LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2016

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Unitholder Returns

	Three Months Ended March 31, 2016 (Per unit)	Year Ended December 31, 2015 (Per unit)
Opening price	$0.13	$0.47
Closing price	$0.06	$0.13

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

CHIEF EXECUTIVE OFFICER'S MESSAGE
2016 First Quarter Report

Since crude oil prices commenced their decline in the autumn of 2014, LREIT has experienced sustained downward pressure on occupancy and rental rates in its primary rental market of Fort McMurray, Alberta. However, after more than eighteen months of declining occupancy, there are signs that conditions may be stabilizing. Specifically, although the average quarterly occupancy level of the Fort McMurray properties dropped from 54% in the fourth quarter of 2015 to 52% in the first quarter of 2016, the average monthly occupancy level of the Fort McMurray properties showed improvement throughout the first quarter after experiencing an average monthly occupancy level of 50% in January 2016. In addition, occupancy has continued to increase subsequent to the end of the quarter, as the Fort McMurray properties commenced the month of May 2016 with an occupancy level of 56%. The Trust remains optimistic that seasonal factors may accelerate this trend. However, the improvements in occupancy is tempered by the fact that the Trust has lowered its rental rates to remain competitive.

Operating Results

LREIT completed the first quarter of 2016 with negative funds from operations (FFO) of $4.3 million, compared to negative FFO of $1.9 million in the first quarter of 2015. The decrease in FFO is mainly due to a decrease in the net operating income of the Fort McMurray portfolio and the sale of Colony Square in 2015, partially offset by a decrease in interest expense.

Overall, LREIT completed the first quarter of 2016 with a net loss of $7.6 million, compared to a net loss of $3.8 million during the first quarter of 2015. The increase in net loss was driven by the same factors discussed above and a $1.2 million increase in loss from fair value adjustments.

Cash Flow Results

During the first quarter of 2016, LREIT continued to require significant additional sources of capital to fund operating activities, as well as debt service obligations and capital expenditure requirements. For the three month period ended March 31, 2016, the cash outflow from operating activities amounted to $1.4 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was $3.0 million, compared to a cash outflow from operating activities of $0.3 million and a cash shortfall of $2.5 million during the same period in 2015. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd.

Liquidity and Capital Resources

After removing the impact of one-time lump-sum principal repayments, the mortgage loan debt service coverage ratio decreased to 0.76 during 2015, indicating that net operating income was insufficient to fund LREIT's debt service obligations. Consequently, the Trust requested concessions from certain of its lenders and commenced payments in accordance with the concessions, during the first quarter of 2016. As a result, the Trust defaulted on the debt service requirements of twelve mortgage loans with an aggregate balance of $194.0 million, relating to all thirteen properties in Fort McMurray. In addition, the Trust remained in breach of an annual debt covenant requirement on a $4.2 million mortgage loan, relating to a property classified under discontinued operations.

Continuing Operations and Ongoing Initiatives

As previously reported, in an effort to sustain its operations into the foreseeable future, LREIT expanded its divestiture program and has been actively pursuing debt restructuring arrangements with certain of its lenders. The Trust is pleased to report, that although there is still a substantial amount of work to be done, LREIT made significant progress on both of these initiatives in 2016.

Through the cooperation and support it has received from its lenders with respect to debt restructuring initiatives, the Trust renewed three mortgage loans, inclusive of interest rate and deferred payment concessions; received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan, covering approximately 60% of the Trust's total outstanding mortgage loan debt in Fort McMurray. With respect to the mortgage loans that remain in default as of the date of this report, the Trust has signed a pre-negotiation agreement with one lender and remains in discussions with the other lender. In the interim, the Trust is continuing to make reduced debt service payments to these lenders in accordance with previously requested concessions. As of the date of this report, these lenders have taken no further action against LREIT and the Trust is hopeful that ongoing discussions will result in additional concessions that will help the Trust stabilize its operations.

On May 1, 2016, the Trust completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. The combined net proceeds of $9.3 million were used to fully repay a $5.4 million second mortgage loan secured by Willowdale Gardens and to pay down the revolving loan from 2668921 Manitoba Ltd. by approximately $3.9 million.

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Shelter and 2668921 Manitoba Ltd. have participated equitably in LREIT's debt restructuring initiatives by providing the deferral of property management fees, service fees, and interest on the revolving loan as well as interest on the second mortgage loan acquired by 2668921 Manitoba Ltd. during the quarter.

While the Trust is pleased to report on the progress of its debt restructuring initiatives, certain lenders may be unwilling to participate in the restructuring of the Trust's debt to the extent or for the duration required to sustain operations. Such an event could result in an acceleration of mortgage payments or foreclosures.

Outlook

The Trust has made progress in 2016 with respect to its divestiture and debt restructuring initiatives, furthering its efforts to sustain operations in anticipation of an eventual recovery. Although there are signs that the Fort McMurray rental market may be stabilizing, the Trust anticipates that 2016 and 2017 will be challenging years. The timely completion of additional property sales and completion of debt restructuring initiatives, in conjunction with the continued support of Shelter and its parent company, 2668921 Manitoba Ltd., will be paramount in the Trust's efforts to remain viable until conditions in Fort McMurray improve.

None of our properties suffered structual damage during the May wildfires in Fort McMurray. LREIT will join with others in supporting the re-building of the Regional Municipality of Wood Buffalo.

The Trust would like to take this opportunity to thank former Trustee, Cheryl Barker, for her invaluable contributions to LREIT over the past decade.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information

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

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

Purchase Price Information

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

Financial Statements

Throughout this report, the condensed consolidated financial statements as of March 31, 2016 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2016 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the three months ended March 31, 2016 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three months ended March 31, 2016 will be referred to as the "Statement of Cash Flows".

Operating Segments

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

- Fort McMurray Properties (twelve properties): Accounting for approximately 66% (December 31, 2015 - Thirteen properties, 73%) of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

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

- Held for Sale (three properties) and/or Sold Properties (two properties): The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, Beck Court, Willowdale Gardens, 156/204 East Lake Blvd. which was sold on April 1, 2015 and Colony Square which was sold on November 1, 2015. The three held for sale properties account for approximately 21% (December 31, 2015 - two held for sale properties, 14%) of the suites in the portfolio of investment properties.

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

FINANCIAL SUMMARY

	March 31	December 31	
	2016	2015	2014
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 275,886,136	$ 278,524,804	$ 442,773,600
Total long-term financial liabilities (1)	$ 282,158,073	$ 279,529,237	$ 327,980,499
Weighted average interest rate			
- Mortgage loan debt	5.7 %	6.0 %	5.7 %
- Total debt	6.4 %	6.4 %	6.3 %

	Three Months Ended March 31		
	2016	2015	2014
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 4,451,462	$ 8,731,719	$ 8,908,725
Net operating income	$ 1,659,357	$ 4,752,982	$ 4,504,067
Income (loss) before discontinued operations	$ (7,640,229)	$ (3,919,811)	$ (2,515,948)
Income (loss) and comprehensive income (loss)	$ (7,599,297)	$ (3,812,046)	$ (2,404,013)
Funds from Operations (FFO) *	$ (4,280,574)	$ (1,915,224)	$ (2,475,248)
Cash Flows			
Cash provided by (used in) operating activities	$ (1,412,372)	$ (292,138)	$ 718,641
Adjusted Funds from Operations (AFFO) *	$ (4,603,418)	$ (1,610,594)	$ (2,107,868)
Per Unit			
Net operating income *			
- basic	$ 0.078	$ 0.225	$ 0.218
- diluted	$ 0.078	$ 0.225	$ 0.157
Loss before discontinued operations *			
- basic and diluted	$ (0.361)	$ (0.185)	$ (0.122)
Loss and comprehensive loss			
- basic and diluted	$ (0.359)	$ (0.180)	$ (0.116)
Funds from Operations (FFO) *			
- basic and diluted	$ (0.202)	$ (0.091)	$ (0.120)
Cash provided by (used in) operating activities			
- basic	$ (0.067)	$ (0.014)	$ 0.035
- diluted	$ (0.067)	$ (0.014)	$ 0.025
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.218)	$ (0.076)	$ (0.102)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

The core business activities of LREIT include investment, development, management and divestiture activities. The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio. Notwithstanding its primary objective, LREIT's near-term focus is on divestiture and debt restructuring initiatives in an effort to sustain operations in face of the substantial contraction of the economy and rental market in Fort McMurray, Alberta, which resulted from the significant decline in oil prices that began in the fourth quarter of 2014.

As of March 31, 2016, LREIT owns a portfolio of income-producing real estate properties comprised of 15 investment properties, three investment properties classified as held for sale, and two seniors' housing complexes classified under discontinued operations.

A more detailed description of the operations and business strategy of LREIT are provided in the section of the MD&A titled, "Overview of Operations and Investment Strategy".

