



MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2017

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Unit Trading Price

	Three Months Ended March 31, 2017 (Per unit)	Year Ended December 31, 2016 (Per unit)
Opening price	\$0.07	\$0.13
Closing price	\$0.05	\$0.07

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

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

CHIEF EXECUTIVE OFFICER'S MESSAGE

2017 First Quarter Report

As expected, the rental market conditions in Fort McMurray, Alberta, LREIT's primary market, improved during the first quarter of 2017 in comparison to the first quarter of 2016, as the City continued with the early stages of the post-fire rebuilding process.

Operating Results

LREIT completed the first quarter of 2017 with negative funds from operations ("FFO") of \$1.8 million, compared to negative FFO of \$4.3 million during the first quarter of 2016. The favourable FFO variance mainly reflects a decrease in interest expense and an increase in net operating income ("NOI").

The decrease in interest expense was due to 2016 divestiture and debt restructuring initiatives that resulted in a reduction of outstanding mortgage loan debt and reductions in the rate of interest applicable to the revolving loan and Series G debenture debt.

The increase in NOI is mainly comprised of a decrease in property operating costs and an increase in rental revenues. The decrease in property operating costs is primarily due to the divestitures of Beck Court and Willowdale Gardens in May 2016. The increase in rental revenues is primarily attributable to the increase in the occupancy levels of the Fort McMurray properties. Specifically, the average occupancy level of the Fort McMurray property portfolio increased from 52% during the first quarter of 2016 to 68% during the first quarter of 2017.

Overall, LREIT completed the first quarter of 2017 with a loss and comprehensive loss of \$4.6 million, compared to a loss and comprehensive loss of \$7.6 million during the first quarter of 2016. The decrease in the loss and comprehensive loss mainly reflects the same factors discussed above.

Liquidity and Capital Resources

During the first quarter of 2017, cash used in operating activities amounted to \$1.2 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures, and transaction costs, was \$2.3 million, compared to cash used in operating activities of \$1.4 million and a cash shortfall of \$3.0 million during the first quarter of 2016. The cash shortfalls were funded by advances under the revolving loan facility from 2668921 Manitoba Ltd.

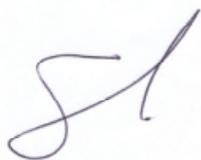
As of March 31, 2017, the Trust is current with respect to all debt service payments. However, as previously reported, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64.7 million, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of the mortgages and the lender has taken no action to enforce the loans.

During the first quarter of 2017, LREIT continued to benefit from the debt restructuring that took place during the first quarter of 2016, which has allowed for the deferral of interest payments and/or decreases in the interest rates charged.

During the first quarter of 2017, the Trust completed the sale of one condominium unit under the Lakewood Townhomes condominium sales program. The sale resulted in the reduction of \$0.4 million of mortgage loan debt and a net cash shortfall of \$0.1 million. Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's, the property classified as held for sale, Woodland Park, and the continuation of the Lakewood Townhomes Condominium Sales Program.

Outlook

A report by the Conference Board of Canada estimates that \$5.3 billion will be injected into the Canadian economy as a result of the Fort McMurray rebuilding effort and that approximately 9,000 jobs will be created in 2017. While management is optimistic that LREIT will experience improved operating results during the remainder of 2017 in connection with the rebuilding effort, there remains the risk that possible homebuilding permit delays and/or late insurance settlements will slow down the pace of the near-term market recovery. The long-term prospects of the Fort McMurray rental market will remain closely correlated with oil sands development activity and the price of oil.



GINO ROMAGNOLI, CPA, CGA
Chief Executive Officer
May 8, 2017

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, 2017 and accompanying notes and with reference to the Annual Report for 2016, the quarterly reports for 2016, the audited consolidated financial statements for the years ended December 31, 2016 and 2015, and the Annual Information Form ("AIF") dated March 13, 2017. Throughout this MD&A, it is not our intent to reproduce information that is located in these other reported documents, but rather to highlight some of the key points and refer you to these documents for more detailed information.

Forward-Looking Information

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

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

Purchase Price Information

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

Financial Statements

Throughout this report, the condensed consolidated financial statements as of March 31, 2017 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2017 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, 2017 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three months ended March 31, 2017 will be referred to as the "Statement of Cash Flows".

Operating Segments

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

- **Fort McMurray Properties (twelve properties):** Accounting for approximately 76% (December 31, 2016 - 76%) of the residential suites in the portfolio of investment properties, the twelve multi-unit residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.
- **Other Investment Properties (three properties):** The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 16% (December 31, 2016 - 16%) of the residential suites in the portfolio of investment properties.
- **Held for Sale (one property) and/or Sold Properties (two properties):** The operating results of held for sale and/or sold properties are analysed separately as they have been sold or are expected to be sold within the next twelve months and the properties do not contribute to net operating income past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, which is classified as held for sale at March 31, 2017; Beck Court, which was sold on May 1, 2016 and Willowdale Gardens, which was sold on May 1, 2016. Woodland Park, the one property classified as held for sale, accounts for approximately 8% (December 31, 2016 - 8%) of the suites in the portfolio of investment properties.

The operating results for the seniors' housing complexes, including one which was sold on October 1, 2016, are classified under "Discontinued operations" in the Income Statement of the Trust. The income and expense analyses which are contained throughout this report do not include the seniors' housing complexes, except where noted.

