Payment on Revolving Loan Facility

During the first nine months of 2016, the Trust deferred payment of interest on the revolving loan facility in the aggregate amount of $1,031,871. Subsequent to September 30, 2016, the Trust deferred payment of interest on the revolving loan facility for October 2016 in the amount of $59,985. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan in the aggregate principal amount of $12,900,000 or the deferred interest, and 2668921 Manitoba Ltd. has not demanded repayment of the loan. 2668921 Manitoba Ltd. continues to reiterate its support for LREIT's debt restructuring efforts.

Deferral of property management fee and service fee payment

During the first nine months of 2016, the Trust deferred the payment of property management fees in the amount of $428,026 to Shelter. Subsequent to September 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of October 2016 and November 2016. Also, the Trust deferred the payment of service fees in the amount of $581,053 during the first nine months of 2016. Subsequent to September 30, 2016, the Trust deferred the payment of service fees in the aggregate amount of $79,494 for the month of October 2016. Shelter continues to reiterate its support for LREIT's debt restructuring efforts.

Reserves and Escrows 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 and property tax payments. During the first nine months of 2016, cash deposits of $891,857 were added to mortgage escrow reserves and $1,096,207 were released from escrow following: application to outstanding debt service requirements, repayment or assignment of the underlying mortgage loan upon sale of the property, and payment of property taxes. As of September 30, 2016, cash deposits in escrow required by mortgage loan agreements amounted to $1,563,185.

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 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. As of the date of this report, there is $5,100,000 available under the revolving loan facility.

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 for tax purposes 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 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 for tax purposes of approximately $4,300,000.

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

Current divestiture activities focus on the sale of the remaining seniors' housing complex, the property classified as held for sale and other properties with consideration of the overall debt reduction requirements 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 until market and lending conditions in Fort McMurray improve.

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 nine months of 2016 with a cash shortfall of $5,399,198, compared to a cash shortfall of $11,643,892 during the first nine months of 2015. LREIT is expected to incur an additional cash shortfall during 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 is highly dependent on the timing and extent of a recovery in oil sands development activity, and which in the near-term is dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray;
(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 at prices which exceed the indebtedness related to such properties.

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

	September 30, 2016 Amount	%	December 31, 2015 Amount	%
Long-term debt	$ 39,297,722	16.3 %	$ 122,080,890	46.9 %
Current portion of long-term debt	203,187,283	84.2 %	141,300,008	54.2 %
Deficit	(1,122,173)	(0.5)%	(2,875,019)	(1.1)%
Total capitalization	$ 241,362,832	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

	September 30 2016	December 31 2015	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 198,980,114	$ 230,897,904	$ (31,917,790)
Debentures	24,810,800	24,810,800	-
Defeased liability	-	2,520,859	(2,520,859)
Revolving loan from 2668921 Manitoba Ltd.	16,700,000	7,100,000	9,600,000
Total secured long-term debt	240,490,914	265,329,563	(24,838,649)
Accrued interest payable	3,163,416	1,139,300	2,024,116
Unamortized transaction costs	(1,169,325)	(3,087,965)	1,918,640
Total long-term debt - Investment properties	242,485,005	263,380,898	(20,895,893)
Long-term debt - Discontinued operations			
Mortgage loans	14,063,919	14,199,674	(135,755)
Unamortized transaction costs	-	(2,750)	2,750
Total long-term debt - Discontinued operations	14,063,919	14,196,924	(133,005)
Total long-term debt	$ 256,548,924	$ 277,577,822	$ (21,028,898)

As disclosed in the preceding chart, the total long-term debt of LREIT as of September 30, 2016 decreased by $21,028,898 or 8%, compared to the balance as of December 31, 2015. The decrease is comprised of a $24,838,649 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 $2,024,117 and $1,918,640, respectively. The decrease in secured long-term debt mainly reflects a decrease in the balance of mortgage loans of $31,917,790 and the repayment of defeased liability of $2,520,859, partially offset by a $9,600,000 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 from the sale of properties in 2016, inclusive of the prepayment of a $5,456,865 second mortgage loan secured by a second charge over Willowdale Gardens, as well as the prepayment of a $7,500,000 interest-only second mortgage loan in the Fort McMurray property portfolio using proceeds from the revolving loan facility.

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 continued deferral of interest payments on the revolving loan from 2668921 Manitoba Ltd., and the capitalization of interest in accordance with renewal and forbearance agreements.

The decrease in the balance of unamortized transaction costs 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 amendments to the Series G debenture terms during the second quarter of 2016.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of September 30, 2016, the total mortgage loan debt of LREIT decreased by $32,053,545 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.

	Nine Months Ended September 30, 2016		
	Total	Investment Properties	Seniors' Housing Complexes
Regular repayment of principal on mortgage loans	$ (3,282,281)	$ (3,146,526)	$ (135,755)
Prepayment of mortgage loans	(12,956,865)	(12,956,865)	-
Interest capitalized, net of repayment	2,746,521	2,746,521	-
Reduction of mortgage loans on sale of properties	(18,560,920)	(18,560,920)	-
Increase (decrease) in mortgage loans	(32,053,545)	(31,917,790)	(135,755)
Total mortgage loans - December 31, 2015	245,097,578	230,897,904	14,199,674
Total mortgage loans - September 30, 2016	$ 213,044,033	$ 198,980,114	$ 14,063,919

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount September 30, 2016	Percentage of Total
Investment Properties			
Fixed rate			
2017	6.9 %	$ 24,581,155	11.5 %
2018	5.0 %	19,287,294	9.1 %
2019	5.0 %	29,089,619	13.7 %
2025	4.4 %	12,693,567	6.0 %
	5.5 %	85,651,635	40.3 %
Demand/variable rate	6.1 %	113,328,479	53.1 %
Principal amount		198,980,114	93.4 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	4.7 %
Demand/variable rate	4.8 %	4,063,919	1.9 %
Principal amount		14,063,919	6.6 %
Total		$ 213,044,033	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 September 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 5.9%, respectively, compared to 5.9%, 6.5% and 6.0% at December 31, 2015.

