LANESBOROUGH REIT

2018 ANNUAL REPORT

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CHIEF EXECUTIVE OFFICER'S MESSAGE

2018 Annual Report

Since 2014, low oil prices and reduced oil sands development activity in Alberta have resulted in weak rental market conditions in Fort McMurray, significantly impacting the rental rates and occupancy levels of LREIT's Fort McMurray property portfolio. The demand for rental accommodations that resulted from the entry into the rental market of residents displaced by the May 2016 wildfire and the migration of workers involved in the restoration and post-fire rebuilding efforts dissipated during 2018, with leases turning over at rental rates that closely reflect the market conditions that existed prior to the wildfire. The reduction in rental rates and average occupancy levels experienced during 2018 were most pronounced during the fourth quarter of 2018.

Throughout 2018, LREIT has continued to face significant financing challenges, requiring secondary sources of cash to fund the cash outflow from operating activities, regular mortgage loan principal payments, special mortgage loan paydowns, deficits incurred upon loan refinancing, transaction costs for debt financing, and capital expenditures.

Operating Results

LREIT completed 2018 with negative funds from operations ("FFO") of $11 million, compared to negative FFO of $6.4 million in 2017, representing a decrease in FFO of $4.6 million. The decrease is mainly due to a $3.2 million decrease in net operating income ("NOI"), a $1 million increase in interest expense, and a $0.5 million increase in loss from discontinued operations.

The decrease in NOI mainly reflects a decrease in the rental revenues and an increase in the operating costs of the Fort McMurray property portfolio, including Woodland Park, which is classified as held for sale. The decrease in rental revenue is due to the combined impact of lower average rental rates and decreased occupancy levels. The increase in property operating costs is mainly due to an increase in utility costs, an increase in insurance related costs, and the capital replacement reserve component of the common element fees paid to the condominium corporation established as part of the Woodland Park Condominium Sales Program.

Interest expense increased during 2018, mainly due to an increase in the average outstanding balance of the revolving loan facility, as well as the application of the increased interest rate of 7%, which applies to amounts advanced on the revolving loan that are in excess of $30 million. An increase in the weighted average interest rate on the Trust's mortgage loan debt from 5.5% in 2017 to 5.8% in 2018 was offset by a $9.7 million reduction in the outstanding balance of mortgage loan debt during 2018.

During 2018, the loss from discontinued operations increased by $0.5 million. The increase in the loss is mainly due to increased property operating costs, which were primarily the result of a coordinated effort to enhance the revenue-generating potential of the seniors' housing complex and its attractiveness to potential buyers. The increase in the property operating costs of the seniors' housing complex mainly reflects an increase in professional fees, as a result of an in depth review performed on the operations of the seniors' housing complex; an increase in advertising costs, incurred to promote the facility; and, an increase in wages, resulting from the expanded level of care and services being provided by the facility.

Overall, LREIT completed 2018 with a loss and comprehensive loss of $46.5 million, compared to a loss of $32 million in 2017. The increase in the loss is primarily due to the unfavourable variance in the fair value adjustments of the investment properties, which were reduced to reflect the increased 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

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, lump sum principal repayments required by existing mortgage loans 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 2018 were funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by loan advances from Shelter.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility from $30 million to $100 million and to extend the maturity date to December 31, 2019. As of the date of this report, the maximum available balance remaining on the revolving loan facility is $43.6 million.

As of the date of this report, the Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24.4 million. The forbearance agreement for the mortgage loan expired on December 31, 2018 and the Trust was unable to repay the outstanding balance of the loan. Subsequent to the fiscal year ended December 31, 2018, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property, effective February 28, 2019. Management of the property is in the process of being transitioned to the lender's appointed Receiver. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

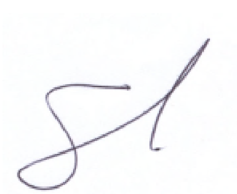
On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

Outlook

A variety of sources indicate that global oil sands investment fell by more than 45% between 2014 and 2018, with capital spending dropping below $10 billion in 2017 for the first time since 2004. The price differential between Western Canadian Select and Western Texas Intermediate crude oil also reached a new high of USD $50 per barrel during the fall of 2018, prompting the Alberta Provincial Government to take action to curtail oil production. The price differential has since decreased to approximately USD $11.40 as of March 20, 2019. Insufficient pipeline infrastructure and other oil transportation bottlenecks prevent Alberta's crude oil from efficiently reaching refining markets and are expected to continue to negatively impact the price differential between Canadian and foreign crude oil once the production cuts are lifted.

Although management expects oil sands development activity to eventually increase once oil prices recover and Canada addresses its oil transportation issues, there can be no assurance that this will occur within a timeframe that allows LREIT to remain a going concern. In the near term, LREIT remains dependent on favourable interim financing arrangements and support from Shelter and its parent company, 2668921 Manitoba Ltd., as well as its ability to continue to renew and/or refinance its mortgage loan debts as they become due.

Divestitures and debt restructuring will continue to be the top priorities of LREIT during 2019.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A OVERVIEW AND ADVISORIES

The 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 years ended December 31, 2018 and 2017 and accompanying notes and with reference to the Annual Report for 2018 and the quarterly reports for 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 for the fiscal year ended December 31, 2018.

Financial Statements

Throughout this report, the consolidated financial statements as of December 31, 2018 will be referred to as the "Financial Statements"; the consolidated statements of financial position as of December 31, 2018 will be referred to as the "Statement of Financial Position"; the consolidated statements of comprehensive loss for the year ended December 31, 2018 will be referred to as the "Income Statement"; and the consolidated statements of cash flows for the year ended December 31, 2018 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, including its dependence on natural resources industries, commodity price risks, current economic conditions, debt financing, interest and financing risk, events of default and/or enforcement proceedings under financing agreements, reliance on Shelter Canadian Properties Limited ("Shelter") and/or its parent company 2668921 Manitoba Ltd. for interim funding, success of the divestiture program, real property ownership, insurance risk, liquidity, credit risk, market risk, competition, availability of cash for distributions, tax related risk factors, certain additional risks associated with debentures, including the risk of default on interest payments and principal repayment under the Series G debentures, limited covenant protection in the Series G Trust Indenture, and an inability of LREIT to purchase Series G debentures on a change of control.

Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

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

Purchase Price Information

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

Operating Segments

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

- Fort McMurray Properties (twelve properties): Accounting for approximately 76% (December 31, 2017 - 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, 2017 - 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: Woodland Park, the one property classified as held for sale, accounts for approximately 8% (December 31, 2017 - 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, 2018.

The operating results for the seniors' housing complex 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 complex, except where noted.

UNIT TRADING PRICE

	Year Ended December 31, 2018 (Per unit)	Year Ended December 31, 2017 (Per unit)
Opening price	$0.02	$0.07
Closing price	$0.01	$0.02

LREIT's trust units and Series G Debentures are listed on the TSX Venture Exchange ("TSX-V") under the symbols of "LRT.UN" and "LRT.DB.G", respectively. Prior to June 1, 2018, LREIT's trust units and Series G Debentures traded on the Toronto Stock Exchange under the same symbols.

FINANCIAL SUMMARY

	December 31 2018	December 31 2017	December 31 2016
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 184,442,121	$ 222,128,456	$ 245,402,329
Total long-term financial liabilities (1)	$ 258,233,568	$ 245,533,159	$ 243,501,308
Weighted average interest rate			
- Mortgage loan debt	5.8 %	5.5 %	5.8 %
- Total debt	5.7 %	5.4 %	5.6 %

	Year Ended December 31 2018	Year Ended December 31 2017	Year Ended December 31 2016
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 17,063,264	$ 19,052,202	$ 18,328,212
Net operating income *	$ 5,623,813	$ 8,803,502	$ 7,814,287
Loss before discontinued operations *	$ (45,816,864)	$ (31,877,187)	$ (1,264,483)
Loss and comprehensive loss	$ (46,503,701)	$ (32,036,682)	$ (1,730,124)
Funds from Operations (FFO) *	$ (11,020,478)	$ (6,423,890)	$ (12,463,056)
Cash Flows			
Cash used in operating activities	$ (5,142,852)	$ (2,662,330)	$ (3,254,380)
Adjusted Funds from Operations (AFFO) *	$ (11,992,819)	$ (7,625,263)	$ (13,753,872)
Per Unit			
Net operating income * - basic and diluted	$ 0.266	$ 0.416	$ 0.369
Loss before discontinued operations * - basic and diluted	$ (2.166)	$ (1.507)	$ (0.060)
Loss and comprehensive loss - basic and diluted	$ (2.198)	$ (1.515)	$ (0.082)
Funds from Operations (FFO) * - basic and diluted	$ (0.521)	$ (0.304)	$ (0.589)
Cash used in operating activities - basic and diluted	$ (0.243)	$ (0.126)	$ (0.154)
Adjusted Funds from Operations (AFFO) * - basic and diluted	$ (0.567)	$ (0.361)	$ (0.650)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, and the revolving loan facility 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.

2018 Operating Results

Key Financial Indicators

	Year Ended December 31		Favourable (Unfavourable) Variance	
	2018	2017	Amount	%
Rentals from investment properties	$ 17,063,264	$ 19,052,202	$ (1,988,938)	(10)%
Net operating income (NOI)	$ 5,623,813	$ 8,803,502	$ (3,179,689)	(36)%
Interest expense	$ (14,916,720)	$ (13,930,662)	$ (986,058)	(7)%
Fair value adjustments	$ (35,313,425)	$ (25,530,987)	$ (9,782,438)	(38)%
Loss and comprehensive loss	$ (46,503,701)	$ (32,036,682)	$ (14,467,019)	(45)%
Funds from operations (FFO)	$ (11,020,478)	$ (6,423,890)	$ (4,596,588)	(72)%

LREIT completed 2018 with negative FFO of $11.0 million, compared to negative FFO of $6.4 million in 2017, representing a decrease of $4.6 million. On a basic per unit basis, FFO decreased by $0.217 during 2018 to negative $0.521. The decrease in FFO mainly reflects a decrease in net operating income (NOI) and an increase in interest expense.

The decrease in NOI of $3.2 million is mainly due to a decrease in the rental revenue and an increase in the property operating costs of the Trust's properties located in Fort McMurray, inclusive of Woodland Park, the property that is classified as held for sale. The decrease in rental revenue is due to the combined impact of a decrease in the average rental rates and a decrease in the occupancy experienced by the Trust's properties located in Fort McMurray. The increase in property operating costs is mainly due to an increase in utility costs, an increase in insurance related costs and the capital replacement reserve component of the common element fees paid to the condominium corporation established as part of the Woodland Park Condominium Sales Program.

The increase in interest expense of $1.0 million is mainly due to an increase in the average outstanding balance of the revolving loan facility, as well as the application of the increased interest rate of 7% that applies to amounts advanced on the revolving loan that are in excess of $30 million. The weighted average interest rate on the Trust's total debt, including the revolving loan and debentures, was 5.7% as at December 31, 2018, compared to 5.4% as at December 31, 2017.

During 2018, the loss from discontinued operations increased by $0.5 million. The increase in the loss is mainly the result of increased property operating costs incurred in a coordinated effort to enhance the revenue generating potential of the seniors' housing complex and its attractiveness to potential buyers. The increase in property operating costs mainly consisted of an increase in professional fees, as a result of an in-depth review performed on the operations of the seniors' housing complex; an increase in advertising costs, in an effort to promote recognition of the facility; and an increase in wages, as a result of an expansion of the level of care and services provided by the facility.

Overall, LREIT completed 2018 with a loss and comprehensive loss of $46.5 million, compared to a loss and comprehensive loss of $32.0 million in 2017. The increase in the loss during 2018 mainly reflects an unfavourable variance in the fair value adjustments of the investment properties.

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, 2018, the unrestricted cash balance of LREIT was $0.6 million and the working capital deficit was $2.2 million.

During 2018, cash used in operations, prior to working capital adjustments amounted to $5.0 million and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal repayments, capital expenditures, and transaction costs was $12.7 million, compared to cash used in operations and a cash shortfall of $1.8 million and of $8.4 million, respectively in 2017.

The increase in the cash shortfall is mainly due to an increase in regular mortgage principal repayments and an increase in the cash used in operations after working capital adjustments.

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, lump-sum principal repayments required by existing mortgage loans 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 2018 were funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd. and by loan advances from Shelter.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility from $30 million to $100 million and to extend the maturity date to December 31, 2019. As of the date of this report, the maximum available balance remaining on the revolving loan facility is $43.6 million.

As of the date of this report, the Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24.4 million. The forbearance agreement for the mortgage loan expired on December 31, 2018 and the Trust was unable to repay the outstanding balance of the loan. On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

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.

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

Debt Restructuring - Mortgage Loans

- Forbearance agreements were executed for four mortgage loans, secured by a total of seven properties, in the aggregate principal amount of $43.1 million as of December 31, 2018. The loans were in default prior to the execution of the forbearance agreements as the lender of the mortgage loans indicated that there were service fees outstanding with respect to previous defaults under the loans and that until such fees were paid the loans would remain in default. The forbearance agreements have a term of three years with three of the forbearance agreements expiring on May 1, 2021 and one of the forbearance agreements expiring on December 1, 2021.

- A first mortgage loan with a principal balance outstanding as of December 31, 2018 of $35.8 million was renewed. The renewed mortgage loan allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

- A first mortgage loan with a principal balance outstanding as of December 31, 2018 of $6.1 million was renewed. The renewed mortgage loan allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

- A first mortgage loan with a principal balance as of December 31, 2018 of $29.3 million was renewed. The renewed mortgage loan allows for the deferral of 30% of the monthly interest payments until the December 1, 2020 maturity date of the loan.

- A first mortgage loan with a principal balance of $2.1 million as at December 31, 2018 was renewed. The interest rate on the mortgage loan was reduced from 9% to 6% and the maturity date extended for 24 months to July 1, 2020.

In addition to the multi-year mortgage loan renewals and forbearance agreements discussed above, the Trust was able to obtain renewals, as required, on its other mortgage loans such that, as of December 31, 2018, the Trust had renewed, refinanced or obtained forbearance agreements for all mortgage loan debt, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24.4 million with an expired forbearance agreement and one mortgage loan with a principal balance of $3.3 million that is secured by the property classified as discontinued operations, and was overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust executed a renewal agreement, with a maturity date of December 31, 2023, on the first mortgage loan, secured by the property classified as discontinued operations, that was previously overholding past its maturity date,

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property, classified as held for sale, with the expired forbearance agreement. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

The forbearance and renewal agreements discussed above required the Trust to commit to various lump-sum principal repayments on initiation of the agreements and/or throughout the term of the agreements that are discussed in detail in the "Outlook and Continuing Operations" sub-section in the "Liquidity and Capital Resources" section of this report.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd.