FINANCIAL SUMMARY

	March 31	December 31	
	2017	2016	2015
STATEMENT OF FINANCIAL POSITION			
Total assets	\$ 242,732,820	\$ 245,402,329	\$ 278,524,804
Total long-term financial liabilities (1)	\$ 245,721,149	\$ 243,501,308	\$ 279,529,237
Weighted average interest rate			
- Mortgage loan debt	5.8 %	5.8 %	6.0 %
- Total debt	5.6 %	5.6 %	6.4 %
	Three Months Ended March 31		
	2017	2016	2015
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	\$ 4,644,515	\$ 4,451,462	\$ 8,731,719
Net operating income *	\$ 2,232,113	\$ 1,659,357	\$ 4,752,982
Loss before discontinued operations *	\$ (4,691,809)	\$ (7,640,229)	\$ (3,919,811)
Loss and comprehensive loss	\$ (4,645,719)	\$ (7,599,297)	\$ (1,812,046)
Funds from Operations (FFO) *	\$ (1,777,917)	\$ (4,280,574)	\$ (1,915,224)
Cash Flows			
Cash used in operating activities	\$ (1,218,817)	\$ (1,412,372)	\$ (292,138)
Adjusted Funds from Operations (AFFO) *	\$ (1,885,179)	\$ (4,603,418)	\$ (1,610,594)
Per Unit			
Net operating income *			
- basic and diluted	\$ 0.106	\$ 0.078	\$ 0.225
Loss before discontinued operations *			
- basic and diluted	\$ (0.222)	\$ (0.361)	\$ (0.185)
Loss and comprehensive loss			
- basic and diluted	\$ (0.220)	\$ (0.359)	\$ (0.180)
Funds from Operations (FFO) *			
- basic and diluted	\$ (0.084)	\$ (0.202)	\$ (0.091)
Cash used in operating activities			
- basic and diluted	\$ (0.058)	\$ (0.067)	\$ (0.014)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	\$ (0.089)	\$ (0.218)	\$ (0.076)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Overview

LREIT owns a portfolio of 17 real estate properties, comprised of 16 multi-unit residential properties and one seniors' housing complex, which is classified under discontinued operations. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta. LREIT's primary objective is to maximize the income producing potential and market value of its real estate portfolio through the execution of strategic acquisition, development, management and divestiture activities.

LREIT's near-term focus has been on the divestiture program, debt restructuring, and post-fire operation initiatives, with the objectives of addressing liquidity concerns and positioning the Fort McMurray properties to satisfy demand from returning residents and the migration of workers taking part in the post-fire rebuilding effort.

2017 First Quarter Operating Results

Key Financial Indicators

	Three Months Ended March 31		Favourable (Unfavourable) Variance	
	2017	2016	Amount	%
	Rentals from investment properties	\$ 4,644,515	\$ 4,451,462	\$ 193,053
Net operating income	\$ 2,232,113	\$ 1,659,357	\$ 572,756	35 %
Interest expense	\$ (3,686,254)	\$ (5,656,180)	\$ 1,969,926	35 %
Fair value adjustments	\$ (2,926,179)	\$ (3,104,229)	\$ 178,050	n/a
Loss and comprehensive loss	\$ (4,645,719)	\$ (7,599,297)	\$ 2,953,578	39 %
Funds from operations (FFO)	\$ (1,777,917)	\$ (4,280,574)	\$ 2,502,657	58 %

LREIT completed the first quarter of 2017 with negative FFO of \$1.8 million, compared to negative FFO of \$4.3 million during the first quarter of 2016. On a basic per unit basis, FFO increased by \$0.118, from negative \$0.202 during the first quarter of 2016, to negative \$0.084 during the first quarter of 2017. The favourable FFO variance mainly reflects a decrease in interest expense and an increase in net operating income. The decrease in interest expense was primarily due to the divestiture and debt restructuring initiatives undertaken in 2016 which resulted in a reduction in the total balance of mortgage loan debt and reduced interest rates on the revolving loan and Series G debentures. The increase in net operating income mainly reflects an increase in the occupancy level of the Fort McMurray properties, partially offset by a decrease in operating income due to the sales of Beck Court and Willowdale Gardens in May 2016. As previously reported, the increase in the occupancy levels of the Fort McMurray portfolio is primarily the result of the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild, which have bolstered economic activity and demand for rental accommodations in the region, moderating the impact of the low level of oil sands development activity.

The average occupancy level of the Fort McMurray properties increased from 52% during the first quarter of 2016 to 68% during the first quarter of 2017. The average monthly rental rate of the Fort McMurray properties remained virtually unchanged, decreasing by \$15 or 1% during the first quarter of 2017, compared to the first quarter of 2016.

Overall, LREIT completed the first quarter of 2017 with a loss and comprehensive loss of \$4.6 million, compared to a loss and comprehensive loss of \$7.6 million during the first quarter of 2016. The decrease in the loss and comprehensive loss mainly reflects the same factors discussed above.

Liquidity and Capital Resources

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

As of March 31, 2017, the unrestricted cash balance of LREIT was \$1.0 million and the working capital deficit was \$0.4 million.

Notwithstanding the improved operating performance during the first quarter of 2017, LREIT continues to require additional sources of cash to fund the cash shortfall from operating activities, as well as mortgage loan principal payments, transaction costs for debt financing and capital expenditures. During the first quarter of 2017 cash used in operations amounted to \$1.2 million and the cash shortfall, after accounting for regular mortgage principal repayments, capital expenditures and transaction costs, was \$2.3 million, compared to cash used in operations of \$1.4 million and a cash shortfall of \$3.0 million during the first quarter of 2016.

