LANESBOROUGH REIT

2017 ANNUAL REPORT

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UNIT TRADING PRICE

Unit Trading Price	Year Ended December 31, 2017 (Per unit)	Year Ended December 31, 2016 (Per unit)
Opening price	$0.07	$0.13
Closing price	$0.02	$0.07

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

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX and that it does not anticipate satisfying such requirements in the foreseeable future. The Trust intends to transition the listings to the TSX Venture Exchange (TSXV), subject to the approval of the TSXV.

CHIEF EXECUTIVE OFFICER'S MESSAGE

2017 Annual Report

According to a report by the Conference Board of Canada, the estimated growth in the Gross Domestic Product (GDP) of the Regional Municipality of Wood Buffalo for 2017 is 18.6%, compared to the 14.6% decline in GDP that was experienced in 2016. The report cites the rebound in oil production and the post-fire rebuild of Fort McMurray as the driving forces behind the boost to the economy.

The improved economic climate and rental market conditions in Fort McMurray, Alberta and the debt restructuring and divestiture activities LREIT has undertaken since 2016 continued to reduce the extent of the operating cash deficiencies of the Trust during 2017. Notwithstanding the improved results, LREIT continues to face significant financing challenges and required additional sources of cash during 2017 to fund the cash outflow from operating activities, regular mortgage loan principal payments, deficits incurred upon loan refinancing, transaction costs for debt financing, and capital expenditures.

Operating Results

LREIT completed 2017 with negative funds from operations ("FFO") of $6.4 million, compared to negative FFO of $12.5 million in 2016, representing an improvement in FFO of $6.0 million. The improvement is mainly attributable to a $5.1 million decrease in interest expense and a $1.0 million increase in net operating income ("NOI").

The decrease in interest expense is mainly the result of the divestiture and debt restructuring initiatives undertaken since 2016, which have resulted in a reduced level of total mortgage loan debt, reduced interest rates on the Series G debentures and revolving loan facility, and a reduction in transaction cost amortization compared to the prior year.

The increase in NOI mainly reflects an increase in the average occupancy level of the Fort McMurray properties, which increased from 65% in 2016 to 71% during 2017, partially offset by the loss of operating income associated with the sales of Beck Court and Willowdale Gardens on May 1, 2016.

The occupancy levels of the Fort McMurray properties increased during 2017 as a result of the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild; however, the impact of the rebuild on operating results has been less than previously anticipated and the extent of any future impact is uncertain.

LREIT completed 2017 with a loss and comprehensive loss of $32 million, compared to a loss and comprehensive loss of $1.7 million in 2016. The increase in the loss is primarily due to an unfavourable variance in the fair value adjustments of the investment properties. Specifically, the unfavorable fair value variance reflects the combined effect of an increase in the carrying value of the Fort McMurray properties during 2016, followed by a decrease in the carrying value during 2017.

The increase in fair value in 2016 was largely driven by the expectation of improved post-fire rental market conditions. During 2017, the carrying value of the Fort McMurray properties was reduced to reflect a decrease in the anticipated positive impact of the post-fire rebuilding process and an increase in the level of uncertainty regarding the extent and timing of future oil sands development activity and its corresponding impact on the recovery of the Fort McMurray rental market.

Liquidity and Capital Resources

During 2017, cash used in operations, prior to working capital adjustments amounted to $1.8 million (2016 - $3.8 million) and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal payments, capital expenditures, and transactions costs was $8.4 million (2016 - $10.6 million).

As of December 31, 2017, the Trust was in default, as a result of outstanding service fee payments, of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46.9 million. Subsequent to December 31, 2017, forbearance agreements were executed for three of these loans, secured by a total of six properties, in the aggregate principal amount of $18.7 million. The forbearance agreements required an initial combined repayment of $1.7 million which was paid on March 5, 2018, and require future combined repayments of $0.6 million, $0.7 million and $0.3 million in 2018, 2019 and 2020, respectively. LREIT continues to meet the debt service obligations of the mortgage loan that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25.6 million was triggered due to non-compliance with a deadline set with respect to the establishment of a condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In addition, subsequent to December 31, 2017, two mortgage loans secured by two properties in the aggregate principal amount of $43.3 million were renewed until September 1, 2020 at an interest rate of prime plus 3.3%. The terms of the renewals required an initial combined principal repayment of $1.5 million, which was made on March 16, 2018, and additional principal repayments of $0.5 million every six months commencing on September 1, 2018 and ending on March 1, 2020. In addition, principal repayments of $0.3 million are required for each quarter during the renewal period in which the Trust fails to sell a unit under its condominium sales program.

Pursuant to the terms of the Declaration of Trust, LREIT is prohibited from incurring additional mortgage loan indebtedness if such indebtedness would result in the total mortgage loan indebtedness of LREIT exceeding 75% of the appraised value of LREIT's total property portfolio. As LREIT's mortgage loan indebtedness exceeds 75% of the appraised value of its total property portfolio (77% at December 31, 2017), LREIT was unable to request an increase in the $30 million revolving loan facility from 2668921 Manitoba Ltd. but, was able to obtain unsecured loan financing from Shelter Canadian Properties Limited ("Shelter") in the amount of $6.0 million to address the funding of its cash shortfall during 2017.

Outlook

The long term prospects of the Fort McMurray rental market remain closely correlated with the price of oil and oil sands development activity. Alberta's energy sector showed signs of recovery in 2017 and the Conference Board of Canada is forecasting GDP growth for the Regional Municipality of Wood Buffalo of 10.4% in 2018. Notwithstanding the economic improvement in the region, the extent of its impact on rental market conditions to date has not been sufficient to address the cash short falls of the Trust.

The ability of the Trust to remain a going concern in the near-term is largely contingent upon financial support from Shelter and its parent company, 2668921 Manitoba Ltd., as well as the Trust's capacity to continue to renew and/or refinance its mortgage loan debts as they become due.

Addressing the Trust's liquidity concerns continues to be the top priority of LREIT in 2018.

GINO ROMAGNOLI, CPA, CGA
Chief Executive Officer
March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A OVERVIEW AND ADVISORIES

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 consolidated financial statements ("Financial Statements") of LREIT for the year ended December 31, 2017 and accompanying notes and with reference to the Annual Report for 2017, the quarterly reports for 2017, the audited consolidated financial statements for the years ended December 31, 2017 and 2016, and the Annual Information Form ("AIF") dated March 22, 2018. Throughout this MD&A, it is not our intent to reproduce information that is located in these other reported documents, but rather to provide an update with respect to the business activities, financial condition, financial performance, and cash flows of LREIT.

Financial Statements

Throughout this report, the consolidated financial statements as of December 31, 2017 will be referred to as the "Financial Statements"; the consolidated statements of financial position as of December 31, 2017 will be referred to as the "Statement of Financial Position"; the consolidated statements of comprehensive income (loss) for the year ended December 31, 2017 will be referred to as the "Income Statement"; and the consolidated statements of cash flows for the year ended December 31, 2017 will be referred to as the "Statement of Cash Flows".

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") and/or its parent company 2668921 Manitoba Ltd. for interim funding, success of the divestiture program, events of default and/or enforcement proceedings 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.

Operating Segments

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

- Fort McMurray Properties (twelve properties): Accounting for approximately 76% (December 31, 2016 - 76%) of the residential suites in the portfolio of investment properties, the twelve multi-unit residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

- Other Investment Properties (three properties): Accounting for approximately 16% (December 31, 2016 - 16%) of the residential suites in the portfolio of investment properties, the three other investment properties consist of two multi-unit residential rental properties located in Alberta and one multi-unit residential rental property located in Manitoba.

- Held for Sale (one property) and/or Sold Properties (two properties): Woodland Park, the one property classified as held for sale, accounts for approximately 8% (December 31, 2016 - 8%) of the suites in the portfolio of investment 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 net operating income 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 December 31, 2017; Beck Court, which was sold on May 1, 2016 and Willowdale Gardens, which was sold on May 1, 2016.

The operating results for the seniors' housing complexes, including one which was sold on October 1, 2016, 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 seniors' housing complexes, except where noted.

Purchase Price Information

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

FINANCIAL SUMMARY

	December 31		
	2017	2016	2015
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 222,128,456	$ 245,402,329	$ 278,524,804
Total long-term financial liabilities (1)	$ 245,533,159	$ 243,501,308	$ 279,529,237
Weighted average interest rate			
- Mortgage loan debt	5.5 %	5.8 %	6.0 %
- Total debt	5.4 %	5.6 %	6.4 %

	Year Ended December 31		
	2017	2016	2015
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 19,052,202	$ 18,328,212	$ 30,215,224
Net operating income *	$ 8,803,502	$ 7,814,287	$ 16,151,866
Loss before discontinued operations *	$ (31,877,187)	$ (1,264,483)	$ (96,394,897)
Loss and comprehensive loss	$ (32,036,682)	$ (1,730,124)	$ (98,765,643)
Funds from Operations (FFO) *	$ (6,423,890)	$ (12,463,056)	$ (8,426,367)
Cash Flows			
Cash used in operating activities	$ (2,662,330)	$ (3,254,380)	$ (6,492,224)
Adjusted Funds from Operations (AFFO) *	$ (7,625,263)	$ (13,753,872)	$ (8,728,029)
Per Unit			
Net operating income *			
- basic and diluted	$ 0.416	$ 0.369	$ 0.764
Loss before discontinued operations *			
- basic and diluted	$ (1.507)	$ (0.060)	$ (4.558)
Loss and comprehensive loss			
- basic and diluted	$ (1.515)	$ (0.082)	$ (4.670)
Funds from Operations (FFO) *			
- basic and diluted	$ (0.304)	$ (0.589)	$ (0.398)
Cash used in operating activities			
- basic and diluted	$ (0.126)	$ (0.154)	$ (0.307)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.361)	$ (0.650)	$ (0.413)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability (December 2015), and the revolving loan from 2668921 Manitoba Ltd.

(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 17 real estate properties, comprised of: 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex 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. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale. 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 divestiture activities.

Addressing the liquidity challenges of the Trust and stabilizing operations continue to be the top priorities for LREIT as management maintains its focus on the divestiture program; debt renewal/restructuring; and initiatives aimed at improving operating results.

2017 Operating Results

Key Financial Indicators

	Year Ended December 31		Favourable (Unfavourable) Variance	
	2017	2016	Amount	%
Rentals from investment properties	$ 19,052,202	$ 18,328,212	$ 723,990	4 %
Net operating income (NOI)	$ 8,803,502	$ 7,814,287	$ 989,215	13 %
Interest expense	$ (13,930,662)	$ (19,076,586)	$ 5,145,924	27 %
Fair value adjustments	$ (25,530,987)	$ 11,645,404	$ (37,176,391)	(319)%
Income (loss) and comprehensive income (loss)	$ (32,036,682)	$ (1,730,124)	$ (30,306,558)	(1,752)%
Funds from operations (FFO)	$ (6,423,890)	$ (12,463,056)	$ 6,039,166	48 %

LREIT completed 2017 with negative FFO of $6.4 million, compared to negative FFO of $12.5 million in 2016, representing an improvement of $6.0 million. On a basic per unit basis, FFO increased by $0.285 during 2017 to negative $0.304. The improvement in FFO mainly reflects a decrease in interest expense and an increase in net operating income (NOI).

The decrease in interest expense is primarily due to the divestiture and debt restructuring initiatives undertaken since 2016, which have resulted in a reduction in the total balance of mortgage loan debt, reduced interest rates on the Series G debentures and revolving loan facility, and a reduction in the amortization of transaction costs as a result of the acceleration of transaction cost amortization in 2016.

The increase in NOI is mainly due to an increase in the average occupancy level of the Fort McMurray properties, which increased from 65% in 2016 to 71% in 2017. The increase in the NOI of the Fort McMurray properties was partially offset by a decrease in the NOI of the held for sale and/or sold properties as a result of the sales of Beck Court and Willowdale Gardens in May 2016. The increase in the average occupancy level of the Fort McMurray portfolio was primarily the result of the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild. While economic activity in the region has increased, the impact of the rebuild on operating results has been less favourable than previously anticipated and its future impact is uncertain.

Overall, LREIT completed 2017 with a loss and comprehensive loss of $32.0 million, compared to a loss and comprehensive loss of $1.7 million in 2016. The increase in the loss during 2017 mainly reflects an unfavorable variance in the fair value adjustments of the investment properties, partially offset by the decrease in interest expense and the increase in net operating income, as discussed above.

Liquidity and Capital Resources

Liquidity refers to the 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 December 31, 2017, the unrestricted cash balance of LREIT was $1.6 million and working capital was $0.4 million.

During 2017, cash used in operations, prior to working capital adjustments amounted to $1.8 million and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal repayments, capital expenditures and transaction costs was $8.4 million, compared to cash used in operations of $3.8 million and a cash shortfall of $10.6 million in 2016.

The decrease in the cash shortfall is mainly due to a decrease in regular mortgage principal repayments, a decrease in cash used in operations after working capital adjustments, and a decrease in capital expenditures.

Notwithstanding the improved operating performance during 2017, LREIT continues to require additional sources of cash to fund the cash shortfall from operating activities, as well as mortgage loan principal payments, transaction costs for debt financing, and capital expenditures. LREIT also requires additional capital to fund the repayment of mortgage loans at maturity and/or for refinancing to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds. The cash shortfalls during 2017 were funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by unsecured loan advances from Shelter.

As of December 31, 2017, the Trust was in default of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46.9 million, as the lender of the mortgage loans indicated that there are service fees outstanding with respect to previous defaults under the loans and that until such fees are paid the loans remain in default. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18.7 million. The forbearance agreements required an initial combined repayment of $1.7 million which was paid on March 5, 2018, and require future combined repayments of $0.6 million, $0.7 million and $0.3 million in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25.6 million was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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

As a result of updated appraisals and the sale of one condominium unit at Lakewood Townhomes, the appraised value of LREIT's property portfolio was reduced from $312.5 million as at December 31, 2016 to $286.7 million as at December 31, 2017. At December 31, 2017, LREIT's mortgage indebtedness and the maximum balance under the revolving loan facility amounted to $220.7 million, representing approximately 77% of the appraised value of LREIT's total property portfolio.

Given that LREIT's aggregate mortgage indebtedness now exceeds 75% of appraised value, the Trust is not permitted to increase the outstanding balance of its mortgage loan debt; however, LREIT may continue to renew or refinance its mortgage debt at amounts equal to or less than the outstanding principal balance of the existing mortgage loan at the time of the renewal and/or refinancing and may also obtain financing from unsecured lenders.

As a result, LREIT was unable to request an increase in the $30.0 million revolving loan facility from 2668921 Manitoba Ltd. but, was able to obtain unsecured loan financing from Shelter in the amount of $6.0 million to address the funding of its cash shortfall during 2017.

Continuing Operations and Ongoing Initiatives

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

(i) the Trust's concentration of investment properties in Fort McMurray;
(ii) the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of 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;
(vi) the Trust's reliance on financing from Shelter and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and,
(vii) the Trust's highly leveraged capital structure.

In an effort to meet ongoing funding obligations and sustain operations, LREIT has continued to pursue debt restructuring arrangements with certain of its lenders and has relied on favourable interim financing arrangements and other support from Shelter and its parent company, 2668921 Manitoba Ltd. Other measures taken in order to address the liquidity challenges facing LREIT include the continuation of the divestiture program and operational initiatives aimed at improving operating performance. The operational initiatives include a continued focus on cost control, as well as marketing and select renovation initiatives.

A summary of LREIT's recent progress with respect to the above noted initiatives is provided below.

Debt Restructuring - Mortgage Loans

Interest payment deferrals obtained by the Trust during the first quarter of 2016, as a result of renewal agreements and a forbearance agreement obtained for five mortgage loans, resulted in reduced debt service payments during the remaining quarters of 2016 and during 2017.