2016 First Quarter Operating Results

Key Financial Indicators

	Three Months Ended March 31		Favourable (Unfavourable) Variance	
	2016	2015	Amount	%
Rentals from investment properties	$ 4,451,462	$ 8,731,719	$ (4,280,257)	(49)%
Property operating costs	(2,792,105)	(3,978,737)	1,186,632	30 %
Net operating income	$ 1,659,357	$ 4,752,982	$ (3,093,625)	(65)%
Interest expense	$ (5,656,180)	$ (6,409,004)	$ 752,824	12 %
Fair value adjustments	$ (3,104,229)	$ (1,896,822)	$ (1,207,407)	(64)%
Loss and comprehensive loss	$ (7,599,297)	$ (3,812,046)	$ (3,787,251)	(99)%
Funds from operations (FFO)	$ (4,280,574)	$ (1,915,224)	$ (2,365,350)	(124)%

LREIT completed the first quarter of 2016 with negative FFO of $4,280,574, compared to negative FFO of $1,915,224 during the first quarter of 2015, representing a decrease of $2,365,350. On a basic per unit basis, FFO decreased by $0.111 from negative $0.091 in the first quarter of 2015 to negative $0.202 in the first quarter of 2016. The decrease in FFO was primarily the result of a decrease in the Trust's revenue of $4,280,257 or 49%, principally driven by significant reductions in the occupancy levels and rental rates of the Fort McMurray portfolio and the sale of Colony Square in 2015, partially offset by a decrease in property operating costs of $1,186,632 or 30% and a decrease in interest expense of continuing operations of $752,824 or 12%, all of which are explained in greater detail throughout this MD&A.

The decline in the revenue of the Fort McMurray property portfolio is mainly due to the sustained negative impact from the decline in oil prices on the Fort McMurray economy and rental market. The average occupancy level of the Fort McMurray properties decreased significantly from 76% during the first quarter of 2015 to 52% during the first quarter of 2016, and the average monthly rental rate decreased by $459 or 21%, compared to the first quarter of 2015.

Overall, LREIT completed the first quarter of 2016 with a net loss of $7,599,297, compared to a net loss of $3,812,046 during the first quarter of 2015, representing an increase in the net loss of $3,787,251. In addition to the factors discussed above, the increase in the net loss mainly reflects an increase in loss from fair value adjustments of $1,207,407.

The concentration of properties in Fort McMurray, along with the decreased performance of the Fort McMurray portfolio and the unlikelihood of a significant recovery in Fort McMurray's economy in the short-term, are key factors that cast doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures taken by management in order to address the liquidity challenges facing LREIT and improve the operating performance of the Trust are discussed below and in greater detail in the "Liquidity and Capital Resources" section of the MD&A.

Liquidity and Capital Resources

Liquidity refers to the Trust's overall ability to generate and have sufficient funds available to fund the ongoing operating, investing, and financing activities of the Trust. 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 March 31, 2016, the unrestricted cash balance of LREIT was $614,469 and working capital was $18,515.

During the first quarter of 2016, the cash outflow from operating activities amounted to $1,412,372, compared to a cash outflow from operating activities of $292,138 during the first quarter of 2015. The decline in the rental market conditions of Fort McMurray negatively affected the operating cash flow of LREIT throughout 2015 and during the first quarter of 2016. As a result, LREIT requires significant additional sources of cash to fund the cash shortfall from operating activities as well as monthly debt service obligations and capital expenditure requirements. For the three month period ended March 31, 2016, after accounting for regular mortgage principal repayments, capital expenditures, and transaction costs, the cash shortfall was $3.0 million, compared to a cash shortfall of $2.5 million during the same period in 2015. The cash shortfall was primarily funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd.

Mortgage Loan Defaults and Covenant Breaches

After removing the impact of one-time lump-sum principal repayments, the mortgage loan debt service coverage ratio decreased to 0.76 during 2015, indicating that net operating income was insufficient to fund LREIT's debt service obligations. Consequently, the Trust requested concessions from certain of its lenders and commenced payments in accordance with concessions, during the first quarter of 2016. As a result, the Trust defaulted on the debt service requirements of twelve mortgage loans with an aggregate balance of $194.0 million, relating to all thirteen properties in Fort McMurray. In addition, the Trust remained in breach of an annual debt covenant requirement on a $4.2 million mortgage loan, relating to a property classified under discontinued operations.

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.

Deferral of Interest Payment on Revolving Loan Facility

During the first quarter of 2016, the Trust deferred payment of interest on the revolving loan facility for February 2016 and March 2016 in the aggregate amount of $346,253. Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Deferral of property management fee and service fee payments

During the first quarter of 2016, the Trust deferred the payment of property management fees in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the amount of $86,711 for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Continuing Operations and Ongoing Initiatives

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

(i) the Trust's concentration of investment properties in Fort McMurray;
(ii) the deterioration of the Fort McMurray rental apartment market over the past several years and, in particular, the significant deterioration which began in the fourth quarter of 2014;
(iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray;
(iv) the tightening of lending conditions in Fort McMurray;
(v) the Trust's limited cash and working capital resources; and,
(vi) the Trust's highly leveraged capital structure.

In an effort to meet the ongoing funding obligations of the Trust and sustain operations, LREIT continues to pursue debt restructuring arrangements with its lenders as well as concessions from Shelter and its parent, 2668921 Manitoba Ltd., with respect to the payment of property management and service fees and revolving loan interest, respectively. Other measures taken in order to address the liquidity challenges facing LREIT include the continued expansion of the divestiture program and the continuation of cost reduction and other initiatives in order to improve the operating performance of the Trust.

Mortgage Loan Renewal, Forbearance, and Pre-negotiation Agreements

As of March 31, 2016, the Trust renewed three mortgage loans, inclusive of interest rate and deferred payment concessions; received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan, covering approximately 60% of the Trust's total outstanding mortgage debt in Fort McMurray. With respect to the mortgage loans that remain in default as of the date of this report, the Trust has signed a pre-negotiation agreement with one lender and remains in discussions with the other lender. In the interim, the Trust is continuing to make reduced debt service payments to these lenders in accordance with previously requested concessions. As of the date of this report, these lenders have taken no further action against LREIT and the Trust is hopeful that ongoing discussions will result in additional concessions that will help the Trust stabilize its operations.

Deferral of Property Management Fees, Service Fees and Interest

Shelter and 2668921 Manitoba Ltd. have participated equitably in LREIT's debt restructuring initiatives by providing the deferral of property management fees, service fees, and interest on the revolving loan as well as interest on the second mortgage loan acquired by 2668921 Manitoba Ltd. during the first quarter of 2016.

Debentures

As of March 31, 2016, the total face value of the 9.5% Series G debentures is $24,810,800. The debentures mature on June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the Series G debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. The extent of future debenture repayments, if any, is dependent on the extent and proceeds of property sales, the amount of mortgage loan indebtedness related to the properties sold and the balance of amounts owing to Shelter and/or its parent company 2668921 Manitoba Ltd.

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Divestiture Program

The Trust has continued to make progress with respect to the expanded divestiture program.

In 2015, LREIT sold two properties under its expanded divestiture program at a combined gross selling price of $72,710,000.

On May 1, 2016, the Trust completed the sales of Beck Court and Willowdale Gardens with a combined gross selling price of $32.0 million. The combined net proceeds of $9.3 million were used to fully repay a $5.4 million second mortgage loan with a secured charge over Willowdale Gardens and to pay down the revolving loan from 2668921 Manitoba Ltd. by approximately $3.9 million, freeing up liquidity to help sustain operations.

Currently, divestiture activities are focused on the sale of the remaining property classified as held for sale (Woodland Park), as well as the two seniors' housing complexes (Chateau St. Michael's and Elgin Lodge), and other properties with consideration to the overall cash needs of the Trust. The condominium sales program for Lakewood Townhomes also continues to remain in effect.

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

Risks and Uncertainties

Notwithstanding the efforts undertaken by management, the continuation of the Trust's ability to operate as a going concern into the foreseeable future will be contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to:

(i) the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree necessary and duration required to allow LREIT the opportunity to stabilize its operations;
(ii) the Trust's ability to renew or refinance debt as it matures;
(iii) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, reduce or defer property management and service fees and/or provide other forms of financial support to the Trust;
(iv) the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) ability of LREIT to complete additional property sales.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Brief History and Overview

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

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

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

Investment Properties

As of March 31, 2016, the real estate portfolio of LREIT consisted of 15 multi-unit residential properties (the "investment properties"), three multi-unit residential properties which are classified as held for sale (the "investment properties held for sale") and two seniors' housing complexes (the "discontinued operations").

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

Strategy and Operations

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio through the implementation of sound financial management practices and operating procedures, responsive management services and proactive leasing strategies. Notwithstanding its primary objective, LREIT is currently focused on divestiture and debt restructuring initiatives in an effort to sustain operations in the wake of the substantial contraction of the economy of the Trust's primary market, Fort McMurray.

LREIT has a continuous capital improvement program with respect to its properties. The primary objectives of the program are to extend the useful life of the properties, increase the future productive capacity of the properties, and improve the quality of tenants' physical surroundings. Capital improvement programs and major renovation or expansion projects are performed at select properties, as deemed appropriate, subject to working capital or other constraints. Given the significant liquidity issues that LREIT is currently confronted with, it has focused its current efforts on maintaining versus increasing the productive capacity of its properties.

Financing

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

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

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

The Trust is continuing to make reduced debt service payments, in accordance with previously requested concessions, on the mortgage loans that remain in default as disclosed in the preceding sections of this report. As of the date of this report, these lenders have taken no further action against LREIT and the Trust is hopeful that ongoing discussions will result in additional concessions that will help the Trust stabilize its operations.

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

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

Divestiture Program

In order to address the reduction in operating cash flow and the constraints on working capital which started with the economic downturn in 2008/2009, LREIT instituted a divestiture program in 2009 with the objective of generating gross proceeds of $250,000,000 from the sale of selected properties. Since the inception of the divestiture program to March 31, 2016, LREIT has sold 25 properties and 17 condominium units at a combined gross selling price of $333,510,100.