The reduction in the cash shortfall is mainly due to a decrease in regular mortgage loan principal repayments, a decrease in cash used in operations, and a decrease in capital expenditures. The cash shortfalls were funded by additional advances under the revolving loan facility from 2668921 Manitoba Ltd.

Continuing Operations and Ongoing Initiatives

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

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

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

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

Debt Restructuring - Mortgage Loans

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

As of March 31, 2017 and the date of this report, the Trust is current with respect to all debt service payments. However, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64.7 million, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans.

Debt Restructuring - Debentures & Revolving Loan

Reduced interest rates under the amended terms of the Series G debentures and revolving loan facility, which were negotiated in the second quarter of 2016, resulted in interest expense reductions of \$0.3 million and \$0.2 million, respectively, during the first quarter of 2017, compared to the first quarter of 2016. The decrease in the revolving loan interest caused by the rate reduction was partially offset by an increase in the average balance outstanding under the revolving loan.

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

On November 14, 2016, the maximum principal balance on the revolving loan facility was increased from \$18.0 million to \$30.0 million, providing additional liquidity to LREIT.

Divestitures

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

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's, the property classified as held for sale, Woodland Park, and the continuation of the condominium sales program.

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

Fort McMurray Post-Wildfire Response

LREIT responded promptly to the May 2016 Fort McMurray wildfire and had all of the suites and common areas of its properties in Fort McMurray restored by July 2016. In addition, renovations continue to be performed at select properties in order to improve their marketability to better suit the needs of tenants in the post-fire market environment. LREIT has also focused its marketing efforts on identifying and attracting companies and tradespersons expected to be involved in the rebuilding efforts. The entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuild have resulted in increased demand for rental accommodations in the region.

Risks and Uncertainties

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

- (i) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, and/or provide other forms of financial support to the Trust;
- (ii) the Trust's ability to renew or refinance debt as it matures;
- (iii) the willingness and ability of the Trust's lenders to participate in the restructuring of the Trust's debt to the degree necessary and duration required to allow LREIT to stabilize its operations;
- (iv) the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity, and which in the near-term is dependent on the timing and extent of economic activity associated with the post-fire rebuild of Fort McMurray;
- (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
- (vi) the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Brief History and Overview

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

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

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 located 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, 2017, the real estate portfolio of LREIT consisted of 17 real estate properties, comprised of 15 multi-unit residential investment properties (the "investment properties"), one multi-unit residential property which is classified as held for sale (the "investment properties held for sale") and one seniors' housing complex (the "discontinued operations").

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

Strategy and Operations

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

Current Initiatives

The Trust continues to focus on debt restructuring and divestiture initiatives in an effort to address the liquidity issues facing LREIT. In addition, the Trust continues to focus on cost control as well as marketing and renovation initiatives aimed at attracting and accommodating the demand from homeowners displaced by the wildfire and companies involved in the Fort McMurray rebuilding effort.

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

Debt Restructuring - Mortgage Loans

Interest payment deferrals obtained by the Trust during the first quarter of 2016 in renewal agreements and a forbearance agreement for five mortgage loans, in the aggregate principal amount of \$105,109,281, resulted in reduced debt service payments in the remaining quarters of 2016 and the first quarter of 2017.

As of March 31, 2017 and the date of this report, the Trust is current with respect to all debt service payments. However, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64,693,639, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans.

Debt Restructuring - Debentures & Revolving Loan

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5% and to defer all payments of interest to the amended maturity date. As of March 31, 2017, \$2,108,918 of interest has been deferred and accrued. In conjunction with the approval of the amendments to the Series G debentures, the interest rate on the revolving loan facility from 2668921 Manitoba Ltd. was reduced from 12% to 5% per annum.

On November 14, 2016, the maximum principal balance on the revolving loan facility was increased from \$18,000,000 to \$30,000,000, providing additional liquidity to LREIT.

Reductions in the interest rates under the amended terms of the Series G debentures and revolving loan facility resulted in interest expense reductions of \$279,122 and \$167,217, respectively, during the first quarter of 2017, compared to the first quarter of 2016. The reduction in the revolving loan interest caused by the rate reduction was partially offset by an increase in the average balance outstanding under the revolving loan.

Divestitures

Rental market conditions quickly deteriorated in Fort McMurray as a result of the rapid decline in oil sands development activity which began during the fourth quarter of 2014. As a result of the downturn in the rental market, and due to LREIT's high concentration of properties in Fort McMurray, LREIT began to incur significant operating cash deficiencies. In response, LREIT instituted a divestiture program which, together with the debt-restructuring initiatives undertaken by management, is part of the overall strategy to address the operating cash deficiencies. The main objective of the program is to improve the working capital position of the Trust to assist it in meeting its ongoing funding obligations and to sustain its 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 will be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. The repayment of the 2668921 Manitoba Ltd. revolving loan 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.

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

Lakewood Townhomes Condominium Sales Program

Under the condominium sales program for Lakewood Townhomes, upon the 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".

During the first quarter of 2017, the Trust completed the sale of one condominium unit for gross proceeds of \$360,000, resulting in mortgage loan debt reduction of \$441,135. The deficiency in the repayment of the existing mortgage loan and the payment of selling costs and standard closing adjustments, in the amount of \$106,107, was funded by an advance on the revolving loan facility.