On October 1, 2017, a new forbearance agreement was executed with respect to one matured mortgage loan, secured by one property, in the aggregate principal amount of $25.5 million with an expired forbearance agreement. The new forbearance agreement provides for an interest rate reduction from prime plus 4.0% to a fixed rate of 3.5% and expires December 2018.

In addition, on October 1, 2017, a two-year forbearance agreement was executed for one mortgage loan, secured by one property, in the aggregate principal amount of $14.5 million, which was in default as the lender of the mortgage loan had indicated that there are service fees outstanding, with respect to a previous loan default, and that until such fees are paid the loan will remain in default.

Subsequent to December 31, 2017, progress was made with respect to the restructuring of mortgage loans, as follows:

- Forbearance agreements were executed for three mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18.7 million, which were in default at December 31, 2017, as the lender of the mortgage loans had indicated that there are service fees outstanding, with respect to a previous loan default, and that until such fees are paid the loans will remain in default. The forbearance agreements required an initial combined repayment of $1.7 million, which was paid on March 5, 2018, and require future combined repayments of $0.6 million, $0.7 million and $0.3 million in 2018, 2019, and 2020, respectively. The forbearance agreements expire on May 1, 2021. As of the date of this report, there is one mortgage loan, in the aggregate principal amount of $28.2 million, from this lender that remains in default on account of the non-payment of services fees. LREIT continues to meet the debt service obligations of this mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

- LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $36.1 million. The renewal terms required an initial principal repayment of $1.0 million, which was paid on March 16, 2018, and additional principal repayments of $0.5 million every six months, commencing September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

- LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $7.2 million. The renewal terms required an initial principal repayment of $0.5 million, which was paid on March 16, 2018, and additional principal repayments of $0.3 million per each quarter in which the Trust fails to sell a unit under the property's condominium sales program. In exchange for each $0.3 million principal payment made during the term of the renewed first mortgage loan, the lender will discharge one condominium unit from its security. The renewed mortgage loan bears interest at prime plus 3.30% and matures on September 1, 2020.

All mortgages which have matured prior to the date of this report have been renewed, refinanced, or are under a forbearance agreement.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

Reduced interest rates under the amended terms of the Series G debentures and revolving loan facility, which were negotiated during the second quarter of 2016, resulted in a combined interest expense reduction during 2017 of $1.2 million compared to the prior year. The decrease in the Series G debentures interest was inclusive of a $0.7 million decrease in the amortization of transaction costs. The decrease in the revolving loan interest from the interest rate reduction was almost entirely offset by an increase in the average balance outstanding under the revolving loan.

The amended terms of the Series G debentures provide for the deferral of interest payments until the June 30, 2022 maturity date of the debentures.

On November 14, 2016, the maximum principal balance on the revolving loan facility was increased from $18.0 million to $30.0 million, providing additional liquidity to LREIT. At December 31, 2017, the maximum of $30.0 million was fully advanced under the revolving loan facility.

Notwithstanding the maximum being advanced under the revolving loan facility, LREIT obtained an additional $6.0 million of financing from Shelter in the form of unsecured loan advances during 2017. The unsecured loan advances are payable on demand and bear interest at 5%, consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $5.0 million from January 1, 2018 to the date of this report.

Divestitures

During 2017, the Trust completed the sale of one condominium unit under the Lakewood Townhomes condominium sales program. The sale resulted in the reduction of $0.4 million of mortgage loan debt and a net cash shortfall of $0.1 million.

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; condominium units as part of the Lakewood Townhomes condominium sales program; and the property classified as held for sale, Woodland Park, inclusive of the establishment of a condominium sales program for the 32 townhouses that comprise part of the property. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs of the Trust.

A more detailed description of the divestiture programs and activities are provided in the "Overview of Operations and Investment Strategy - Current Initiatives" and "Analysis of Cash Flows - Investing Activities" sections of this report.

Fort McMurray Rebuild

The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild resulted in increased demand for rental accommodations in the region during 2017; however, the impact of the rebuild on the operating results has been less than originally anticipated. During 2017, LREIT's marketing efforts focused on identifying and attracting companies, tradespersons, and other service providers involved in the rebuilding efforts. In addition, renovations were performed at select properties in order to attract and better suit the needs of tenants in the post-fire market environment. Market demand is continuing to be monitored and additional renovations may be performed, as warranted.

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 Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, and/or provide other forms of financial support to the Trust;
(ii) the Trust's ability to renew or refinance debt as it matures;
(iii) 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 to stabilize its operations;
(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;
(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

Overview

LREIT is a publicly traded real estate investment trust which owns a portfolio of multi-unit residential and other real estate properties in Canada. LREIT's real estate properties are primarily located in Fort McMurray, Alberta.

The trust units of LREIT are currently 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".

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX and that it does not anticipate satisfying such requirements in the foreseeable future. The Trust intends to transition the listings to the TSXV, subject to the approval of the TSXV.

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.

Investment Properties

As of December 31, 2017, the property portfolio of LREIT consists of 17 rental properties, comprised of: 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex 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. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale.

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.

Current Initiatives

Addressing the liquidity challenges of the Trust and stabilizing operations continue to be the top priorities for LREIT as management maintains its focus on the divestiture program; debt renewal/restructuring; and initiatives aimed at improving operating results.

A summary of LREIT's progress with respect to its current initiatives is provided below:

Debt Restructuring

Mortgage Loans

Interest payment deferrals obtained by the Trust during the first quarter of 2016 as a result of renewal agreements and a forbearance agreement obtained for five mortgage loans with an aggregate principal balance of $105,450,520, as of December 31, 2017, resulted in reduced debt service payments during the remaining quarters of 2016 and during 2017.

As of September 30, 2017, the Trust was in default with respect to one matured mortgage loan, with an aggregate principal balance of $25,582,975, with an expired forbearance agreement. On October 1, 2017, a new forbearance agreement, expiring December 2018, was executed with respect to this mortgage loan, inclusive of an interest rate reduction from prime plus 4.0% to a fixed rate of 3.5%.

As of September 30, 2017, the Trust was in default of five mortgage loans secured by a total of eight properties with an aggregate principal balance of $61,373,337, which were previously in default of debt service payments, as the lender of the mortgage loans has indicated that there are service fees outstanding with respect to the loans and that until such fees are paid the loans will remain in default. On October 1, 2017, a two-year forbearance agreement was executed for one of these mortgage loans, secured by one property, in the aggregate principal amount of $14,477,261. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements executed subsequent to December 31, 2017 required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire on May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $36,117,858. The renewal terms required an initial principal repayment of $1,000,000, which was paid on March 16, 2018, and additional principal repayments of $500,000 every six months commencing with September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $7,158,017. The renewal terms required an initial principal repayment of $500,000, which was paid on March 16, 2018, and additional principal repayments of $280,000 per each quarter in which the Trust fails to sell a unit under the property's condominium sales program. In exchange for each $280,000 principal payment made during the term of the renewed first mortgage loan, the lender will discharge one condominium unit from its security. The renewed mortgage loan bears interest at prime plus 3.30% and matures on September 1, 2020.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2017.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

Additional information is provided in the "Liquidity and Capital Resources" section of the report.

Debentures, Revolving Loan and Shelter Advances

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date 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. As of December 31, 2017, $3,039,323 of interest has been deferred and accrued. 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.

On November 14, 2016, the maximum principal balance on the revolving loan facility was increased from $18,000,000 to $30,000,000. At December 31, 2017, the maximum of $30,000,000 was fully advanced under the revolving loan facility.

Notwithstanding the maximum being advanced under the revolving loan facility, LREIT obtained an additional $6,000,000 of financing from Shelter in the form of unsecured loan advances during 2017. The unsecured loan advances are payable on demand and bear interest at 5%, consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $5,000,000 from January 1, 2018 to the date of this report.

Reduced interest rates under the amended terms of the Series G debentures, which were negotiated during the second quarter of 2016, resulted in interest expense reductions during 2017 of $1,244,040 compared to the prior year. The decrease in the Series G debentures interest was inclusive of a $685,797 decrease in the amortization of transaction costs.

Reduced interest rates under the amended terms of the revolving loan facility, which were negotiated during the second quarter of 2016, served to offset the impact on interest expense from the increase in the average balance outstanding under the revolving loan during 2017.

Divestitures

As previously reported, LREIT has instituted a divestiture program which, together with the debt-restructuring initiatives undertaken by management, is part of the overall strategy to address the operating cash deficiencies.

Since 2015, LREIT has sold five properties for total gross proceeds of $119,210,000 and net cash proceeds of $44,620,989, after accounting for the repayment or assumption of the existing mortgage loans by the purchaser, selling costs, and standard closing adjustments.

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; condominium units as part of the Lakewood Townhomes condominium sales program; and the property classified as held for sale, Woodland Park, inclusive of the establishment of a condominium sales program for the 32 townhouses that comprise part of the property. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs and debt reduction requirements of the Trust.

Under the terms of the trust indenture which governs LREIT's outstanding Series G debentures, the net proceeds from property sales will 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 repayment of the 2668921 Manitoba Ltd. revolving loan and/or the repayment of advances from Shelter from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds, at the discretion of 2668921 Manitoba Ltd. and/or Shelter, for the payment of LREIT's ongoing funding obligations.

Lakewood Townhomes Condominium Sales Program

As of December 31, 2017, 19 condominium units have been sold at a combined gross selling price of $8,973,100.

During 2017, the Trust completed the sale of one condominium unit for gross proceeds of $360,000, resulting in the reduction of mortgage loan debt of $441,135. The shortfall in the repayment of the existing mortgage loan and the payment of selling costs and standard closing adjustments, in the amount of $109,415, was funded by an advance on the revolving loan facility.

Upon the sale of each condominium unit, the first mortgage loan requires a repayment equal to 95% of the listed sales price as agreed upon with the lender. Additional selling costs, including sale renovation costs, a contribution to the reserve fund of the condominium corporation, and closing costs, will be paid by the balance of the net sales proceeds and from working capital. The condominium sales program includes service and renovation fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the "Related Party Transactions" section of this report.

Subsequent to December 31, 2017, LREIT sold one condominium unit at Lakewood Townhomes for gross proceeds of $322,000. The sale resulted in net cash proceeds of $45,970 after selling costs of $21,130 and mortgage loan repayment of $254,900.

Fort McMurray Rebuild and Operations Initiatives

The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild resulted in increased demand for rental accommodations in the region during 2017; however, the impact of the rebuild on the operating results has been less than originally anticipated. During 2017, LREIT's marketing efforts focused on identifying and attracting companies, tradespersons, and other service providers involved in the rebuilding efforts. In addition, renovations were performed at select properties in order to attract and better suit the needs of tenants in the post-fire market environment. Market demand is continuing to be monitored and additional renovations may be performed, as warranted.

REAL ESTATE PORTFOLIO

Portfolio Summary - December 31, 2017

As of December 31, 2017, the property portfolio of LREIT consists of 17 rental properties, comprised of: 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex 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. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale. The entire portfolio of 17 properties has a total purchase price of $319,095,604 and encompasses 1,372 suites.

A list of properties in the LREIT real estate portfolio as at December 31, 2017 is provided below.

Real Estate Portfolio as of December 31, 2017

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy December 31 2017
INVESTMENT PROPERTIES					
Fort McMurray					
Nelson Ridge Estates	Fort McMurray, AB	$ 40,575,000	April 2005	225	64 %
Gannet Place	Fort McMurray, AB	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray, AB	4,457,100	June 2006	24	71 %
Parkland Apartments	Fort McMurray, AB	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray, AB	5,385,800	June 2006	29	86 %
Snowbird Manor	Fort McMurray, AB	6,314,500	June 2006	34	53 %
Whimbrel Terrace	Fort McMurray, AB	6,873,700	June 2006	37	73 %
Laird's Landing	Fort McMurray, AB	51,350,000	August 2006	189	78 %
Lakewood Apartments	Fort McMurray, AB	34,527,719	July 2007	111	72 %
Lakewood Townhomes (1)	Fort McMurray, AB	17,839,885	July 2007	45	78 %
Millennium Village	Fort McMurray, AB	24,220,000	November 2007	72	74 %
Parsons Landing	Fort McMurray, AB	60,733,000	September 2008	160	49 %
		261,380,604		975	
Other					
Highland Tower (2)	Thompson, MB	5,700,000	January 2005	77	83 %
Norglen Terrace	Peace River, AB	2,500,000	October 2004	72	82 %
Westhaven Manor	Edson, AB	4,050,000	May 2007	48	60 %
		12,250,000		197	
Held for sale					
Woodland Park (3)	Fort McMurray, AB	37,865,000	March 2007	107	49 %
Total - Investment properties		**311,495,604**	Total suites	**1,279**	
DISCONTINUED OPERATIONS (SENIORS' HOUSING COMPLEX) (4)					
Chateau St. Michael's	Moose Jaw, SK	**7,600,000**	June 2006	**93**	55 %
Total real estate portfolio		**$ 319,095,604**		**1,372**	

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of December 31, 2017 has been reduced to 45 to account for the sale of 19 condominium units. The purchase price reflects the 45 condominium units that have not been sold.

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

(3) Woodland Park is comprised of a 75 unit apartment complex and 32 townhouses.

(4) The seniors' housing complex represents the remaining property of a distinct line of business which the Trust intends to dispose of under a coordinated plan, and is categorized as "discontinued operations".

Recent Changes in the Property Portfolio

During 2017, the Trust sold one condominium unit under the Lakewood Townhomes condominium sales program for a gross selling price of $360,000.

During 2016, the Trust completed the sales of Beck Court, Willowdale Gardens and Elgin Lodge under the divestiture program and sold one condominium unit under the Lakewood Townhomes condominium sales program. The combined gross selling price of the properties was $46,870,000.

Subsequent to December 31, 2017, LREIT sold one condominium unit at Lakewood Townhomes for gross proceeds of $322,000. The sale resulted in net cash proceeds of $45,970 after selling costs of $21,130 and mortgage loan repayment of $254,900.

A more detailed description of the divestiture programs and activity is provided in the "Overview of Operations and Investment Strategy - Current Initiatives" and "Analysis of Cash Flows - Investing Activities" sections of this report.

The Trust has reclassified the property known as Woodland Park to "Assets held for sale" on the Statement of Financial Position. 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 Loss

	Year Ended December 31		Increase (Decrease) in Income	
	2017	2016	Amount	%
Rentals from investment properties	$ 19,052,202	$ 18,328,212	$ 723,990	4 %
Property operating costs	(10,248,700)	(10,513,925)	265,225	3 %
Net operating income	8,803,502	7,814,287	989,215	13 %
Interest income	189,425	149,576	39,849	27 %
Interest expense	(13,930,662)	(19,076,586)	5,145,924	27 %
Trust expense	(1,463,535)	(1,883,331)	419,796	22 %
Loss before the following	(6,401,270)	(12,996,054)	6,594,784	51 %
Gain on sale of investment property	55,070	86,167	(31,097)	(36)%
Fair value adjustments - Investment properties	(25,530,987)	11,645,404	(37,176,391)	(319)%
Loss before discontinued operations	(31,877,187)	(1,264,483)	(30,612,704)	(2,421)%
Loss from discontinued operations	(159,495)	(465,641)	306,146	66 %
Loss and comprehensive loss	$ (32,036,682)	$ (1,730,124)	$ (30,306,558)	(1,752)%

Analysis of Loss per Unit

	Year Ended December 31		Change	
	2017	2016		
Loss before discontinued operations - basic and diluted	$ (1.507)	$ (0.060)	$ (1.447)	(2,412)%
Loss from discontinued operations - basic and diluted	(0.008)	(0.022)	0.014	64 %
Loss and comprehensive loss - basic and diluted	$ (1.515)	$ (0.082)	$ (1.433)	(1,748)%

Overall Results

LREIT completed 2017 with a loss and comprehensive loss of $32,036,682, compared to a loss and comprehensive loss of $1,730,124 in 2016. The increase in the loss mainly reflects an unfavourable variance in the fair value adjustments of the investment properties, partially offset by a decrease in interest expense, as well as an increase in net operating income.