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility from $30 million to $100 million and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30 million and is 7% for advances in excess of $30 million. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

During 2018, $22.4 million was advanced under the revolving loan facility and was used to repay the $15.1 million of loan advances from Shelter in full and to fund operations. The revolving loan continues to be the primary funding source for any cash shortfall from operating, investing and financing activities of LREIT with an additional $4.5 million being advanced and $0.5 million being repaid from January 1, 2019 to the date of this report.

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 million and net cash proceeds of $44.6 million, 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 condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. 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, 2018, 21 condominium units have been sold at a combined gross selling price of $9.6 million.

During 2018, the Trust completed the sale of two condominium units for gross proceeds of $0.6 million, resulting in the reduction of mortgage loan debt of $0.5 million. The cash shortfall after the repayment of the existing mortgage loan and the payment of selling costs and standard closing adjustments, in the amount of $0.03 million, was funded by an advance on the revolving loan facility. In addition, the Trust made one $0.3 million payment during 2018 in accordance with the first mortgage loan requirement.

Woodland Park Condominium Sales Program

During 2018, as a requirement of the forbearance agreement, the Trust commenced a condominium sales program at Woodland Park and sold five condominium units for aggregate gross proceeds of $1.7 million. The sales resulted in net cash proceeds of $0.02 million after selling costs of $0.1 million and the mortgage loan repayments of $1.5 million. The condominium units had an aggregate carrying value of $1.6 million and the sales resulted in a loss on sales of investment properties of $0.1 million.

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.

Operations Initiatives

In addition to operational initiatives focused on continued cost control and select marketing and renovation activities aimed at improving operating performance across LREIT's portfolio of properties, management is pursuing initiatives to enhance the revenue potential of the remaining seniors' housing complex, Chateau St. Michael's, and its attractiveness to potential buyers. During 2018, a review of the operations of Chateau St. Michael's was conducted together with an external consultant, which resulted in Shelter assuming property management responsibility from the third party manager and the launch of a coordinated effort to expand the level of care and services provided by the facility as well as to enhance the appeal, recognition and value of the facility.

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, including but 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.

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.

Lanesborough Real Estate Investment Trust ("LREIT") units and Series G debentures are currently listed on the TSX Venture (TSX-V) under the symbols of "LRT.UN" and "LRT.DB.G", respectively.

Investment Properties

As of December 31, 2018, 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 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

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio. The current priorities of the Trust include addressing its liquidity challenges and stabilizing its operations. Given the prolonged decline in the Trust's primary market of Fort McMurray and its highly leveraged capital structure, specifically, management is maintaining its focus on the divestiture program; debt renewal/restructuring efforts; and initiatives aimed at improving operating results.

A summary of LREIT's progress with respect to its current initiatives is provided in the "Liquidity and Capital Resources - Outlook and Continuing Operations" section of this report.

REAL ESTATE PORTFOLIO

Portfolio Summary - December 31, 2018

As of December 31, 2018, 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, one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one 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.

A summary of LREIT's real estate portfolio as at December 31, 2018 is provided below.

Real Estate Portfolio as of December 31, 2018

Property Segments	Number of Properties	Purchase Price	Number of Suites	Average Occupancy
Fort McMurray (1)	12	$ 260,587,720	973	63 %
Other (2)	3	12,250,000	197	73 %
Held for Sale (3)	1	36,095,607	102	63 %
Total - Investment Properties	16	**308,933,327**	**1,272**	65 %
Discontinued Operations (4)	1	**7,600,000**	**93**	69 %
Total Real Estate Portfolio	17	**$ 316,533,327**	**1,365**	65 %

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of December 31, 2018 has been reduced to 43 to account for the sale of 21 condominium units. The purchase price reflects the 43 condominium units that have not been sold.

(2) Includes the cost of major renovations and asset additions at Highland Tower

(3) Woodland Park is comprised of a 75 unit apartment complex and 32 townhomes, 5 of which have been sold. The purchase price reflects the 27 townhomes that have not been sold.

(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".

During 2018, LREIT sold five condominium units in Woodland Park with a purchase price of $1,769,393, reducing the number of suites in the Held for Sale segment from 107 to 102.

During 2018, LREIT sold two condominium units in Lakewood Townhomes with a purchase price of $792,884, reducing the number of suites in the Fort McMurray segment from 975 to 973.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Year Ended December 31		Increase (Decrease) in Income	
	2018	2017	Amount	%
Rentals from investment properties	$ 17,063,264	$ 19,052,202	$ (1,988,938)	(10)%
Property operating costs	(11,439,451)	(10,248,700)	(1,190,751)	(12)%
Net operating income	5,623,813	8,803,502	(3,179,689)	(36)%
Interest income	206,506	189,425	17,081	9 %
Interest expense	(14,916,720)	(13,930,662)	(986,058)	(7)%
Trust expense	(1,255,190)	(1,463,535)	208,345	14 %
Loss before the following	(10,341,591)	(6,401,270)	(3,940,321)	(62)%
Gain (loss) on sale of investment property	(161,848)	55,070	(216,918)	(394)%
Fair value adjustments	(35,313,425)	(25,530,987)	(9,782,438)	(38)%
Loss before discontinued operations	(45,816,864)	(31,877,187)	(13,939,677)	(44)%
Loss from discontinued operations	(686,837)	(159,495)	(527,342)	(331)%
Loss and comprehensive loss	$(46,503,701)	$(32,036,682)	$ (14,467,019)	(45)%

Analysis of Loss per Unit

	Year Ended December 31		Change	
	2018	2017		
Loss before discontinued operations - basic and diluted	$ (2.166)	$ (1.507)	$ (0.659)	(44)%
Loss from discontinued operations - basic and diluted	(0.032)	(0.008)	(0.024)	(300)%
Loss and comprehensive loss - basic and diluted	$ (2.198)	$ (1.515)	$ (0.683)	(45)%

Overall Results

LREIT completed 2018 with a loss and comprehensive loss of $46,503,701, compared to a loss and comprehensive loss of $32,036,682 in 2017. The increase in the loss mainly reflects the unfavourable variances in the fair value adjustments of the investment properties and of the investment property classified as held for sale in the combined amount of $9,782,438, a decrease in net operating income of $3,179,689, an increase in interest expense of $986,058 and an increase in the loss from discontinued operations of $527,342.

The unfavourable fair value adjustments recognized during 2018 exceeded the unfavourable fair value adjustments recognized during 2017. The losses related to fair value adjustments recognized during both 2018 and 2017 were primarily due to reduced revenue expectations as a result of reductions in the anticipated impact of the rebuilding efforts in Fort McMurray on the rental market 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 decrease in net operating income is mainly due to a decrease in rental revenue of $1,988,938 and an increase in operating costs of $1,190,751. The decrease in rental revenue mainly reflects a decrease in the average rental rates as well as a decrease in the average occupancy level of the Fort McMurray properties, including Woodland Park, which is classified as held for sale. The increase in property operating costs is mainly due to an increase in utility costs and an increase in insurance related costs. Also contributing to the increase in property operating costs is an increase in the property operating costs for the held for sale and/or sold properties primarily as a result of the capital replacement reserve component of the common element fees paid to the condominium corporation established as part of the Woodland Park Condominium Sales Program.

The increase in the loss from discontinued operations mainly reflects an increase in property operating costs of $575,064, primarily due to increased wages, advertising costs, and professional fees, all of which are associated with the review of operations and change in strategy of the seniors' housing complex.

The increase in interest expense mainly reflects an increase in revolving loan interest, due to an increase in the average outstanding balance of the revolving loan and the higher rate of interest that applies to revolving loan advances that are in excess of $30,000,000.

Funds from Operations (FFO)

Funds from Operations ("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. FFO is a non-IFRS financial measurement and 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 2018 with negative FFO of $11,020,478, compared to negative FFO of $6,423,890 during 2017, representing a decrease in FFO of $4,596,588.

The decrease in FFO is mainly due to a decrease in net operating income, an increase in interest expense, and an increase 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	
	2018	2017
Loss and comprehensive loss	$ (46,503,701)	$ (32,036,682)
Add (deduct):		
Loss (gain) on sale of investment property	161,848	(55,070)
Fair value adjustment - Property and equipment	7,950	136,875
Fair value adjustments	35,313,425	25,530,987
Funds from operations (FFO) *	$ (11,020,478)	$ (6,423,890)

* FFO is a non-IFRS measurement which is not calculated or presented in accordance with International Financial Reporting Standards (IFRS) and does 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 certain non-IFRS measurements, like FFO, are useful in supplementing the reader's understanding of the performance of the Trust. 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.

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, 2017 - 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, 2017 - 16%) of the residential suites in the portfolio of investment properties.

Held for Sale and/or Sold 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 and accounts for approximately 8% of the suites in the portfolio of investment properties (December 31, 2017 - 8%).

Revenues

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 the rental revenue of investment properties that have been sold from the period prior to their sale.

Analysis of Rental Revenue

	Year Ended December 31		Increase (Decrease)		% of Total	
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 13,983,159	$ 14,983,563	$ (1,000,404)	(7)%	82 %	79 %
Other investment properties	1,521,070	1,568,568	(47,498)	(3)%	9 %	8 %
Sub-total	15,504,229	16,552,131	(1,047,902)	(6)%	91 %	87 %
Held for sale and/or sold properties (1)	1,559,035	2,500,071	(941,036)	(38)%	9 %	13 %
Total	$ 17,063,264	$ 19,052,202	$ (1,988,938)	(10)%	100 %	100 %

Average Occupancy Level, by Quarter (2)

	2018				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	69 %	72 %	71 %	65 %	69 %
Other investment properties	77 %	68 %	68 %	70 %	71 %
Total	70 %	71 %	70 %	66 %	69 %
Held for sale and/or sold properties (1)	46 %	51 %	53 %	62 %	52 %

	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 (1)	79 %	79 %	69 %	61 %	72 %

Average Monthly Rents, by Quarter

	2018				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray properties	$1,685	$1,650	$1,618	$1,527	$1,620
Other investment properties	$907	$909	$909	$885	$902
Total	$1,554	$1,525	$1,499	$1,419	$1,499
Held for sale and/or sold properties (1)	$2,484	$2,258	$2,201	$1,899	$2,214

	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 (1)	$2,593	$2,611	$2,597	$2,549	$2,588

(1) Includes revenue from Woodland Park, the property classified as held for sale,

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

During 2018, total investment property revenue, excluding held for sale and/or sold properties, decreased by $1,047,902 or 6%, compared to 2017. The decrease mainly reflects a decrease in the average monthly rental rate of the Fort McMurray property portfolio from $1,700 in 2017 to $1,620 in 2018, representing a decrease of $80 or 4.7%. The decrease is mainly due to the turnover of leases that had commenced shortly after the May 2016 wildfire, when higher rental rates were achievable. The Fort McMurray property portfolio also experienced reduced occupancy levels, decreasing from 71% in 2017 to 69% in 2018.

During 2018, revenue from the held for sale and/or sold properties decreased by $941,036 or 38%, compared to 2017. The decrease in revenue was mainly due to a decrease in the average occupancy level from 72% in 2017 to 52% in 2018 and a decrease in the average monthly rental rate from $2,588 in 2017 to $2,214 in 2018, representing a decrease of $374 or 14.5% at Woodland Park, the property classified as held for sale.

The decrease in the average occupancy level of Woodland Park is mainly due to the transfer of two corporate tenants to other LREIT properties that offered lower rental rates or were closer to urban amenities, as well as due to the departure of tenants that were awaiting the reconstruction of their homes following the May 2016 wildfire. The Woodland Park property had a relatively high proportion of tenants awaiting the reconstruction of their homes as a result of the property's townhome offering and proximity to an area of Fort McMurray where a substantial number of homes were damaged or destroyed by the wildfire.

The decrease in the average rental rate of Woodland Park is mainly due to the continued turnover of a number of three-bedroom units and townhome units, which had been rented shortly after the wildfire at rental rates that were higher than the current market rates.

Property Operating Costs

Analysis of Property Operating Costs

	Years Ended December 31		Increase (Decrease)	
	2018	2017	Amount	%
Fort McMurray properties	$ 8,832,893	$ 8,086,147	$ 746,746	9 %
Other investment properties	1,380,779	1,230,211	150,568	12 %
Sub-total	10,213,672	9,316,358	897,314	10 %
Held for sale and/or sold properties	1,225,779	932,342	293,437	31 %
Total	$ 11,439,451	$ 10,248,700	$ 1,190,751	12 %

During 2018, property operating costs, excluding the held for sale and/or sold properties, increased by $897,314 or 10%, compared to 2017. The increase mainly reflects an increase in utility costs, primarily due to an increase in the number of all inclusive leases; an increase in insurance premiums; and an increase in insurance deductibles.

After accounting for held for sale and/or sold properties, property operating costs increased by $1,190,751 or 12% during 2018, compared to 2017. The increase in operating costs of the held for sale and/or sold properties of $293,437 or 31% is mainly due to the capital replacement reserve component of the common element fees paid by LREIT during 2018 for its portion of ownership of Woodland Park, the property held for sale. Capital replacement reserve fees are paid to address future capital expenditures that would have been capitalized when incurred prior to the establishment of the condominium sales program. Also contributing to the increase in operating costs of the held for sale and/or sold properties was an increase in maintenance costs, partially offset by a decrease in property management fees.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin *	
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 5,150,266	$ 6,897,416	$ (1,747,150)	(25)%	92 %	78 %	37 %	46 %
Other investment properties	140,291	338,357	(198,066)	(59)%	2 %	4 %	9 %	22 %
Sub-total	5,290,557	7,235,773	(1,945,216)	(27)%	94 %	82 %	34 %	44 %
Held for sale and/or sold properties	333,256	1,567,729	(1,234,473)	(79)%	6 %	18 %	21 %	63 %
Total	$ 5,623,813	$ 8,803,502	$ (3,179,689)	(36)%	100 %	100 %	33 %	46 %

* 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 2018, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1,945,216 or 27%, compared to 2017. The operating margin, excluding held for sale and/or sold properties, decreased from 44% in 2017 to 34% in 2018. The decreases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the decrease in revenue and the increase in the property operating costs of the Fort McMurray property portfolio, as discussed in the preceding sections of the report.