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

In 2017, divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; the property classified as held for sale, Woodland Park; and the continuation of the condominium sales program.

Fort McMurray Post-Wildfire Response

LREIT responded promptly to the May 2016 Fort McMurray wildfire and had all of its suites and common areas of its properties in Fort McMurray restored by July 2016.

Current marketing efforts are focused on identifying and attracting companies and tradespersons expected to be involved in the rebuilding efforts. In addition, renovations at select properties continue to be performed in order to improve their marketability to better suit the needs of tenants in the post-fire market environment, including the continued conversion of units into fully furnished suites.

Increased economic activity in the Fort McMurray region, which mainly reflects the entry of homeowners displaced by the wildfire into the rental market and the commencement of the post-fire rebuilding activities, has resulted in an increase to the average occupancy level of the portfolio. During the first quarter of 2017, the average occupancy level of the properties in Fort McMurray was 68%, compared to 52% during the first quarter of 2016.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2017

As of March 31, 2017, the property portfolio of LREIT consists of 17 rental properties, as follows: 15 properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position. The entire portfolio of 17 properties has a total purchase price of \$319,095,604 and encompasses 1,372 suites.

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

Real Estate Portfolio as of March 31, 2017

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy March 31 2017
INVESTMENT PROPERTIES					
Fort McMurray					
Nelson Ridge Estates	Fort McMurray, AB	\$ 40,575,000	April 2005	225	75 %
Gannet Place	Fort McMurray, AB	6,873,700	June 2006	37	78 %
Lunar Apartments	Fort McMurray, AB	4,457,100	June 2006	24	83 %
Parkland Apartments	Fort McMurray, AB	2,230,200	June 2006	12	33 %
Skyview Apartments	Fort McMurray, AB	5,385,800	June 2006	29	62 %
Snowbird Manor	Fort McMurray, AB	6,314,500	June 2006	34	50 %
Whimbrel Terrace	Fort McMurray, AB	6,873,700	June 2006	37	62 %
Laird's Landing	Fort McMurray, AB	51,350,000	August 2006	189	58 %
Lakewood Apartments	Fort McMurray, AB	34,527,719	July 2007	111	81 %
Lakewood Townhomes (1)	Fort McMurray, AB	17,839,885	July 2007	45	98 %
Millennium Village	Fort McMurray, AB	24,220,000	November 2007	72	88 %
Parsons Landing	Fort McMurray, AB	<u>60,733,000</u>	September 2008	<u>160</u>	59 %
		261,380,604		975	
Other					
Highland Tower (2)	Thompson, MB	5,700,000	January 2005	77	66 %
Norglen Terrace	Peace River, AB	2,500,000	October 2004	72	82 %
Westhaven Manor	Edson, AB	<u>4,050,000</u>	May 2007	<u>48</u>	67 %
		12,250,000		197	
Held for sale					
Woodland Park	Fort McMurray, AB	<u>37,865,000</u>	March 2007	<u>107</u>	80 %
Total - Investment properties		<u>311,495,604</u>	Total suites	<u>1,279</u>	
DISCONTINUED OPERATIONS (SENIORS' HOUSING COMPLEX) (3)					
Chateau St. Michael's	Moose Jaw, SK	<u>7,600,000</u>	June 2006	<u>93</u>	68 %
Total real estate portfolio		<u>\$ 319,095,604</u>		<u>1,372</u>	

Notes to the Property Portfolio:

- (1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of March 31, 2017 has been reduced to 45 to account for the sale of 19 condominium units. The purchase price reflects the 45 condominium units that have not been sold.
- (2) Includes the cost of major renovations and asset additions.
- (3) The seniors' housing complex represents the remaining property of a distinct line of business which the Trust intends to dispose of under a coordinated plan, and is categorized as "discontinued operations".

Recent Changes in the Property Portfolio

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

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

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

The Trust has reclassified the property known as Woodland Park to "Assets held for sale" on the Statement of Financial Position. Other properties have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

ANALYSIS OF OPERATING RESULTS

Analysis of Income (Loss)

	Three Months Ended March 31		Increase (Decrease) in Income	
	2017	2016	Amount	%
	Rentals from investment properties	\$ 4,644,515	\$ 4,451,462	\$ 193,053
Property operating costs	(2,412,402)	(2,792,105)	379,703	14 %
Net operating income	2,232,113	1,659,357	572,756	35 %
Interest income	45,612	17,253	28,359	164 %
Interest expense	(3,686,254)	(5,656,180)	1,969,926	35 %
Trust expense	(415,478)	(556,430)	140,952	25 %
Loss before the following	(1,824,007)	(4,536,000)	2,711,993	60 %
Gain on sale of investment property	58,377	-	58,377	n/a
Fair value adjustments - Investment properties	(2,926,179)	(3,104,229)	178,050	6 %
Loss before discontinued operations	(4,691,809)	(7,640,229)	2,948,420	39 %
Income from discontinued operations	46,090	40,932	5,158	13 %
Loss and comprehensive loss	\$ (4,645,719)	\$ (7,599,297)	\$ 2,953,578	39 %

Analysis of Loss per Unit

	Three Months Ended March 31		Change	
	2017	2016		%
Loss before discontinued operations - basic and diluted	\$ (0.222)	\$ (0.361)	\$ 0.139	39 %
Income from discontinued operations - basic and diluted	0.002	0.002	-	- %
Loss and comprehensive loss - basic and diluted	<u>\$ (0.220)</u>	<u>\$ (0.359)</u>	<u>\$ 0.139</u>	<u>39 %</u>

Overall Results

LREIT completed the first quarter of 2017 with a loss and comprehensive loss of \$4,645,719, compared to a loss and comprehensive loss of \$7,599,297 during the first quarter of 2016. The decrease in the loss mainly reflects a decrease in interest expense and an increase in net operating income.