Notwithstanding the achievement of generating gross proceeds in excess of the targeted amount, the divestiture program was expanded in 2015 as part of LREIT's strategy to address operating cash deficiencies that resulted from the significant decline in the rental market conditions of Fort McMurray. The decline in occupancy and rental rates in Fort McMurray was the result of the slowdown of oil sands investment activity which began in the fourth quarter of 2014. The purpose of the divestiture program, together with the pursuit of debt-restructuring arrangements, is to improve working capital in order to assist LREIT in meeting its ongoing funding obligations and sustain operations into the foreseeable future.

Under the terms of the trust indenture governing LREIT's outstanding Series G debentures, the net proceeds from property sales must be applied to prepay the principal amount of the Series G debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. The repayment of the 2668921 Manitoba Ltd. revolving loan from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds under the revolving loan facility, at the discretion of 2668921 Manitoba Ltd., for the payment of LREIT's ongoing funding obligations.

Divestiture Program

Year	Properties Sold	Condominium Units Sold	Gross Proceeds	Net Proceeds At Closing	Vendor Take-back Financing Received	Total Net Proceeds
2009	13	-	$ 90,392,000	$ 29,631,650	$ 6,300,000	$ 35,931,650
2010	5	-	40,385,000	17,563,501	3,790,650	21,354,151
2011	-	4	1,927,100	52,120	-	52,120
2012	3	9	102,896,400	21,927,121	-	21,927,121
2013	2	3	24,724,700	14,468,789	3,200,000	17,668,789
2014	-	1	474,900	(6,877)	9,491,016	9,484,139
2015	2	-	72,710,000	30,818,514	-	30,818,514
Total	25	17	$ 333,510,100	$ 114,454,818	$ 22,781,666	$ 137,236,484

During the first quarter of 2016, LREIT did not sell any of its properties. Subsequent to March 31, 2016, LREIT sold two properties under its expanded divestiture program at a combined gross selling price of $32,000,000.

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

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

Current divestiture activities are focused on the sale of the two seniors' housing complexes (Chateau St. Michael's and Elgin Lodge) and the remaining property classified as held for sale (Woodland Park). The condominium sales program for Lakewood Townhomes also continues to remain in effect.

As part of the expanded divestiture program, other properties have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

Lakewood Townhomes Condominium Sales Program

In October 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. Upon sale of each unit, the first mortgage loan requires a repayment equal to 95% of the sale list price agreed upon with the lender. Additional selling costs, including sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, will be paid by the balance of the net sales proceeds and from working capital. The condominium sales program encompasses services and renovation fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the section of this report titled "Related Party Transactions".

As of March 31, 2016, 17 condominium units have been sold at a combined gross selling price of $8,243,100 under the condominion sales program.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2016

As of March 31, 2016, the property portfolio of LREIT consists of 20 rental properties: 15 of which are classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; three of which are classified as assets held for sale on the Statement of Financial Position and two of which are seniors' housing complexes accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 20 properties has a total purchase price of $356,636,488 and encompasses 1,697 suites.

Changes in Property Portfolio

During 2015, changes in the property portfolio reflect a change in classification of Beck Court and Willowdale Gardens from investment properties to "Assets held for sale" on December 31, 2015 and the sale of 156/204 East Lake Blvd. and Colony Square on April 1, 2015 and November 1, 2015, respectively.

On March 31, 2016, Woodland Park changed in classification from investment properties to "Assets held for sale".

A list of all of the properties in the LREIT real estate portfolio as at March 31, 2016 is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 15 properties which are classified as investment properties on the Statement of Financial Position as of March 31, 2016 consist of 12 multi-unit residential properties in Fort McMurray, Alberta and one multi-unit property in each of Thompson, Manitoba; Edson, Alberta and Peace River, Alberta (3 properties). The three properties which are classified as assets held for sale on the Statement of Financial Position consist of one multi-unit property in each of Fort McMurray, Alberta, Yellowknife, Northwest Territories and Brandon, Manitoba.

Discontinued Operations

The properties in "discontinued operations" consist of the two seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario.

Discontinued operations is a segment or distinct line of business which the Trust intends to dispose of under a coordinated plan, or a subsidiary which is held for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the two remaining seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Assets held for sale" or "Liabilities held for sale".

Income from discontinued operations is disclosed separately on the Income Statement.

The cash inflows and outflows from properties in discontinued operations are included with the cash inflows and outflows from investment properties in the Statement of Cash Flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the Statement of Cash Flows.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) in Income	
	2016	2015	Amount	%
Rentals from investment properties	$ 4,451,462	$ 8,731,719	$ (4,280,257)	(49)%
Property operating costs	2,792,105	3,978,737	1,186,632	30 %
Net operating income	1,659,357	4,752,982	(3,093,625)	(65)%
Interest income	17,253	24,892	(7,639)	(31)%
Interest expense	(5,656,180)	(6,409,004)	752,824	12 %
Trust expense	(556,430)	(391,859)	(164,571)	(42)%
Loss before the following	(4,536,000)	(2,022,989)	(2,513,011)	(124)%
Fair value adjustments - Investment properties	(3,104,229)	(1,896,822)	(1,207,407)	(64)%
Loss before discontinued operations	(7,640,229)	(3,919,811)	(3,720,418)	(95)%
Income from discontinued operations	40,932	107,765	(66,833)	(62)%
Loss and comprehensive loss	$ (7,599,297)	$ (3,812,046)	$ (3,787,251)	(99)%

Analysis of Loss per Unit

	Three Months Ended March 31		Change	
	2016	2015		
Loss before discontinued operations - basic and diluted	$ (0.361)	$ (0.185)	$ (0.176)	(95)%
Income from discontinued operations - basic and diluted	0.002	0.005	(0.003)	(60)%
Loss and comprehensive loss - basic and diluted	$ (0.359)	$ (0.180)	$ (0.179)	(99)%

Overall Results

LREIT completed the first quarter of 2016 with a net loss of $7,599,297, compared to a net loss of $3,812,046 during the first quarter of 2015, representing an increase in the net loss of $3,787,251. The increase in the net loss was primarily driven by a decrease in the net operating income of the Fort McMurray property portfolio of $1,882,177 or 69%, an increase in loss from fair value adjustments of $1,207,407 and a decrease in the net operating income of held for sale and/or sold properties of $1,159,925, primarily due to the sale of Colony Square on November 1, 2015. The increase in net loss was partially offset by a $752,824 or 12% reduction in interest expense from continuing operations, all of which are explained in more detail throughout this report.

The significant decline in the performance of the Fort McMurray portfolio is mainly due to the sustained negative impact of the decline in oil prices on the Fort McMurray economy and rental market.

Funds from Operations (FFO)

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

LREIT completed the first quarter of 2016 with negative FFO of $4,280,574, representing a decrease of $2,365,350, compared to the first quarter of 2015. On a basic per unit basis, FFO decreased by $0.111, from negative $0.091 during the first quarter of 2015 to negative $0.202 during the first quarter of 2016. The decrease in FFO was primarily driven by the results of the Fort McMurray property portfolio, reflecting a significant decrease in occupancy levels and rental rates, and the sale of Colony Square on November 1, 2015, partially offset by a decrease in interest expense.

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

Funds from Operations *

	Three Months Ended March 31	
	2016	2015
Loss and comprehensive loss	$ (7,599,297)	$ (3,812,046)
Add (deduct):		
Fair value adjustment - Property and equipment	214,494	-
Fair value adjustment - Investment properties	3,104,229	1,896,822
Funds from operations (FFO) *	$ (4,280,574)	$ (1,915,224)
FFO per unit *		
- basic and diluted	$ (0.202)	$ (0.091)

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

Segmented Results

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

Fort McMurray Properties (twelve properties)

Accounting for approximately 66% (December 31, 2015 - Thirteen properties, 73%) of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

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

Other Investment Properties (three properties)

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

Held for Sale (three properties) and/or Sold Properties (two properties)

The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, Beck Court, Willowdale Gardens, 156/204 East Lake Blvd. which was sold on April 1, 2015 and Colony Square which was sold on November 1, 2015. The three held for sale properties account for approximately 21% (December 31, 2015 - two held for sale properties, 14%) of the suites in the portfolio of investment properties.

Rental Revenues

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

Analysis of Rental Revenue

	Three Months Ended March 31					
	2016	2015	Increase (Decrease)		% of Total	
Fort McMurray properties	$ 2,744,317	$ 5,003,577	$ (2,259,260)	(45)%	62 %	57 %
Other investment properties	419,002	489,588	(70,586)	(14)%	9 %	6 %
Sub-total	3,163,319	5,493,165	(2,329,846)	(42)%	71 %	63 %
Held for sale and/or sold properties (1)	1,288,143	3,238,554	(1,950,411)	(60)%	29 %	37 %
Total	$ 4,451,462	$ 8,731,719	$ (4,280,257)	(49)%	100 %	100 %

Occupancy Level, by Quarter (2)

	2015					2016
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	76 %	71 %	66 %	54 %	67 %	52 %
Other investment properties	85 %	86 %	83 %	79 %	83 %	72 %
Total	77 %	73 %	68 %	56 %	69 %	54 %
Held for sale and/or sold properties (3)	89 %	88 %	87 %	81 %	87 %	75 %

Average Monthly Rents, by Quarter

	2015					2016
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	$2,158	$2,127	$2,079	$1,980	$2,086	$1,699
Other investment properties	$949	$967	$973	$971	$965	$969
Total	$1,954	$1,931	$1,892	$1,810	$1,897	$1,576
Held for sale and/or sold properties (3)	$1,239	$1,220	$1,223	$1,219	$1,224	$1,783

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

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

(3) Includes Beck Court, Willowdale Gardens and Woodland Park, as well as the residential portion of Colony Square before its sale date of November 1, 2015.