The decrease in net operating income from held for sale and/or sold properties of $1,234,473 is due to the decrease in revenue and the increase in operating costs of Woodland Park, as discussed in the preceding sections of the report. After accounting for held for sale and/or sold properties, the total net operating income of LREIT decreased by $3,179,689 or 36% during 2018, compared to 2017.

Interest Expense

During 2018, interest expense increased by $986,058 or 7%, compared to 2017. The increase mainly reflects an increase in the cash component of interest on the revolving loan of $828,149, due to the higher average outstanding balance under the revolving loan facility during 2018, compared to 2017; and, due to the higher interest rate of 7% that applies to amounts advanced under the revolving loan facility that are in excess of $30,000,000.

The impact on mortgage loan interest expense from an increase in the weighted average interest rate on mortgage loan debt from 5.5% as at December 31, 2017 to 5.8% as at December 31, 2018, was offset by a $9,699,591 reduction in the balance of mortgage loans outstanding during 2018.

The weighted average interest rate on the Trust's total debt, inclusive of the revolving loan and debentures, was 5.7% as at December 31, 2018, compared to 5.4% as at December 31, 2017.

Details on the reduction in the balance of mortgage loans outstanding during 2018 can be found in the "Capital Structure - Mortgage loans" and the "Liquidity and Capital Resources - Cash Flow Analysis" sections of this report.

Fair Value Adjustments

Investment Properties

During 2018, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $35,313,425, compared to a loss related to fair value adjustments of $25,530,987 during 2017, representing an unfavourable variance of $9,782,438.

The losses related to fair value adjustments recognized during both 2018 and 2017 were primarily due to reduced revenue expectations as a result of reductions in the anticipated impact of the rebuilding efforts in Fort McMurray on the rental market 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.

After accounting for fair value adjustments, dispositions, and capital expenditures, the carrying value of investment properties and investment properties held for sale decreased by $29,094,213 and $7,398,503, respectively, during 2018.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Year Ended December 31		Increase (Decrease) in income	
	2018	2017	Amount	%
Rental income	$ 1,561,867	$ 1,626,803	$ (64,936)	(4)%
Property operating costs	(2,042,829)	(1,467,765)	(575,064)	(39)%
Net operating income (loss)	(480,962)	159,038	(640,000)	(402)%
Interest income	612	-	612	DIV/0 %
Interest expense	(198,537)	(181,658)	(16,879)	(9)%
Fair value adjustments	(7,950)	(136,875)	128,925	94 %
Income (loss) from discontinued operations	$ (686,837)	$ (159,495)	$ (527,342)	331 %

During 2018, the loss from discontinued operations was $686,837, compared to loss from discontinued operations of $159,495 in 2017, representing an increase in the loss of $527,342. The increase in the loss is mainly the result of increased property operating costs incurred in a coordinated effort to enhance the revenue potential of the seniors' housing complex and its attractiveness to potential buyers. The increase in property operating costs mainly consisted of an increase in professional fees, as a result of an in-depth review performed on the operations of the seniors' housing complex; an increase in advertising costs, in an effort to promote recognition of the facility; and an increase in wages, as a result of an expansion of the level of care and services provided by the facility.

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	2018			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 3,806,907	$ 4,339,380	$ 4,449,474	$ 4,467,503
Net operating income	$ 767,309	$ 1,586,590	$ 1,620,981	$ 1,648,933
Loss before discontinued operations	$ (4,831,475)	$(12,668,271)	$(10,848,244)	$(17,468,874)
Loss and comprehensive loss	$ (5,179,799)	$(12,828,322)	$(11,000,852)	$(17,494,728)
Funds from Operations (FFO)*	$ (3,461,840)	$ (2,651,404)	$ (2,553,131)	$ (2,354,103)
PER UNIT				
Net operating income - basic and diluted	$ 0.036	$ 0.075	$ 0.077	$ 0.078
Loss before discontinued operations - basic and diluted	$ (0.228)	$ (0.599)	$ (0.513)	$ (0.826)
Loss and comprehensive loss - basic and diluted	$ (0.245)	$ (0.607)	$ (0.520)	$ (0.827)
Funds from Operations (FFO)* - basic and diluted	$ (0.164)	$ (0.125)	$ (0.121)	$ (0.111)

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 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)

* FFO is a non-IFRS measurement which is not calculated or presented in accordance with International Financial Reporting Standards (IFRS) and does 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 certain non-IFRS measurements, like FFO, are useful in supplementing the reader's understanding of the performance of the Trust. 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.

Rental Revenue and Net Operating Income

The prolonged economic downturn in Fort McMurray, which has resulted primrily 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, the downward pressure caused by the reduced oil sands development activity was temporarily tempered by an increase in demand for rental accommodations 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. The impact of the increased demand gradually tapered off during 2018 due to the turnover of leases that had commenced in the months following the wildfire, when higher rates were achievable, and a return to market conditions that are on par with the conditions that existed prior to the wildfire.

The impact of the turnover of leases and return to market conditions consistent with those that existed prior to the wildfire is most evident in the figures presented in the Average Monthly Rents, by Quarter table in the "Analysis of Operations - Revenues" section of this report.

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.

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.

Losses from fair value adjustments were incurred throughout 2017 and 2018, 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 Shelter loan, affect quarterly variations in interest expense.

Loss and Comprehensive Loss

With the exception of fair value adjustments, the operations of the seniors' housing complex, as reflected in income from discontinued operations, do not contribute significantly to variations in the quarterly financial results.

LIQUIDITY AND CAPITAL RESOURCES

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. This section begins with an analysis of the operating and non-operating cash flows during the year ended December 31, 2018 and is followed by an assessment of the Trust's working capital, capital commitments, capital resources, capital structure, and ability to provide sufficient liquidity in the near and long-term.

Cash Flow Analysis

The competitive rental market conditions in Fort McMurray, combined with the highly leveraged capital structure of the LREIT property portfolio, continue to affect operating cash flow to the extent that LREIT requires ongoing additional sources of cash to fund the cash outflow from operating activities, regular mortgage loan principal payments, transaction costs for debt financing, and capital expenditures. LREIT also requires additional capital in order to fund lump-sum principal repayments required by existing mortgage loans and 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.

Cash Used in Operating Activities

During 2018, the net cash used in operating activities, before working capital adjustments, increased by $3,172,885, compared to 2017. The unfavourable variance mainly reflects a decrease in the net operating income on a cash basis, including discontinued operations, of $3,819,689, primarily as a result of factors described in the "Net Operating Income and Operating Margin" section of this report and partially offset by the decrease in interest paid of $382,875, primarily as a result of the full deferral of interest payments on the revolving loan facility that commenced on July 1, 2018, net of increased interest paid on the revolving loan and the Shelter loan during the first six months of 2018.

Cash Used in Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $5,169,996 during 2018. The net cash inflow primarily reflects the proceeds of the revolving loan facility, partially offset by the repayment of the loan advances from Shelter, the repayment of long-term debt, and the repayment of mortgage loans on refinancing and expenditures on transaction costs.

Revolving Loan and Advances from Shelter

During 2018, advances under the revolving loan facility amounted to $22,400,000 and were used to repay the loan advances from Shelter in the full amount of $15,100,000 ($9,100,000 of which were advanced during 2018) and to fund the cash used in operating activities, the cash used in investing activities and the financing activity outflows discussed in this section.

Repayment of Long-term Debt

During 2018, the repayment of long-term debt for both investment properties and discontinued operations amounted to $6,067,086, compared to $3,508,348 during 2017. Included in repayment of long-term debt during 2018 were lump-sum payments in the total amount of $2,162,500, which were required under the terms of seven mortgage loans with an aggregate principal balance of $100,483,673 as at December 31, 2018.

Repayment of Mortgage Loan on Refinancing

During 2018, lump sum principal repayments in the aggregate amount of $4,700,000 were made upon the renewal of seven mortgage loans, contributing to a reduction in the aggregate principal amount of the mortgage loans to $88,949,725 as at December 31, 2018.

Cash Used in Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $1,075,138 during 2018, compared to a net cash outflow of $1,432,702 during 2017. The net cash outflow during 2018 primarily reflects the cost of capital expenditures.

During 2018, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the seniors' housing complex, remained focused on sustaining capital expenditures and amounted to $1,001,476, as compared to $1,585,193 during 2017.

During 2018, the Trust sold seven condominium units, five units at Woodland Park and two units at Lakewood Townhomes, for aggregate gross proceeds of $2,269,500. The combined sales resulted in a net cash shortfall of $4,319 after accounting for selling costs of $258,533 and mortgage loan repayments of $2,015,286 relating to such sales.

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

	Year Ended December 31	
	2018	2017
Sustaining Capital Expenditures		
- Investment properties	$ 853,662	$ 975,132
- Investment properties held for sale	139,864	4,076
- Property and equipment	7,950	214,390
Value-added capital expenditures		
- Investment properties	-	391,595
	$ 1,001,476	$ 1,585,193

Cash Shortfall

After accounting for the cash used in operating activities, regular payments of debt, transaction costs for debt financing, and capital expenditures, LREIT completed 2018 with a cash shortfall of $12,674,332, compared to a cash shortfall of $8,421,512 during 2017.

Distributions

Regular cash distributions have been suspended since 2009 due to the weak rental market conditions in Fort McMurray, and in view of the current operating results and financial position of LREIT, cash distributions will continue to be suspended. There can be no guarantee that cash distribution will be resumed in the future.

Working Capital

LREIT requires working capital for use in the day-to-day operations of its properties. LREIT's calculation of working capital excludes the revolving loan balance, the Shelter loan balance, and the current portion of long-term debt principal; and includes the current portion of accrued interest and fees. LREIT's calculation of working capital also excludes assets and liabilities classified as held for sale, the tenant security deposit liability, and the security deposit balance in restricted cash.

As of December 31, 2018, the working capital deficit was $2,237,891, compared to a working capital deficit of $402,631 as at December 31, 2017, representing an increase in the working capital deficit of $1,835,260.

The increase in the working capital deficit mainly reflects a $1,076,306 decrease in cash and a $1,485,041 increase in the current portion of accrued interest and fees, partially offset by a $935,218 decrease in trade and other payables, mainly attributable to the reclassification of mortgage loan servicing fees from accounts payable to long-term debt and current portion of long-term debt.

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 2018, 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 0.27, compared to 0.60 during 2017.

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 2018, the interest coverage ratio decreased to 0.49, compared to 0.84 during 2017. After accounting for the cash component of interest on the revolving loan facility, Shelter advances, and debentures, the interest coverage ratio was 0.36 during 2018, compared to 0.67 during 2017.

The decreases in the debt service coverage ratio and interest coverage ratio during 2018, compared to 2017, are mainly due to a decrease in net operating income. The decrease in the interest coverage ratio during 2018, inclusive of the cash component of interest on the revolving loan facility, Shelter advances and debentures, was also impacted by the increase in the cash component of interest on the revolving loan facility.

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.

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.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement and one mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations, and is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property classified as held for sale. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

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

Composition of Debt

	December 31 2018	%	December 31 2017	%
Debt (1)				
Mortgage loans	$ 177,683,113	68.1 %	$ 187,206,443	76.4 %
Revolving loan from 2668921 Manitoba Ltd.	52,400,000	20.1 %	30,000,000	12.3 %
Debentures	24,810,800	9.5 %	24,810,800	10.1 %
Total debt	254,893,913	97.7 %	242,017,243	98.8 %
Accrued interest and fees payable (2)	7,289,995	2.8 %	3,846,114	1.6 %
Unamortized transaction costs	(1,221,508)	(0.5)%	(970,862)	(0.4)%
Total debt (1)	$ 260,962,400	100.0 %	$ 244,892,495	100.0 %

(1) Excludes debt of discontinued operations.

(2) The accrued interest and fees payable mainly reflects accrued interest on the Series G debentures, regular monthly accrued interest on mortgage loans, fees payable that are due on expiry of certain forbearance agreements and on maturity of certain mortgage loans and accrued interest on the revolving loan facility.

Contractual Obligations

A summary of the debt obligations of LREIT as at December 31, 2018 for the next five years and beyond is provided in the chart below. 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, 2018, where applicable.

Summary of Contractual Obligations

Payments Due by Period	Total	2019	2020/2021	2022/2023	2024 and beyond
Mortgage loans (1)	$ 177,683,113	$ 57,578,884	$ 108,703,628	$ 584,270	$ 10,816,331
Revolving loan (2)	52,400,000	52,400,000	-	-	-
Debentures (3)	24,810,800	-	-	24,810,800	-
Total debt	254,893,913	109,978,884	108,703,628	25,395,070	10,816,331
Liabilities held for sale Discontinued operations	3,339,655	3,339,655	-	-	-
Total contractual obligations	$ 258,233,568	$ 113,318,539	$ 108,703,628	$ 25,395,070	$ 10,816,331

(1) As at December 31, 2018, four loan agreements had been negotiated with the lenders of four mortgage loans affecting four 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 December 1, 2020. Over the period from January 1, 2019 to maturity, $3,241,768 of accrued interest and fees is expected to be incurred and added to the outstanding mortgage principal.

(2) The revolving loan matured on June 30, 2018 and was amended to extend the maturity date to December 31, 2019. The renewal encompassed an increase in the interest rate from 5% to 7% on any additional advances above $30,000,000 and increased the limit on the maximum that may be advanced under the facility to $100,000,000.

(3) The Series G debentures bear interest at 5.0% and mature on June 30, 2022. The cumulative accrued interest on the Series G debentures is $4,279,863 and is due at maturity.

The investment property mortgage loan payments presented as due during 2019 in the above chart, in the aggregate principal amount of $57,578,884, are comprised of four mortgage loans which mature during 2019 in the aggregate principal amount of $47,474,158, and regular principal payments of $10,104,726.

Except for one mortgage loan for a property held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement and one mortgage loan with a principal balance of $3,339,655, which is secured by the property classified as discontinued operations and was overholding past its maturity date as described in the "Loan Defaults" sub-section of this section of this report, the Trust has renewed, refinanced, or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018.

Subsequent to December 31, 2018, the mortgage that is secured by the property classified as discontinued operations was renewed.

In the event that repayment is demanded with respect to the mortgage loan with the expired forbearance agreement, the Trust would not be able to satisfy the associated obligation with its current resources.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. represents 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. from the net proceeds of the sale of properties, in effect, serve to facilitate the advancing of additional funds. All funds advanced under the revolving loan facility are made at the discretion of 2668921 Manitoba Ltd. and are subject to the ability and willingness of 2668921 Manitoba Ltd. to provide further advances.

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.