The decrease in interest expense is mainly due to a decrease in amortization of transaction costs, a reduction of debt during 2016, and a decrease in interest rates of the revolving loan facility from 2668921 Manitoba Ltd. and the Series G debentures. The decrease in amortization of transaction costs is primarily due to the acceleration of amortization during the first quarter of 2016 due to the early renewal of four mortgage loans, as part of the debt restructuring initiatives, and the May 1, 2016 sale of Beck Court and Willowdale Gardens. The decrease in mortgage loan debt is due to the sales of Beck Court and Willowdale Gardens in May 2016, as well as lump sum payments made on mortgage loans during 2016 and the full repayment of two second mortgage loans during 2016.

The increase in net operating income mainly reflects a decrease in property operating costs and an increase in rental revenue. The decrease in property operating costs is mainly due to the sales of Beck Court and Willowdale Gardens in May 2016. The increase in rental revenue is mainly due to an increase in the occupancy level of the Fort McMurray properties, partially offset by a decrease in rental revenue as a result of the sales of Beck Court and Willowdale Gardens.

The increase in the occupancy level of the Fort McMurray portfolio is primarily the result of the entry of homeowners displaced by the May 2016 wildfire into the rental market and the commencement of the post-fire rebuild. The average occupancy level increased from 52% during the first quarter of 2016 to 68% during the first quarter of 2017. The extent and duration of the impact of the rebuilding effort on future operating results is uncertain and the long term prospects of the Fort McMurray rental market remain dependent on the level of future oil sands development activity.

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

Funds from Operations (FFO)

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

LREIT completed the first quarter of 2017 with negative FFO of \$1,777,917, compared to negative FFO of \$4,280,574 during the first quarter of 2016, representing a favourable variance of \$2,502,657. On a basic per unit basis, FFO increased by \$0.118, from negative \$0.202 during the first quarter of 2016, to negative \$0.084 during the first quarter of 2017.

The favourable variance in FFO mainly reflects a decrease in interest expense and an increase in net operating income, as disclosed in the preceding "Overall Results" section and described in further detail in the following sections of this report.

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

Funds from Operations *

	Three Months Ended March 31	
	2017	2016
Loss and comprehensive loss	\$ (4,645,719)	\$ (7,599,297)
Add (deduct):		
Loss (gain) on sale - Investment properties	(58,377)	-
Fair value adjustment - Property and equipment	-	214,494
Fair value adjustment - Investment properties	<u>2,926,179</u>	<u>3,104,229</u>
Funds from operations (FFO) *	<u>\$ (1,777,917)</u>	<u>\$ (4,280,574)</u>
FFO per unit *		
- basic and diluted	\$ (0.084)	\$ (0.202)

* 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 16 investment properties of LREIT are separated into three operating segments, as summarized below.

Fort McMurray Properties (twelve properties)

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

The rental revenue, operating costs and interest expense which are attributable to Lakewood Townhomes and condominium units sold under the Lakewood Townhomes Condominium Sales Program prior to their sale are also included in this operating segment.

Other Investment Properties (three properties)

The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 16% (December 31, 2016 - 16%) of the residential suites in the portfolio of investment properties.

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

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

Rental Revenues

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

Analysis of Rental Revenue

	Three Months Ended March 31					
	2017	2016	Increase (Decrease)		% of Total	
			Amount	%	2016	2015
Fort McMurray properties	\$ 3,570,087	\$ 2,744,317	\$ 825,770	30 %	77 %	62 %
Other investment properties	<u>383,193</u>	<u>419,002</u>	<u>(35,809)</u>	<u>(9)%</u>	<u>8 %</u>	<u>9 %</u>
Sub-total	3,953,280	3,163,319	789,961	25 %	85 %	71 %
Held for sale and/or sold properties (1)	<u>691,235</u>	<u>1,288,143</u>	<u>(596,908)</u>	<u>(46)%</u>	<u>15 %</u>	<u>29 %</u>
Total	<u>\$ 4,644,515</u>	<u>\$ 4,451,462</u>	<u>\$ 193,053</u>	<u>4 %</u>	<u>100 %</u>	<u>100 %</u>

Occupancy Level, by Quarter (2)

	2016					2017
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	52 %	58 %	76 %	72 %	65 %	68 %
Other investment properties	72 %	74 %	69 %	69 %	71 %	71 %
Total	54 %	60 %	75 %	72 %	65 %	68 %
Held for sale and/or sold properties (1)	75 %	64 %	86 %	82 %	75 %	79 %

Average Monthly Rents, by Quarter

	2016					2017
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	\$1,699	\$1,599	\$1,700	\$1,669	\$1,667	\$1,684
Other investment properties	\$969	\$960	\$945	\$919	\$948	\$909
Total	\$1,576	\$1,491	\$1,573	\$1,543	\$1,546	\$1,554
Held for sale and/or sold properties (1)	\$1,783	\$2,036	\$2,546	\$2,581	\$2,088	\$2,593

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

During the first quarter of 2017, total revenue from LREIT's investment properties, excluding held for sale and/or sold properties, increased by \$789,961 or 25%, compared to the first quarter of 2016. The increase is due to an increase in the rental revenues of the Fort McMurray portfolio.