During the first quarter of 2016, total revenue from LREIT investment properties, excluding held for sale and/or sold properties, decreased by $2,329,846 or 42%, compared to the first quarter of 2015. The decrease in revenue is almost entirely attributable to the Fort McMurray portfolio.

The revenue results of the Fort McMurray property portfolio reflect increasingly challenging rental market conditions due to the economic downturn in the region which resulted from the decline in the price of oil that began in the fourth quarter of 2014, and continued throughout 2015 and into the first quarter of 2016. As a result, the average occupancy level for the Fort McMurray portfolio decreased from 76% during the first quarter of 2015 to 52% during the first quarter of 2016 and the average monthly rental rate decreased by $459 per suite or 21%.

The noted decreases in the occupancy and rental rate levels of the Fort McMurray portfolio, along with the unlikelihood of a significant recovery in the short-term, are key factors that cast significant doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve the operating performance of the Trust are discussed in the "Liquidity and Capital Resources" section of this report.

After including held for sale and/or sold properties, the total revenue of LREIT decreased by $4,280,257 or 49% during the first quarter of 2016, compared to the first quarter of 2015. The decrease in revenue from held for sale and/or sold properties of $1,950,411 or 60% is primarily due to the sale of Colony Square on November 1, 2015.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2016	2015	Increase (Decrease)	%
Fort McMurray properties	$ 1,907,568	$ 2,284,651	$ (377,083)	(17)%
Other investment properties	280,385	299,448	(19,063)	(6)%
Sub-total	2,187,953	2,584,099	(396,146)	(15)%
Held for sale and/or sold properties	604,152	1,394,638	(790,486)	(57)%
Total	$ 2,792,105	$ 3,978,737	$ (1,186,632)	(30)%

Property operating costs decreased by $1,186,632 or 30% during the first quarter of 2016, compared to the first quarter of 2015. The decrease mainly reflects a $790,486 decrease in the property operating costs of held for sale and/or sold properties, primarily due to the sale of Colony Square on November 1, 2015, and a decrease in the property operating costs of the Fort McMurray properties of $377,083, mainly due to decreases in maintenance and management fee expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Three Months Ended March 31		Increase (Decrease)		Percent of Total			
	2016	2015	Amount	%	2016	2015	2016	2015
Fort McMurray properties	$ 836,749	$ 2,718,926	$ (1,882,177)	(69)%	50 %	57 %	30 %	54 %
Other investment properties	138,617	190,140	(51,523)	(27)%	8 %	4 %	33 %	39 %
Sub-total	975,366	2,909,066	(1,933,700)	(66)%	58 %	61 %	31 %	53 %
Held for sale and/or sold properties	683,991	1,843,916	(1,159,925)	(63)%	27 %	39 %	53 %	57 %
Total	$ 1,659,357	$ 4,752,982	$ (3,093,625)	(65)%	100 %	100 %	37 %	54 %

* 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.

The net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1,933,700 or 66% during the first quarter of 2016, compared to the first quarter of 2015. The operating margin, excluding held for sale and/or sold properties, decreased from 53% during the first quarter of 2015 to 31% during the first quarter of 2016. The decrease in net operating income and the operating margin, excluding held for sale and/or sold properties, primarily reflect the reduction in the revenue results of the Fort McMurray property portfolio, partially offset by the reduction in the operating cost results, as analyzed in the preceding sections of this report.

After including held for sale and/or sold properties, the total net operating income of LREIT decreased by $3,093,625 or 65%. The decrease in net operating income from held for sale and/or sold properties of $1,159,925 or 63% is primarily due to the sale of Colony Square on November 1, 2015.

Interest Expense

General

Interest expense is comprised of interest expense for investment properties, including investment properties held for sale, and interest expense for discontinued operations. On the Income Statement, interest expense for investment properties is disclosed as a separate line item, while interest expense for discontinued operations is included in the line item "Income from discontinued operations". On the Statement of Cash Flows, "interest expense" and "interest paid" includes the total amount of interest for both investment properties and discontinued operations.

Total interest expense is comprised of a "non-cash" and "cash" component. The cash component of interest expense consists of mortgage loan interest, including mortgage loan interest in discontinued operations, interest on the revolving loan, and interest on acquisition payable. The cash component of interest also includes mortgage bond interest and debenture interest. "Non-cash" interest expenses include amortization of transaction costs, accretion of mortgage bonds and interest charges related to the change in fair value of the interest rate swap liability.

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

Analysis of Interest Expense

	Three Months Ended March 31			
	2016	2015	Increase (Decrease)	Increase (Decrease) %
Investment Properties				
Mortgage Loans				
Mortgage loan interest	$ 3,313,569	$ 4,133,948	$ (820,379)	(20)%
Amortization of transaction costs	1,224,673	540,987	683,686	126 %
Change in fair value of interest rate swap liability	-	190,963	(190,963)	(100)%
Total - mortgage loans	4,538,242	4,865,898	(327,656)	(7)%
Mortgage Bonds				
Mortgage bond interest	-	123,616	(123,616)	(100)%
Accretion of debt component	-	213,774	(213,774)	(100)%
Amortization of transaction costs	-	153,325	(153,325)	(100)%
Total - mortgage bonds	-	490,715	(490,715)	(100)%
Debentures				
Interest on debentures	589,257	581,723	7,534	1 %
Amortization of transaction costs	60,617	56,015	4,602	8 %
Total - debentures	649,874	637,738	12,136	2 %
Revolving Loan				
Revolving loan interest	463,984	405,523	58,461	14 %
Amortization of transaction costs	4,080	9,130	(5,050)	(55)%
Total - revolving loan	468,064	414,653	53,411	13 %
Total interest expense - investment properties	5,656,180	6,409,004	(752,824)	(12)%
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	231,178	234,862	(3,684)	(2)%
Amortization of transaction costs	1,375	72,862	(71,487)	(98)%
Total interest expense - discontinued operations	232,553	307,724	(75,171)	(24)%
Total - interest expense	$ 5,888,733	$ 6,716,728	$ (827,995)	(12)%
Cash and Non-cash Component				
Total cash component	$ 4,597,988	$ 5,479,672	$ (881,684)	(16)%
Non-cash component				
Accretion of mortgage bonds	-	213,774	(213,774)	(100)%
Amortization of transaction costs	1,290,745	832,319	458,426	55 %
Change in fair value of interest rate swaps	-	190,963	(190,963)	(100)%
Total non-cash component	1,290,745	1,237,056	53,689	4 %
Total - interest expense	$ 5,888,733	$ 6,716,728	$ (827,995)	(12)%

During the first quarter of 2016, total interest expense decreased by $827,995 or 12%, compared to the first quarter of 2015. The decrease in total interest expense mainly reflects a decrease in mortgage bond interest of $490,715 and a decrease in mortgage loans interest of $327,656. The decrease in the mortgage bond interest is due to the redemption of the remaining $6,000,000 mortgage bonds during the first quarter of 2015. The decrease in mortgage loans interest is mainly comprised of a decrease in mortgage loan interest of $820,379, largely offset by an increase in the amortization of transaction costs of $683,686.

The decrease in mortgage loan interest is primarily due to the sale of Colony Square, on November 1, 2015, the lump-sum payments on mortgage loans during the second and third quarters in 2015 and the full repayment of a second mortgage loan in the first quarter of 2016.

The increase in amortization of transaction costs was mainly due to the acceleration of amortization resulting from the early renewals of four mortgage loans and the sale of two properties during the second quarter of 2016, and increased costs related to the amortization of forbearance fees.

During the first quarter of 2016, the total cash component of interest expense decreased by $881,684, compared to the first quarter of 2015. The decrease mainly reflects a decrease in mortgage loan interest of $820,379.

Trust Expense

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

During the first quarter of 2016, trust expense increased by $164,571 or 42%, compared to the first quarter of 2015. The increase is mainly due to a one-time recovery of financing fees during the first quarter of 2015 and an increase in professional fees, partially offset by a decrease in service fees, due to the reduced asset base resulting from the sale of properties.

Fair Value Adjustments

General

The fair value of the investment property portfolio of LREIT is determined quarterly based on the same valuation techniques that are used by independent valuation professionals. The capitalized net operating income and discounted cash flow methods are typically emphasized, although the direct comparison method may occasionally be used when appropriate market comparables are available. In addition, periodic external appraisals and market reports serve to substantiate and guide the internal valuation process of LREIT, particularly with respect to key assumptions, including capitalization rates and discount rates.

Fair value estimates are also sensitive to changes in forecasted net operating income and temporary fluctuations have the potential to skew fair value estimates. As a result, actual operating results are normalized to reflect stabilized future expectations regarding capital expenditures, vacancy rates, inflation, operating costs and rental market conditions. Normalization adjustments are based on appraisals, market reports, historic performance and management projections.