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

At December 31, 2018, the remaining maximum available principal balance on the revolving loan facility was $47,600,000.

Subsequent to December 31, 2018, an additional $4,500,000 was advanced and $500,000 was repaid under the revolving loan facility from 2668921 Manitoba Ltd. resulting in a maximum available principal balance on the revolving loan facility of $43,600,000 as of the date of this report.

Advances from Shelter

Shelter provided loan advances as needed, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During 2018, the loan, in the amount of $15,100,000, was paid in full using the proceeds of additional advances under the revolving loan facility.

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

Proceeds from the Sale of Select Properties

Current divestiture activities are focused on the sale of condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. 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.

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, 2018		December 31, 2017	
	Amount	%	Amount	%
Long-term debt	$ 149,132,973	83.9 %	$ 58,585,292	28.1 %
Current portion of long-term debt	111,829,427	62.9 %	186,307,203	89.5 %
Deficit	(83,145,526)	(46.8)%	(36,641,825)	(17.6)%
Total capitalization	$ 177,816,874	100.0 %	$ 208,250,670	100.0 %

As previously reported, the Declaration of Trust no longer restricts the incurrence or assumption of additional mortgage indebtedness to a maximum indebtedness-to-appraised value ratio of 75%. As a result, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd., which continues to be the primary source of funding for any cash shortfall in the Trust's operating, investing, and financing activities. Additional information regarding the terms of the revolving loan facility is provided in the "Capital Resources" section of the report.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of December 31, 2018, the total mortgage loan debt of LREIT decreased by $9,699,591, compared to the amount payable as of December 31, 2017. 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, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (6,067,085)	$ (5,890,824)	$ (176,261)
Repayment of mortgage loans on refinancing	(4,700,000)	(4,700,000)	-
Reduction of mortgage loans on sale of properties	(2,015,288)	(2,015,288)	-
Non cash - interest and fees capitalized, net of repayment	3,082,782	3,082,782	-
Decrease in mortgage loans	(9,699,591)	(9,523,330)	(176,261)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - December 31, 2018	$ 181,022,768	$ 177,683,113	$ 3,339,655

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount Payable	Percentage of Total
Investment Properties			
Fixed rate debt			
2018	3.5 %	$ 24,418,992	13.5 %
2019	6.8 %	19,628,011	10.8 %
2020	6.0 %	2,080,538	1.1 %
2021	5.0 %	43,147,239	23.8 %
2025	4.4 %	12,186,637	6.7 %
Total fixed rate debt	4.9 %	101,461,417	55.9 %
Variable rate debt	6.9 %	76,221,696	42.1 %
Total	5.8 %	177,683,113	98.0 %
Discontinued Operations			
Variable rate debt	5.7 %	3,339,655	1.9 %
Total	5.8 %	$ 181,022,768	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, 2018, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.8%, 5.7% and 5.8%, respectively, compared to 5.5%, 5.2% and 5.5%, respectively, at December 31, 2017.

Debt to Carrying Value

	2018	2017
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations (1)	103 %	90 %
Ratio of mortgage loans, 2668921 Manitoba Ltd. revolving loan and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations (1)	147 %	116 %

(1) Excludes the Shelter loan included in trade and other payables prior to its repayment in full during 2018.

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 loan is secured by second mortgage charges against the title of nine properties in Fort McMurray and the remaining seniors' housing complex in Moose Jaw, Saskatchewan; one third mortgage charge on a property in Fort McMurray; the assignment of a vendor-take-back mortgage; and by a $100,000,000 subordinate debenture from LREIT charging all of its present and after-acquired property. The loan bears interest at a rate of 5% on amounts advanced up to $30,000,000 and 7% for advances in excess of $30,000,000, and matures on December 31, 2019. Advances on the loan are made at the discretion of 2668921 Manitoba Ltd.

A summary of the terms for the revolving loan facility from November 14, 2016 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
November 14, 2016	June 30, 2018	-	5.00%	$ 6,480,000 *	$ 30,000,000
July 1, 2018	December 31, 2019	-	5.00%/7.00% **	n/a	$ 100,000,000

***** 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 was $6,480,000.

****** Interest is charged at 5% on the first $30,000,000 of advances and 7% thereafter.

As of December 31, 2018, the balance outstanding on the revolving loan facility was $52,400,000, compared to $30,000,000 as of December 31, 2017.

Debentures

As of December 31, 2018, 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, 2018, $4,279,863 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, 2017	20,557,320
- December 31, 2018	20,557,320
- March 20, 2019	20,557,320

Outlook and Continuing Operations

On the basis of the information presented above and in the previous sections of this report, 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 new and renew existing 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.

A summary of LREIT's progress during 2018 with respect to the above noted initiatives is provided below.

Debt Restructuring - Mortgage Loans

During 2018, progress was made with respect to the renewal and refinancing of mortgage loans as follows:

Forbearance agreements were executed for four mortgage loans, secured by a total of seven properties, in the aggregate principal amount of $43,147,240 as of December 31, 2018. The loans were in default as of December 31, 2017 as the lender of the mortgage loans indicated that there were service fees outstanding with respect to previous defaults under the loans and that until such fees were paid the loans would remain in default. The forbearance agreements required an initial aggregate repayment of $1,700,000, which was paid on March 1, 2018; aggregate repayments totaling $633,000 in 2018, which were paid on May 1, 2018 and September 1, 2018; and future aggregate repayments of $2,666,000 and $2,333,000 in 2019 and 2020, respectively. Three of the forbearance agreements expire on May 1, 2021 with the fourth forbearance agreement set to expire on December 1, 2021.

LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of December 31, 2018 of $35,780,866. 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 a payment made on September 1, 2018 and ending 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, 2018 of $6,063,127. 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 at a minimum sales price of $320,000, subject to reasonable commissions and closing costs, under the property's condominium sales program. In exchange for the net proceeds from each unit sold and/or 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 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 secured by a property in Fort McMurray with a principal balance as of December 31, 2018 of $29,315,281. The renewal terms required an initial principal repayment of $1,000,000, paid on June 1, 2018 and additional principal repayments of $500,000 every six months, commencing with a payment made on December 1, 2018 and ending on June 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 30% of the monthly interest payments until the December 1, 2020 maturity date of the loan.

LREIT agreed to renewal terms on a first mortgage loan with a principal balance of $2,080,538 as at December 31, 2018. The interest rate on the mortgage loan was reduced from 9% to 6% and the maturity date extended for 24 months to July 1, 2020. The renewal terms required an initial principal repayment of $500,000, paid on July 1, 2018, and additional principal repayments of $500,000 due every six months during the term of the mortgage loan, commencing with a payment made on January 2, 2019.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement and one mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations, and is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property classified as held for sale. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd.

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

During 2018, $22,400,000 was advanced under the revolving loan facility and was used to repay the $15,100,000 of loan advances from Shelter in full and to fund operations. The revolving loan continues to be the primary funding source for any cash shortfall from operating, investing and financing activities of LREIT with an additional $4,500,000 being advanced and $500,000 being repaid from January 1, 2019 to the date of this report.

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

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 condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. 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, 2018, 21 condominium units have been sold at a combined gross selling price of $9,592,600.

In accordance with the first mortgage loan, LREIT is required to make a payment to the lender of $280,000 every three months, commencing May 1, 2018, unless a condominium unit is sold within the three-month time frame at a minimum sales price of $320,000, subject to reasonable commissions and closing costs, and the net proceeds are remitted to the lender. Upon receipt of the net sales proceeds or mortgage paydown, the lender will provide a partial discharge of the mortgage. 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.

During 2018, the Trust completed the sale of two condominium units for gross proceeds of $619,500, resulting in the reduction of mortgage loan debt of $533,900. The shortfall in the repayment of the existing mortgage loan and the payment of selling costs and standard closing adjustments, in the amount of $25,883, was funded by an advance on the revolving loan facility. In addition, the Trust made one $280,000 payment during 2018 in accordance with the first mortgage loan requirement.

Woodland Park Condominium Sales Program

During 2018, the Trust sold five condominium units at Woodland Park for an aggregate gross proceeds of $1,650,000. The sales resulted in net cash proceeds of $21,564 after selling costs of $147,050 and mortgage loan repayments of $1,481,386. The condominium units had an aggregate carrying value of $1,616,994 and the sales resulted in a loss on sale of investment properties of $114,044.

Operations Initiatives

In addition to operational initiatives focused on continued cost control and select marketing and renovation activities aimed at improving operating performance across LREIT's portfolio of properties, management is pursuing initiatives to enhance the revenue potential of the remaining seniors' housing complex, Chateau St. Michael's, and its attractiveness to potential buyers. During 2018, a review of the operations of Chateau St. Michael's was conducted together with an external consultant, which resulted in Shelter assuming property management responsibility from the third party manager and the launch of a coordinated effort to expand the level of care and services provided by the facility as well as to enhance the appeal, recognition and value of the facility.

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.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter provides administrative and asset management services to LREIT, pursuant to the terms of a Service Agreement, and Shelter is also the Property Manager for LREIT, pursuant to the terms of 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, inclusive of the seniors' housing complex, for which Shelter assumed property management responsibility from the third party manager on June 1, 2018.

In accordance with the Services Agreement, Shelter 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.

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. Shelter is also entitled to 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. 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 2018, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of $710,529 and $900,673, respectively, compared to $778,243 and $899,627, respectively, during 2017.

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 to Shelter 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 $34,836 for the year ended December 31, 2018 (2017 - $20,895).

Services fee for the Woodland Park Townhomes condominium sales program

LREIT has entered into an agreement with Shelter in regard to the condominium sales program at Woodland Park. Under the agreement, Shelter will provide overall management services for the condominium sales program and will be paid a service fee equal to 6.5% of the gross sales proceeds. Shelter is responsible for the payment of a fixed percentage fee to an external real estate broker for providing brokerage services with respect to the condominium sales program.

The Trust incurred service fees payable to Shelter of $112,613 for the year ended December 31, 2018 (2017 - nil).

Loans

Revolving Loan

As described in the "Liquidity and Capital Resources" section of this report, LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. Effective July 1, 2018, the revolving loan facility was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000.

During 2018, interest on the loan facility amounted to $2,191,519, compared to $1,363,370 during 2017.

Interest accrued on the revolving loan facility is $1,447,684 as of December 31, 2018 (December 31, 2017 - nil) and is included in the current portion of long-term debt.

During 2018, the Trust received advances of $22,400,000 (2017 - $7,700,000) and made no repayments (2017 - nil) on the revolving loan. At December 31, 2018, the revolving loan balance was $52,400,000 (2017 - $30,000,000).

Subsequent to December 31, additional advances of $4,500,000 were provided and $500,000 was repaid under the revolving loan facility, the net amount advanced was used to fund operations.

Advances from Shelter

During 2018, the Trust received advances of $9,100,000 (2017 - $6,000,000) and made repayments of $15,100,000 (2017 - nil) on the loan from Shelter, resulting in a balance of nil at December 31, 2018 (2017 - $6,000,000). The terms of the loan from Shelter provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During 2018, interest on the Shelter advances amounted to $259,016, compared to $59,130 during 2017.

Nelson Ridge Second Mortgage Loan

The second mortgage loan secured by the property known as Nelson Ridge is held by 2668921 Manitoba Ltd., bears interest at a rate of 9% per annum and matures on March 31, 2019. The mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of December 31, 2018, the amount owing on the mortgage loan was $6,013,525 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

Millennium Village first mortgage loan

On December 19, 2018, 2668921 Manitoba Ltd. purchased the Millennium first mortgage loan in the amount of $12,186,637, inclusive of accrued interest, which carries an interest rate of 4.4% and has a maturity date of May 1, 2025.

Subsequent to year end, new first mortgage loan financing was obtained and 2668921 Manitoba Ltd. surrendered the security it acquired on the purchase of the original first mortgage loan and assumed a second secured position. The new first mortgage loan in the amount of $2,500,000 bears interest at prime plus 1% and matures on January 1, 2020. Proceeds from the first mortgage loan were used to pay down the second mortgage loan held by 2668921 Manitoba Ltd. resulting in a balance of $9,686,637 for the second mortgage loan as of the date of this report.

Norglen Terrace second mortgage loan

Subsequent to year end, 2668921 Manitoba Ltd. agreed to fund principal payments for a mortgage loan with an outstanding balance of $2,080,538 as at December 31, 2018 by extending second mortgage loan financing to LREIT. The second mortgage loan requires interest only payments at 6% per annum and matures on July 1, 2020. The first mortgage loan requires a principal repayment of $500,000 every six months until the loan is paid in full commencing with a payment that was made on July 1, 2018. This payment was funded by an advance on the revolving loan facility from 2668921 Manitoba Ltd. Subsequent to year end, $1,000,000 was advanced under the second mortgage loan, $500,000 of which was used to pay down the first mortgage loan secured by the property and $500,000 of which was used to pay down the revolving loan facility.

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 properties, as well as the normal risks which are associated with an investment in a real estate investment trust. The operations of LREIT are subject to risk that could cause future operating results to differ significantly from its performance in the past. An event arising from one of the risks listed below could affect LREIT's business, prospects, financial condition, results of operations or cash flows. The following description of risks does not include all possible risks, and there may be other risks of which the Trust is not currently aware.

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 new and renew existing 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 increases the exposure of LREIT's portfolio to the Fort McMurray market.

At December 31, 2018, there were 17 properties in the real estate portfolio of LREIT, 13 of which are located in Fort McMurray, Alberta. The 13 properties in Fort McMurray comprise a total of 1,075 suites, or 85% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $157,732,593, which represents approximately 94% of the total aggregate carrying value of the investment property portfolio as at December 31, 2018. The 13 properties located in Fort McMurray accounted for 91% of investment property revenue and 98% of net operating income in 2018.

Such geographic concentration exposes LREIT to the benefits and risks associated with the strength or weakness of the energy sector, and the Alberta oil sands industry in particular. Between 2009 and 2011 there was a slowdown of economic growth in Fort McMurray, a reduction in the level of activity in the oil sands construction industry, and a weakening of rental market conditions by means of reduced rental rates and occupancy levels. As a result of an increase in activity in the oil sands industry, the occupancy levels and operating income from the Fort McMurray property portfolio of LREIT improved in 2012 and 2013. Since 2014, Fort McMurray has been subject to another significant slowdown of development activity due to the significant decline in the price of oil, insufficient pipeline infrastructure and other oil transportation bottlenecks, delays in municipal infrastructure projects, variations in the supply of available rental units, and increased competition form temporary work camp accommodations.