Notwithstanding the positive revenue results during the first quarter of 2017, the revenue results of the Fort McMurray property portfolio continue to reflect challenging rental market conditions as a result of the depressed level of oil sands development activity in the region. Rental rates remain at depressed levels and the average monthly rental rate decreased by \$15 per suite or 1% during the first quarter of 2017, compared to the first quarter of 2016. The impact of the low level of oil sands development activity continues to be tempered by the entry of homeowners displaced by the wildfire into the rental market and the migration of workers involved in the rebuilding effort. As a result, the average occupancy level for the Fort McMurray portfolio increased from 52% during the first quarter of 2016 to 68% during the first quarter of 2017 driving the increase in revenue.

The depressed level of rental rates, together with the uncertainty regarding the extent and/or duration of the post-fire rental market recovery, are key factors that cast significant doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve operating performance are discussed in the "Liquidity and Capital Resources" section of this report.

After accounting for the decrease in revenue from held for sale and/or sold properties of \$596,908, during the first quarter of 2017, the total revenue of LREIT increased by \$193,053 or 4%, compared to the first quarter of 2016. The decrease in revenue from held for sale and/or sold properties was primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the revenue of Woodland Park, a Fort McMurray property which is currently classified as held-for-sale.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2017	2016	Increase (Decrease)	%
Fort McMurray properties	\$ 1,859,837	\$ 1,907,568	\$ (47,731)	(3)%
Other investment properties	304,732	280,385	24,347	9 %
Sub-total	2,164,569	2,187,953	(23,384)	(1)%
Held for sale and/or sold properties	247,833	604,152	(356,319)	(59)%
Total	<u>\$ 2,412,402</u>	<u>\$ 2,792,105</u>	<u>\$ (379,703)</u>	<u>(14)%</u>

During the first quarter of 2017, property operating costs decreased by \$379,703 or 14%, compared to the first quarter of 2016. The decrease mainly reflects a decrease in the property operating costs of held for sale/or sold properties, primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin *	
	2017	2016	Amount	%	2017	2016	2017	2016
Fort McMurray properties	\$ 1,710,250	\$ 836,749	\$ 873,501	104 %	77 %	50 %	48 %	30 %
Other investment properties	78,461	138,617	(60,156)	(43)%	4 %	8 %	20 %	33 %
Sub-total	1,788,711	975,366	813,345	83 %	81 %	58 %	45 %	31 %
Held for sale and/or sold properties	443,402	683,991	(240,589)	(35)%	20 %	42 %	64 %	53 %
Total	\$ 2,232,113	\$ 1,659,357	\$ 572,756	35 %	100 %	100 %	48 %	37 %

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

During the first quarter of 2017, the net operating income of the investment properties portfolio, excluding held for sale and/or sold properties, increased by \$813,345 or 83%, compared to the first quarter of 2016. The operating margin, excluding held for sale and/or sold properties, increased from 31% during the first quarter of 2016 to 45% during the first quarter of 2017. The increase in net operating income and operating margin, excluding held for sale and/or sold properties, is primarily due to the increase in the revenue results of the Fort McMurray property portfolio, as disclosed in the "Rental Revenues" section of this report.

After accounting for held for sale and/or sold properties, the total net operating income of LREIT increased by \$572,756 or 35%, during the first quarter of 2017, compared to the first quarter of 2016. The decrease in net operating income from held for sale and/or sold properties is primarily due to the sales of Beck Court and Willowdale Gardens on May 1, 2016, partially offset by an increase in the revenue of Woodland Park, the Fort McMurray property which is classified as held-for-sale.

Interest Expense

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

Analysis of Interest Expense

	Three Months Ended March 31			
	2017	2016	Increase (Decrease)	Increase (Decrease) %
Investment Properties				
Mortgage Loans	\$ 3,074,605	\$ 4,538,242	\$ (1,463,637)	(32)%
Debentures	310,135	649,874	(339,739)	(52)%
Revolving Loan	301,514	468,064	(166,550)	(36)%
	<u>3,686,254</u>	<u>5,656,180</u>	<u>(1,969,926)</u>	<u>(35)%</u>
Discontinued Operations				
Mortgage Loans	48,606	232,553	(183,947)	(79)%
Total - interest expense	<u>\$ 3,734,860</u>	<u>\$ 5,888,733</u>	<u>\$ (2,153,873)</u>	<u>(37)%</u>

Cash and Non-cash Component

	Three Months Ended March 31			
	2017	2016	Increase (Decrease)	Increase (Decrease) %
Total cash component	\$ 3,414,604	\$ 4,597,988	\$ (1,183,384)	(26)%
Total non-cash component	<u>320,256</u>	<u>1,290,745</u>	<u>(970,489)</u>	<u>(75)%</u>
Total - interest expense	<u>\$ 3,734,860</u>	<u>\$ 5,888,733</u>	<u>\$ (2,153,873)</u>	<u>(37)%</u>

During the first quarter of 2017, total interest expense decreased by \$2,153,873 or 37%, compared to the first quarter of 2016. The decrease mainly reflects a decrease in mortgage loan interest of \$1,463,637, as well as a decrease in debenture interest of \$339,739, a decrease in interest expense related to discontinued operations of \$183,947, and a decrease in revolving loan interest of \$166,550.