The unfavourable fair value adjustments variance reflects the combined effect of an increase in the carrying value of the Fort McMurray properties during 2016, followed by a decrease in the carrying value of the Fort McMurray properties during 2017. During the second quarter of 2016, the carrying value of the Fort McMurray properties increased as revenue expectations were increased in anticipation of an improvement in rental market conditions associated with the post-wildfire rebuild and the entry of displaced homeowners into the rental market. Throughout 2017, the carrying value of the Fort McMurray properties was reduced to reflect declines in revenue expectations associated with the post-fire rebuilding efforts and to reflect increasing uncertainty as to the extent and timing of a recovery in the Fort McMurray rental market, resulting from the prolonged low-level of oil sands development activity.

The decrease in interest expense is primarily due to the divestiture and debt restructuring initiatives undertaken since 2016, which have resulted in a reduction in the total balance of mortgage loan debt, reduced interest rates on the Series G debentures and revolving loan facility, and a reduction in transaction cost amortization as a result of the acceleration of transaction cost amortization in 2016. A more detailed explanation of the decreases in interest expense is covered in the "Interest Expense" section of this report.

The increase in net operating income is mainly due to an increase in the average occupancy level of the Fort McMurray properties from 65% during 2016 to 71% during 2017, partially offset by a decrease in net operating income as a result of the sales of Beck Court and Willowdale Gardens in May 2016.

The increase in the occupancy level of the Fort McMurray portfolio during 2017 was primarily the result of the entry of homeowners displaced by the May 2016 wildfire into the rental market and the commencement of the post-fire rebuild. While economic activity in the region has increased, the impact of the rebuild on operating results has been less favourable than previously anticipated and its future impact is uncertain. The long term prospects of the Fort McMurray rental market remain dependent on the level of future oil sands development activity.

The overall results, as discussed above, are described in greater detail throughout this report.

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 2017 with negative FFO of $6,423,890, compared to negative FFO of $12,463,056 in 2016, representing a favourable variance of $6,039,166. On a basic per unit basis, FFO increased by $0.285, from negative $0.589 in 2016 to negative $0.304 in 2017.

The favourable variance in FFO is mainly due to a decrease in interest expense, an increase in net operating income, as well as a decrease in trust expense and a decrease in loss from discontinued operations.

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

Funds from Operations *

	Year Ended December 31	
	2017	2016
Loss and comprehensive loss	$ (32,036,682)	$ (1,730,124)
Add (deduct):		
Gain on sale - Investment properties	(55,070)	(86,167)
Loss (gain) on sale - Property and equipment	-	(53,260)
Fair value adjustment - Property and equipment	136,875	1,051,899
Fair value adjustment - Investment properties	25,530,987	(11,645,404)
Funds from operations (FFO) *	$ (6,423,890)	$ (12,463,056)
FFO per unit *		
- basic and diluted	$ (0.304)	$ (0.589)

* 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, 2016 - 76%), 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 Lakewood Townhomes and condominium units sold under the Lakewood Townhomes Condominium Sales Program prior to their sale, 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 multi-unit residential rental property located in Manitoba, and account for 16% (December 31, 2016 - 16%) of the residential suites in the portfolio of investment properties.

Held for Sale (one property) and/or Sold Properties (two 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 net operating income 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 located in Fort McMurray; Beck Court, which was sold on May 1, 2016 and Willowdale Gardens, which was sold on May 1, 2016. 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, 2016 - 8%).

Rental Revenues

The rental revenue of LREIT is primarily derived from the leasing of residential units. Rental revenue includes revenue from all investment properties, including investment properties sold during the period prior to their sale.

Analysis of Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2017	2016	Amount	%	2017	2016
Fort McMurray properties	$ 14,983,563	$ 13,262,742	$ 1,720,821	13 %	79 %	72 %
Other investment properties	1,568,568	1,631,872	(63,304)	(4)%	8 %	9 %
Sub-total	16,552,131	14,894,614	1,657,517	11 %	87 %	81 %
Held for sale and/or sold properties (1)	2,500,071	3,433,598	(933,527)	(27)%	13 %	19 %
Total	$ 19,052,202	$ 18,328,212	$ 723,990	4 %	100 %	100 %

Occupancy Level, by Quarter (2)

	2017				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	68 %	71 %	73 %	72 %	71 %
Other investment properties	71 %	73 %	73 %	75 %	73 %
Total	68 %	72 %	73 %	72 %	71 %
Held for sale and/or sold properties (3)	79 %	79 %	69 %	61 %	72 %

	2016				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	52 %	58 %	76 %	72 %	65 %
Other investment properties	72 %	74 %	69 %	69 %	71 %
Total	54 %	60 %	75 %	72 %	65 %
Held for sale and/or sold properties (1)	75 %	64 %	86 %	82 %	75 %

Average Monthly Rents, by Quarter

	2017				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	$1,684	$1,707	$1,711	$1,697	$1,700
Other investment properties	$909	$909	$903	$905	$907
Total	$1,554	$1,573	$1,575	$1,563	$1,566
Held for sale and/or sold properties (3)	$2,593	$2,611	$2,597	$2,549	$2,588

	2016				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	$1,699	$1,599	$1,700	$1,669	$1,667
Other investment properties	$969	$960	$945	$919	$948
Total	$1,576	$1,491	$1,573	$1,543	$1,546
Held for sale and/or sold properties (1)	$1,783	$2,036	$2,546	$2,581	$2,088

(1) Includes revenue from Woodland Park, the property classified as held for sale, as well as Beck Court and Willowdale Gardens prior to their sales date of May 1, 2016.
(2) The occupancy level represents the portion of potential revenue that was achieved.
(3) Includes revenue from Woodland Park, the property classified as held for sale.

During 2017, total investment property revenue, excluding held for sale and/or sold properties, increased by $1,657,517 or 11%, compared to the prior year. The increase mainly reflects an increase in the average occupancy level of the Fort McMurray properties, as well as an increase in the average monthly rental rate. The average occupancy level of the Fort McMurray portfolio increased from 65% in 2016 to 71% in 2017. The average monthly rental rate increased by $33 per suite or 2% during 2017, compared to the prior year.

The increase in the occupancy level and rental rates of the Fort McMurray portfolio during 2017 was primarily the result of the entry of homeowners displaced by the May 2016 wildfire into the rental market and the commencement of the post-fire rebuild. While economic activity in the region has increased, the impact of the rebuild on operating results has been less favourable than previously anticipated and its future impact is uncertain. The revenue results of the Fort McMurray property portfolio reflect challenging rental market conditions with rental rates that continue to be depressed relative to historical levels.

The depressed level of rental rates, together with the uncertainty regarding the timing and/or extent of future oil sands development activity and rental market recovery, are key factors that continue to 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 operating performance are discussed in the "Liquidity and Capital Resources" section of this report.

During 2017, revenue from the held for sale and/or sold properties decreased by $933,527 or 27% compared to the prior year. The decrease in revenue from held for sale and/or sold properties was primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, and was partially offset by an increase in the revenue of Woodland Park, the property classified as held for sale.

Property Operating Costs

Analysis of Property Operating Costs

	Year Ended December 31			
	2017	2016	Increase (Decrease)	%
Fort McMurray properties	$ 8,086,147	$ 8,085,890	$ 257	- %
Other investment properties	1,230,211	1,067,768	162,443	15 %
Sub-total	9,316,358	9,153,658	162,700	2 %
Held for sale and/or sold properties	932,342	1,360,267	(427,925)	(31)%
Total	$ 10,248,700	$10,513,925	$ (265,225)	(3)%

During 2017, property operating costs, excluding the held for sale and/or sold properties, increased by $162,700 or 2%, compared to the prior year. The increase was mainly due to an increase in the maintenance costs of the other investment properties operating segment, resulting primarily from elevator and mechanical repairs. The operating costs of the Fort McMurray properties operating segment were in-line with the prior year as abnormally low operating costs incurred in the second quarter of 2016, as a result of the wildfire evacuation, were offset by higher operating costs incurred during the third and fourth quarters of 2016, primarily as a result of expenditures on in-suite renovations aimed at meeting tenant's needs in the post-fire environment.

During 2017, property operating costs from the held for sale and/or sold properties decreased by $427,925, compared to the prior year. The decrease was primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, and was partially offset by an increase in the property operating costs of Woodland Park, the property classified as held for sale.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Year Ended December 31		Increase (Decrease)		Percent of Total			
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	$ 6,897,416	$ 5,176,852	$ 1,720,564	33 %	78 %	66 %	46 %	39 %
Other investment properties	338,357	564,104	(225,747)	(40)%	4 %	7 %	22 %	35 %
Sub-total	7,235,773	5,740,956	1,494,817	26 %	82 %	73 %	44 %	39 %
Held for sale and/or sold properties	1,567,729	2,073,331	(505,602)	(24)%	18 %	27 %	63 %	60 %
Total	$ 8,803,502	$ 7,814,287	$ 989,215	13 %	100 %	100 %	46 %	43 %

* 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 2017, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, increased by $1,494,817 or 26%, compared to the prior year. The operating margin, excluding held for sale and/or sold properties, increased from 39% in 2016 to 44% in 2017. The increases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the increase in the revenue results of the Fort McMurray property portfolio, as disclosed in the "Rental Revenues" section of this report.

The decrease in net operating income from held for sale and/or sold properties of $505,602 is primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, and was partially offset by an increase in the net operating income of Woodland Park, the Fort McMurray property which is classified as held for sale. After accounting for held for sale and/or sold properties, the total net operating income of LREIT increased by $989,215 or 13% during 2017, compared to the prior year.

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

	Year Ended December 31			
	2017	2016	Increase (Decrease)	Increase (Decrease) %
Investment Properties				
Mortgage Loans	$ 11,247,772	$ 15,199,939	$ (3,952,167)	(26)%
Revolving Loan and Shelter Advances	1,442,350	1,392,067	50,283	4 %
Debentures	1,240,540	2,484,580	(1,244,040)	(50)%
	13,930,662	19,076,586	(5,145,924)	(27)%
Discontinued Operations				
Mortgage Loans	181,658	814,652	(632,994)	(78)%
Total - interest expense	$ 14,112,320	$ 19,891,238	$ (5,778,918)	(29)%

Cash and Non-cash Component

	Year Ended December 31			
	2017	2016	Increase (Decrease)	Increase (Decrease) %
Total cash component	$ 13,294,472	$ 15,798,135	$ (2,503,663)	(16)%
Total non-cash component	817,848	4,093,103	(3,275,255)	(80)%
Total - interest expense	$ 14,112,320	$ 19,891,238	$ (5,778,918)	(29)%

During 2017, total interest expense decreased by $5,778,918 or 29%, compared to the prior year. The decrease mainly reflects a decrease in mortgage loan interest, a decrease in debenture interest, as well as a decrease in interest expense related to discontinued operations, partially offset by an increase in interest from the revolving loan and Shelter advances.

The decrease in mortgage loan interest is primarily due to a decrease in the amortization of transaction costs, which is discussed in the "Cash vs. Non-Cash Component of Interest" section below, as well as a decrease in the total balance of mortgage debt. The decrease in total mortgage debt is mainly due to the sale of properties during 2016, mortgage prepayments during 2016, and repayments of mortgage loans on refinancing and regular repayment of long-term debt during 2016 and 2017, partially offset by capitalized interest and fees under certain mortgage loan and forbearance agreements all of which are discussed in the "Long Term Debt" sections of the 2016 Annual Report and this report.

The decrease in debenture interest reflects a decrease in the amortization of transaction costs, as discussed in the "Cash vs. Non-Cash Component of Interest" section below, and 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 interest expense related to discontinued operations was primarily due to the sale of Elgin Lodge on October 1, 2016.

The increase in interest expense from advances under the revolving loan and unsecured loan advances from Shelter reflect an increase in the combined balance of advances outstanding, largely offset by a reduction in the revolving loan interest rate from 12% to 5%, effective July 1, 2016.

Cash vs. Non-Cash Component of Interest

The total cash component of interest expense decreased by $2,503,663 or 16% during 2017, compared to the prior year, primarily driven by the same factors discussed in the preceding paragraphs, with the exception of factors related to the amortization of transaction costs.

During 2017, the total non-cash component of interest expense decreased by $3,275,255 or 80% compared to the prior year. The decrease in the non-cash component of interest expense mainly reflects decreases in the amortization of transaction costs related to mortgage loans and debentures.

The decrease in the amortization of mortgage loan transaction costs mainly reflects amortization that was comparatively high during 2016 as a result of the acceleration of amortization due to the debt restructuring initiatives undertaken in the first quarter of 2016, the recognition of services fees related to five mortgage loans that were previously in default of debt service payments during the second and third quarters of 2016 and a reduction in forbearance fees as a result of the expiration of a forbearance agreement on February 28, 2017. The acceleration of amortization of transaction costs was the result of the early renewal of four mortgage loans during the first quarter of 2016 and the sale of two properties at the beginning of the second quarter of 2016.

The decrease in the amortization of debenture transaction costs mainly reflects the fact that the amortization of debenture transaction costs was comparatively high during 2016, due to the acceleration of amortization as a result of the extension and amended terms obtained on the Series G debentures during the second quarter of 2016.

Trust Expense

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

During 2017, trust expense decreased by $419,796 or 22%, compared to the prior year.

The decrease mainly reflects a decrease in professional fees, which were comparatively high during 2016 as a result of the restructuring of mortgage loan and Series G debenture debt, as well as a decrease in service fees as a result of the reduction in the number of properties being managed.

Fair Value Adjustments

Investment Properties

During 2017, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $25,530,987, compared to a gain related to fair value adjustments of $11,645,404 during 2016, representing a negative variance of $37,176,391.

Losses related to fair value adjustments recognized during the third quarter of 2016 and throughout 2017 were primarily due to reductions in the anticipated impact of the rebuilding efforts in Fort McMurray on revenue and increased uncertainty with respect to the timing and/or extent of the recovery of the Fort McMurray economy, resulting from the prolonged low-level of oil sands development activity.

The gain related to fair value adjustments during 2016 primarily reflects the gain recognized in the second quarter of 2016 as revenue expectations were increased in anticipation of an improvement in rental market conditions associated with the post-wildfire rebuild and the entry of displaced homeowners into the rental market.

After accounting for fair value adjustments and capital expenditures, the carrying value of investment properties decreased by $19,789,396 while the carrying value of investment properties held for sale decreased by $4,647,938 during 2017.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Year Ended December 31 2017	Year Ended December 31 2016	Increase (Decrease) in income
Rental income	$ 1,626,803	$ 4,488,348	$ (2,861,545)
Property operating costs	1,467,765	3,140,698	1,672,933
Net operating income	159,038	1,347,650	(1,188,612)
Interest expense	(181,658)	(814,652)	632,994
Fair value adjustment	(136,875)	(1,051,899)	915,024
Gain on sale	-	53,260	(53,260)
Income (loss) from discontinued operations	$ (159,495)	$ (465,641)	$ 306,146

The changes in the income from discontinued operations during 2017, compared to the prior year, mainly reflect the sale of Elgin Lodge on October 1, 2016, as well as comparatively larger unfavourable fair value adjustments during 2016, due to reductions in the anticipated selling price of Elgin Lodge.