Gains/losses on fair value adjustments are included in the income of the Trust and are disclosed as positive or negative "adjustments".

Investment Properties

During the first quarter of 2016, LREIT recorded a loss related to fair value adjustments on its investment properties of $3,104,229, compared to a loss related to fair value adjustments on its investment properties of $1,896,822 during the first quarter of 2015.

The losses related to fair value adjustments of investment properties, for both the first quarter of 2016 and 2015, are primarily due to reductions in the carrying value of the Fort McMurray properties of $3,142,067 and $3,228,684, respectively, as revenue expectations for the Fort McMurray portfolio were reduced to reflect the impact of the decline in oil sands development activity.

The increase in loss from fair value adjustments of $1,207,407 is primarily due to an increase in the fair value of Colony Square in the first quarter of 2015, as a result of an improvement in key valuation assumptions for the Winnipeg, Manitoba rental market.

After accounting for fair value adjustments, capital expenditures, and investment properties transferred to held for sale and/or sold properties, the carrying value of investment properties decreased by $31,911,491 and the carrying value of properties held for sale increased by $28,946,095 during the first quarter of 2016.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Three Months Ended March 31		Increase (Decrease) in income
	2016	2015	
Rental income	$ 1,378,405	$ 1,372,520	$ 5,885
Property operating costs	890,426	957,031	66,605
Net operating income	487,979	415,489	72,490
Interest expense	(232,553)	(307,724)	75,171
Fair value adjustment	(214,494)	-	(214,494)
Income from discontinued operations	$ 40,932	$ 107,765	$ (66,833)

During the first quarter of 2016, the income from discontinued operations decreased by $66,833, compared to the first quarter of 2015, primarily due to the fair value adjustment made during the first quarter of 2016, partially offset by an increase in net operating income during the first quarter of 2016, compared to the first quarter of 2015.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Analysis

	2016	2015		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 4,451,462	$ 5,957,332	$ 7,568,402	$ 7,957,771
Net operating income	$ 1,659,357	$ 2,575,846	$ 4,266,094	$ 4,556,944
Loss for the period before discontinued operations	$ (7,640,229)	$(30,150,728)	$(27,333,719)	$(34,990,639)
Loss and comprehensive loss	$ (7,599,297)	$(32,856,373)	$(27,276,615)	$(34,820,609)
Funds from Operations (FFO)	$ (4,280,574)	$ (3,042,062)	$ (1,904,147)	$ (1,564,934)
PER UNIT				
Net operating income				
- basic	$ 0.078	$ 0.122	$ 0.202	$ 0.215
- diluted	$ 0.078	$ 0.122	$ 0.202	$ 0.215
Loss for the period before discontinued operations				
- basic and diluted	$ (0.361)	$ (1.426)	$ (1.292)	$ (1.654)
Loss and comprehensive loss				
- basic and diluted	$ (0.359)	$ (1.554)	$ (1.290)	$ (1.646)
Funds from Operations (FFO)				
- basic and diluted	$ (0.202)	$ (0.144)	$ (0.090)	$ (0.074)

Quarterly Analysis

	2015	2014		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 8,731,719	$ 9,483,539	$ 9,924,262	$ 9,975,172
Net operating income	$ 4,752,982	$ 5,242,793	$ 6,103,953	$ 5,924,651
Loss for the period before discontinued operations	$ (3,919,811)	$(16,643,003)	$ (820,772)	$ (898,369)
Loss and comprehensive loss	$ (3,812,046)	$(18,296,432)	$ (795,468)	$ (742,668)
Funds from Operations (FFO)	$ (1,915,224)	$ (877,026)	$ (637,581)	$ (58,076)
PER UNIT				
Net operating income				
- basic	$ 0.225	$ 0.248	$ 0.290	$ 0.283
- diluted	$ 0.225	$ 0.247	$ 0.213	$ 0.201
Loss for the period before discontinued operations				
- basic and diluted	$ (0.185)	$ (0.788)	$ (0.039)	$ (0.043)
Loss and comprehensive loss				
- basic and diluted	$ (0.180)	$ (0.866)	$ (0.038)	$ (0.035)
Funds from Operations (FFO)				
- basic and diluted	$ (0.091)	$ (0.042)	$ (0.030)	$ (0.003)

Rental Revenue and Net Operating Income

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

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

Loss before Discontinued Operations

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

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

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

Loss and Comprehensive Loss

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

ANALYSIS OF CASH FLOWS

Operating Activities

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

Interest Paid

"Interest paid" on the Statements of Cash Flows is based on the cash component of interest expense for both investment properties and discontinued operations, after adjusting for the change in accrued interest during the period.

Due to the exclusion of non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds, change in fair value of the interest swap liability and the non-payment or capitalization of any mortgage loan interest and revolving loan interest from "interest paid", there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. The most significant quarterly variance between accrued interest and interest paid arises in regard to the timing of the Series G debenture interest payments. In 2015, "interest paid" on debentures was $1,178,513 higher in the second quarter, compared to the first quarter, and was $1,178,513 higher in the fourth quarter, compared to the third quarter. In 2016, LREIT does not anticipate there being a quarterly variance in "interest paid" from the Series G debentures, as the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G debentures be amended to incorporate the deferral of all interest payments, for the perid after December 31, 2015, until the proposed extended maturity date of June 30, 2022.

Cash from Operating Activities

	Three Months Ended March 31		Increase
	2016	2015	(Decrease) in Cash
Net operating income			
Investment properties	$ 1,659,357	$ 4,752,982	$ (3,093,625)
Discontinued operations	487,979	415,489	72,490
Total net operating income	2,147,336	5,168,471	(3,021,135)
Accrued rent receivable	30,483	147,345	(116,862)
Net operating income - cash basis	2,177,819	5,315,816	(3,137,997)
Trust expense	(556,430)	(391,859)	(164,571)
Gain on debenture repurchases	-	(5,976)	5,976
Trust expense - cash basis	(556,430)	(397,835)	(158,595)
Interest paid			
Investment properties	(3,061,920)	(4,423,592)	1,361,672
Discontinued operations	(230,814)	(235,044)	4,230
Total interest paid	(3,292,734)	(4,658,636)	1,365,902
Interest received	16,957	27,092	(10,135)
Interest expense - cash basis	(3,275,777)	(4,631,544)	1,355,767
Cash provided by (used in) operating activities, before working capital adjustments	(1,654,388)	286,437	(1,940,825)
Working capital adjustments, net	242,016	(578,575)	820,591
Cash used in operating activities	$ (1,412,372)	$ (292,138)	$ (1,120,234)

During the first quarter of 2016, the net cash used in operating activities, before working capital adjustments, was $1,654,388, compared to cash provided by operating activities, before working capital adjustments, of $286,437 in the first quarter of 2015, representing a decrease in cash flow of $1,940,825. The decrease in cash flow mainly reflects a decrease in the cash component of net operating income of $3,137,997, partially offset by a decrease in interest paid of $1,365,902.

The decrease in the cash component of net operating income is mainly due to the same factors discussed in the "Net Operating Income and Operating Margin" section of this MD&A. The decrease in interest paid is mainly due to the same factors discussed in the "Interest Expense" section of this MD&A as well as the deferral of interest payments in accordance with the requested concessions for reduced debt service payments as discussed in the preceding sections of this report.

After providing for working capital adjustments, the net cash used in operating activities increased by $1,120,234 during the first quarter of 2016, compared to the first quarter of 2015.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $2,148,265 during the first quarter of 2016. The net cash inflow mainly reflects the proceeds of the revolving loan facility, largely offset by the prepayment of mortgage loans and the regular repayment of principal on long-term debt.

Revolving Loan Facility

Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. During the first quarter of 2016, proceeds from the revolving loan amounted to $10,900,000 and served as a funding source for the mortgage loan prepayments, the cash outflow from operating activities, mortgage loan principal payments, transactions costs, and capital expenditures.

Prepayment of Mortgage Loan

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

Repayment of Long-term Debt

During the first quarter of 2016, the cash outflow for regular repayment of mortgage loan and defeased mortgage loan principal for both investment properties and discontinued operations amounted to $1,191,354, compared to $1,693,027 during the first quarter of 2015.

The decrease in regular principal repayments primarily reflects the requested concessions for reduced debt service payments discussed in the preceding sections of this report.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $279,256 during the first quarter of 2016. The net cash outflow mainly reflects capital expenditures on investment properties and property and equipment, partially offset by a reduction in restricted cash and a decrease in defeasance assets.

Divestitures

Subsequent to March 31, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

Subsequent to March 31, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

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

Capital Expenditures

LREIT has a continuous capital improvement program with respect to its properties. The primary objectives of the program are to extend the useful life of the properties, increase the future productive capacity of the properties, and improve the quality of tenants' physical surroundings. LREIT distinguishes between sustaining and value-added capital expenditures. In general, sustaining capital expenditures reflect the cost of capital expenditures that are required in order to maintain the existing productive capacity of the properties. Value-added capital expenditures tend to be more discretionary in nature and primarily reflect the cost of major renovation and/or expansion projects that are aimed at increasing the future productive capacity of the properties. Given LREIT's working capital and liquidity position, the current focus of its capital improvement program is on sustaining capital expenditures and minimizing discretionary expenditures.