The decrease in mortgage loan interest is primarily due to a decrease in the amortization of transaction costs of mortgage loans, which is discussed further in the "Cash vs. non-cash component of interest" section that follows, and a decrease in the total mortgage debt during 2016, which is explained in greater detail in the "Long term debt" section of the Annual Report for 2016. The decrease in debenture interest reflects the reduction in the Series G debenture interest rate from 9.5% to 5%, effective June 30, 2016, in accordance with the amended terms of the Series G debentures and a decrease in amortization of transaction costs of \$60,617 as transactions costs associated with the debentures were fully amortized in 2016. The decrease in interest expense related to discontinued operations is due to the sale of Elgin Lodge on October 1, 2016. The decrease in revolving loan interest mainly reflects the reduction of the interest rate from 12% to 5%, effective July 1, 2016, partially offset by an increase in the average outstanding principal balance.

Cash vs. Non-Cash Component of Interest

The total cash component of interest expense decreased by \$1,183,384 during the first quarter of 2017, compared to the first quarter of 2016, primarily driven by the same factors discussed in the preceding paragraphs, with the exception of factors related to the amortization of transaction costs.

The total non-cash component of interest expense decreased by \$970,489 during the first quarter of 2017, compared to the first quarter of 2016. The decrease in non-cash component of interest expense mainly reflects a decrease in the amortization of transaction costs related to mortgage loans. The amortization of transaction costs of mortgage loans during the first quarter of 2016 were comparatively high due to the acceleration of the amortization of transaction costs resulting from debt restructuring initiatives, primarily the early renewals of four mortgage loans, and from the sale of two properties at the start of the second quarter.

Trust Expense

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

During the first quarter of 2017, trust expense decreased by \$140,952 or 25%, compared to the first quarter of 2016. The decrease is mainly due to legal fees incurred in advance of the Trust's debt restructuring initiatives in the first quarter of 2016 as well as a decrease in service fees during the first quarter of 2017 due to the reduction in the number of properties being managed as a result of divestitures.

Fair Value Adjustments

Investment Properties

During the first quarter of 2017, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of \$2,926,179, compared to a loss related to fair value adjustments of \$3,104,229 during the first quarter of 2016, representing a variance of \$178,050.

The loss related to fair value adjustments of \$2,926,179 recognized during the first quarter of 2017 was primarily due to a reduction in revenue expectations resulting from delays in the anticipated rebuilding efforts in Fort McMurray.

The loss related to fair value adjustments recognized during the first quarter of 2016 of \$3,104,229 reflected increased uncertainty of a recovery in the Fort McMurray rental market associated with the prolonged nature of the economic downturn in the region.

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 \$2,707,806 while the carrying value of investment properties held for sale decreased by \$321,435 during the first quarter of 2017.

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
	2017	2016	
Rental income	\$ 426,160	\$ 1,378,405	\$ (952,245)
Property operating costs	331,464	890,426	558,962
Net operating income	94,696	487,979	(393,283)
Interest expense	(48,606)	(232,553)	183,947
Fair value adjustment	-	(214,494)	214,494
Income from discontinued operations	\$ 46,090	\$ 40,932	\$ 5,158

During the first quarter of 2017, the income from discontinued operations increased by \$5,158, compared to the first quarter of 2016, primarily due to the relative change in fair value adjustments as well as a reduction in interest expense, partially offset by a decrease in net operating income as a result of the sale of Elgin Lodge on October 1, 2016.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Analysis

	2017	2016		
	Q1	Q4	Q3	Q2
Rentals from investment properties	\$ 4,644,515	\$ 4,800,490	\$ 5,096,608	\$ 3,979,652
Net operating income	\$ 2,232,113	\$ 1,723,989	\$ 2,606,793	\$ 1,824,148
Income (loss) for the period before discontinued operations	\$ (4,691,809)	\$ (3,523,752)	\$(10,614,965)	\$ 20,514,463
Income (loss) and comprehensive income (loss)	\$ (4,645,719)	\$ (3,482,970)	\$(11,136,578)	\$ 20,488,721
Funds from Operations (FFO)	\$ (1,777,917)	\$ (2,260,065)	\$ (1,579,111)	\$ (4,343,306)

PER UNIT

Net operating income - basic and diluted	\$ 0.106	\$ 0.082	\$ 0.123	\$ 0.086
Income (loss) for the period before discontinued operations - basic and diluted	\$ (0.222)	\$ (0.167)	\$ (0.502)	\$ 0.970
Income (loss) and comprehensive income (loss) - basic and diluted	\$ (0.220)	\$ (0.165)	\$ (0.527)	\$ 0.969
Funds from Operations (FFO) - basic and diluted	\$ (0.084)	\$ (0.107)	\$ (0.075)	\$ (0.205)

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 and 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)

Rental Revenue and Net Operating Income

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

During the third and fourth quarters of 2016 and the first quarter of 2017, the average occupancy level of the Fort McMurray properties was 76%, 72% and 68%, respectively, compared to 67%, 55% and 52% during the third and fourth quarters of 2015 and the first quarter of 2016, respectively.