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

	2017			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 4,694,808	$ 4,832,286	$ 4,880,593	$ 4,644,515
Net operating income	$ 1,767,884	$ 2,329,361	$ 2,474,144	$ 2,232,113
Loss for the period before discontinued operations	$(11,427,144)	$ (6,858,839)	$ (8,899,395)	$ (4,691,809)
Loss and comprehensive loss	$(11,638,560)	$ (6,842,465)	$ (8,909,938)	$ (4,645,719)
Funds from Operations (FFO)	$ (1,996,022)	$ (1,086,920)	$ (1,563,031)	$ (1,777,917)
PER UNIT				
Net operating income - basic and diluted	$ 0.084	$ 0.110	$ 0.117	$ 0.106
Loss for the period before discontinued operations - basic and diluted	$ (0.540)	$ (0.324)	$ (0.421)	$ (0.222)
Loss and comprehensive loss - basic and diluted	$ (0.550)	$ (0.323)	$ (0.422)	$ (0.220)
Funds from Operations (FFO) - basic and diluted	$ (0.094)	$ (0.051)	$ (0.074)	$ (0.084)

Quarterly Analysis

	2016			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 4,800,490	$ 5,096,608	$ 3,979,652	$ 4,451,462
Net operating income	$ 1,723,989	$ 2,606,793	$ 1,824,148	$ 1,659,357
Income (loss) for the period before discontinued operations	$ (3,523,752)	$(10,614,965)	$ 20,514,463	$ (7,640,229)
Income (loss) and comprehensive income (loss)	$ (3,482,970)	$(11,136,578)	$ 20,488,721	$ (7,599,297)
Funds from Operations (FFO)	$ (2,260,065)	$ (1,579,111)	$ (4,343,306)	$ (4,280,574)
PER UNIT				
Net operating income - basic and diluted	$ 0.082	$ 0.123	$ 0.086	$ 0.078
Income (loss) for the period before discontinued operations - basic and diluted	$ (0.167)	$ (0.502)	$ 0.970	$ (0.361)
Income (loss) and comprehensive income (loss) - basic and diluted	$ (0.165)	$ (0.527)	$ 0.969	$ (0.359)
Funds from Operations (FFO) - basic and diluted	$ (0.107)	$ (0.075)	$ (0.205)	$ (0.202)

Rental Revenue and Net Operating Income

The prolonged economic downturn in Fort McMurray, which has resulted from the depressed level of oil prices dating back to the fourth quarter of 2014, continues to negatively impact the quarterly operating results of LREIT; however, during the third and fourth quarters of 2016 and during 2017, the downward pressure caused by the reduced oil sands development activity was tempered by an increase in economic activity as a result of the entry of homeowners displaced by the May 2016 Fort McMurray wildfire into the rental market, the migration of workers participating in the initial remedial effort and, to a lesser extent, the ongoing rebuilding effort in Fort McMurray.

Improved occupancy levels in the quarters subsequent to the May 2016 wildfire are evident in the figures presented in the Occupancy Level by Quarter table in the "Rental Revenue" section of this report. It is anticipated that the post-fire rental market conditions in Fort McMurray will continue to have a some positive impact on operating results for the year 2018; however, the impact has been less than previously anticipated and the extent and duration of the future impact remains uncertain.

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

Income (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 during the second quarter of 2016 and amounted to $24,952,489, mainly reflecting an increase in the carrying value of the Fort McMurray properties of $24,957,742. The fair value gain was triggered by 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 incurred in the third quarter of 2016 and throughout 2017, as revenue and occupancy expectations from the Fort McMurray portfolio were continuously lowered to reflect reductions in the expected impact on revenues of the post-fire rebuilding efforts and increasing levels of uncertainty with respect to the timing and extent of the recovery of the Fort McMurray economy due to the prolonged nature of the low-level of oil sands development activity.

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 unsecured loan, affect quarterly variations in interest expense.

Income (Loss) and Comprehensive Income (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, in the amount of $695,957.

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 seniors' housing complexes classified as discontinued operations.

Cash from Operating Activities

	Year Ended December 31		Increase
	2017	2016	(Decrease) in Cash
Net operating income			
Investment properties	$ 8,803,502	$ 7,814,287	$ 989,215
Discontinued operations	159,038	1,347,650	(1,188,612)
Total net operating income	8,962,540	9,161,937	(199,397)
Accrued rent receivable	(7,775)	60,930	(68,705)
Net operating income - cash basis	8,954,765	9,222,867	(268,102)
Trust expense - cash basis	(1,463,535)	(1,883,331)	419,796
Interest paid			
Investment properties	(9,291,214)	(10,493,079)	1,201,865
Discontinued operations	(178,178)	(808,291)	630,113
Total interest paid	(9,469,392)	(11,301,370)	1,831,978
Interest received	188,328	135,593	52,735
Cash used in operating activities, before working capital adjustments	(1,789,834)	(3,826,241)	2,036,407
Working capital adjustments, net	(872,496)	571,861	(1,444,357)
Cash used in operating activities	$ (2,662,330)	$ (3,254,380)	$ 592,050

During 2017, the net cash used in operating activities, before working capital adjustments, decreased by $2,036,407, compared to 2016. The favourable variance mainly reflects a decrease in total interest paid of $1,831,978; an increase in the net operating income of the investment properties of $989,215, as previously described in the "Net Operating Income and Operating Margin" section of this report; a decrease in the cash component of trust expense of $419,796, due to the same factors as described in the "Trust Expense" section of this report; partially offset by a decrease in the net operating income from discontinued operations of $1,188,612, as the result of the sale of Elgin Lodge on October 1, 2016.

The decrease in interest paid of $1,831,978 was primarily due to the same factors that caused the decrease in the cash component of interest expense, as explained in the "Interest Expense" section of this report. The decrease was partially offset by the relative deferrals of interest payments made in accordance with mortgage loan renewal and forbearance agreements during 2017, in comparison to the prior year.

The factors noted above, in addition to the exclusion from interest paid of other non-cash items such as regular monthly interest accruals and amortization of transaction costs, account for the difference between interest expense of $13,930,662 as reported on the Statements of Comprehensive Income and interest paid of $9,469,392, as reported on the Statements of Cash Flow.

After providing for working capital adjustments, the net cash used in operating activities decreased by $592,049 during 2017, compared to the prior year.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $5,051,011 during 2017. The net cash inflow reflects the net proceeds of the revolving loan facility and advances from Shelter, partially offset by the repayment of mortgage loans on refinancing, the repayment of long-term debt, and expenditures on transaction costs.

Revolving Loan Facility

During 2017, net proceeds from the revolving loan amounted to $7,700,000, compared to net proceeds of $15,200,000 in 2016. The revolving loan facility served as a funding source for the cash outflow from operating activities, mortgage loan principal payments, transaction costs, capital expenditures, and the repayment of mortgage loans on refinancing. In 2016, the revolving loan also served as a funding source for the prepayment of mortgage loans.

Advances from Shelter

During 2017, LREIT received unsecured loan advances from Shelter in the total amount of $6,000,000, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility. As the $30,000,000 maximum available balance under the revolving loan facility was reached during the third quarter of 2017, the advances from Shelter continued to serve as a source of funding for the cash outflow from operating activities, mortgage loan principal payments, transaction costs, capital expenditures, and for the repayment of mortgage loans on refinancing.

Repayment of Long-term Debt

During 2017, the regular repayment of mortgage loan principal for both investment properties and discontinued operations amounted to $3,508,348, compared to $4,598,670 in the prior year. The decrease is mainly due to certain debt restructuring initiatives undertaken during 2016, which resulted in mortgage loan and forbearance agreements that reduced or eliminated regular mortgage loan principal repayments.

Repayment of Mortgage Loans on Refinancing

During 2017, lump sum payments were made upon the renewal/refinancing of two mortgage loans and as part of a forbearance agreement on one other mortgage loan in the combined amount of $4,475,000. The repayments were funded by advances from the revolving loan facility and advances from Shelter. During 2016, lump sum payments were made in accordance with renewal terms on two first mortgage loans, in the combined amount of $5,800,000.

Prepayment of Mortgage Loans

As previously reported, during 2016, two interest-only second mortgage loans in the amount of $7,500,000 and $5,456,865, respectively, were repaid in full. The repayments were funded by advances from the revolving loan facility and proceeds from the sale of property. There were no mortgage loan prepayments made during 2017.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $1,432,702 during 2017, compared to a net cash inflow of $14,436,075 during 2016. The net cash outflow during 2017 mainly reflects the cost of capital expenditures, as well as a net cash shortfall on the sale of one condominium unit at Lakewood Townhomes, partially offset by a decrease in restricted cash. The net cash inflow during 2016 mainly reflected the proceeds from the sale of Beck Court, Willowdale Gardens and Elgin Lodge and a decrease in defeasance assets, partially offset by the cost of capital expenditures.

On January 12, 2017, LREIT sold one condominium unit under the Lakewood Townhomes condominium sales program for gross proceeds of $360,000. The sales proceeds, after the payment of selling costs and standard closing adjustments were insufficient to repay the amount required by the terms of the existing mortgage loan with respect to the sale. The deficiency in the repayment of the existing mortgage loan, in the amount of $109,415, was funded by an advance from the revolving loan facility. The sale resulted in the reduction of $441,135 of mortgage loan debt.

A more detailed description of the divestiture program, including the Lakewood Townhomes condominium sales program, is provided in the "Overview of Operations and Investment Strategy - Current Initiatives" section of this report.

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 current working capital and liquidity position, the current focus of the capital improvement program is on the sustaining capital expenditures. Notwithstanding the focus on sustaining capital expenditures, certain value-added expenditures were deemed necessary during 2017 as renovations at select properties in Fort McMurray were completed in order to more aptly meet the needs of prospective tenants in the post-fire market environment.

During 2017, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the remaining seniors' housing complex, amounted to $1,585,193, compared to $2,092,516 in 2016.

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

	Year Ended December 31	
	2017	2016
Sustaining Capital Expenditures		
- Investment properties	$ 975,132	$ 868,345
- Investment properties held for sale	4,076	29,868
- Property and equipment	214,390	453,533
Value-added capital expenditures		
- Investment properties	391,595	740,770
	$ 1,585,193	$ 2,092,516

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 *

	Year Ended December 31	
	2017	2016
Funds from operations (FFO)	$ (6,423,890)	$ (12,463,056)
Add (deduct):		
Straight-line rent adjustment	(7,775)	60,930
Sustaining capital expenditures on investment properties **	(975,132)	(868,345)
Sustaining capital expenditures on investment properties held for sale **	(4,076)	(29,868)
Sustaining capital expenditures on property and equipment **	(214,390)	(453,533)
Adjusted funds from operations (AFFO) *	$ (7,625,263)	$ (13,753,872)
AFFO per unit *		
- basic and diluted	$ (0.361)	$ (0.650)

* 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 2017 with an AFFO deficiency of $7,625,263, compared to an AFFO deficiency of $13,753,872 during 2016. On a basic per unit basis, the AFFO increased by $0.289 per unit during 2017, compared to the prior year.

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

	Year Ended December 31 2017	Year Ended December 31 2016
Cash used in operating activities	$ (2,662,330)	$ (3,254,380)
Add (deduct):		
Working capital adjustments	872,496	(571,861)
Amortization of transaction costs	(817,848)	(4,093,103)
Differences in interest accruals	(3,823,983)	(4,482,782)
Sustaining capital expenditures on investment properties **	(975,132)	(868,345)
Sustaining capital expenditures on investment properties held for sale **	(4,076)	(29,868)
Sustaining capital expenditures on property and equipment **	(214,390)	(453,533)
Adjusted funds from operations (AFFO) *	$ (7,625,263)	$ (13,753,872)

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

The competitive rental market conditions in Fort McMurray, as described in the preceding sections of this report, have 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.

	December 31 2017	December 31 2016
Unrestricted cash	$ 1,638,918	$ 706,768
Amount available on revolving loan *	-	7,700,000
Total available liquidity	$ 1,638,918	$ 8,406,768

* As of December 31, 2017 and the date of this report, there is nil 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 December 31, 2017, working capital was $397,758, compared to a working capital deficiency of $1,333,161 as at December 31, 2016, representing an improvement in working capital of $1,730,919. The calculation of working capital excludes advances payable to Shelter, the current portion of long-term debt, and the revolving loan balance. Working capital also excludes "held for sale" assets and liabilities and includes the tenant security deposit liability, net of the security deposit balance in restricted cash.

The increase in the working capital mainly reflects a $932,150 increase in cash; a $392,387 decrease in trade and other payables, excluding advances payable to Shelter of $6,000,000 (December 31, 2016 - nil); and a $341,029 increase in deposits and prepaids.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used to assess the overall financial position of the Trust. During 2017, the mortgage loan debt service coverage ratio, inclusive of debt service concessions granted under mortgage renewal and forbearance agreements, and excluding mortgage prepayments and repayment of mortgage loans on refinancing, was 0.60, compared to 0.51 during 2016.

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 net operating income, including discontinued operations.

During 2017, the interest coverage ratio increased to 0.84, compared to 0.73 during 2016. After accounting for the cash component of interest on the revolving loan facility, Shelter advances, and debentures, the interest coverage ratio was 0.67 during 2017, compared to 0.58 during 2016. The increases in the debt service coverage ratio and interest coverage ratio during 2017, compared to 2016, are due to a decrease in debt service costs.

As indicated by the debt service coverage and interest coverage ratios, 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 as at December 31, 2017 for the next five years and beyond is provided in the following chart. The chart reflects the upcoming mortgage payments in accordance with the payment terms specified by the applicable mortgage loan and/or forbearance agreement in place at December 31, 2017, where applicable.

Summary of Contractual Obligations - Long-term Debt (1)

Payments Due by Period	Total	2018	2019/2020	2021/2022	2023 and beyond
Mortgage loans					
Investment properties (2)	$ 187,206,443	$ 128,470,197	$ 47,062,106	$ 559,293	$ 11,114,847
Discontinued operations	3,515,916	3,515,916	-	-	-
Total mortgage loans	190,722,359	131,986,113	47,062,106	559,293	11,114,847
Revolving loan	30,000,000	30,000,000	-	-	-
Debentures	24,810,800	-	-	24,810,800	-
Total	$ 245,533,159	$ 161,986,113	$ 47,062,106	$ 25,370,093	$ 11,114,847

(1) The Summary of Contractual Obligations does not include advances payable to Shelter as the advances are unsecured with no fixed term of repayment.

(2) Loan agreements and a forbearance agreement have been negotiated with the lenders of five mortgage loans affecting five properties in Fort McMurray such that the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to March 31, 2019. Over the period from January 1, 2018 to maturity, $1,736,825 of accrued interest is expected to be incurred and added to the outstanding mortgage principal.

The investment property mortgage loan payments presented as due during 2018 in the above chart, in the aggregate principal amount of $128,470,197, are comprised of ten mortgage loans which mature during 2018 in the aggregate principal amount of $126,582,896, and regular principal payments of $1,887,301.

All mortgage loans which have matured prior to the date of this report have been renewed, refinanced, or are operating under the terms of a forbearance agreement.

Loan Defaults

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.

As of December 31, 2017, the Trust was in default of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46,896,076, as the lender of the mortgage loans indicated that there are service fees outstanding with respect to previous defaults under the loans and that until such fees are paid the loans remain in default. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

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

Summary of maximum service fees payable

Property	As at December 31, 2017 Aggregate principal balance	Estimate of maximum service fees payable (1)
Nelson Ridge Estates	$ 28,221,917	$ 394,448
Gannet Place / Parkland Apartments	5,513,323	77,144
Lunar Apartments / Whimbrel Terrace	6,758,267	94,563
Snowbird Manor / Skyview Apartments	6,402,569	89,586
	$ 46,896,076	$ 655,741

(1) The Financial Statements as of December 31, 2017 include the accrual of the estimated maximum service fees in Trade and other payables on the Statement of Financial Position. The forbearance agreements executed subsequent to December 31, 2017 provide for the outstanding service fees to be paid upon expiry of the forbearance agreements.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

If the mortgage loans which are classified as being in default as of the date of this report were to be called by the lenders in 2018, total long-term debt due in 2018 would increase to $189,423,440, the total long-term debt due in 2019/2020 would decrease to $19,624,779, 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 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 December 31, 2017, the total face value of the 5.0% Series G debentures is $24,810,800 and the cumulative accrued interest is $3,039,323.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. and unsecured loan advances from Shelter represent the primary funding source 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. Repayments to 2668921 Manitoba Ltd. and/or Shelter from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds, at the discretion of 2668921 Manitoba Ltd. and/or Shelter, 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; accordingly, 2668921 Manitoba Ltd. can request repayment of the loan at any time.