During the first quarter of 2016, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the two remaining seniors' homes, amounted to $344,559, compared to $247,452 during the first quarter of 2015.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Sustaining Capital Expenditures		
- Investment properties	138,833	247,452
- Property and equipment	214,494	-
Value-added capital expenditures	-	-
	353,327	247,452

Adjusted Funds from Operations (AFFO)

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

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

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

Adjusted Funds from Operations *

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Funds from operations (FFO)	$ (4,280,574)	$ (1,915,224)
Add (deduct):		
Straight-line rent adjustment	30,483	147,345
Accretion of debt component of mortgage bonds	-	213,774
Unit-based compensation	-	-
Change in fair value of interest rate swaps	-	190,963
Capital expenditures on investment properties **	(138,833)	(247,452)
Capital expenditures on investment properties held for sale **	-	-
Capital expenditures on property and equipment **	(214,494)	-
Adjusted funds from operations (AFFO) *	$ (4,603,418)	$ (1,610,594)
AFFO per unit *		
- basic and diluted	$ (0.218)	$ (0.076)

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

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

As disclosed in the preceding chart, LREIT completed the first quarter of 2016 with an AFFO deficiency of $4,603,418, compared to AFFO deficiency of $1,610,594 during the first quarter of 2015. On a basic per unit basis, the AFFO deficiency increased by $0.142 per unit during the first quarter of 2016, compared to the first quarter of 2015.

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

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

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Cash used in operating activities	$ (1,412,372)	$ (292,138)
Add (deduct):		
Working capital adjustments	(242,016)	578,575
Loss on warrant repurchases	-	-
Gain on debenture repurchases	-	5,976
Amortization of transaction costs	(1,290,745)	(832,319)
Differences in interest accruals	(1,304,958)	(823,236)
Capital expenditures on investment properties **	(138,833)	(247,452)
Capital expenditures on property and equipment **	(214,494)	-
Adjusted funds from operations (AFFO) *	$ (4,603,418)	$ (1,610,594)

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

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

Distributions

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

LIQUIDITY AND CAPITAL RESOURCES

General

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

The decline in rental market conditions in Fort McMurray, as described in the preceding sections of this report, has affected operating cash flow to the extent that LREIT requires ongoing additional sources of cash to fund the cash outflow from operating activities, in addition to the regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures. LREIT will also require additional capital in order to fund debenture interest payments 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.

	March 31 2016	December 31 2015
Unrestricted cash	$ 614,469	$ 407,513
Amount available on revolving loan *	-	10,900,000
Total available liquidity	$ 614,469	$ 11,307,513

* As of the date of this report, there is $3,900,000 available under the revolving loan facility.

Working Capital

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

As of March 31, 2016, working capital was $18,515, representing a decrease of $97,440, compared to working capital as of December 31, 2015. The working capital excludes the current portion of long-term debt, "held for sale" assets and liabilities that are of a long-term nature, and the principal amount due on the revolving loan from 2668921 Manitoba Ltd. of $18,000,000 (December 31, 2015 - $7,100,000), and includes the tenant security deposit liability, net of the security deposit balance in restricted cash.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used by the Trust to assess the overall financial position of the Trust. During the first quarter of 2016, the mortgage loan debt service coverage ratio was 0.40, inclusive of debt service concessions granted during the quarter under mortgage renewal, mortgage amendment and forbearance agreements, compared to 0.81 during the first quarter of 2015. Excluding mortgage prepayment of $7,500,000 paid during the first quarter of 2016, the mortgage loan debt service coverage ratio was 0.76.

Interest Coverage Ratio

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

During the first quarter of 2016, the interest coverage ratio decreased to 0.53, compared to 1.08 during the first quarter of 2015. After including the cash component of interest on mortgage bonds and debentures, the interest coverage ratio decreased to 0.46 during the first quarter of 2016, compared to 0.94 during the first quarter of 2015.

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

As indicated by the Debt Service Coverage and Interest Coverage Ratios, the operating performance of the Trust has decreased to the extent that net operating income is no longer sufficient to fund the debt service or interest payment obligations of the Trust.

Summary of Total Debt Obligations by Year

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2016	2017/2018	2019/2020	2021 and beyond
Mortgage loans					
Investment properties (1)	$ 228,757,994	$ 15,645,099	$ 159,039,671	$ 28,857,345	$ 25,215,879
Discontinued operations	14,154,410	14,154,410	-	-	-
Total mortgage loans	242,912,404	29,799,509	159,039,671	28,857,345	25,215,879
Debentures	24,810,800	-	24,810,800	-	-
Total	$ 267,723,204	$ 29,799,509	$ 183,850,471	$ 28,857,345	$ 25,215,879

(1) Includes $5,502,472 of future capitalized interest per the terms of forbearance and certain debt renewal agreements and mortgage loan amendments.

The amount due in the remainder of 2016 for mortgage loans on investment properties of $15,645,099 consists of three mortgage loans with maturity dates in 2016 in the aggregate principal amount of $12,784,251 and regular principal payments of $2,860,848 for other mortgage loans.

All mortgages which have matured prior to the date of this report have been repaid, renewed or refinanced with the exception of one mortgage loan in the amount of $24,348,777 which matured on December 5, 2015 and was overholding past the maturity date. Subsequent to December 31, 2015, LREIT entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017 and, therefore, the principal balance of this mortgage loan is included in the 2017/2018 column in the table above.

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

Loan Defaults and Covenant Breaches

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

During the first quarter of 2016, the Trust defaulted on the debt service requirements of twelve mortgage loans in the aggregate amount of $193,999,155 related to all thirteen properties in its Fort McMurray portfolio and remained in breach of an annual debt covenant requirement on a mortgage loan in the amount of $4,154,410, which was classified as a discontinued operations. Failure to comply with debt service obligations and debt covenant requirements are events of default that allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements. The defaults are discussed in more detail below.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $18,089 and interest payments of $18,733 on a first mortgage loan in the amount of $12,840,134 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to March 31, 2016, the Trust withheld principal payments of $36,375 and interest payments of $37,467 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loan and the lender has taken no action against the Trust and continues to engage in discussions with respect to the restructuring of the mortgage loan. The Trust intends on deferring all principal payments and 40% of the interest payments related to this mortgage loan until an alternative agreement is reached with the lender.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $58,381 and interest payments of $26,075 on one first mortgage loan in the amount of $29,563,459 related to one property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. The affected lender has demanded repayment of the loan. Subsequent to March 31, 2016, the Trust withheld principal payments of $117,484 and interest payments of $52,150 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loan and the lender has not enforced their security or taken further action against the Trust. The lender continues to engage in discussions with the Trust with respect to the restructuring of the mortgage loan and has entered into a pre-negotiation agreement with the Trust for this purpose. The Trust intends on making payments with respect to this mortgage loan equivalent to the available cashflow from the affected property until an alternative agreement is reached with the lender.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $77,083 and interest payments of $65,101 on four first mortgage loans in the amount of $36,937,183 related to seven properties in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender and the affected lender demanded repayment of the loans. Subsequent to March 31, 2016, the Trust withheld principal payments of $155,186 and interest payments of $130,201 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loans and the lender has not enforced their security or taken further action against the Trust. The lender continues to engage in discussions with the Trust with respect to the restructuring of the mortgage loans and has entered into a pre-negotiation agreement with the Trust for this purpose. The Trust intends on deferring all principal payments and 40% of the interest payments related to the above mortgage loans until an alternative agreement is reached with the lender.

During the first quarter of 2016, after informing the lender of its intentions, the Trust withheld principal payments of $187,870 on a $24,431,365 first mortgage loan related to a property in its Fort McMurray portfolio. In addition, at December 31, 2015, the Trust was in breach of the annual 1.25:1 debt service coverage ratio requirement and the annual 2.5:1 debt-to-equity ratio requirement of the mortgage loan. The Trust entered into a forbearance agreement with the lender, effective March 1, 2016, for a one-year term, expiring February 28, 2017, at an increased interest rate of prime plus 4%, and with minimum monthly interest-only payments of 3.25%. The forbearance agreement provides for any unpaid interest, forbearance and consulting fees to be capitalized and added to the principal balance of the loan over the term of the forbearance agreement.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $87,589 of principal and $189,622 of interest payable on a first mortgage loan in the amount of $37,943,930 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust and lender agreed to terms of renewal for the mortgage loan for a two-year term, effective May 1, 2016, providing for the deferral of 40% of the monthly interest payments until the maturity date of the mortgage loan. The terms of the renewal provide for the deferred interest to be capitalized into the principal balance of the mortgage loan. The terms of the renewal also require a lump sum payment to the lender of $5,500,000 on May 1, 2017.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $147,501 of principal and $283,155 of interest payable on two first mortgage loans in the aggregate amount of $42,294,376 related to two properties in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust was able to renew the mortgage for a two-year term, effective February 1, 2016, on an interest only basis, at a reduced interest rate, encompassing the deferral of 40% of the monthly interest payments until the maturity date of the loan. The terms of the renewal provide for the deferred interest to be capitalized into the principal balance of the mortgage loan.