The demand for rental accommodations that resulted from the entry of residents displaced by the May 2016 wildfire into the rental market and the migration of workers involved in the restoration and post-fire rebuilding efforts dissipated during 2018, with leases turning over at rental rates that closely reflect the market conditions that existed prior to the wildfire.

Although management expects that oil sands development activity and production growth will increase in the future, there can be no assurance that this will be the case and it is possible that industry activity will remain depressed for a significant additional period of time.

Commodity Price Risks

Due to the concentration of properties in Fort McMurray (as discussed above), LREIT is indirectly affected by fluctuations in the market for raw materials produced by the oil sands industry, such as those caused by movements in energy prices, particularly in the price of oil and gas.

Prices for oil and gas are subject to large fluctuations in response to changes in the global and regional supply and demand for oil and gas as well as numerous other factors including: the condition of the Canadian, United States and global economies; the actions of the Organization of Petroleum Exporting Countries; access to markets and sufficient pipeline and rail capacity; governmental regulation; political stability in the Middle East and elsewhere; war, or the threat of war, in oil and gas producing regions; the domestic and foreign supply of oil and gas and refined products; and the price of foreign imports of crude oil and gas and refined products and the availability and price of alternate fuel sources. All of these factors are beyond the control of LREIT.

Economic Conditions

Canadian real estate investment trusts are subject to risks generally incidental to the prevailing real estate, capital, and financial markets.

Sensitivity to the global economic conditions, and their impact in Canada, may negatively affect the income received from LREIT's properties. Illiquidity may limit LREIT's ability to vary its portfolio in response to changes in the global, national and/or local economic conditions and may ultimately prevent LREIT from implementing its strategies. Increased vacancy rates and difficulties re-leasing properties, commonly associated with recessionary economic conditions, may occur and may adversely affect the income received from LREIT's real property assets. Finally, the extent to which LREIT relies on debt financing increases the possibility that LREIT will either be unable to refinance existing indebtedness or result in LREIT receiving less favourable terms than that of existing financing arrangements.

Economic conditions also impact the price of oil and gas as well as the development of the oil sand industry. See "Commodity Price Risks" and "Concentration of the Portfolio of LREIT in One Market" above.

Financing Related Risks

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to significant uncertainty. Factors that 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 continued low level of economic activity in Fort McMurray has resulted in tight mortgage lending conditions for the properties located in Fort McMurray, Alberta.

Highly Leveraged Capital Structure

The degree to which LREIT is leveraged could have important consequences to the holders of its securities. LREIT's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited as LREIT's cash flow from operations is not sufficient to fund the payments of the principal of and interest on its indebtedness, thereby eliminating the ability of LREIT to set aside funds for future operations and distributions.

As LREIT does not generate sufficient cash flow from operations to meet the required interest and principal payments, it is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. 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.

LREIT's various mortgages provide lenders with security interests on the income producing properties in its portfolio. These mortgages contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of LREIT to create liens or other encumbrances, to make certain payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the mortgages could result in a default which, if not cured or waived, could result in acceleration of the relevant indebtedness.

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. If the indebtedness under the mortgages were to be accelerated, there can be no assurance that the assets of LREIT would be sufficient to repay that indebtedness in full.

Loan Defaults

As of the date of this report, the Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24.4 million. The forbearance agreement for the mortgage loan expired on December 31, 2018 and the Trust was unable to repay the outstanding balance of the loan. On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property. In addition to managing the property, Management anticipates that the Receiver will attempt to sell the property. In the event of sale, any deficit between the sales proceeds and the balance outstanding on the loan could result in a claim to be made by the lender against the mortgage guarantee provided by LREIT on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

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

Debt Restructuring

LREIT continues to negotiate with certain of its lenders to restructure its outstanding debts to allow it to stabilize its operations. Such debt restructuring may include: (a) reduction of interest rates; (b) deferral of principal and interest payments; and (c) forbearance of debt service and other covenants. There can be no assurance that LREIT's negotiations with its lenders to restructure its debts will be successful and will result in LREIT being able to stabilize its operations and continue its business.

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.

Details of the debt maturing in 2019 and subsequent years can be found in the "Liquidity and Capital Resources Debt Service Summary of Total Debt Obligations by Year" section of this report.

Reliance on Shelter and 2668921 Manitoba Ltd.

LREIT receives interim financing from the revolving loan facility provided by 2668921 Manitoba Ltd. and from loan advances from Shelter. The revolving loan facility and the loan advances from Shelter are demand loans and as such, 2668921 Manitoba Ltd. and Shelter, as applicable, can request repayment of these loans at any time. At their discretion, 2668921 Manitoba Ltd. and Shelter may also defer the receipt of interest payments under the revolving loan facility and the Shelter loan advances. Shelter has also provided LREIT with interim funding on a periodic basis in the form of interest-free advances and deferred service fees. Should 2668921 Manitoba Ltd. and Shelter be unable or unwilling to provide this funding there is no guarantee that LREIT would be able to obtain interim funding from another source on terms acceptable to LREIT.

LREIT also receives mortgage loan financing from 2668921 Manitoba Ltd. inclusive of agreed upon and/or discretionary interest payment concessions.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal and/or expansion of the revolving loan facility and mortgage loan financing from 2668921 Manitoba Ltd. which is subject to regulatory/unitholder approval and the willingness/ability of 2668921 Manitoba Ltd. to advance funds, as required.

Divestiture Program

Detailed information with respect to the Divestiture Program is provided in the "Liquidity and Capital Resources - Outlook and Continuing Operations" section of the report. Current divestiture activities are focused on the sale of condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. 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.

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.

Revolving Loan Facility From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is dependent on advances under the revolving loan facility from 2668921 Manitoba Ltd. which is subject to 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.

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 1,075 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 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, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $26,653,465 (December 31, 2017 $27,512,300) which expires in 2022 (December 31, 2017   expires in 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.

Liquidity

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit LREIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If LREIT were to be required to liquidate its real property investments, the proceeds to LREIT might be significantly less than the aggregate carrying value of its properties and/or its mortgage debt outstanding.

Real Property Ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants and on the vacancy rate of the property. LREIT's FFO would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in LREIT's properties is vacant or is not leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to LREIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and costs in protecting LREIT's investment may be incurred. Furthermore, at any time, a tenant of any of LREIT's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to LREIT. The ability to rent unleased space in the properties in which LREIT has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to properties required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on LREIT's financial condition.

Certain significant expenditures, including property taxes, utility payments, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If LREIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Market Risk

LREIT's principal exposures to market risk are in the areas of residential property supply, demand for rental accommodations, changes to rent controls, utility price increases, property tax increases, higher interest rates and mortgage renewal risk.

Competition

The real estate business is extremely competitive. The operations of LREIT are affected by a number of factors, including general economic conditions, local real estate markets and supply and demand for leased premises. The main competition of LREIT is from other real estate investors, developers, managers and owners, including individuals, other real estate investment trusts, corporations and institutions (both Canadian and foreign). LREIT also faces competition in its Fort McMurray, Alberta market from work camps maintained by oil sands companies and other entities which reduce demand for rental accommodations in Fort McMurray.

LREIT may compete for real property acquisitions with real estate investors, developers, managers and owners who are seeking or may seek real property investments similar to those desired by LREIT. Availability of investment funds and an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices. Many of the competitors have greater financial resources than those of LREIT or operate without the investment or operating restrictions of LREIT or according to more flexible conditions.

Numerous other real estate developers, managers and owners also compete with LREIT in seeking tenants. Some of the properties of LREIT's competitors are newer or better located or less leveraged than LREIT's properties. Some of LREIT's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for LREIT's tenants could have an adverse effect on LREIT's ability to lease space in its properties and any subsequently acquired properties and on the rents charged or concessions granted, and could adversely affect LREIT's revenues and its ability to meet its debt obligations.

Availability of Cash for Distributions

The ability of LREIT to pay distributions is dependent upon the level of cash reserves, the debt covenants and obligations, the working capital requirements and the future capital requirements of the Trust.

On June 16, 2009, LREIT announced that due to the weakness in its rental housing operations in Fort McMurray, Alberta, it was omitting its quarterly distribution for the quarter ended June 30, 2009 and that future distributions to Unitholders would be dependent on the pace of the anticipated recovery of the Fort McMurray rental housing market. Cash distributions on the Units have not been resumed as at the date of this report and there can be no guarantee that such cash distributions will be resumed.

Debenture Related Risks

Risk of Default on Interest Payments and Principal Repayments under Series G Debentures

The obligations of LREIT under the Series G Debentures are secured by a security interest over all the assets of LREIT; however, there can be no assurance that: (i) LREIT will be able to make required interest payments under the Series G Debentures on maturity of the Series G Debentures; (ii) LREIT will be able to repay the principal amount of the Series G Debentures on maturity thereof in accordance with the terms of the Series G Trust Indenture, as amended; or (iii) in the event of a default under the Series G Trust Indenture, that the security granted under the Series G Trust Indenture will result in LREIT's payment obligations under the Series G Debentures, as applicable, being satisfied.

The Series G Debentures are subordinate to the Senior Security. In the event that LREIT defaults under the Series G Trust Indenture, the holders of the Series G Debentures will have the rights set forth in the Series G Trust Indenture.

Limited Covenant Protection in Series G Trust Indenture

The likelihood that holders of the Series G Debentures will receive payments owing to them under the terms of the Series G Debentures will largely depend on LREIT's financial condition and creditworthiness. In addition, the Series G Debentures are subordinate in right of payment to all indebtedness secured by Senior Security. Therefore, if LREIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the assets of LREIT will be available to pay its obligations with respect to the Series G Debentures only after it has paid its obligations relating to the Senior Security. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Series G Debentures then outstanding. The Series G Trust Indenture does not prohibit or limit the ability of LREIT or its subsidiaries from incurring additional debt or liabilities, except where such debt or liabilities is secured by a security interest that ranks or is capable of ranking in priority to or pari passu with, the security granted under the Series G Trust Indenture, or to make distributions, except, in respect of distributions, where LREIT is in default of its obligations to pay principal or interest under the Series G Trust Indenture. The Series G Trust Indenture does not contain any provision specifically intended to protect holders of Series G Debentures in the event of a future leveraged transaction involving LREIT.

Inability of LREIT to Purchase Series G Debentures on a Change of Control

LREIT may be required to purchase all outstanding Series G Debentures upon the occurrence of a change of control of LREIT. However, it is possible that following a change of control of LREIT, LREIT will not have sufficient funds at that time to make any required purchase of outstanding Series G Debentures or that restrictions contained in other indebtedness will restrict LREIT's purchases of Series G Debentures.

Tax Related Risk Factors

Mutual Fund Trust Rules

The Income Tax Act (Canada) (the "Tax Act") contains restrictions relating to the activities and the investments permitted by a mutual fund trust. Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of Non-Residents unless restrictions in respect of its assets are followed. There are restrictions on the ownership of Units by Non-Residents which are contained in the Declaration of Trust. The Tax Act also contains restrictions on investments and income which must be complied with by closed-end trusts. In order to qualify as a "closed-end" mutual fund trust, LREIT must restrict its activities to the making of passive investments (such as the ownership of Canadian real property that is capital property) and must satisfy all of the following conditions:

(a) at all times, at least 80% of LREIT's assets must consist of shares (or rights to acquire shares), cash, bonds, debentures, mortgages, notes or other similar obligations, marketable securities or Canadian real estate;
(b) not less than 95% of its income (computed without regard to any distributions) for each taxation year must be derived from, or from the disposition of, investments described in (a);
(c) not more than 10% of LREIT's assets at any time may consist of shares, bonds or securities of any one corporation or debtor; and
(d) all units of LREIT must be listed on a designated stock exchange in Canada.

Management of LREIT intends to ensure that LREIT satisfies the conditions to qualify as a closed-end mutual fund trust by complying with the restrictions in the Tax Act as they are interpreted and applied by the CRA. No assurance can be given that LREIT will be able to comply with these restrictions at all times. If LREIT were not to qualify as a mutual fund trust, the consequences could be material and adverse. There can be no assurance that the Canadian federal income tax laws respecting mutual fund trusts, or the ways in which these rules are interpreted and applied by the CRA, may not be changed in a manner which adversely affects LREIT and its Unitholders.

Investment Eligibility

LREIT will endeavour to ensure that the Units and the Series G Debentures continue to be qualified investments for Registered Plans. Units will cease to be qualified investments for Registered Plans if LREIT no longer qualifies as a mutual fund trust and the Units cease to be listed on a designated stock exchange. Series G Debentures will cease to be qualified investments for Registered Plans if (i) the Series G Debentures are not or cease to be listed on a designated stock exchange, and (ii) LREIT no longer qualifies as a mutual fund trust or its Units cease to be listed on a designated stock exchange in Canada. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments. As well, if the Units or Series G Debentures are "prohibited investments" for the purpose of a tax-free savings account, a registered retirement savings plan, or a registered retirement fund, a holder will be subject to a penalty tax as set out in the Tax Act.

SIFT Rules

The Tax Act contains specified investment flow-through rules (the "SIFT" rules), which are applicable to investors in SIFTs. LREIT will not be considered to be a SIFT trust in respect of a particular taxation year and, accordingly, will not be subject to the SIFT Rules in that year, if it satisfies the REIT Exception. The REIT Exception to the SIFT Rules is comprised of a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis. The REIT Exception is applied on an annual basis. If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT will not be subject to taxation on its income for that year to the extent that such income is distributed to its Unitholders. Under such circumstances, LREIT intends to make sufficient distributions to its Unitholders so that LREIT will not be subject to taxation.

Management of LREIT 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 is satisfied that LREIT met the requirements of the REIT Exception in 2018, and intends for LREIT to qualify for the REIT Exception in 2019 and subsequent years. There can be no assurance, however, that LREIT will qualify for the REIT Exception in any such year such that LREIT and its Unitholders will not be subject to the tax imposed by the SIFT Rules in 2018 or any subsequent year.

In the event that the SIFT Rules apply to LREIT in 2018 or in any subsequent year, that may adversely affect the marketability of the Units and the amount of cash available for distributions. Further, application of the SIFT Rules may, depending on the nature of distributions from LREIT including in part on what portion of its distributions are income and what portion are returns of capital, have a material adverse effect on the after-tax returns of certain investors. Generally, distributions that are characterized as returns of capital are not taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's Units. Where reductions to a Unitholder's adjusted cost base of Units for the year will result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the Unitholder in the year and the Unitholder's adjusted cost base of the Units at the beginning of the next year will then be nil. With respect to distributions of income, unless LREIT is able to qualify for the REIT Exception throughout any taxation year, LREIT will be prevented by the SIFT Rules from deducting certain amounts payable to Unitholders, and those amounts will be taxed in the hands of Unitholders as eligible dividends. Income of LREIT payable to Unitholders that LREIT is not prevented from deducting by the SIFT Rules will generally be deductible by LREIT in computing its taxable income and taxable to Unitholders.