The maximum available principal balance on the revolving loan facility is $30,000,000 and the interest rate is 5% per annum. At December 31, 2017, the maximum of $30,000,000 was advanced and there is no availability under the facility as of the date of this report.

Advances from Shelter

Shelter has provided LREIT with interim funding in the form of unsecured loan advances on a periodic basis. During 2017, Shelter made unsecured loan advances totaling $6,000,000 to LREIT, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $5,000,000 from January 1, 2018 to the date of this report.

Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. and Shelter are provided in the "Capital Structure" and "Related Party Transactions" sections of this report.

Proceeds from the Sale of Select Properties

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; condominium units as part of the Lakewood Townhomes condominium sales program; and the property classified as held for sale, Woodland Park, inclusive of the establishment of a condominium sales program for the 32 townhouses that comprise part of the property. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs and debt reduction requirements of the Trust. The timing and terms of property sales is uncertain.

A more detailed description of the divestiture programs and activity is provided in the "Overview of Operations and Investment Strategy - Current Initiatives" and "Analysis of Cash Flows - Investing Activities" sections of this report.

Upward Refinancing of Mortgage Loans

Upward refinancing of mortgage loan debt was not a source of funds for LREIT during 2017. The opportunity to complete future upward refinancings is limited by the extent to which the existing property portfolio is leveraged, the restriction in the Declaration of Trust on incurring additional mortgage indebtedness if incurring such mortgage indebtedness will result in such indebtedness exceeding 75% of appraised value as defined in 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 after working capital adjustments, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed 2017 with a cash shortfall of $8,421,512, compared to a cash shortfall of $10,643,857 during 2016. LREIT is expected to incur an additional cash shortfall during 2018.

In an effort to meet its ongoing funding obligations and sustain operations, LREIT has continued to pursue debt restructuring arrangements with its lenders and has relied on favourable interim financing arrangements and other support from Shelter and its parent company, 2668921 Manitoba Ltd. Other measures taken in order to address the liquidity challenges facing LREIT include the continuation of the divestiture program, cost control, as well as marketing and other initiatives aimed at improving the operating performance of the Trust.

Continuation of 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 Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust;
(ii) 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 to stabilize its operations;
(iii) the Trust's ability to renew or refinance debt as it matures;
(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;
(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 LREIT's properties was primarily funded from the proceeds of mortgage loan debt with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit and debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants.

Following the rapid decline in the rental market conditions of Fort McMurray, the revolving loan from 2668921 Manitoba Ltd. transitioned from functioning primarily as an interim source of funds (presented as part of "Trade and other payables" on the Statement of Financial Position) to forming part of the capital structure of the Trust. Since March 31, 2016, the outstanding balance of the revolving loan has been included in "Current portion of long-term debt" on the Statement of Financial Position.

Capital Structure

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Long-term debt	$ 58,585,292	28.1 %	$ 112,396,096	47.5 %
Current portion of long-term debt	186,307,203	89.5 %	128,921,415	54.5 %
Deficit	(36,641,825)	(17.6)%	(4,605,143)	(2.0)%
Total capitalization	$ 208,250,670	100.0 %	$ 236,712,368	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, Series G debenture debt, the revolving loan facility, 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 seniors' housing complex in discontinued operations is classified under "Liabilities held for sale". The long-term debt for the seniors' housing complex 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 loan 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.

As at December 31, 2017, LREIT's mortgage indebtedness and maximum balance under the revolving loan facility amounted to $220,722,359, representing approximately 77% of the appraised value of LREIT's total property portfolio.

Given that LREIT's aggregate mortgage indebtedness now exceeds the 75% of appraised value threshold, the Trust is not permitted to increase the outstanding balance of its mortgage loan debt; however, LREIT may continue to renew or refinance its mortgage debt at amounts equal to or less than the outstanding principal balance of the existing mortgage loan at the time of the renewal or refinancing and may also obtain financing from unsecured lenders/creditors, including Shelter and 2668921 Manitoba Ltd.

Summary of Long-term Debt

	December 31 2017	December 31 2016	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgage loans	$ 187,206,443	$ 192,674,077	$ (5,467,634)
Revolving loan from 2668921 Manitoba Ltd.	30,000,000	22,300,000	7,700,000
Debentures	24,810,800	24,810,800	-
Total secured long-term debt	242,017,243	239,784,877	2,232,366
Accrued interest payable	3,846,114	2,610,724	1,235,390
Unamortized transaction costs	(970,862)	(1,078,090)	107,228
Total long-term debt - Investment properties	244,892,495	241,317,511	3,574,984
Long-term debt - Discontinued operations			
Mortgage loans	3,515,916	3,716,431	(200,515)
Unamortized transaction costs	(6,616)	(4,125)	(2,491)
Total long-term debt - Discontinued operations	3,509,300	3,712,306	(203,006)
Total long-term debt	$ 248,401,795	$ 245,029,817	$ 3,371,978

As disclosed in the preceding chart, the total long-term debt of LREIT as of December 31, 2017 increased by $3,371,978 or 1%, compared to the balance as of December 31, 2016. The increase is mainly due to a $7,700,000 increase in the balance of the revolving loan from 2668921 Manitoba Ltd. and a $1,235,390 increase in accrued interest payable, partially offset by a $5,467,634 decrease in the secured long-term debt of investment properties, which is discussed in greater detail in the "Mortgage Loans" section below.

The increase in the balance of the revolving loan from 2668921 Manitoba Ltd. is described in the "Analysis of Cash Flows - Financing Activities" section of this report. 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.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of December 31, 2017, the total mortgage loan debt of LREIT decreased by $5,668,149, compared to the amount payable as of December 31, 2016. As disclosed in the chart below, the decrease primarily reflects repayment of mortgage loans on refinancing, regular repayments of principal on mortgage loans, and reductions in the balance of mortgage loans on sale of properties, partially offset by interest and forbearance fees capitalized, net of repayment, to mortgage loan principal in accordance with mortgage loan and forbearance agreements.

	Year Ended December 31, 2017		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (3,508,348)	$ (3,307,833)	$ (200,515)
Repayment of mortgage loans on refinancing	(4,475,000)	(4,475,000)	-
Reduction of mortgage loans on sale of properties	(441,135)	(441,135)	-
Non cash - interest and fees capitalized, net of repayment	2,756,334	2,756,334	-
Decrease in mortgage loans	(5,668,149)	(5,467,634)	(200,515)
Total mortgage loans - December 31, 2016	196,390,508	192,674,077	3,716,431
Total mortgage loans - December 31, 2017	$ 190,722,359	$ 187,206,443	$ 3,515,916

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2017	Percentage of Total
(Note 1)	(Note 2)		
Investment Properties			
Fixed rate			
2018	4.2 %	$ 46,894,887	24.6 %
2019	5.7 %	48,196,974	25.3 %
2025	4.4 %	12,426,573	6.5 %
	4.9 %	107,518,434	56.4 %
Demand/variable rate	6.4 %	79,688,009	41.8 %
Principal amount	5.5 %	187,206,443	98.2 %
Discontinued Operations			
Demand/variable rate	5.2 %	3,515,916	1.8 %
Total	5.5 %	$ 190,722,359	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 December 31, 2017, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.5%, 5.2% and 5.5%, respectively, compared to 5.8%, 4.8% and 5.8% at December 31, 2016.

Mortgage Loan Debt Summary

	2017			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.9%	5.3%	5.3%	5.5%
Variable rate mortgage loans	6.4%	6.6%	6.1%	6.1%
Investment properties and discontinued operations				
Mortgage loans, debentures, defeased liability and revolving loan	5.4%	5.6%	5.6%	5.6%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	89%	87%	86%	84%
Ratio of mortgage loans and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations *	101%	98%	97%	94%

	2016			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.5%	5.5%	5.4%	5.2%
Variable rate mortgage loans	6.1%	6.1%	6.1%	6.1%
Investment properties and discontinued operations				
Mortgage loans, debentures, defeased liability and revolving loan	5.6%	5.7%	6.5%	6.4%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	83%	85%	82%	88%
Ratio of mortgage loans and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations *	93%	94%	91%	97%

* Excludes the revolving loan and advances from Shelter.

Revolving Loan

The long-term debt of LREIT includes advances made under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. The revolving loan facility is secured by mortgage charges against the title of the remaining seniors' housing complex and the assignment of a vendor take-back mortgage. The loan bears interest at a rate of 5% and is due on demand. Advances on the loan are made at the discretion of 2668921 Manitoba Ltd.

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

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

***** Notwithstanding the amendments to the revolving loan facility subsequent to July 1, 2015, the combined maximum interest charge allowable by 2668921 Manitoba Ltd. and any of its subsidiaries or affiliates including Shelter for the three-year term from July 1, 2015 to June 30, 2018 is $6,480,000.

As of December 31, 2017, the balance outstanding on the revolving loan facility was $30,000,000, compared to $22,300,000 as of December 31, 2016. Additional information regarding the revolving loan transactions during 2017 is provided in the "Related Party Transactions" section of this report.

Debentures

As of December 31, 2017, 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. As of December 31, 2017, $3,039,323 of interest was accrued on the Series G debentures.

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, 2016	20,557,320
- December 31, 2017	20,557,320
- March 22, 2018	20,557,320

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 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 complex, where LREIT has retained a third party manager to provide on-site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager and compensation for reimbursable expenses. 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 2017, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of $778,243 and $899,627, respectively, compared to $757,104 and $990,458, respectively, during 2016.

Included in trade and other payables at December 31, 2017 is a balance of $8,302 receivable from Shelter (December 31, 2016 - $247,215 payable) in regard to outstanding amounts due under the property management agreement.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

LREIT incurred service fees payable to Shelter of $20,895 during 2017 (2016 - 19,425) in regard to the condominium sales program.

Loans

Revolving Loan

As described in the "Liquidity and Capital Resources" and "Capital Structure" sections of this report, LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter.

During 2017, interest on the loan facility amounted to $1,363,370, compared to $1,374,123 in 2016.

During 2017, the Trust received advances of $7,700,000 and made no repayments on the revolving loan, resulting in a balance of $30,000,000 at December 31, 2017, which is the maximum balance allowed under the terms of the revolving loan facility.

Advances from Shelter

During 2017, the Trust received advances of $6,000,000 (2016 - $650,000) and made no repayments (2016 - $650,000) on the unsecured loan from Shelter, resulting in a balance of $6,000,000 at December 31, 2017 (December 31, 2016 - nil). The terms of the unsecured loan from Shelter provide for a 5% interest charge (2016 - 0%), consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $5,000,000 from January 1, 2018 to the date of this report.

During 2017, interest on the Shelter advances amounted to $59,130, compared to nil during 2016.

Nelson Ridge Second Mortgage Loan

On March 31, 2016 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan from a third party lender. 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. On April 1, 2017, the mortgage loan was renewed at an interest rate of 9% per annum, maturing March 31, 2019. The amended mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of December 31, 2017, the amount owing on the mortgage loan was $5,497,796, inclusive of accrued interest.

Approval

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

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 the Annual Information Form (AIF) which is 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 the Trust's concentration of investment properties in Fort McMurray; the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity; the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; the limited availability of mortgage lending in Fort McMurray; the Trust's limited cash and working capital resources; the Trust's reliance on financing from Shelter and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

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, is continuing its divestiture program, cost control measures, marketing initiatives, select renovations, and other efforts to improve operating results.

Continuation of operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or to provide other forms of financial support to the Trust; the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow LREIT to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the 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 December 31, 2017, there were 17 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 1,082 suites, or 85% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $192,991,654, which represents approximately 94% of the total aggregate carrying value of the investment property portfolio as at December 31, 2017.

The 13 properties located in Fort McMurray accounted for 92% of investment property revenue and 96% of net operating income in 2017.

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

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 of December 31, 2017, the Trust was in default of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46,896,076, as the lender of the mortgage loans indicated that there are service fees outstanding with respect to previous defaults under the loans and that until such fees are paid the loans remain in default. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment of any of the mortgage loans in default is demanded, the Trust would not be able to satisfy the associated obligation with its current resources.

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 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 and/or expansion of the revolving loan facility from 2668921 Manitoba Ltd. which is subject to regulatory/unitholder 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.

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 unsecured loan advances and deferred service and property management fees.

During 2017, the Trust received unsecured loan advances from Shelter of $6,000,000 (2016 - $650,000) and repaid nil (2016 - $650,000), resulting in an outstanding balance of $6,000,000 as at December 31, 2017 (December 31, 2016 - nil). Shelter continues to provide financial support to LREIT advancing an additional $5,000,000 from January 1, 2018 to the date of this report.

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 Lakewood Townhomes Condominium Sales Program; the property held for sale, inclusive of the establishment of a condominium sales program for the 32 townhouses that comprise part of the property; and other properties with consideration of the overall cash needs and 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 in Fort McMurray, Alberta resulted in the evacuation of the entire community. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,082 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. Although the restoration of LREIT's properties is substantially complete and the majority of the costs of the restoration have been covered by insurance to date, the insurance claim is not complete and there has been no settlement reached with respect to rental losses incurred as a result of the wildfire. It is anticipated that the insurance coverage of LREIT will be sufficient to cover all restoration costs and the rental loss; 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 December 31, 2017, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $27,512,300 (December 31, 2016 - $29,312,604) which expires in 2022 (December 31, 2016 - expires between 2017 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 the primary obligors default on repayment of their debt since they are guaranteed by LREIT. This credit risk may be mitigated as LREIT has recourse under these guarantees in the event of a default by the primary obligors, in which case LREIT's claim would be against the underlying real estate investments, subject to the rights of senior lenders, as applicable.

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. Management does not anticipate a significant impact on the consolidated financial statements as the single approach to classifying financial assets is not expected to result in a reclassification of LREIT's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.

- IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. LREIT's primary source of revenue is generated from leases and such revenue is out of scope of IFRS 15. The other revenue sources are from coin income, miscellaneous income, food and housekeeping services and similar activities where the revenue generated and the service delivery occur at the same time. As a result, management does not anticipate a significant impact on the consolidated financial statements to result from the adoption of IFRS 15.

- IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. LREIT's leasing activity is primarily comprised of the leasing of residential units under operating leases. LREIT also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and LREIT has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

- IAS 40 - Investment Property ("IAS 40") - During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as a result of the clarifications in the amendment.

Adoption of Accounting Standards

Amendments to IAS 7 - Statement of Cash Flows: Disclosures related to financing activities

This amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment came into effect on January 1, 2017. The application of this amendment did not result in any material impact on the Financial Statements. Disclosure related to this amendment can be found in the Notes to the Financial Statements at December 31, 2017.

TAXATION

Taxation of LREIT

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 qualified for the REIT Exception in 2017 and will qualify for the REIT Exception in 2018 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 2018 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.

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.

Unitholders are advised to consult their own tax advisers with respect to the implications of the foregoing in their own circumstances.

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, 2017. 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, 2017.

During 2017, 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, 2017. 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, 2017. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO") control framework.

During 2017, 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 2017 Annual 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
March 22, 2018

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Lanesborough Real Estate Investment Trust. To fulfil this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial information. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's best judgment in the circumstances.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and free access to the Audit Committee.

MNP LLP, the independent auditors, appointed by the Unitholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements.