Mortgage Loan Debt Summary

	2016			2015
	Q 3	Q 2	Q 1	Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.5%	5.4%	5.2%	4.8%
Variable rate mortgage loans	6.1%	6.1%	6.1%	7.3%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.6%	6.5%	6.4%	6.4%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	85%	82%	88%	91%
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 *	94%	91%	97%	100%

	2015			2014
	Q 3	Q 2	Q 1	Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.6%	4.6%	4.7%	4.7%
Variable rate mortgage loans	7.3%	7.6%	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 *	79%	75%	70%	68%
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 *	85%	82%	75%	75%

* Excludes the revolving loan and advances from Shelter.

Mortgage Bonds

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

Debentures

As of September 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
- September 30, 2016	20,557,320
- November 9, 2016	20,557,320

As of September 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 and compensation for reimbursable expenses 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 third quarter of 2016, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Service Agreement of $211,435 and $236,625, respectively, compared to $302,884 and $313,797, respectively, during the third quarter of 2015.

During the first nine months of 2016, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Service Agreement of $571,840 and $754,475, respectively, compared to $975,031 and $949,583, respectively, during the first nine months of 2015.

During the first nine months of 2016, the Trust deferred the payment of property management fees in the amount of $428,026 to Shelter with respect to its services for the period from March 2016 to September 2016. Subsequent to September 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of October 2016 and November 2016. Also, the Trust deferred the payment of service fees in the amount of $581,053 during the first nine months of 2016. Subsequent to September 30, 2016, the Trust deferred the payment of service fees in the aggregate amount of $79,494 for the month of October 2016.

Loans

Revolving Loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of September 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 October 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	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 nine months of 2016, interest on the loan facility amounted to $1,149,602, compared to $1,393,624 during the first nine months of 2015.

During the first nine months of 2016, the Trust received advances of $14,200,000 and repaid $4,600,000 on the revolving loan, resulting in a balance of $16,700,000 at September 30, 2016. Subsequent to September 30, 2016, the Trust received advances of $850,000 and repaid $4,650,000, resulting in a balance of $12,900,000 as of the date of this report.

The Trust deferred payment of interest on the revolving loan facility for the period from February 2016 to September 2016 in the amount of $1,031,871. Subsequent to September 30, 2016, the Trust deferred payment of interest on the revolving loan facility for October 2016 in the amount of $59,985. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has not demanded repayment of the loan.

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 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the limited availability of mortgage lending in Fort McMurray, (v) the Trust's limited cash and working capital resources, and (vi) the Trust's highly leveraged capital structure.

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 the 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 to reduce or defer property management and service fees and/or to provide other forms of financial support to the Trust; (iv) the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity, and which in the near-term is dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray; (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and, (vi) ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

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

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 September 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 $217,505,598, which represents approximately 94% of the total aggregate carrying value of the investment property portfolio as at September 30, 2016.

The Fort McMurray properties, excluding one property classified as investment property held for sale, accounted for 71% of investment property revenue and 66% of the net operating income of the Trust during the first nine 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.

As previously reported, throughout 2016, in response to the liquidity challenges facing the Trust, LREIT reduced and/or deferred debt service payments on all thirteen Fort McMurray properties and negotiated with the lenders to obtain modified loan terms and/or forbearance agreements.

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

Deferred debt service payments with respect to five mortgage loans on eight properties, with an aggregate principal balance of $65,400,547 were paid in full during the third quarter of 2016. However, the lender maintained that there are service fees outstanding with respect to these mortgage loans and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at September 30, 2016 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loan.

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.

During the first nine months of 2016, the Trust deferred payment of interest on the revolving loan facility for the period from February 2016 to September 2016 in the amount of $1,031,871. Subsequent to September 30, 2016, the Trust deferred payment of interest on the revolving loan facility for October 2016 in the amount of $59,985. As of the date of this report, the Trust has not repaid the loan in the aggregate principal amount of $12,900,000 or the deferred interest, and 2668921 Manitoba Ltd. has taken no action against the Trust.

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.

During the first nine months of 2016, the Trust deferred the payment of property management fees in the amount of $428,026 to Shelter. Subsequent to September 30, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $108,409 for the months of October 2016 and November 2016. Also, the Trust deferred the payment of service fees in the amount of $581,053 during the first nine months of 2016. Subsequent to September 30, 2016, the Trust deferred the payment of service fees in the aggregate amount of $79,494 for the month of October 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

Detailed information with respect to the Divestiture Program 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 remaining seniors' housing complex, the property classified as held for sale and other properties with consideration of the overall debt reduction requirements of the Trust.

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 associated with 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 September 30, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $29,521,820 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary 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 September 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.

2016 Tax Considerations

As noted above, management expects that the Trust will qualify for the REIT exemption in 2016. The Sale of Beck Court and Willowdale Gardens resulted in an estimated capital gain for tax purposes of $6,800,000 and $4,300,000, respectively. After accounting for the loss on the sale of Elgin Lodge, which was sold subsequent to the nine month period ended September 30, 2016, in the approximate amount of $5,200,000, the estimated net capital gain is $5,900,000. Management expects that the taxable loss from rental operations will fully offset the net capital gain and that a distribution of taxable income will not occur in 2016.

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 nine months ended September 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 nine months ended September 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 Third Quarter Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
November 9, 2016