There can be no assurance that further review of the tax treatment of flow-through entities will not be undertaken or that Canadian federal income tax laws respecting flow-through entities will not be further changed in a manner which adversely affects LREIT and its Unitholders.

Distributions

The after-tax return on any Units or any convertible debentures issued by LREIT, or on any warrants issued by LREIT) owned by Unitholders will depend, in part, on the composition for tax purposes of distributions, if any, paid by LREIT (portions of which may be fully or partially taxable, taxable as dividends, or tax deferred). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders. Subject to the application of the SIFT Rules, distributions are generally taxed as ordinary income or as dividends in the hands of a Unitholder, with amounts in excess of the income of LREIT that are paid or payable by LREIT to a Unitholder as a return of capital being generally non-taxable to a Unitholder (but reducing the Unitholder's cost base in the Unit for tax purposes and therefore possibly resulting in a capital gain to the Unitholder). Unitholders who are Non-Residents will be required to pay any withholding taxes payable in respect of any distributions made by LREIT. Unitholders are advised to consult their own tax advisers with respect to the implications of the foregoing in their own circumstances.

Special Distribution of Units

The cash distributions paid to the Unitholders periodically 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.

When no cash is available for the payment of a special distribution, the payment may be made, in accordance with section 9.3 of the Declaration of Trust, by the issuance of additional units.

Deductibility of Expenses

Income fund structures generally involve a significant amount of inter-company or similar debt, generating substantial interest expense, which reduces earnings and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted on the debt owing between the entities in the structure of LREIT. Management believes that the interest expense inherent in the structure of LREIT is supportable and reasonable in the circumstances. If such a challenge were to succeed it could adversely affect the amount of distributable cash available.

LREIT is of the view that all expenses claimed and to be claimed by LREIT and its subsidiaries are and will be reasonable and deductible and that the cost amount and capital cost allowance claims of LREIT and its subsidiaries have been and will be correctly determined. There can be no assurance that the Tax Act, or the interpretation of the Tax Act, will not change, or that the CRA will agree with any such interpretation. If the CRA successfully challenges the deductibility of such expenses, the taxable income of LREIT, its subsidiaries, and the Unitholders, may change.

Changes in Tax Law or Practices

There can be no assurance that Canadian federal income tax laws and the administrative and assessing practices of the CRA respecting the treatment of mutual fund trusts or flow-through entities will not be changed in a manner which adversely affects LREIT, Unitholders or holders of Series G Debentures.

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 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. The Trust's leasing activity is primarily comprised of the leasing of residential units under operating leases. The Trust also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and the Trust has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

Adoption of Accounting Standards

- IFRS 9 - Financial Instruments (“IFRS 9”) replaces IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 provides new guidance on the classification and measurement of all financial assets and liabilities, as well as a new Expected Credit Loss (“ECL”) impairment model and a substantially reformed model of hedge accounting.

  IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. LREIT adopted the new standard on January 1, 2018 and has applied the standard retrospectively to the fiscal year ended December 31, 2017. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard. Financial assets, which include: cash, restricted cash, deposits, rent and other receivables and the loan receivable were previously classified as Loans and Receivables under IAS 39 and are now classified as Amortized Cost under IFRS 9. Financial liabilities, which include: trade and other payables, tenant deposits, mortgage loans, the revolving loan from 2668921 Manitoba Ltd. and the Series G debentures were previously classified as Other Liabilities under IAS 39 are now classified as Amortized Cost under IFRS 9. The change in classification of these assets and liabilities did not result in any changes in their measurement. The classification and measurement of LREIT’s financial assets and liabilities under the new standard are summarized in Note 3 (n) - Financial Instruments of the consolidated financial statements.

- 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. The Trust'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, there was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

- 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. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

CONTROLS AND PROCEDURES

Processes have been established to accumulate and communicate information to management, including the Chief Executive Officer and Chief Financial Officer, in order to support management's representation that it has exercised reasonable diligence to ensure that the Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered; and, that the financial statements and MD&A fairly present in all material respects the financial condition, results of operations and cash flows of the Trust, as of the date and for the periods presented.

In contrast to the usual certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate prescribed by NI 52-109 filed by the Trust does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS).

LREIT's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of an issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL INFORMATION

Additional information relating to LREIT, 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 2018 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 20, 2019

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 and 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 20, 2019

Independent Auditor's Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

Opinion

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiary (the "Trust"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Trust has incurred a net loss before discontinued operations of $45,816,864 during the year ended December 31, 2018 and, as of that date is in default of one mortgage loan. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Trust's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis and the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained the Annual Report and Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jeff Eckstein.

Winnipeg, Manitoba

MNP LLP

March 20, 2019

Chartered Professional Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2018	December 31 2017
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$149,215,522**	$178,309,735
Loan receivable (Note 7)	**4,000,000**	4,000,000
Restricted cash (Note 8)	**2,461,552**	2,400,176
Total non-current assets	**155,677,074**	184,709,911
Current assets		
Cash	**562,612**	1,638,918
Rent and other receivables (Note 9)	**390,433**	459,234
Deposits and prepaids (Note 10)	**980,824**	1,121,155
	1,933,869	3,219,307
Assets held for sale (Note 11)	**26,831,178**	34,199,238
Total current assets	**28,765,047**	37,418,545
TOTAL ASSETS	**$184,442,121**	$222,128,456
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	**$149,132,973**	$ 58,585,292
Total non-current liabilities	**149,132,973**	58,585,292
Current liabilities		
Trade and other payables (Note 13)	**1,879,928**	8,815,147
Current portion of long-term debt (Note 12)	**111,829,427**	186,307,203
Deposits from tenants	**1,174,074**	1,407,522
	114,883,429	196,529,872
Liabilities held for sale (Note 11)	**3,571,245**	3,655,117
Total current liabilities	**118,454,674**	200,184,989
Total liabilities	**267,587,647**	258,770,281
Total deficit	**(83,145,526)**	(36,641,825)
TOTAL LIABILITIES AND EQUITY	**$184,442,121**	$222,128,456

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 2018	2017
Rentals from investment properties	**$ 17,063,264**	$ 19,052,202
Property operating costs	**11,439,451**	10,248,700
Net operating income	**5,623,813**	8,803,502
Interest income	**206,506**	189,425
Interest expense (Note 14)	**(14,916,720)**	(13,930,662)
Trust expense	**(1,255,190)**	(1,463,535)
Gain (loss) on sale of investment property (Note 5) (Note 11)	**(161,848)**	55,070
Fair value adjustments (Note 15)	**(35,313,425)**	(25,530,987)
Loss before discontinued operations	**(45,816,864)**	(31,877,187)
Loss from discontinued operations (Note 11)	**(686,837)**	(159,495)
Loss and comprehensive loss	**$ (46,503,701)**	$ (32,036,682)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (2.166)**	$ (1.507)
Loss per unit from discontinued operations:		
Basic and diluted	**$ (0.032)**	$ (0.008)
Loss per unit:		
Basic and diluted	**$ (2.198)**	$ (1.515)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Year Ended December 31 2018	2017
Issued capital (Note 17)		
Balance, beginning and end of period	**$ 125,641,529**	$ 125,641,529
Contributed surplus		
Balance, beginning and end of period	**17,027,907**	17,027,907
Cumulative deficit		
Balance, beginning of period	**(96,161,226)**	(64,124,544)
Loss and comprehensive loss	**(46,503,701)**	(32,036,682)
Balance, end of period	**(142,664,927)**	(96,161,226)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(83,150,035)
Total deficit	**$ (83,145,526)**	$ (36,641,825)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2018	2017
Operating activities		
Loss and comprehensive loss	**$ (46,503,701)**	$ (32,036,682)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 15)	**35,313,425**	25,530,987
Fair value adjustment - Property and equipment (Note 11)	**7,950**	136,875
Loss (gain) on sale of properties (Note 5) (Note 11)	**161,848**	(55,070)
Accrued rental revenue	**29,135**	(7,775)
Interest income	**(207,118)**	(189,425)
Interest received	**207,002**	188,328
Interest expense	**15,115,257**	14,112,320
Interest paid	**(9,086,517)**	(9,469,392)
Cash (used in) operations	**(4,962,719)**	(1,789,834)
(Increase) decrease in rent and other receivables	**40,799**	(32,829)
(Increase) decrease in deposits and prepaids	**145,150**	(350,175)
Decrease in tenant deposits	**(226,047)**	(126,138)
Decrease in trade and other payables	**(140,035)**	(363,354)
	(5,142,852)	(2,662,330)
Cash provided by financing activities		
Repayment of mortgage loans on refinancing	**(4,700,000)**	(4,475,000)
Repayment of long-term debt	**(6,067,086)**	(3,508,348)
Proceeds of revolving loan facility (Note 20)	**22,400,000**	7,700,000
Proceeds of Shelter Canadian Properties Limited advances (Note 20)	**9,100,000**	6,000,000
Repayment of Shelter Canadian Properties Limited advances (Note 20)	**(15,100,000)**	-
Expenditures on transaction costs	**(462,918)**	(665,641)
	5,169,996	5,051,011
Cash (used in) investing activities		
Capital expenditures on investment properties	**(853,662)**	(1,366,727)
Capital expenditures on investment properties held for sale	**(139,864)**	(4,076)
Capital expenditures on property and equipment	**(7,950)**	(214,390)
Proceeds of sale (Note 5) (Note 11)	**(4,319)**	(109,415)
Change in restricted cash (Note 8) (Note 11)	**(69,343)**	261,906
	(1,075,138)	(1,432,702)
Cash (decrease) increase	**(1,047,994)**	955,979
Deduct increase in cash from discontinued operations (Note 11)	**(28,312)**	(23,829)
	(1,076,306)	932,150
Cash, beginning of period	**1,638,918**	706,768
Cash, end of period	**$ 562,612**	$ 1,638,918

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, December 9, 2009 and June 21, 2018. The Trust and its subsidiaries earn income from real estate investments in Canada.

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

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

Prior to June 1, 2018, the Trust's units and Series G Debentures traded on the Toronto Stock Exchange.

2 Basis of presentation and continuing operations

The consolidated financial statements of the Trust for the years ended December 31, 2018 and 2017 ("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 20, 2019.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 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 $45,816,864 for the year ended December 31, 2018 (2017 - $31,877,187). The Trust incurred a cash deficiency from operating activities, after working capital adjustments, of $5,142,852 for year ended December 31, 2018 (2017 - $2,662,330). 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 $12,674,332 for the year ended December 31, 2018 (2017 - $8,421,512).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

2 Basis of presentation and continuing operations (continued)

The Trust has a working capital deficit of $2,237,891 as at December 31, 2018 (December 31, 2017 - $402,631). The calculation of working capital excludes the revolving loan balance, the Shelter loan balance, and the current portion of long-term debt, but includes the current portion of accrued interest and fees. The calculation of working capital also excludes "held for sale" assets and liabilities, the tenant security deposit liability, and the security deposit balance in restricted cash.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, secured by the property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement and one mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations, and is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property classified as held for sale. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

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

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern and in order to improve liquidity, meet ongoing funding obligations and sustain operations, management 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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

2 Basis of presentation and continuing operations (continued)

During 2018, forbearance agreements were executed for four mortgage loans, secured by a total of seven properties, in the aggregate principal amount of $43,147,240 as of December 31, 2018. The loans were in default prior to the execution of the forbearance agreements as the lender of the mortgage loans indicated that there were service fees outstanding with respect to previous defaults under the loans and that until such fees were paid the loans would remain in default. The forbearance agreements required an initial aggregate repayment of $1,700,000, which was paid on March 1, 2018; aggregate repayments totaling $633,000 in 2018, which were paid on May 1, 2018 and September 1, 2018; and future aggregate repayments of $2,666,000 and $2,333,000 in 2019 and 2020, respectively. Three of the forbearance agreements expire on May 1, 2021 with the fourth forbearance agreement set to expire on December 1, 2021.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd was renewed and amended to increase the limit on the maximum amount that may be advanced under the facility to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

During the year ended December 31, 2018, the Trust received $22,400,000 of advances from 2668921 Manitoba Ltd. bringing the revolving loan balance to $52,400,000 as of December 31, 2018.

Subsequent to December 31, 2018, additional advances of $4,500,000 were provided under the revolving loan facility and $500,000 was repaid.

Current divestiture activities are focused on the sale of condominium units as part of the Lakewood Townhomes condominium sales program as well as on efforts to improve the value and marketability of the remaining seniors' housing complex, Chateau St. Michael's, in advance of a future sale. It is believed that the sale of Woodland Park, the property classified as held for sale, inclusive of the 27 townhouses that comprise part of the property, will be a priority of the Receiver that assumed control of the Woodland Park property on February 28, 2019. 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.

2 Basis of presentation and continuing operations (continued)

Continuation of the Trust's operations into the foreseeable future is contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to: the willingness and ability of Shelter and/or its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility or 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.

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 statement of financial position 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 20, 2019.

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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

3 Significant accounting policies (continued)

(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.

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.

3 Significant accounting policies (continued)

(c) Property and Equipment (continued)

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.

(d) Rent and other receivables

Rent receivables are considered to be trade receivables that do not contain a significant financing component and are, therefore, measured at the undiscounted transaction price.

Loan and other receivables are initially recorded at fair value and are subsequently classified and measured at amortized cost.

The Trust follows the simplified ‘expected credit loss’ (“ECL”) impairment approach, which requires expected lifetime losses to be recognized from initial recognition of a financial asset, other than a financial asset classified and measured at fair value through profit or loss ("FVTPL"), regardless of whether there has been an actual loss event.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

3 Significant accounting policies (continued)

(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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 accounted for, presented, and disclosed in accordance with IFRS 9 - *Financial Instruments*. Upon initial recognition, all financial assets and liabilities are measured at fair value, except for trade receivables that do not contain a significant financing component, which are measured at the transaction price. As a practical expedient, IFRS 15 - *Revenue from Contracts with Customers* permits entities to presume that a trade receivable does not have a significant financing component if the expected term is less than one year.

The measurement amount at initial recognition of a financial asset or financial liability that is not classified as fair value through profit or loss ("FVTPL") is adjusted by transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of a financial asset or financial liability that is measured at FVTPL is recognized immediately in profit or loss. Trade receivables that do not have a significant financing component are measured at their transaction price.