"Gino Romagnoli"

Gino Romagnoli
Chief Executive Officer

"Gary Benjaminson"

Gary Benjaminson
Chief Financial Officer

March 22, 2018

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of comprehensive loss, changes in deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP LLP

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2017 has incurred a loss before discontinued operations of $31,877,187 during the year ended December 31, 2017 and is in default of certain mortgage loans. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

Winnipeg, Manitoba
March 22, 2018

MNP LLP
Chartered Professional Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2017	December 31 2016
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$178,309,735**	$198,099,131
Loan receivable (Note 7)	**4,000,000**	4,000,000
Restricted cash (Note 8)	**2,400,176**	2,650,066
Total non-current assets	**184,709,911**	204,749,197
Current assets		
Cash	**1,638,918**	706,768
Rent and other receivables (Note 9)	**459,234**	394,131
Deposits and prepaids (Note 10)	**1,121,155**	780,126
	3,219,307	1,881,025
Assets held for sale (Note 11)	**34,199,238**	38,772,107
Total current assets	**37,418,545**	40,653,132
TOTAL ASSETS	**$222,128,456**	$245,402,329
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	**$ 58,585,292**	$112,396,096
Total non-current liabilities	**58,585,292**	112,396,096
Current liabilities		
Trade and other payables (Note 13)	**8,815,147**	3,207,534
Current portion of long-term debt (Note 12)	**186,307,203**	128,921,415
Deposits from tenants	**1,407,522**	1,529,110
	196,529,872	133,658,059
Liabilities held for sale (Note 11)	**3,655,117**	3,953,317
Total current liabilities	**200,184,989**	137,611,376
Total liabilities	**258,770,281**	250,007,472
Total deficit	**(36,641,825)**	(4,605,143)
TOTAL LIABILITIES AND EQUITY	**$222,128,456**	$245,402,329

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31 2017	2016
Rentals from investment properties	**$ 19,052,202**	$ 18,328,212
Property operating costs	**10,248,700**	10,513,925
Net operating income	**8,803,502**	7,814,287
Interest income	**189,425**	149,576
Interest expense (Note 14)	**(13,930,662)**	(19,076,586)
Trust expense	**(1,463,535)**	(1,883,331)
Gain on sale of investment property (Note 11) (Note 5)	**55,070**	86,167
Fair value adjustments (Note 15)	**(25,530,987)**	11,645,404
Loss before discontinued operations	**(31,877,187)**	(1,264,483)
Loss from discontinued operations (Note 11)	**(159,495)**	(465,641)
Loss and comprehensive loss	**$ (32,036,682)**	$ (1,730,124)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (1.507)**	$ (0.060)
Loss per unit from discontinued operations:		
Basic and diluted	**$ (0.008)**	$ (0.022)
Loss per unit:		
Basic and diluted	**$ (1.515)**	$ (0.082)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Year Ended December 31 2017	2016
Issued capital (Note 17)		
Balance, beginning and end of year	**$ 125,641,529**	$ 125,641,529
Contributed surplus		
Balance, beginning and end of year	**17,027,907**	17,027,907
Cumulative deficit		
Balance, beginning of year	**(64,124,544)**	(62,394,420)
Loss and comprehensive loss	**(32,036,682)**	(1,730,124)
Balance, end of year	**(96,161,226)**	(64,124,544)
Cumulative distributions to unitholders		
Balance, beginning and end of year	**(83,150,035)**	(83,150,035)
Total deficit	**$ (36,641,825)**	$ (4,605,143)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2017	2016
Operating activities		
Loss and comprehensive loss	$ **(32,036,682)**	$ (1,730,124)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 15)	**25,530,987**	(11,645,404)
Fair value adjustment - Property and equipment (Note 11)	**136,875**	1,051,899
Gain on sale of properties (Note 5) (Note 11)	**(55,070)**	(139,427)
Accrued rental revenue	**(7,775)**	60,930
Interest income	**(189,425)**	(149,576)
Interest received	**188,328**	135,593
Interest expense	**14,112,320**	19,891,238
Interest paid	**(9,469,392)**	(11,301,370)
Cash used in operations	**(1,789,834)**	(3,826,241)
(Increase) in rent and other receivables	**(32,829)**	(38,610)
(Increase) decrease in deposits and prepaids	**(350,175)**	280,063
(Decrease) in tenant deposits	**(126,138)**	(254,838)
(Decrease) increase in trade and other payables	**(363,354)**	585,246
	(2,662,330)	(3,254,380)
Cash provided by (used in) financing activities		
Repayment of mortgage loans on refinancing	**(4,475,000)**	(5,800,000)
Repayment of long-term debt	**(3,508,348)**	(4,598,670)
Prepayment of mortgage loans	**-**	(12,956,865)
Proceeds of revolving loan facility (Note 20)	**7,700,000**	24,650,000
Repayment of revolving loan facility (Note 20)	**-**	(9,450,000)
Proceeds of Shelter Canadian Properties Limited advances (Note 20)	**6,000,000**	650,000
Repayment of Shelter Canadian Properties Limited advances (Note 20)	**-**	(650,000)
Expenditures on transaction costs	**(665,641)**	(698,291)
Repayment of defeased liability	**-**	(2,499,289)
	5,051,011	(11,353,115)
Cash (used in) provided by investing activities		
Capital expenditures on investment properties	**(1,366,727)**	(1,609,115)
Capital expenditures on investment properties held for sale	**(4,076)**	(29,868)
Capital expenditures on property and equipment	**(214,390)**	(453,533)
Decrease in defeasance assets	**-**	2,580,343
Proceeds of sale (Note 5) (Note 11)	**(109,415)**	13,746,212
Change in restricted cash(Note 8) (Note 11)	**261,906**	202,036
	(1,432,702)	14,436,075
Cash increase (decrease)	**955,979**	(171,420)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 11)	**(23,829)**	470,675
	932,150	299,255
Cash, beginning of year	**706,768**	407,513
Cash, end of year	**$ 1,638,918**	$ 706,768

The accompanying notes are an integral part of these financial statements

1 Organization

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

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

Units	LRT.UN
Series G Debentures due June 30, 2022	LRT.DB.G

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX and that it does not anticipate satisfying such requirements in the foreseeable future. The Trust intends to transition the listings to the TSX Venture Exchange (TSXV), subject to the approval of the TSXV.

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

2 *Basis of presentation and continuing operations*

The consolidated financial statements of the Trust for the years ended December 31, 2017 and 2016 ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on March 22, 2018.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation (2016 - LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation), which is a wholly owned operating subsidiary under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars. The going concern basis assumes that the Trust will continue in operation for the foreseeable future and be able to realize its assets and settle its obligations in the normal course of business. There is significant doubt regarding the appropriateness of the going concern assumption and the use of accounting principles applicable to a going concern because of the material uncertainties caused by: the Trust's concentration of investment properties in Fort McMurray; the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity; the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; the limited availability of mortgage lending in Fort McMurray; the Trust's limited cash and working capital resources; the Trust's reliance on financing from Shelter Canadian Properties Limited ("Shelter") and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $31,877,187 for the year ended December 31, 2017 (2016 - $1,264,483). The Trust incurred a cash deficiency from operating activities, after working capital adjustments, of $2,662,330 for the year ended December 31, 2017 (2016 - $3,254,380). After the deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $8,421,512 for the year ended December 31, 2017 (2016 - $10,643,857).

2 Basis of presentation and continuing operations (continued)

In addition, excluding advances payable to Shelter, the current portion of long-term debt, the revolving loan balance outstanding, and held-for-sale assets and liabilities, the Trust has working capital of $397,758 as at December 31, 2017 (December 31, 2016 - a working capital deficit of $1,333,161).

As of December 31, 2017, the Trust was in default of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46,896,076, as the lender of the mortgage loans indicated that there are service fees outstanding with respect to previous defaults under the loans and that until such fees are paid the loans remain in default. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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

As a result of updated appraisals and the sale of one condominium unit at Lakewood Townhomes, the appraised value of LREIT's property portfolio was reduced from $312,504,681 as at December 31, 2016 to $286,719,362 as at December 31, 2017. At December 31, 2017, LREIT's mortgage indebtedness and the maximum balance under the revolving loan facility amounted to $220,722,359, representing approximately 77% of the appraised value of LREIT's total property portfolio.

While LREIT's aggregate mortgage indebtedness exceeds the 75% of appraised value threshold, the Trust is not permitted to increase the outstanding balance of its mortgage loan debt; however, LREIT may continue to renew or refinance its debt at amounts equal to or less than the outstanding principal balance of the existing mortgage loan at the time of the renewal or refinancing and may also obtain financing from unsecured lenders.

2 Basis of presentation and continuing operations (continued)

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, property sales under its divestiture program, cost reduction measures and other efforts to improve operating results.

During the year ended December 31, 2017, LREIT received $6,000,000 of unsecured loan advances from Shelter. Subsequent to December 31, 2017, LREIT received an additional $5,000,000 of unsecured loan advances from Shelter.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $36,117,858. The renewal terms required an initial principal repayment of $1,000,000, which was paid on March 16, 2018, and additional principal repayments of $500,000 every six months commencing with September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $7,158,017. The renewal terms required an initial principal repayment of $500,000, which was paid on March 16, 2018, and additional principal repayments of $280,000 per each quarter in which the Trust fails to sell a unit under the property's condominium sales program. In exchange for each $280,000 principal payment made during the term of the renewed first mortgage loan, the lender will discharge one condominium unit from its security. The renewed mortgage loan bears interest at prime plus 3.30% and matures on September 1, 2020.

Current divestiture activities focus on the sale of the remaining seniors' housing complex; the Lakewood Townhomes Condominium Sales Program; the property held for sale, inclusive of the establishment of a condominium sales program for the 32 townhouses that comprise part of the property; and other properties with consideration of the overall debt reduction requirements of the Trust. The timing and terms of property sales is uncertain.

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

2 Basis of presentation and continuing operations (continued)

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

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

Statement of compliance

The Financial Statements of the Trust have been prepared in accordance with IFRS using the same presentation and accounting policies under IFRS as disclosed in Note 3. The Financial Statements are based on IFRS standards issued and effective as at March 22, 2018.

3 Significant accounting policies

(a) Principles of consolidation

The Financial Statements comprise the Financial Statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The Financial Statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination and the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. When an acquisition represents the acquisition of a business, the acquisition is accounted for as a business combination.

(b) Investment Properties

The Trust follows IAS 40 "Investment Properties" and has chosen the fair value method of presenting investment properties in the Financial Statements.

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the property to the condition necessary for it to be capable of operating and similar costs. The carrying value also includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met.

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3 Significant accounting policies (continued)

(b) Investment Properties (continued)

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. An investment property is derecognized upon sale.

The fair value of investment properties is determined by the Trust using recognized valuation techniques.

Investment properties held for sale are classified as assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

(c) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses, in accordance with IAS 16 "Property and equipment".

The Trust provides for amortization of property and equipment in order to apply the cost of the assets over the estimated useful lives as follows.

	Method	Rate
Buildings and improvements	Straight-line	2.5%
Furniture, equipment and appliances	Straight-line	5% - 33.3%

Amortization is not recorded for property and equipment held in discontinued operations.

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. Cash-generating units are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying value of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying value that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in net income (loss). Impairment losses for goodwill are not reversed.

3 Significant accounting policies (continued)

(d) Rent and other receivables

Rent and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost using the effective interest rate method. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(e) Cash

Cash comprises demand and short-term deposits at the bank with an original maturity of twelve months or less.

Cash deposits, which are not immediately available for use by the Trust, are carried as restricted cash.

(f) Assets and liabilities of properties held for sale

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

For the sale to be highly probable:

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

Discontinued operations
A discontinued operation is a part of the Trust's business that:

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

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

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

3 Significant accounting policies (continued)

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

Discontinued operations (continued)

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

Investment Properties	- fair value
All other assets	- lower of carrying value or fair value less selling costs
Long-term Debt	- carrying value
All other liabilities	- carrying value

(g) Mortgage loans and debentures

All mortgage loans and debentures are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and debentures are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees and costs directly related to the loans and debentures are recognized in the Statement of Comprehensive Loss over the expected life of the borrowings. Interest is recognized on an accrual basis. All mortgage loans and debentures with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and debentures with maturities greater than twelve months and are payable on demand as a result of a debt covenant breach at the financial statement date, are classified as current liabilities.

(h) Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust, including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. At the end of each reporting period, the estimate of unit options expected to vest is revised and compensation expense in regard to options granted to officers, employees and trustees is recognized.

(i) Tenant deposits

Tenant deposits liabilities are initially recognized at fair value. Where the time value of money is material, tenant deposits are carried at amortized cost, using the effective interest rate method. Any difference between the initial fair value and the amortized cost is included as a component of rentals from investment properties and recognized on a straight-line basis over the lease term.

3 Significant accounting policies (continued)

(j) Revenue recognition

Management has determined that all of the leases with tenants are operating leases.

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to deferred rent receivable. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancelable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognized in the Consolidated Statements of Comprehensive Loss when they arise.

Meal and other revenue is recognized on the delivery of the meal or other service.

Interest income is recognized on an accrual basis using the effective interest method.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and rewards have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

(k) Income taxes

(i) The Trust

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

(ii) Wholly owned subsidiary companies

Current taxes
Current taxes for the current and prior periods are, to the extent unpaid, recognized as a liability. Current tax assets and liabilities for the current and prior periods are measured at amounts expected to be recovered from or paid to the taxation authorities, including interest. The tax rates and tax laws used to compute those amounts are the tax rates and tax laws which have been enacted or substantively enacted by the end of the reporting period.

3 Significant accounting policies (continued)

(k) Income taxes (continued)

(ii) Wholly owned subsidiary companies (continued)

Deferred taxes
Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses and other short-term temporary differences.

Deferred tax assets are recognized to the extent that it is regarded as probable that the benefit from the deductible temporary differences can be realized. The recoverability of all tax assets is assessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which that asset or liability will be settled, based on tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

(l) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(m) Per unit calculations

Basic per unit information is calculated using the weighted average number of units outstanding for the period, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the period after considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential exercise of warrants to the extent that the warrants are dilutive. The diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

3 Significant accounting policies (continued)

(n) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the designation of such instruments by the Trust. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial instruments classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until disposition of the financial asset.

Financial instruments are derecognized when the Trust no longer controls the contractual rights that comprises a financial asset or when the obligation under a financial liability has been discharged, concluded or expired.

Based on the purpose for which assets and liabilities are acquired, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

The Trust assesses impairment of all financial assets, except those classified as fair value through profit and loss. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment loss and/or reversal are included in Consolidated Statements of Comprehensive Loss.

3 *Significant accounting policies (continued)*

(o) Future changes to significant accounting policies

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

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as the single approach to classifying financial assets is not expected to result in a reclassification of LREIT's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.

(ii) IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. LREIT's primary source of revenue is generated from leases and such revenue is out of scope of IFRS 15. The other revenue sources are from coin income, miscellaneous income, food and housekeeping services and similar activities where the revenue generated and the service delivery occur at the same time. As a result, management does not anticipate a significant impact on the consolidated financial statements to result from the adoption of IFRS 15.

(iii) IFRS 16 - Leases

IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. LREIT's leasing activity is primarily comprised of the leasing of residential units under operating leases. LREIT also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and LREIT has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

3 Significant accounting policies (continued)

(iv) IAS 40 - Investment Property ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as a result of the clarifications in the amendment.

(p) Adoption of accounting standards

Amendments to IAS 7 - Statement of Cash Flows: Disclosures related to financing activities

This amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment came into effect on January 1, 2017. The application of this amendment did not result in any material impact on these consolidated financial statements. Disclosure related to this amendment can be found in Note 22: *Reconciliation of liabilities arising from financing activities*.

4 Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the Financial Statements date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of the asset or liability affected. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable.

(a) Judgments other than estimates

In the process of applying the accounting policies of the Trust, management has made the following judgments, which have the most significant effect on the amounts recognized in the Financial Statements:

Business combinations

The Trust acquires subsidiaries that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

4 *Significant accounting judgments, estimates and assumptions (continued)*

(a) Judgments other than estimates (continued)

Business combinations (continued)

- The extent of the land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, meal services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

Operating lease contracts
The Trust has entered into leases with tenants. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and accounts for the leases as operating leases.

Income taxes
The Trust is a real estate investment trust for income tax purposes. In order for the Trust to qualify as a real estate investment trust for a year, the property and revenue of the Trust must meet certain conditions. Management has assessed the property and revenue of the Trust against those conditions and is satisfied that the Trust qualifies as a real estate investment trust.

Management expects that the Trust will continue to qualify as a real estate investment trust for 2017 and beyond. If the Trust were to fail to qualify as a real estate investment trust, the Trust would be required to account for income taxes arising from all of its activities and material adjustments to the consolidated financial statements could be required.