At December 31, 2015, the Trust was in breach of an annual 1.30:1 debt service coverage ratio requirement of a $4,154,410 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld interest payments of $26,438 on an interest-only second mortgage loan in the amount of $4,571,609 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to the default, but prior to the end of the first quarter of 2016, 2668921 Manitoba Ltd. acquired the mortgage from the previous lender, extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date. The amended mortgage loan terms provide for the deferred interest to be capitalized to the principal balance of the mortgage loan.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $48,769 of interest payable on an interest-only second mortgage loan in the amount of $5,417,099. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust renewed the mortgage loan for a seven-month term, effective February 1, 2016, at a reduced interest rate, encompassing the deferral of 40% of the monthly interest payments until maturity date of the loan. The mortgage was secured by a second charge on three properties in its Fort McMurray portfolio, one of which was sold subsequent to March 31, 2016. The mortgage was paid in full from the proceeds of the sale.

As of the date of this report, of the 12 mortgage loans that defaulted on debt service obligations during the first quarter of 2016: the Trust renewed three mortgage loans, inclusive of interest rate and deferred payment concessions; received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan and six mortgage loans in the aggregate amount of $79,340,776 are in ongoing discussions with the lenders. One mortgage loan, for a property classified in discontinued operations, remains in breach of an annual debt service covenant (December 31, 2015 - two mortgage loans).

Subsequent to March 31, 2016, for the six mortgage loans which are in ongoing discussion with the lenders, the Trust withheld principal payments of $309,044 and interest payments of $219,818 in accordance with the amended mortgage loan terms it had requested from the lenders that had not yet agreed to amended mortgage loan or forbearance terms. As of the date of this report, discussions with these lenders continue and they have taken no further action against the Trust.

If the lenders of the six mortgage loans, with an aggregate principal balance of $79,340,776, that remain in default as of the date of this report demanded repayment during 2016 and the chart above was adjusted to reflect the repayments, the total long-term debt due in 2016 would increase to $93,420,948, the total long-term debt due in 2017/2018 would decrease to $120,887,788, the total long-term debt due in 2019/2020 would decrease to $907,521 and the total long-term debt due in 2021 and beyond would decrease to $13,541,737.

At March 31, 2016, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first mortgage loan in the amount of $29,563,459, with a maturity date of March 1, 2019, on a property in Fort McMurray, Alberta. Failure to meet the cash management requirement is not an event of default, but entitles the lender to attach net cash receipts from the property. No action has been initiated to the date of this report.

Debentures

As of March 31, 2016, the total face value of the 9.5% Series G debentures is $24,810,800. The debentures mature on June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the Series G debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. The extent of future debenture repayments, if any, is dependent on the extent and proceeds of property sales, the amount of mortgage loan indebtedness related to the properties sold and the balance of amounts owing to Shelter and/or its parent company 2668921 Manitoba Ltd.

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

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Deferral of Interest Payment on Revolving Loan Facility

During the first quarter of 2016, the Trust deferred payment of interest on the revolving loan facility for February 2016 and March 2016 in the aggregate amount of $346,253. Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to reiterate its support for LREIT's debt restructuring efforts.

Deferral of property management fee and service fee payment

During the first quarter of 2016, the Trust deferred the payment of property management fees in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the amount of $86,711 for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During the first quarter of 2016, funds in the amount of nil were released from escrow following the completion of capital improvements or sale of property and $51,450 of new cash deposits were added to mortgage and capital improvement reserves. As of March 31, 2016, cash deposits in escrow for capital expenditures amount to $350,386.

Capital Resources

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

Revolving Loan Facility from 2668921 Manitoba Ltd.

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

Effective July 1, 2015, the revolving loan facility was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. As of the date of this report, there is $3,900,000 available under the revolving loan facility.

As discussed in the preceding sections of this report, 2668921 Manitoba Ltd. has indicated its willingness to reduce the interest rate on the revolving loan from 12% to 5% should the debenture holders approve the proposal that LREIT will be making with respect to amending the terms of the Series G debentures.

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

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

Proceeds from the Sale of Select Properties

Subsequent to March 31, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

Subsequent to March 31, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

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

Upward Refinancing of Mortgage Loans

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

Equity Offerings

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

Outlook and Continuing Operations

After accounting for the cash outflow from operating activities, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed the first quarter of 2016 with a cash shortfall of $3,017,434, compared to a cash shortfall of $2,453,512 during the first quarter of 2015. LREIT is expected to incur an additional cash shortfall in the remainder of 2016.

In an effort to meet the ongoing funding obligations of the Trust and sustain operations, LREIT continues to pursue debt restructuring arrangements with its lenders as well as concessions from Shelter and its parent, 2668921 Manitoba Ltd., with respect to the payment of property management and service fees and revolving loan interest, respectively. Other measures taken in order to address the liquidity challenges facing LREIT include the expansion of the divestiture program and the continuation of cost reduction and other initiatives in order to improve the operating performance of the Trust.

Continuation of the Trust's operations into the foreseeable future will be contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to:

(i) the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree and for the duration necessary to allow LREIT the opportunity to stabilize its operations;
(ii) the Trust's ability to renew or refinance debt as it matures;
(iii) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, reduce or defer property management and service fees and/or provide other forms of financial support to the Trust;
(iv) the timing and extent of a recovery of the Fort McMurray rental market, which in turn is highly dependent on the timing and extent of a recovery in oil prices;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) ability of LREIT to complete additional property sales.

CAPITAL STRUCTURE

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

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

Capital Structure

	March 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Long-term debt	$ 84,514,826	32.8 %	$ 122,080,890	46.9 %
Current portion of long-term debt	183,653,861	71.3 %	141,300,008	54.2 %
Equity	(10,474,316)	(4.1)%	(2,875,019)	(1.1)%
Total capitalization	$ 257,694,371	100.0 %	$ 260,505,879	100.0 %

Long-term Debt

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

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

Summary of Long-term Debt

	March 31 2016	December 31 2015	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 222,688,466	$ 230,897,904	$ (8,209,438)
Debentures	24,810,800	24,810,800	-
Defeased liability	2,504,397	2,520,859	(16,462)
Revolving loan from 2668921 Manitoba Ltd.	18,000,000	7,100,000	10,900,000
Total secured long-term debt	268,003,663	265,329,563	2,674,100
Accrued interest payable	2,201,500	1,139,300	1,062,200
Unamortized transaction costs	(2,036,476)	(3,087,965)	1,051,489
Total long-term debt - Investment properties	268,168,687	263,380,898	4,787,789
Long-term debt - Discontinued operations			
Mortgage loans	14,154,410	14,199,674	(45,264)
Unamortized transaction costs	(1,375)	(2,750)	1,375
Total long-term debt - Discontinued operations	14,153,035	14,196,924	(43,889)
Total long-term debt	$ 282,321,722	$ 277,577,822	$ 4,743,900

As disclosed in the preceding chart, the total long-term debt of LREIT as of March 31, 2016 increased by $4,743,900 or 2%, compared to the balance as of December 31, 2015. The increase is comprised of a $2,674,100 increase in the secured long-term debt of the Trust, as well as increases in accrued interest payable and a decrease in unamortized transaction costs of $1,062,200 and $1,051,489, respectively. The increase in secured long-term debt mainly reflects a $10,900,000 increase in the balance of the revolving loan from 2668921 Manitoba Ltd, largely offset by a decrease in the balance of mortgage loans of $8,209,438. The change in the balance of the revolving loan and mortgage loans reflects the prepayment, using proceeds from the revolving loan facility, of a $7,500,000 interest-only second mortgage loan in the Fort McMurray property portfolio, which was secured by the assets 2668921 Manitoba Ltd.

During the first quarter of 2016, LREIT remitted several debt service payments in accordance with modified mortgage loan terms that are still being negotiated with the associated lenders. The result was the withholding of interest that was otherwise payable under the terms of the existing mortgage loans. The increase in accrued interest payable mainly reflects the withholding of these interest payments and the deferral of interest payments on the revolving loan from 2668921 Manitoba Ltd.

The decrease in the balance of unamortized transaction costs during the quarter mainly reflects the accelerated amortization of transaction costs as a result of the early renewals of four mortgage loans and the sale of two properties during the second quarter of 2016.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of March 31, 2016, the total mortgage loan debt of LREIT decreased by $8,254,702 compared to the amount payable as of December 31, 2015. As disclosed in the chart below, the decrease primarily reflects a reduction in the balance of mortgage loans as a result of the prepayment of a mortgage loan and regular repayments of principal on mortgage loans, partially offset by interest and forbearance fees capitalized to mortgage loan principal in accordance with mortgage renewal, mortgage amendment and forbearance agreements.

	Three Months Ended March 31, 2016		
	Total	Investment Properties	Seniors' Housing Complexes
Regular repayment of principal on mortgage loans	$ (1,174,892)	$ (1,129,628)	$ (45,264)
Prepayment of mortgage loans	(7,500,000)	(7,500,000)	-
Interest capitalized, net of repayment	420,190	420,190	-
Increase (decrease) in mortgage loans	(8,254,702)	(8,209,438)	(45,264)
Total mortgage loans - December 31, 2015	245,097,578	230,897,904	14,199,674
Total mortgage loans - March 31, 2016	$ 236,842,876	$ 222,688,466	$ 14,154,410

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount March 31, 2016	Percentage of Total
(Note 1)	(Note 2)		
Investment Properties			
Fixed rate			
2016	5.5 %	$ 3,047,944	1.3 %
2017	6.8 %	24,624,113	10.4 %
2018	5.0 %	19,622,149	8.3 %
2019	5.0 %	29,563,459	12.5 %
2022	4.0 %	15,585,342	6.6 %
2025	4.4 %	12,840,134	5.4 %
	5.2 %	105,283,141	44.5 %
Demand/variable rate	6.1 %	117,405,325	49.5 %
Principal amount		222,688,466	94.0 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	4.2 %
Demand/variable rate	4.8 %	4,154,410	1.8 %
Principal amount		14,154,410	6.0 %
Total		$ 236,842,876	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 March 31, 2016, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 6.5% and 5.7%, respectively, compared to 5.9%, 6.5% and 6.0% at December 31, 2015.