Financial Assets

Financial assets are classified and measured based on the Trust's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification of the financial asset is determined at the time of initial recognition and is based on the nature and purpose of the financial asset. Subsequent to initial recognition, financial assets are measured based on (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) fair value through profit or loss ("FVTPL").

A summary of the three classifications is as follows:

Classification	Definition	Measurement
Amortized cost	A financial asset is classified and measured at amortized cost if it is held by the Trust with the objective to collect the contractual cash flows from the asset and if the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	After initial recognition, the financial asset is measured at amortized cost using the effective interest rate method, except for a trade receivable without a significant financing component, which is measured at its transaction price. Interest income is recognized using the effective interest rate method.
Fair value through other comprehensive income ("FVTOCI")	A financial asset is classified and measured at FVTOCI when its objective is achieved by both collecting contractual cash flows and by selling the financial asset, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	After initial recognition, changes in the fair value of the financial assets are recognized in other comprehensive income. Interest income is calculated using the effective interest rate method and impairment gains and losses are recognized immediately in profit and loss.
Fair value through profit or loss ("FVTPL")	A financial asset is classified as measured at FVTPL when it does not qualify for classification and measurement at amortized cost or FVTOCI.	After initial recognition, the financial asset is measured at fair value, with changes in value recognized through profit and loss.

3 *Significant accounting policies (continued)*

(n) Financial instruments (continued)

LREIT's financial assets are, as follows:

Financial Assets	Classification and Measurement
Cash	Amortized cost
Restricted cash (including tenant's security deposits)	Amortized cost
Deposits	Amortized cost
Rent and other receivables	Amortized cost
Loan receivable	Amortized cost

The Trust follows the simplified 'expected credit loss' ("ECL") impairment approach, which requires expected lifetime losses to be recognized from initial recognition of a financial asset, other than a financial asset measured at FVTPL, regardless of whether there has been an actual loss event.

The Trust derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Any gain or loss on derecognition is recognized through profit and loss and any fair value changes previously recognized through other comprehensive income are recycled to profit and loss.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

3 Significant accounting policies (continued)

(n) Financial instruments (continued)

Financial Liabilities

Debt and equity instruments are accounted for as financial liabilities or as equity based on the substance of the contractual obligation and the definitions of a financial liability and an equity instrument. Financial liabilities are classified and measured as either amortized cost or FVTPL. A summary of the two classifications is, as follows:

Classification	Definition	Measurement
Fair value through profit or loss ("FVTPL")	A financial liability is classified and measured as FVTPL when it is designated as FVTPL, as discussed below, or when it is held for trading. A financial liability may be designated as FVTPL when (i) such designation eliminates or significantly reduces an accounting mismatch in the treatment of related or associated financial assets and financial liabilities, (ii) a contract contains one or more embedded derivatives, or (iii) a group of financial liabilities, or a combination of financial assets and liabilities, is managed with its performance evaluated on a fair value basis. A financial liability is considered to be held for trading if the financial liability has been acquired primarily for the purpose of repurchasing it in the near term; or, if on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or, if it is a derivative that is not designated and effective as a hedging instrument.	After initial recognition, the financial liability is measured at fair value, with changes in value recognized through profit and loss.
Amortized cost	All other liabilities.	After initial recognition, the financial liability is measured at amortized cost using the effective interest method. Interest expense is calculated using the effective interest rate method.

LREIT's financial liabilities are, as follows:

Financial Liability	Classification and Measurement
Trade and other payables	Amortized cost
Deposits from tenants	Amortized cost
Mortgage loans	Amortized cost
Revolving loan	Amortized cost
Debentures	Amortized cost

The Trust derecognizes a financial liability when, and only when, the Trust's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3 Significant accounting policies (continued)

(o) Future changes to significant accounting policies

The following standards will be effective for subsequent annual periods.

(i) 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. The Trust's leasing activity is primarily comprised of the leasing of residential units under operating leases. The Trust also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and the Trust has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

(p) Adoption of accounting standards

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments (“IFRS 9”) replaces IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 provides new guidance on the classification and measurement of all financial assets and liabilities, as well as a new Expected Credit Loss (“ECL”) impairment model and a substantially reformed model of hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. LREIT adopted the new standard on January 1, 2018 and has applied the standard retrospectively to the fiscal year ended December 31, 2017. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard. Financial assets, which include: cash, restricted cash, deposits, rent and other receivables and the loan receivable were previously classified as Loans and Receivables under IAS 39 and are now classified as Amortized Cost under IFRS 9. Financial liabilities, which include: trade and other payables, tenant deposits, mortgage loans, the revolving loan from 2668921 Manitoba Ltd. and the Series G debentures were previously classified as Other Liabilities under IAS 39 are now classified as Amortized Cost under IFRS 9. The change in classification of these assets and liabilities did not result in any changes in their measurement. The classification and measurement of LREIT’s financial assets and liabilities under the new standard are summarized in Note 3 (n) - Financial Instruments.

(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. The Trust'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, there was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

3 Significant accounting policies (continued)

(p) Adoption of accounting standards (continued)

(iii) 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. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

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:

- 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.

4 Significant accounting judgments, estimates and assumptions (continued)

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 2018 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.

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	
	2018	2017
Balance, beginning of period	$178,309,735	$198,099,131
Additions - capital expenditures	853,661	1,366,727
Fair value adjustments (Note 15)	(29,392,052)	(20,878,973)
Dispositions	(555,822)	(277,150)
Balance, end of period	$149,215,522	$178,309,735

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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5 Investment properties (continued)

During 2018, the Trust sold two condominium units at Lakewood Townhomes for gross proceeds of $619,500. The sale resulted in a net cash shortfall of $25,883 after selling costs of $111,483 and the mortgage loan repayment of $533,900. The condominium units had a carrying value of $555,822 and the sale resulted in a loss on sale of investment properties of $47,804.

During 2017, the Trust sold 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.

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

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 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.25 %	8.25 %
Other	7.00 %	8.00 %	7.00 %	8.00 %

(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.

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

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

	December 31 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.25 %	10.25 %
Other	9.00 %	10.00 %	9.00 %	10.00 %

(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 and Woodland Park (2017 - Lakewood Townhomes).

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. A 25-basis point increase in the capitalization rate would result in a $4,979,728 decrease in the estimated fair value of investment properties and a 25-basis point decrease in the capitalization rate would result in a $5,292,525 increase in the estimated fair value of investment properties. 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. As a result, the Trust has recourse on the loan receivable and has reasonable assurance that it will be collected in full.

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8 *Restricted cash*

	December 31 2018	December 31 2017
Tenant security deposits	$ 1,168,122	$ 1,401,120
Reserves required by mortgage loan agreements	1,293,430	999,056
	$ 2,461,552	$ 2,400,176

9 *Rent and other receivables*

	December 31 2018	December 31 2017
Rent receivable	$ 149,217	$ 199,956
Less: allowance for uncollectible accounts	(40,326)	(56,339)
	108,891	143,617
Other receivables	259,229	264,172
Deferred rent receivable	22,313	51,445
	$ 390,433	$ 459,234

10 *Deposits and prepaids*

	December 31 2018	December 31 2017
Deposits		
Property tax deposits	$ 362,076	$ 581,091
Other	200	4,170
	362,276	585,261
Prepaid expenses	618,548	535,894
	$ 980,824	$ 1,121,155

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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 2018	December 31 2017
ASSETS		
Investment properties held for sale (a)	$ 19,296,621	$ 26,695,124
Assets in discontinued operations		
Property and equipment (b)	7,500,000	7,500,000
Cash (bank indebtedness)	2,594	(25,717)
Restricted cash	16,974	9,007
Rent and other receivables	81	1,098
Deposits, prepaids and other	14,908	19,726
	7,534,557	7,504,114
Assets held for sale	$ 26,831,178	$ 34,199,238
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (c)	$ 3,339,655	$ 3,509,300
Trade and other payables	214,134	135,762
Deposits from tenants	17,456	10,055
Liabilities held for sale	$ 3,571,245	$ 3,655,117

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2018	2017
Rental income	$ 1,561,867	$ 1,626,803
Property operating expenses	2,042,829	1,467,765
Net operating income (loss)	(480,962)	159,038
Interest income	612	-
Interest expense (d)	(198,537)	(181,658)
Fair value adjustment	(7,950)	(136,875)
Loss from discontinued operations	$ (686,837)	$ (159,495)

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

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2018	2017
Cash outflow from operating activities	$ (576,163)	$ (99,430)
Cash inflow from financing activities	620,391	325,633
Cash outflow from investing activities	(15,916)	(202,374)
Increase in cash from discontinued operations	$ 28,312	$ 23,829

(a) Investment properties held for sale

	December 31 2018	December 31 2017
Woodland Park	$ 19,296,621	$ 26,695,124

	Year Ended December 31 2018	2017
Balance, beginning of period	$ 26,695,124	$ 31,343,062
Additions - capital expenditures	139,864	4,076
Fair value adjustments (Note 15)	(5,921,373)	(4,652,014)
Dispositions	(1,616,994)	-
Balance, end of period	$ 19,296,621	$ 26,695,124

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 and investments properties held for sale.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

(a) Investment properties held for sale (continued)

During 2018, the Trust sold five condominium units at Woodland Park for an aggregate gross proceeds of $1,650,000. The sales resulted in net cash proceeds of $21,564 after selling costs of $147,050 and the mortgage loan repayment of $1,481,386. The condominium units had an aggregate carrying value of $1,616,994 and the sales resulted in an aggregate loss on sale of investment properties of $114,044.

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

(b) Property and equipment

December 31 2018	Cost, Beginning of Period	Additions	Disposals	Accumulated Amortization	Carrying Value
Land	$ 2,175,800	$ -	$ -	$ -	$ 2,175,800
Buildings and improvements	5,650,238	7,950	-	(902,210)	4,755,978
Furniture, equipment and appliances	284,223	-	-	(38,898)	245,325
	8,110,261	7,950	-	(941,108)	7,177,103
Fair value adjustments	330,847	(7,950)	-	-	322,897
	$ 8,441,108	$ -	$ -	$ (941,108)	$ 7,500,000

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

(c) Long-term debt

As of December 31, 2018, the mortgage loan with a principal balance of $3,339,655 that is secured by the property classified as discontinued operations is overholding past its maturity date pending completion of an annual credit review.

On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

(d) Interest expense

	Year Ended December 31 2018	2017
Mortgage loan interest	$ 187,421	$ 177,533
Amortization of transaction costs	11,116	4,125
	$ 198,537	$ 181,658

(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 2018	2017
Property and equipment	$ 844,369	$ 836,419
Transaction costs	$ 12,870	$ 9,865

Unused tax losses expiring in:

2037	$ 58,736	$ 58,736
2038	683,832	-
	$ 742,568	$ 58,736

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12 Long-term debt

	December 31 2018	December 31 2017
Secured debt		
Mortgage loans (a)	$ 177,683,113	$ 187,206,443
Revolving loan from 2668921 Manitoba Ltd. (b)	52,400,000	30,000,000
Debentures (c)	24,810,800	24,810,800
Total secured debt	254,893,913	242,017,243
Accrued interest and fees payable	7,289,995	3,846,114
Unamortized transaction costs		
Mortgage loans	(1,221,508)	(960,035)
Revolving loan from 2668921 Manitoba Ltd.	-	(10,827)
Total unamortized transaction costs	(1,221,508)	(970,862)
	260,962,400	244,892,495
Less current portion		
Mortgage loans	(57,578,886)	(155,907,526)
Revolving loan from 2668921 Manitoba Ltd.	(52,400,000)	(30,000,000)
Accrued interest and fees payable	(2,291,832)	(806,791)
Unamortized transaction costs	441,291	407,114
Total current portion	(111,829,427)	(186,307,203)
	$ 149,132,973	$ 58,585,292

(a) Mortgage loans

	Weighted average interest rates		Amount	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
First mortgage loans				
Fixed rate	4.7%	4.7%	$ 95,447,892	$ 102,020,638
Variable rate	6.9%	6.4%	76,221,696	79,688,009
Total first mortgage loans	5.7%	5.4%	$ 171,669,588	$ 181,708,647
Second mortgage loans				
Fixed rate	9.0%	9.0%	$ 6,013,525	$ 5,497,796
All mortgage loans				
Fixed rate	4.9%	4.9%	$ 101,461,417	$ 107,518,434
Variable rate	6.9%	6.4%	76,221,696	79,688,009
Total mortgage loans	5.8%	5.5%	$ 177,683,113	$ 187,206,443

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.

12 Long-term debt (continued)

(a) Mortgage loan (continued)

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of December 31, 2018, except for one mortgage loan, for a property classified as held for sale, with a principal balance of $24,418,992 with an expired forbearance agreement.

On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property with the expired forbearance agreement. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

(b) Revolving loan

The Trust receives advances under a revolving loan facility from 2668921 Manitoba Ltd. (the parent company of Shelter). On July 1, 2018, the revolving loan was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date from June 30, 2018 to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $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 second mortgage charges against the title of nine properties in Fort McMurray and the remaining seniors' housing complex in Moose Jaw, Saskatchewan; one third mortgage charge on a property in Fort McMurray; the assignment of a vendor-take-back mortgage; and by a $100,000,000 subordinate debenture from LREIT charging all of its present and after-acquired property.

(c) Debentures

The Series G debentures bear interest at 5.0% (2017 - 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.

12 Long-term debt (continued)

(c) Debentures (continued)

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, 2018 is a balance of $4,279,863 (December 31, 2017 - $3,039,323) in regard to the deferred interest on the Series G debentures.

13 Trade and other payables

	December 31 2018	December 31 2017
Accounts payable	$ 1,153,181	$ 2,230,589
Accrued payables	508,346	313,249
Prepaid rent	218,401	271,309
Advances from Shelter (Note 20)	-	6,000,000
	$ 1,879,928	$ 8,815,147

14 Interest expense

	Year Ended December 31 2018	2017
Mortgage loan interest	$ 10,312,184	$ 10,453,899
Revolving loan interest (Note 20)	2,191,519	1,363,370
Debenture interest	1,240,540	1,240,540
Shelter advances interest (Note 20)	259,016	59,130
Amortization of transaction costs	913,461	813,723
	$ 14,916,720	$ 13,930,662

15 Fair value adjustments

	Year Ended December 31 2018	2017
Fair value adjustments - investment properties (Note 5)	$ (29,392,052)	$ (20,878,973)
Fair value adjustments - investment properties held for sale (Note 11)	(5,921,373)	(4,652,014)
	$ (35,313,425)	$ (25,530,987)

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16 Per unit calculations

	Year Ended December 31 2018	Year Ended December 31 2017
Loss before discontinued operations	$ (45,816,864)	$ (31,877,187)
Loss from discontinued operations	(686,837)	(159,495)
Loss and comprehensive loss	$ (46,503,701)	$ (32,036,682)

	Year Ended December 31 2018	Year Ended December 31 2017
Weighted average number of units:		
Units	20,557,320	20,557,320
Deferred units	591,576	591,576
Total basic and diluted	21,148,896	21,148,896

17 Units and deferred units

As of December 31, 2018, there were 20,557,320 trust units issued at an amount of $125,641,529 (2017 - 20,557,320 and $125,641,529) and 591,576 (2017 - 591,576) deferred trust units outstanding and fully vested.