(b) Estimates

Valuations of property
Investment property is stated at fair value as at the financial statement date. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. The valuations are prepared using recognized valuation techniques to determine the fair value of investment properties. The techniques comprise both the capitalized net operating income method and the discounted cash flow method. In certain cases, the direct comparison method may occasionally be used when appropriate market comparables are available. The fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

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4 *Significant accounting judgments, estimates and assumptions (continued)*

(b) Estimates (continued)

Valuations of property (continued)
The determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, anticipated capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. The estimates are based on local market conditions existing at the financial statement date.

Management uses their market knowledge and professional judgment as well as historic transactional comparables or external appraisals obtained. In these circumstances, a greater degree of uncertainty exists in estimating the market value of investment property than in a more active market.

5 Investment properties

	Year Ended December 31	
	2017	2016
Balance, beginning of year	$198,099,131	$216,434,958
Additions - capital expenditures	1,366,727	1,609,115
Fair value adjustments (Note 15)	(20,878,973)	9,278,305
Dispositions	(277,150)	(277,152)
Investment properties transferred to held for sale (Note 11)	-	(28,946,095)
Balance, end of year	$178,309,735	$198,099,131

During 2017, the Trust did not sell any property classified as investment properties except one condominium unit at Lakewood Townhomes for gross proceeds of $360,000. The sale resulted in net cash shortfall of $109,415 after selling costs of $27,780 and the mortgage loan repayment of $441,635. The condominium unit had a carrying value of $277,150 and the sale resulted in a gain on sale of investment properties of $55,070.

During 2016, the Trust did not sell any property classified as investment properties except one condominium unit at Lakewood Townhomes for gross proceeds of $370,000. The sale resulted in net cash shortfall of $56,264 after selling costs of $27,667 and the mortgage loan repayment of $398,597. The condominium unit had a carrying value of $277,152 and the sale resulted in a gain on sale of investment properties of $65,181. In addition, $28,946,095 was transferred to investment properties held for sale during 2016.

Investment properties have been valued using the methods and key assumptions in Note 6: *Valuations of investment properties and investment properties held for sale*.

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6 Valuations of investment properties and investment properties held for sale

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

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to normalized net operating income. The key assumptions are the capitalization rates, which are based on reports from external knowledgeable property valuators, and normalized net operating income, which is based on actual net operating income results, adjusted for atypical or non-recurring items and differences from market (as determined by reference to comparable properties, historical data, appraisals and rental market reports) that are considered short-term in nature. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

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

	December 31 2017		December 31 2016	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.25 %	8.25 %
Other	7.00 %	8.00 %	7.00 %	7.50 %

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

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

	December 31 2017		December 31 2016	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.25 %	10.25 %
Other	9.00 %	10.00 %	9.00 %	9.50 %

(iii) *Direct comparison*. The direct comparison method may occasionally be used when appropriate information is available, typically from an appraiser or realtor, such as the sale price of a comparable property or an offer to purchase a given property. In certain situations, properties with condominium title may be valued based on the selling price of comparable condominium units, net of selling and condominium conversion costs. Key assumptions associated with the above methods include the appropriateness of each comparison as well as the extent of selling and condominium conversion costs. The direct comparison method was factored into the valuation analysis prepared for Lakewood Townhomes (2016 - Lakewood Townhomes).

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6 Valuations of investment properties and investment properties held for sale (continued)

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions and also considers anticipated capital expenditures.

The capitalized net operating income method and discounted cash flow method, as noted above, would be categorized as level 3 valuation methods in the fair value hierarchy. The most significant inputs or variables to the valuation process, all of which are unobservable, are the normalized income, capitalization rate, discount rate and growth rate. A decrease in the normalized income or growth rate, or an increase in the capitalization rate or the discount rate will result in a decrease in the estimated fair value of investment properties. The fair value estimate is sensitive to all four assumptions, however, changes in the capitalization rate have the greatest impact on the fair value estimate. There are interrelationships between the capitalization rate, the discount rate and the growth rate.

The direct comparison method as noted above is a level 2 valuation method.

7 Loan receivable

The loan receivable is comprised of a $4,000,000 vendor take-back second mortgage loan, bearing interest at 4.0% and due May 1, 2022. The loan requires interest only payments throughout the term and may be prepaid without penalty. The loan is secured by a second mortgage registered against Beck Court which was sold on May 1, 2016.

8 Restricted cash

	December 31 2017	December 31 2016
Tenant security deposits	$ 1,401,120	$ 1,522,458
Reserves required by mortgage loan agreements	999,056	1,127,608
	$ 2,400,176	$ 2,650,066

9 Rent and other receivables

	December 31 2017	December 31 2016
Rent receivable	$ 199,956	$ 303,373
Less: allowance for uncollectible accounts	(56,339)	(109,748)
	143,617	193,625
Other receivables	264,172	156,836
Deferred rent receivable	51,445	43,670
	$ 459,234	$ 394,131

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10 Deposits and prepaids

	December 31 2017	December 31 2016
Deposits		
Property tax deposits	$ 581,091	$ 182,037
Other	4,170	4,135
	585,261	186,172
Prepaid expenses	535,894	593,954
	$ 1,121,155	$ 780,126

11 Assets and liabilities of properties held for sale

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

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

	December 31 2017	December 31 2016
ASSETS		
Investment properties held for sale (a)	$ 26,695,124	$ 31,343,062
Assets in discontinued operations		
Property and equipment (b)	7,500,000	7,422,485
Bank indebtedness	(23,489)	(47,318)
Restricted cash	6,779	18,795
Rent and other receivables	1,098	24,502
Deposits, prepaids and other	19,726	10,581
	7,504,114	7,429,045
Assets held for sale	$ 34,199,238	$ 38,772,107
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (c)	$ 3,509,300	$ 3,712,306
Trade and other payables	135,762	226,406
Deposits from tenants	10,055	14,605
Liabilities held for sale	$ 3,655,117	$ 3,953,317

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

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2017	Year Ended December 31 2016
Rental income	$ 1,626,803	$ 4,488,348
Property operating expenses	1,467,765	3,140,698
Net operating income	159,038	1,347,650
Interest expense (d)	(181,658)	(814,652)
Gain on sale (b)	-	53,260
Fair value adjustment	(136,875)	(1,051,899)
Loss from discontinued operations	$ (159,495)	$ (465,641)

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2017	Year Ended December 31 2016
Cash (outflow) inflow from operating activities	$ (99,430)	$ 271,130
Cash inflow (outflow) from financing activities	325,633	(4,672,304)
Cash (outflow) inflow from investing activities	(202,374)	3,930,499
Increase (decrease) in cash from discontinued operations	$ 23,829	$ (470,675)

(a) Investment properties held for sale

	December 31 2017	December 31 2016
Woodland Park	$ 26,695,124	$ 31,343,062

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 Assets and liabilities of properties held for sale (continued)

(a) Investment properties held for sale (continued)

	Year Ended December 31 2017	2016
Balance, beginning of period	$ 31,343,062	$ 31,960,000
Investment properties transferred to held for sale (Note 5)	-	28,946,095
Additions - capital expenditures	4,076	29,868
Fair value adjustments (Note 15)	(4,652,014)	2,367,099
Dispositions	-	(31,960,000)
Balance, end of period	$ 26,695,124	$ 31,343,062

Properties are classified as held for sale when it is expected that the carrying value will be recovered principally through sale rather than their continued use in accordance with the accounting policy in Note 3 (f).

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

Investment properties held for sale have been valued using the methods and key assumptions in Note 6: Valuations of investment properties held for sale.

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

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

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

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

(b) Property and equipment

December 31 2017	Cost, Beginning of Period	Additions	Disposals	Accumulated Amortization	Carrying Value
Land	$ 2,175,800	$ -	$ -	$ -	$ 2,175,800
Buildings and improvements	5,437,316	212,922	-	(902,210)	4,748,028
Furniture, equipment and appliances	282,755	1,468	-	(38,898)	245,325
	7,895,871	214,390	-	(941,108)	7,169,153
Fair value adjustments	467,722	(136,875)	-	-	330,847
	$ 8,363,593	$ 77,515	$ -	$ (941,108)	$ 7,500,000

December 31 2016	Cost, Beginning of Period	Additions	Disposals	Accumulated Amortization	Carrying Value
Land	$ 4,132,100	$ -	$ (1,956,300)	$ -	$ 2,175,800
Buildings and improvements	21,881,812	424,781	(16,869,277)	(902,210)	4,535,106
Furniture, equipment and appliances	393,198	28,752	(139,195)	(38,898)	243,857
	26,407,110	453,533	(18,964,772)	(941,108)	6,954,763
Fair value adjustments	(3,116,002)	(1,051,899)	4,635,623	-	467,722
	$ 23,291,108	$ (598,366)	$ (14,329,149)	$ (941,108)	$ 7,422,485

On October 1, 2016, LREIT sold Elgin Lodge for gross proceeds of $14,500,000. The sale resulted in net cash proceeds of $4,382,409, after selling costs of $117,591 and the repayment of mortgage loan debt of $10,000,000. Elgin Lodge had a carrying value of $14,329,149 and the sale resulted in a gain on sale of $53,260. The net cash proceeds were used to repay the revolving loan.

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

(c) Long term debt

	December 31 2017	December 31 2016
Secured debt		
Mortgage loan	$ 3,515,916	$ 3,716,431
Unamortized transaction costs	(6,616)	(4,125)
Total long term debt	$ 3,509,300	$ 3,712,306

(d) Interest expense

	Year Ended December 31 2017	2016
Mortgage loan interest	$ 177,533	$ 747,221
Amortization of transaction costs	4,125	67,431
	$ 181,658	$ 814,652

(e) Deferred tax

The Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:

	December 31 2017	2016
Property and equipment	$ 836,419	$ 699,545
Transaction costs	$ 9,865	$ 12,954

Unused tax losses expiring in:

	2017	2016
2036	$ -	$ 26,601
2037	58,736	-
	$ 58,736	$ 26,601

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12 Long-term debt

	December 31 2017	December 31 2016
Secured debt		
Mortgage loans (a)	$ 187,206,443	$ 192,674,077
Revolving loan from 2668921 Manitoba Ltd. (b)	30,000,000	22,300,000
Debentures (c)	24,810,800	24,810,800
Total secured debt	242,017,243	239,784,877
Accrued interest payable	3,846,114	2,610,724
Unamortized transaction costs		
Mortgage loans	(960,035)	(1,047,413)
Revolving loan from 2668921 Manitoba Ltd.	(10,827)	(30,677)
Total unamortized transaction costs	(970,862)	(1,078,090)
	244,892,495	241,317,511
Less current portion		
Mortgage loans	(155,907,526)	(106,278,394)
Revolving loan from 2668921 Manitoba Ltd.	(30,000,000)	(22,300,000)
Accrued interest payable	(806,791)	(811,941)
Unamortized transaction costs	407,114	468,920
Total current portion	(186,307,203)	(128,921,415)
	$ 58,585,292	$ 112,396,096

Normal principal installments and principal maturities at face value based on contractual obligations are as follows:

	Mortgage Loans				
Year ending December 31	Normal Principal Installments	Principal Maturities	Other Debt (1)	Total Long-term Debt	Weighted average interest rate of long-term debt
2018	$ 2,321,100	$ 126,149,097	$ 30,000,000	$ 158,470,197	5.5 %
2019	1,444,651	45,355,610	-	46,800,261	5.7 %
2020	261,845	-	-	261,845	4.4 %
2021	273,539	-	-	273,539	4.4 %
Thereafter	1,030,127	10,370,474	24,810,800	36,211,401	4.8 %
	$ 5,331,262	$ 181,875,181	$ 54,810,800	$ 242,017,243	5.4 %

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

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12 Long-term debt (continued)

A forbearance agreement and four loan agreements have been negotiated with the lenders of five mortgage loans secured by five properties in Fort McMurray whereby the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to March 31, 2019. Over the period from January 1, 2018 to maturity, $1,736,825 of accrued interest and fees are expected to be incurred and added to the outstanding mortgage principal.

(a) Mortgage loans

	Weighted average interest rates		Amount	
	December 31 2017	December 31 2016	December 31 2017	December 31 2016
First mortgage loans				
Fixed rate	4.7%	5.1%	$102,020,638	$ 80,471,688
Variable rate	6.4%	6.1%	79,688,009	107,209,774
Total first mortgage loans	5.4%	5.6%	$181,708,647	$ 187,681,462
Second mortgage loans				
Total second mortgage loans	9.0%	11.8%	$ 5,497,796	$ 4,992,615
All mortgage loans				
Fixed rate	4.9%	5.5%	$107,518,434	$ 85,464,303
Variable rate	6.4%	6.1%	79,688,009	107,209,774
Total mortgage loans	5.5%	5.8%	$187,206,443	$ 192,674,077

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

As of December 31, 2017, the Trust was in default of the payment of service fees on four mortgage loans in the aggregate principal amount of $46,896,076 secured by a total of seven properties in its Fort McMurray portfolio. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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

12 Long-term debt (continued)

(a) Mortgage loans (continued)

All mortgages which have matured prior to the date of the Financial Statements have been renewed, refinanced or are under a forbearance agreement.

(b) Revolving loan

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

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

(c) Debentures

The Series G debentures bear interest at 5.0% (2016 - 5.0%) and are due on June 30, 2022. Interest is accrued and is payable on the due date.

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

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

Included in accrued interest payable under long-term debt at December 31, 2017 is a balance of $3,039,323 (December 31, 2016 - $1,798,783) in regard to the deferred interest on the Series G debentures.

13 Trade and other payables

	December 31 2017	December 31 2016
Accounts payable	$ 2,230,589	$ 2,390,614
Accrued payables	313,249	506,655
Prepaid rent	271,309	310,265
Advances from Shelter (Note 20)	6,000,000	-
	$ 8,815,147	$ 3,207,534

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14 Interest expense

	Year Ended December 31 2017	2016
Mortgage loan interest	$ 10,453,899	$ 11,878,008
Revolving loan interest	1,363,370	1,374,123
Debenture interest	1,240,540	1,798,783
Shelter advances interest	59,130	-
Amortization of transaction costs	813,723	4,025,672
	$ 13,930,662	$ 19,076,586

15 Fair value adjustments

Fair value adjustments consist of the following:

	Year Ended December 31 2017	2016
Fair value adjustments - investment properties (Note 5)	$ (20,878,973)	$ 9,278,305
Fair value adjustments - investment properties held for sale (Note 11)	(4,652,014)	2,367,099
	$ (25,530,987)	$ 11,645,404

16 Per unit calculations

	Year Ended December 31 2017	2016
Loss before discontinued operations	$ (31,877,187)	$ (1,264,483)
Loss from discontinued operations	(159,495)	(465,641)
Loss and comprehensive loss	$ (32,036,682)	$ (1,730,124)

	Year Ended December 31 2017	2016
Weighted average number of units:		
Units	20,557,320	20,466,506
Deferred units	591,576	682,390
Total basic and diluted	21,148,896	21,148,896

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17 Units

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Units	Amount	Units	Amount
	20,557,320	$125,641,529	20,252,386	$125,641,529
Redemption of deferred units (Note 19)	-	-	304,934	-
	20,557,320	$125,641,529	20,557,320	$125,641,529

18 Unit option plan

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan and the deferred unit plan will be limited to 10% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which shall not be less than the discounted market price of the units as determined under the policies of the TSX on the date of grant. Options granted to Trustees vest immediately. With the exception of options granted on November 19, 2012, January 15, 2013 and May 19, 2014, which vested immediately, options granted to senior officers and consultants vest on a straight-line basis over five years. The options will have a maximum term of five years from the date of grant.