Mortgage Loan Debt Summary

	2016	2015		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.2%	4.8%	4.6%	4.6%
Variable rate mortgage loans	6.1%	7.3%	7.3%	7.6%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.4%	6.4%	6.3%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	88%	91%	79%	75%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	97%	100%	85%	82%

	2015	2014		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.7%	4.7%	4.7%
Variable rate mortgage loans	7.5%	7.5%	7.5%	7.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	6.3%	6.3%	6.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	70%	68%	66%	66%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	75%	75%	73%	73%

* Excludes the revolving loan and advances from Shelter.

Mortgage Bonds

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

Debentures

As of March 31, 2016, LREIT has 9.5% Series G debentures outstanding with a face value of $24,810,800, due June 30, 2018.

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.

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

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2015	20,252,386
- March 31, 2016	20,252,386
- May 10, 2016	20,557,320

As of March 31, 2016, LREIT had 20,252,386 units outstanding, which was unchanged compared to the number of units outstanding as of December 31, 2015.

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

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

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

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

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

During the first quarter of 2016, fees payable to Shelter for investment properties included service fees and property management fees of $260,133 and $174,055, respectively, compared to $318,235 and $349,862, respectively, during the first quarter of 2015.

During the first quarter of 2016, the Trust deferred the payment of property management fees in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the amount of $86,711 for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

During the first quarter of 2016, LREIT incurred service fees in regard to the condominium sales program of nil and renovation fees of nil, compared to nil and nil, respectively, during the first quarter of 2015.

Loans

Revolving Loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of March 31, 2016, the revolving loan facility was secured by mortgage charges against the title to two investment properties and two seniors' housing complexes.

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

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

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

The revolving loan is included in "Current portion of long-term debt" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense. Renewal and extension fees are included in transaction costs.

During the first quarter of 2016, interest on the loan facility amounted to $463,984, compared to $405,523 during the first quarter of 2015.

During the first quarter of 2016, the Trust received advances of $10,900,000 and repaid nil on the revolving loan, resulting in a balance of $18,000,000 at March 31, 2016. Subsequent to March 31, 2016, the Trust received advances of nil and repaid $3,900,000, resulting in a balance of $14,100,000 as of the date of this report.

Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Approval

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

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan in the amount of $4,571,609, inclusive of accrued interest, with an interest rate of 11.75% and maturity date of November 1, 2016.

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations / Liquidity Risks

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

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern, and in order to improve liquidity, meet ongoing funding obligations, and sustain operations management has achieved and is continuing to pursue debt restructuring arrangements with certain of its lenders, requesting concessions from Shelter with respect to the payment of property management and service fees, expanding its divestiture program and continuing with cost reduction measures and other efforts to improve operating results.

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

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

Concentration of the Portfolio of LREIT in One Market

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

At March 31, 2016, there were 20 properties in the real estate portfolio of LREIT, 13 of which were located in Fort McMurray, Alberta. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 73% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $199,951,235, which represents approximately 81% of the total aggregate carrying value of the investment property portfolio as at March 31, 2016.

The Fort McMurray properties accounted for 62% of investment property revenue and 50% of the net operating income of the Trust during the first quarter of 2016.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio. As a result, fluctuations in the activity of the oil sands industry can have a significant impact on rental market conditions including the average rental rate and the overall occupancy level of the Fort McMurray portfolio. The decline in oil prices that began in the fourth quarter of 2014 has resulted in a significant slowdown of oil sands development activity and created a higher level of uncertainty in regard to the timing and extent of future development in the oil sands industry.

Financing

General

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

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

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

Loan Defaults and Covenant Breaches

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

During the first quarter of 2016, the mortgage loan debt service coverage ratio decreased to 0.40, inclusive of debt service concessions granted during the quarter under mortgage renewal, mortgage amendment and forbearance agreements, compared to 0.81 during the first quarter of 2015, indicating that the net operating income of LREIT is not sufficient to fund the debt service obligations of the Trust. Consequently, the Trust requested concessions from certain of its lenders and commenced payments in accordance with the concessions. As a result, the Trust defaulted on the debt service requirements of twelve mortgage loans with an aggregate balance of $193,999,155 relating to all thirteen properties in the Fort McMurray portfolio, during the first quarter of 2016. In addition, the Trust remained in breach of an annual debt covenant requirements on a $4,154,410 mortgage loan relating to a property classified under discontinued operations.

At December 31, 2015, the Trust was in breach of an annual 1.30:1 debt service coverage ratio requirement of a $4,154,410 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

At December 31, 2015, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first mortgage loan in the amount of $29,679,501, with a maturity date of March 1, 2019, on a property in Fort McMurray, Alberta. Failure to meet the cash management requirement is not an event of default, but entitles the lender to attach net cash receipts from the property. No action has been initiated to the date of this report.

In response to the conditions above, LREIT is actively pursuing debt restructuring arrangements with certain of its mortgage loan lenders and with 2668921 Manitoba Ltd. with respect to the revolving loan.

As of March 31, 2016, the Trust renewed three mortgage loans, inclusive of interest rate and deferred payment concessions; received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan, covering approximately 60% of the Trust's total outstanding mortgage debt in Fort McMurray. With respect to the mortgage loans that remain in default as of the date of this report, the Trust has signed a pre-negotiation agreement with one lender and remains in discussions with the other lender.

Shelter and 2668921 Manitoba Ltd. have participated equitably in LREIT's debt restructuring initiatives by providing the deferral of property management fees, service fees, and interest on the revolving loan as well as interest on the second mortgage loan acquired by 2668921 Manitoba Ltd. during the first quarter of 2016.

Subsequent to March 31, 2016, the Trust withheld principal payments of $309,044 and interest payments of $219,818 on six mortgage loans with an aggregate principal balance of $79,340,776 in accordance with the amended mortgage loan terms it had requested from the two remaining lenders that had not yet agreed to amended mortgage loan or forbearance terms. As of the date of this report, discussions with these lenders continue and they have taken no further action against the Trust.

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

Mortgage Maturities

All mortgages which have matured prior to the date of this report have been repaid, renewed or refinanced with the exception of one mortgage loan in the amount of $24,348,777 which matured on December 5, 2015 and was overholding past the maturity date. The mortgage loan that was overholding was also in breach of debt covenants and debt service obligations as disclosed in the preceding section. Subsequent to December 31, 2015, LREIT entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

Revolving Loan Facility From 2668921 Manitoba Ltd.

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

Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

In May 2016, the Trust will propose, subject to the approval of the debenture holders, that the terms of the Series G dedentures be amended to extend the maturity date to June 30, 2022, to reduce the interest rate, for the period after December 31, 2015, from 9.5% to 5% and to defer all payments of interest to the amended maturity date. Upon approval of the amendments, 2668921 Manitoba Ltd. has agreed to reduce the interest rate of the revolving loan from 12% to 5% per annum.

Credit Support from Shelter

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

Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

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

Divestiture Program

Subsequent to March 31, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

Subsequent to March 31, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

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

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

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

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

Wildfire in Fort McMurray

On May 1, 2016, a wildfire developed in Fort McMurray, Alberta which resulted in the evacuation of the entire city of Fort McMurray. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,084 suites or 73% of its total suites in the investment property portfolio. At this time, LREIT is not aware of any structural fire damage to its properties. An assessment of potential damages will be undertaken and it is anticipated that the insurance coverage of LREIT will be sufficient to adequately protect the Trust from significant financial loss in the event of damage caused as a result of the wildfire; however, there remains the risk that proceeds of insurance or the timing thereof may be inadequate in compensating potential losses that may arise from 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 March 31, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $38,944,961 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

- 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;

- 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

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

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

Future Changes In Accounting Policies

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

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

- IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts, excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

- IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

Adoption of Accounting Standards

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

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

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

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

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

TAXATION

Taxation of LREIT

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

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before March 31, 2016, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

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

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

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

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

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

Taxation of Unitholders

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

During the three months ended March 31, 2016, there were no changes to LREIT's DC&P. LREIT continuously reviews the design of the DC&P in order to provide reasonable assurance that material information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, as defined in National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Internal Control over Financial Reporting

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

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

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

During the three months ended March 31, 2016, no changes were made to the design of the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 10, 2016

SCHEDULE I

Real Estate Portfolio as of March 31, 2016

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy March 31 2016
INVESTMENT PROPERTIES					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	50 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	73 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	67 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	33 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	62 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	59 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	54 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	54 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	45 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	59 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	45 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	40 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	40 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	79 %
Westhaven Manor	Edson	4,050,000	May 2007	48	69 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	69 %
Willowdale Gardens (3)	Brandon	4,326,000	January 2006	88	99 %
Northwest Territories					
Beck Court (3)	Yellowknife	14,300,000	April 2004	120	97 %
Total - Investment properties		**330,914,488**	Total suites	**1,489**	
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	75 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	82 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 356,636,488**		**1,697**	

Notes to the Property Portfolio:

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

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

(3) The property was sold on May 1, 2016.