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-V 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-31-18		Year Ended December 31, 2017	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	195,000	$ 1.06	240,000	$ 0.99
Cancelled, February 18, 2017	-	-	(5,000)	1.11
Cancelled, November 19, 2017	-	-	(40,000)	0.60
Cancelled, January 15, 2018	(20,000)	0.65	-	-
Outstanding, end of period	175,000	$ 1.11	195,000	$ 1.06
Vested, end of period	175,000		195,000	

The remaining unit options have an exercise price of $1.11 and expire on May 19, 2019.

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	
	2018	2017
Outstanding and vested, beginning and end of year	591,576	591,576

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, inclusive of the seniors' housing complex, for which Shelter assumed property management responsibility from the third party manager on June 1, 2018. 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. Shelter is also entitled to 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 $710,529 for the year ended December 31, 2018 (2017 - $778,243).

Included in trade and other payables at December 31, 2018 is a balance of $21,571 receivable from Shelter (December 31, 2017 - $8,302) 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 and fair value gains (losses). Service fees are included in trust expense.

The Trust incurred service fees payable to Shelter of $900,673 for the year ended December 31, 2018 (2017 - $899,627).

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 to Shelter 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 $34,836 for the year ended December 31, 2018 (2017 - $20,895).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 Related party transactions **(continued)**

Services fee for the Woodland Park Townhomes condominium sales program
LREIT has entered into an agreement with Shelter in regard to the condominium sales program at Woodland Park. Under the agreement, Shelter will provide overall management services for the condominium sales program and will be paid a service fee equal to 6.5% of the gross sales proceeds. Shelter is responsible for the payment of a fixed percentage fee to an external real estate broker for providing brokerage services with respect to the condominium sales program.

The Trust incurred service fees payable to Shelter of $112,613 for the year ended December 31, 2018 (2017 - nil).

Financing

Revolving loan
A summary of the terms for the revolving loan facility from November 14, 2016 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
November 14, 2016	June 30, 2018	-	5.00%	$ 6,480,000 *	$ 30,000,000
July 1, 2018	December 31, 2019	-	5.00%/7.00% **	n/a	$ 100,000,000

***** 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 was $6,480,000.

****** Interest is charged at 5% on the first $30,000,000 of advances and 7% thereafter.

During the year ended December 31, 2018, the Trust received advances of $22,400,000 (2017 - $7,700,000) and repaid advances of nil (2017 - nil) against the revolving loan, resulting in a balance of $52,400,000 (December 31, 2017 - $30,000,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $2,191,519 for the year ended December 31, 2018 (2017 - $1,363,370) is included in interest expense. Interest accrued on the revolving loan facility is $1,447,684 as of December 31, 2018 (December 31, 2017 - nil) and is included in the current portion of long-term debt.

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was amended to increase the limit on the maximum amount that may be advanced under the facility to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

The loan is secured by second mortgage charges against the title of eight properties in Fort McMurray and the remaining seniors' housing complex in Moose Jaw, Saskatchewan; one third mortgage charge on a property in Fort McMurray; the assignment of a vendor take-back mortgage; and by a $100,000,000 subordinate debenture from LREIT charging all of its present and after-acquired property.

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

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20 *Related party transactions* (continued)

Financing (continued)

Shelter loan advances
During the year ended December 31, 2018, Shelter made loan advances totaling $9,100,000 to the Trust (2017 - $6,000,000), the terms of which provided for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During the year ended December 31, 2018, the Trust made repayments of $15,100,000 (2017 - nil), resulting in an outstanding loan balance of nil at December 31, 2018 (December 31, 2017 - $6,000,000). The loan was included in trade and other payables prior to being repaid in full.

Interest on the Shelter advances of $259,016 for the year ended December 31, 2018 (2017 - $59,130) is included in interest expense.

Nelson Ridge second mortgage loan
The second mortgage loan secured by the property known as Nelson Ridge is held by 2668921 Manitoba Ltd., bears interest at a rate of 9% per annum and matures on March 31, 2019. The mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of December 31, 2018, the amount owing on the mortgage loan was $6,013,525 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

Millennium Village first mortgage loan
On December 19, 2018, 2668921 Manitoba Ltd. purchased the Millennium first mortgage loan in the amount of $12,186,637, inclusive of accrued interest, which carries an interest rate of 4.4% and has a maturity date of May 1, 2025.

Subsequent to year end, new first mortgage loan financing was obtained and 2668921 Manitoba Ltd. surrendered the security it acquired on the purchase of the original first mortgage loan and assumed a second secured position. The new first mortgage loan in the amount of $2,500,000 bears interest at prime plus 1% and matures on January 1, 2020. Proceeds from the first mortgage loan were used to pay down the second mortgage loan held by 2668921 Manitoba Ltd. resulting in a balance of $9,686,637 for the second mortgage loan as of the date of this report.

Norglen Terrace second mortgage loan
Subsequent to year end, 2668921 Manitoba Ltd. agreed to fund principal payments for a mortgage loan with an outstanding balance of $2,080,538 as at December 31, 2018 by extending second mortgage loan financing to LREIT. The second mortgage loan requires interest only payments at 6% per annum and matures on July 1, 2020. The first mortgage loan requires a principal repayment of $500,000 every six months until the loan is paid in full commencing with a payment that was made on July 1, 2018. This payment was funded by an advance on the revolving loan facility from 2668921 Manitoba Ltd. Subsequent to year end, $1,000,000 was advanced under the second mortgage loan, $500,000 of which was used to pay down the first mortgage loan secured by the property and $500,000 of which was used to pay down the revolving loan facility.

20 Related party transactions (continued)

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, 2018 was $134,000 (2017 - $134,000).

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
The Trust remains in default of one mortgage loan, for a property classified as held for sale, with an aggregate principal balance of $24,418,992. A forbearance agreement expired on December 31, 2018 requiring the full repayment of the mortgage loan, which the Trust was not able to pay.

In the event that full repayment is demanded with respect to the mortgage loan 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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

21 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
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.; continuation of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

As at December 31, 2018, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.6 years (December 31, 2017 - 1.7 years).

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

	Mortgage Loans				
December 31, 2018	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2019	$ 10,104,727	$ 47,474,158	$ 52,400,000	$10,343,997	$120,322,882
2020	8,118,826	65,609,441	-	-	73,728,267
2021	1,574,999	33,400,361	-	-	34,975,360
Thereafter	1,030,127	10,370,474	24,810,800	-	36,211,401
	$ 20,828,679	$156,854,434	$ 77,210,800	$10,343,997	$265,237,910

(1) If the lender of the one mortgage loan that is in default as of the date of this report demanded repayment during 2019, the total repayment obligations due in 2019 and beyond would remain the same.

(2) Other debt includes a revolving loan with balance outstanding of $52,400,000, due December 31, 2019, 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 and fees 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, 2018 the percentage of fixed rate mortgage loans to total mortgage loans on investment properties was 57% (December 31, 2017 - 57%).

The Trust has variable rate mortgage loans on investment properties totaling $76,221,696, or 43% of the total mortgage loans at December 31, 2018 (December 31, 2017 - $79,688,009 or 43%). Should interest rates change by 1%, interest expense would change by $762,217 per year.

As at December 31, 2018, the Trust has total mortgage principal maturities on investment properties which mature on or prior to December 31, 2020 of $122,349,237 representing 69% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,223,492 per year.

The Trust has not traded in derivative financial instruments.

21 *Financial instruments and risk management (continued)*

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 2018	December 31 2017
Rent receivable overdue:		
0 to 30 days	$ 66,485	$ 98,925
31 to 60 days	28,623	35,456
More than 60 days	54,109	65,575
	$ 149,217	$ 199,956

	Year Ended December 31 2018	2017
Balance, beginning of period	$ 56,339	$ 109,748
Amount charged to bad debt expense relating to impairment of rent receivable	55,070	17,291
Amounts written off as uncollectible	(71,083)	(70,700)
Balance, end of period	$ 40,326	$ 56,339
Amount charged to bad debts as a percent of rentals from investment properties	0.32%	0.09%

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, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $26,653,465 (December 31, 2017 - $27,512,300) which expires in 2022 (December 31, 2017 - expires in 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.

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 2018	December 31 2017	December 31 2018	December 31 2017
Financial assets				
Loan receivable	$ 4,000,000	$ 4,000,000	$ 3,394,749	$ 3,249,574
Restricted cash	2,461,552	2,400,176	1,809,786	1,886,901
Cash	562,612	1,638,918	562,612	1,638,918
Rent and other receivables	390,433	459,234	390,433	459,234
Deposits	362,276	585,261	362,276	585,261
Financial liabilities				
Mortgage loans	177,683,113	187,206,443	170,693,775	204,615,479
Debentures	24,810,800	24,810,800	2,232,972	2,721,945
Trade and other payables	1,879,928	8,815,147	1,879,928	8,815,147
Deposits from tenants	1,174,074	1,407,522	1,174,074	1,407,522

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.
- 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.

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21 Financial instruments and risk management (continued)

Fair values (continued)

- In regard to mortgage loans:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 4.59% and 6.70%.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.
- The fair value of loans receivable 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 rate used to calculate the fair value was 4.86%.

22 Reconciliation of liabilities arising from financing activities

	Year Ended December 31, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (6,067,085)	$ (5,890,824)	$ (176,261)
Repayment of mortgage loans on refinancing	(4,700,000)	(4,700,000)	-
Reduction of mortgage loans on sale of properties	(2,015,288)	(2,015,288)	-
Non cash - interest and fees capitalized, net of repayment	3,082,782	3,082,782	-
Decrease in mortgage loans	(9,699,591)	(9,523,330)	(176,261)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - December 31, 2018	$181,022,768	$177,683,113	$3,339,655

23 Management of capital

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

	December 31 2018	December 31 2017
Mortgage loans *	$176,461,605	$186,246,408
Revolving loan from 2668921 Manitoba Ltd. *	52,400,000	29,989,173
Debentures *	24,810,800	24,810,800
Deficit	(83,145,526)	(36,641,825)
	$170,526,879	$204,404,556

***** 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.
- 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.

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

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24 Segmented financial information (continued)

Year ended December 31, 2018:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	13,983,159	1,521,070	1,559,035	-	17,063,264
Property operating costs	8,832,893	1,380,779	1,225,779	-	11,439,451
Net operating income	5,150,266	140,291	333,256	-	5,623,813
Interest income	28,625	2,724	11,135	164,022	206,506
Interest expense	9,434,275	513,791	1,266,751	3,701,903	14,916,720
Loss before discontinued operations	(32,210,672)	(1,857,670)	(6,957,775)	(4,790,747)	(45,816,864)
Cash used in operating activities	(1,750,801)	(282,619)	(430,857)	(2,102,415)	(4,566,692)
Cash from (used in) financing activities	1,661,958	559,584	473,330	1,854,733	4,549,605
Cash from (used in) investing activities	(555,162)	(260,334)	(248,822)	5,099	(1,059,219)
Total assets excluding discontinued operations (Note 11) at December 31, 2018	141,485,952	11,136,424	19,698,021	4,587,167	176,907,564

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
Income (loss) before discontinued operations	(22,712,326)	(588,485)	(4,593,277)	(3,983,099)	(31,877,187)
Cash from (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

25 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 outcomes of legal and other claims are not reasonably determined, management believes that any such outcomes will not be material.

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26 Subsequent events

Woodland Park
On February 28, 2019, a Receivership Order was granted by the Court, placing the lender's appointed Receiver in control of the property with the expired forbearance agreement. It is management's expectation that the Receiver will continue efforts to sell the property. Any deficit between the sales proceeds obtained and the future balance outstanding on the loan could result in a claim by the lender against the mortgage guarantee provided by the Trust on the original execution of the mortgage loan. Such a claim would be unsecured and subordinate to the Trust's existing secured debt, inclusive of any amounts outstanding with respect to the revolving loan facility from 2668921 Manitoba Ltd.; any amounts advanced by 2668921 Manitoba Ltd. or its affiliates, including Shelter, and any amounts outstanding with respect to the Series G Debentures.

On March 19, 2019, the lender of the mortgage secured by the property classified as held for sale filed an application to appoint a receiver over the assets of the Trust. Counsel for the Trust is determining the best course of action to contest or oppose the application that is scheduled to be heard by the Court on April 11, 2019.

Revolving loan
Subsequent to December 31, 2018, the Trust received advances of $4,500,000 and repaid $500,000 on the revolving loan, resulting in a balance of $56,400,000 as of the date of the Financial Statements. The revolving loan advances were used to fund operations.

Norglen Terrace - Second Mortgage Loan
Subsequent to December 31, 2018, the Trust received advances of $1,000,000 from the Norglen second mortgage loan held by 2668921 Manitoba Ltd., $500,000 of which was used to pay down the first mortgage loan secured by the property and $500,000 of which was used to pay down the revolving loan facility.

Mortgage renewal
On February 27, 2019, the Trust agreed to a renewal on the first mortgage loan secured by the property classified as discontinued operations that was overholding past its maturity date. The renewal terms require a lump sum payment on April 15, 2019 of $1,500,000, $500,000 of which will be placed into a capital expenditure reserve account for the purpose of paying for improvements to the registered property.

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 Lead Trustee of LREIT. Mr. Coleman is an entrepreneur, formerly President of Big Freight Systems Inc. Mr. Thorsteinson is the President of Shelter and is the appointed Trustee of Shelter. Mr. Loewen, Mr. Coleman and Mr. Thorsteinson are all members of the audit committee.

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, CPA, 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 inclusive of the seniors' housing complex, for which Shelter assumed property management responsibility from the third party manager on June 1, 2018.

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Unit Listing

TSX Venture Exchange (TSX-V)

Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G

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