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

	Year Ended December-31-17		Year Ended December 31, 2016	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	240,000	$ 0.99	446,000	$ 0.71
Cancelled, July 10, 2016	-	-	(20,000)	0.60
Cancelled, July 10, 2016	-	-	(10,000)	0.65
Cancelled, December 12, 2016	-	-	(176,000)	0.34
Cancelled, February 18, 2017	(5,000)	1.11	-	-
Cancelled, November 19, 2017	(40,000)	0.60	-	-
Outstanding, end of period	195,000	$ 1.06	240,000	$ 0.99
Vested, end of period	195,000		240,000	

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

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.65	20,000	20,000	January 15, 2018
1.11	175,000	175,000	May 19, 2019
	195,000	195,000	

Subsequent to December 31, 2017, 20,000 unit options were cancelled.

19 Deferred unit plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid, in whole or in part, in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees, as applicable, to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees vest immediately. Deferred units granted to participants other than Trustees vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) vest immediately and are redeemable by the participant following termination other than for cause, retirement, or death. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

	Year Ended December 31	
	2017	2016
Outstanding and vested, beginning of year	591,576	896,510
Redeemed during the year	-	(304,934)
Outstanding and vested, end of year	591,576	591,576

All deferred units outstanding as of December 31, 2017 were fully vested.

20 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter is a related party as it has entered into a property management and service agreement and provides management services to the Trust. 2668921 Manitoba Ltd., the parent company of Shelter, is a related party through common control as 2668921 Manitoba Ltd. is owned by a family member of a Trustee of the Trust.

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

The Trust incurred fees under the property management agreement payable to Shelter of $778,243 for the year ended December 31, 2017 (2016 - $757,104).

Included in trade and other payables at December 31, 2017 is a balance of $8,302 receivable from Shelter (December 31, 2016 - $247,215 payable) in regard to outstanding amounts due under the property management agreement.

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

The Trust incurred service fees payable to Shelter of $899,627 for the year ended December 31, 2017 (2016 - $990,458).

20 *Related party transactions* (continued)

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

The Trust incurred service fees payable to Shelter of $20,895 for the year ended December 31, 2017 (2016 - $19,425).

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

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

***** Notwithstanding the amendments to the revolving loan facility subsequent to July 1, 2015, the combined maximum interest charge allowable by 2668921 Manitoba Ltd. and any of its subsidiaries or affiliates including Shelter for the three-year term from July 1, 2015 to June 30, 2018 is $6,480,000.

During the year ended December 31, 2017, the Trust received advances of $7,700,000 (2016 - $24,650,000) and repaid advances of nil (2016 - $9,450,000) against the revolving loan, resulting in a balance of $30,000,000 (December 31, 2016 - $22,300,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $1,363,370 for the year ended December 31, 2017 (2016 - $1,374,123) is included in interest expense.

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

Shelter loan advances
During the year ended December 31, 2017, Shelter made unsecured loan advances totaling $6,000,000 to LREIT, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility. During the year ended December 31, 2016, Shelter advanced $650,000 on an interest-free basis as an interim funding measure.

During the year ended December 31, 2017, the Trust made repayments of nil (2016 - $650,000), resulting in an outstanding unsecured loan balance of $6,000,000 at December 31, 2017 (December 31, 2016 - nil). The unsecured loan is included in trade and other payables.

Interest on the Shelter advances of $59,130 for the year ended December 31, 2017 (2016 - nil) is included in interest expense.

20 Related party transactions (continued)

Financing (continued)

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan. Immediately following the purchase, 2668921 Manitoba Ltd. extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date. On April 1, 2017, the mortgage loan was renewed at an interest rate of 9% per annum and matures on March 31, 2019. The amended mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of December 31, 2017, the amount owing on the mortgage loan was $5,497,796 (2016 - $4,992,615), inclusive of accrued interest.

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel, other than securities-based compensation under the unit option plan. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2017 was $134,000 (2016 - $314,000).

Guarantees

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

21 Financial instruments and risk management

Risk management

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

Liquidity risk - defaults

As of December 31, 2017, the Trust was in default of four mortgage loans secured by a total of seven properties with an aggregate principal balance of $46,896,076, as the lender of the mortgage loans indicated that there are service fees outstanding with respect to previous defaults under the loans and that until such fees are paid the loans remain in default. Subsequent to December 31, 2017, forbearance agreements were executed for three of these mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021. LREIT continues to meet the debt service obligations of the mortgage that remains in default and the lender has taken no action to demand repayment or enforce its security under the loan.

21 Financial instruments and risk management (continued)

Liquidity risk - defaults (continued)
Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

In the event that full repayment is demanded with respect to any of the mortgage loans in default, the Trust would not be able to satisfy the associated obligation with its current resources.

Liquidity risk - debt maturities
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to refinance its debt as it matures or to meet its other obligations as they become due. Should the Trust default on its debt obligations, debt maturities may be accelerated by the lenders.

Liquidity risk is compounded by the material uncertainty that exists as of the date of this report with respect to the Trust's ability to remain a going concern. Continuation of the Trust's operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust; the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow LREIT to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices and in the near term is also dependent on the demand for rental accommodations during the post-fire rebuild; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

Liquidity risk is mitigated by the ongoing monitoring activities of the Trust's management; open communication with the Trust's lenders; the continued financial support from Shelter and its parent company, 2668921 Manitoba Ltd.; expansion of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $36,117,858. The renewal terms required an initial principal repayment of $1,000,000, which was paid on March 16, 2018, and additional principal repayments of $500,000 every six months commencing with September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

21 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $7,158,017. The renewal terms required an initial principal repayment of $500,000, which was paid on March 16, 2018, and additional principal repayments of $280,000 per each quarter in which the Trust fails to sell a unit under the property's condominium sales program. In exchange for each $280,000 principal payment made during the term of the renewed first mortgage loan, the lender will discharge one condominium unit from its security. The renewed mortgage loan bears interest at prime plus 3.30% and matures on September 1, 2020.

As at December 31, 2017, the weighted average term to maturity of the fixed rate mortgages on investment properties is 1.7 years (December 31, 2016 - 2.4 years).

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

	Mortgage Loans				
December 31, 2017	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2018	$ 2,321,100	$126,149,097	$ 30,000,000	$14,068,783	$172,538,980
2019	1,444,651	45,355,610	-	-	46,800,261
2020	261,845	-	-	-	261,845
2021	273,539	-	-	-	273,539
Thereafter	1,030,127	10,370,474	24,810,800	-	36,211,401
	$ 5,331,262	$181,875,181	$ 54,810,800	$14,068,783	$256,086,026

(1) If the lenders of the one mortgage loan that is in default as of the date of this report and the forbearance agreement subject to a terminating event demanded repayment during 2018 and the chart above was adjusted to reflect the repayments, the total repayment obligations due in 2018 would increase to $199,967,303, the total long-term debt due in 2019 would decrease to $19,362,934, the total long-term debt due in 2020 and beyond would remain the same.

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

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

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2017 the percentage of fixed rate mortgage loans to total mortgage loans on investment properties was 57% (December 31, 2016 - 44%).

The Trust has variable rate mortgage loans on investment properties totaling $79,688,009, or 43% of the total mortgage loans at December 31, 2017 (December 31, 2016 - $107,209,774 or 56%). Should interest rates change by 1%, interest expense would change by $796,880 per year.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

21 Financial instruments and risk management (continued)

Interest rate risk (continued)
As at December 31, 2017, the Trust has total mortgage principal maturities on investment properties which mature on or prior to December 31, 2020 of $174,779,870 representing 93% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,747,799 per year.

The Trust has not traded in derivative financial instruments.

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

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

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due and a reconciliation of allowance for doubtful accounts:

	December 31 2017	December 31 2016
Rent receivable overdue:		
0 to 30 days	$ 98,925	$ 76,506
31 to 60 days	35,456	55,348
More than 60 days	65,575	171,519
	$ 199,956	$ 303,373

	Year Ended December 31 2017	2016
Balance, beginning of period	$ 109,748	$ 31,502
Amount charged to bad debt expense relating to impairment of rent receivable	17,291	126,207
Amounts written off as uncollectible	(70,700)	(47,961)
Balance, end of period	$ 56,339	$ 109,748
Amount charged to bad debts as a percent of rentals from investment properties	0.09%	0.69%

The Trust continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the Trust's covenants. At December 31, 2017, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $27,512,300 (December 31, 2016 - $29,312,604) which expires in 2022 (December 31, 2016 - expires between 2017 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

21 Financial instruments and risk management (continued)

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

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

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

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

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

	Carrying Value		Fair Value	
	December 31 2017	December 31 2016	December 31 2017	December 31 2016
Financial assets				
Restricted cash	$ 2,400,176	$ 2,650,066	$ 1,886,901	$ 2,127,195
Cash	1,638,918	706,768	1,638,918	706,768
Rent and other receivables	459,234	394,131	459,234	394,131
Deposits	585,261	186,172	585,261	186,172
Financial liabilities				
Mortgages loans	187,206,443	192,674,077	204,615,479	209,179,279
Debentures	24,810,800	24,810,800	2,721,945	5,830,338
Trade and other payables	8,815,147	3,207,534	8,815,147	3,207,534
Deposits from tenants	1,407,522	1,529,110	1,407,522	1,529,110

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

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

21 Financial instruments and risk management (continued)

Fair values (continued)

- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- In regard to mortgage loans:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 4.55% and 5.84%.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.

22 Reconciliation of liabilities arising from financing activities

	Year Ended December 31, 2017		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (3,508,348)	$ (3,307,833)	$ (200,515)
Repayment of mortgage loans on refinancing	(4,475,000)	(4,475,000)	-
Reduction of mortgage loans on sale of properties	(441,135)	(441,135)	-
Non cash - interest and fees capitalized, net of repayment	2,756,334	2,756,334	-
Decrease in mortgage loans	(5,668,149)	(5,467,634)	(200,515)
Total mortgage loans - December 31, 2016	196,390,508	192,674,077	3,716,431
Total mortgage loans - December 31, 2017	$190,722,359	$187,206,443	$3,515,916

23 Management of capital

The capital structure of the Trust is comprised of the following:

	December 31 2017	December 31 2016
Mortgage loans *	$186,246,408	$191,626,664
Revolving loan from 2668921 Manitoba Ltd. *	29,989,173	22,269,323
Debentures *	24,810,800	24,810,800
Deficit	(36,641,825)	(4,605,143)
	$204,404,556	$234,101,644

***** Amounts are inclusive of unamortized transaction costs.

23 Management of capital (continued)

The Trust manages capital in order to maintain its ability to continue as a going concern and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units, debentures or other securities of the Trust.
- Mortgage debt financing is arranged to optimise the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is managed having regard to the overall mortgage debt limits as established by the Declaration of Trust. The Declaration of Trust provides for a restriction on the Trust incurring mortgage indebtedness if the incurrence of such mortgage indebtedness would result in total mortgage indebtedness of the Trust exceeding 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets to help sustain operations.

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may (i) issue units, debentures or mortgage debt and other securities, such as trust unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units, debentures or trust unit purchase warrants; and/or (v) reduce debt.

Market requirements for attracting capital may vary in ways that the Trust may not be able to accurately predict.

24 Segmented financial information

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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

24 Segmented financial information (continued)

Year ended December 31, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	14,983,563	1,568,568	2,500,071	-	19,052,202
Property operating costs	8,086,147	1,230,211	932,342	-	10,248,700
Net operating income	6,897,416	338,357	1,567,729	-	8,803,502
Interest income	19,315	1,475	3,371	165,264	189,425
Interest expense	9,249,944	485,464	1,512,363	2,682,891	13,930,662
Loss before discontinued operations	(22,712,326)	(588,485)	(4,593,277)	(3,983,099)	(31,877,187)
Cash used in operating activities	(174,701)	26,762	631,397	(3,046,358)	(2,562,900)
Cash from (used in) financing activities	2,169,524	(24,464)	(738,868)	3,319,186	4,725,378
Cash from (used in) investing activities	(1,262,855)	(37,147)	74,473	(4,799)	(1,230,328)
Total assets excluding discontinued operations (Note 11) at December 31, 2017	170,345,640	12,318,910	27,141,421	4,818,371	214,624,342

Year ended December 31, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	13,262,742	1,631,872	3,433,598	-	18,328,212
Property operating costs	8,085,890	1,067,768	1,360,267	-	10,513,925
Net operating income	5,176,852	564,104	2,073,331	-	7,814,287
Interest income	12,906	1,189	4,287	131,194	149,576
Interest expense	11,898,758	536,098	2,692,483	3,949,247	19,076,586
Income (loss) before discontinued operations	3,965,768	(1,353,978)	1,811,058	(5,687,331)	(1,264,483)
Cash from (used in) operating activities	(1,620,035)	19,611	1,154,332	(3,079,418)	(3,525,510)
Cash from (used in) financing activities	3,297,374	11,625	(10,599,807)	609,997	(6,680,811)
Cash from (used in) investing activities	(1,668,245)	2,358	9,593,364	2,578,099	10,505,576
Total assets excluding discontinued operations (Note 11) at December 31, 2016	188,686,260	12,737,785	31,932,743	4,616,496	237,973,284

25 Commitments

Management Contracts
The Trust has retained the following third party manager to provide on-site management services to the seniors' housing complex:

Property	Manager	Term Expiring
Chateau St. Michael's	Integrated Life Care Inc.	October 31, 2018

26 Contingencies

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

27 Subsequent events

Forbearance terminating event
Subsequent to December 31, 2017, a forbearance termination event on one mortgage loan secured by one property in the aggregate principal amount of $25,582,975 was triggered due to non-compliance with a deadline set with respect to the condominium sales program. The lender has taken no action to demand repayment or enforce its security under the loan and has indicated that it will not take any action with respect to the default prior to March 31, 2018.

Forbearance agreements
Subsequent to December 31, 2017, forbearance agreements were executed for three mortgage loans, secured by a total of six properties, in the aggregate principal amount of $18,674,159. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019 and 2020, respectively. The forbearance agreements expire May 1, 2021.

Mortgage renewal
Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $36,117,858. The renewal terms required an initial principal repayment of $1,000,000, which was paid on March 16, 2018, and additional principal repayments of $500,000 every six months commencing with September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

Subsequent to December 31, 2017, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2017 of $7,158,017. The renewal terms required an initial principal repayment of $500,000, which was paid on March 16, 2018, and additional principal repayments of $280,000 per each quarter in which the Trust fails to sell a unit under the property's condominium sales program. In exchange for each $280,000 principal payment made during the term of the renewed first mortgage loan, the lender will discharge one condominium unit from its security. The renewed mortgage loan bears interest at prime plus 3.30% and matures on September 1, 2020.

Shelter advances
Subsequent to December 31, 2017, the Trust received advances from Shelter of $5,000,000 and repaid nil, resulting in a balance of $11,000,000 as of the date of the issuance of the Financial Statements.

Sale of condominium unit at Lakewood Townhomes
Subsequent to December 31, 2017, LREIT sold one condominium unit at Lakewood Townhomes for gross proceeds of $322,000. The sale resulted in net cash proceeds of $45,970 after selling costs of $21,130 and mortgage loan repayment of $254,900.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of LREIT are subject to the control of the trustees, pursuant to the terms of the Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited ("Shelter") with the right to appoint one trustee.

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, and Mr. Arni Thorsteinson, CFA. Mr. Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is an entrepreneur, formerly President of Big Freight Systems Inc. Mr. Thorsteinson is the President of Shelter and is the appointee of Shelter.

The Chief Executive Officer is Mr. Gino Romagnoli, CPA, CGA, Senior Manager - Investor Services for Shelter.

The Chief Financial Officer and Secretary of LREIT is Mr. Gary Benjaminson, CA, MBA, Senior Manager - Corporate Accounting and Reporting for Shelter.

Administrator of the Trust

Shelter has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of LREIT and to perform the accounting and reporting functions of LREIT.

Property Management

Shelter has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the investment properties in the LREIT portfolio. Shelter manages all of the investment properties except for the seniors' housing complex, where the Trust has retained a third party property manager to provide on-site management services, due to the nature of the operations.

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Unit Listing

Toronto Stock Exchange (TSX)	
Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G

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