It is anticipated that the post-fire rental market conditions in Fort McMurray will continue to have a positive impact on operating results for the remainder of 2017; however, the extent and duration of the impact remains uncertain.

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

Income (loss) before Discontinued Operations

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

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

Losses from fair value adjustments were most pronounced in the second, third and fourth quarters of 2015 and amounted to \$33,054,460, \$25,372,468 and \$27,120,099, 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, affect quarterly variations in interest expense.

Loss and Comprehensive Loss

With the exception of fair value adjustments, the operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, do not contribute significantly to variations in the quarterly financial results. Losses from fair value adjustments with respect to the seniors' housing complexes were most pronounced in the third quarter of 2016 and the fourth quarter of 2015, in the amounts of \$695,957 and \$2,794,716, respectively.

ANALYSIS OF CASH FLOWS

Operating Activities

Net cash flow from operating activities primarily reflects the cash component of net operating income, the cash component of trust expense, the net increase or decrease in working capital items (disclosed as "working capital adjustments"), and interest paid/interest received for both investment properties and the seniors' housing complexes classified as discontinued operations.

Cash from Operating Activities

	Three Months Ended March 31		Increase (Decrease) in Cash
	2017	2016	
Net operating income			
Investment properties	\$ 2,232,113	\$ 1,659,357	\$ 572,756
Discontinued operations	94,696	487,979	(393,283)
Total net operating income	2,326,809	2,147,336	179,473
Accrued rent receivable	13,060	30,483	(17,423)
Net operating income - cash basis	2,339,869	2,177,819	162,050
Trust expense - cash basis	(415,478)	(556,430)	140,952
Interest expense - cash basis			
Investment properties	(2,540,870)	(3,061,920)	521,050
Discontinued operations	(44,482)	(230,814)	186,332
Total interest expense - cash basis	(2,585,352)	(3,292,734)	707,382
Interest income - cash basis	45,892	16,957	28,935
Cash used in operating activities, before working capital adjustments	(615,069)	(1,654,388)	1,039,319
Working capital adjustments, net	(603,748)	242,016	(845,764)
Cash used in operating activities	\$ (1,218,817)	\$ (1,412,372)	\$ 193,555

During the first quarter of 2017, the net cash used in operating activities, before working capital adjustments, decreased by \$1,039,319, compared to the first quarter of 2016. The favourable variance mainly reflects a decrease in interest paid of \$707,382, a decrease in the cash component of trust expense of \$140,952, and an increase in the cash component of net operating income of \$162,050.

After providing for working capital adjustments, the net cash used in operating activities decreased by \$193,555 during the first quarter of 2017, compared to the first quarter of 2016.

The decrease in interest paid is mainly due to the same factors that affected the decrease in the cash component of interest expense, as previously discussed, as well as interest payment deferrals attributable to each of the quarters.

The factors noted above, in addition to the exclusion from interest paid of other non-cash items such as regular monthly interest accruals and amortization of transaction costs, account for the difference between interest expense of \$3,686,254 for the first quarter of 2017, as reported on the Statements of Comprehensive Income and interest paid of \$2,585,352 for the first quarter of 2017, as reported on the Statements of Cash Flow.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of \$1,896,082 during the first quarter of 2017. The net cash inflow mainly reflects the net proceeds of the revolving loan facility, partially offset by the repayment of long-term debt.

Prepayment of Mortgage Loans

During the first quarter of 2016, an interest-only second mortgage loan in the amount of \$7,500,000 was repaid in full. The repayment was funded by advances from the revolving loan facility. There were no mortgage loan prepayments made during the first quarter of 2017.

Repayment of Long-term Debt

During the first quarter of 2017, the regular repayment of mortgage loan principal for both investment properties and discontinued operations amounted to \$867,544, compared to \$1,191,354 during the first quarter of 2016.

The \$323,810 decrease in repayment of long-term debt is primarily due to the refinancing of three mortgage loans during the first quarter of 2016 that previously required payments of both principal and interest now require payments of interest only, as well as the elimination of mortgage debt upon the sale of Beck Court and Willowdale Gardens on May 1, 2016.

Revolving Loan Facility

Net proceeds from the revolving loan amounted to \$2,800,000 and \$10,900,000 in the first quarter of 2017 and 2016, respectively, and served as a funding source for the cash outflow from operating activities, mortgage loan principal payments, transaction costs, and capital expenditures. During the first quarter of 2016, net proceeds from the revolving loan also served as a funding source for the \$7,500,000 prepayment of mortgage loans.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of \$341,251 during the first quarter of 2017, compared to a net cash outflow of \$279,256 during the first quarter of 2016. The net cash outflow in both periods mainly reflects capital expenditures and, in the first quarter of 2017, also reflects the net cash shortfall on the sale of one condominium unit at Lakewood Townhomes.

On January 12, 2017, LREIT sold one condominium unit under the Lakewood Townhomes condominium sales program for gross proceeds of \$360,000. The sales proceeds, after the payment of selling costs and standard closing adjustments were insufficient to repay the amount required by the existing mortgage loan with respect to the sale. The deficiency in the repayment of the existing mortgage loan, in the amount of \$106,107, was funded by an advance on the revolving loan facility. The sale resulted in the reduction of \$441,135 of mortgage loan debt.

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

Capital Expenditures

LREIT has a continuous capital improvement program with respect to its properties. The primary objectives of the program are to extend the useful life of the properties, increase the future productive capacity of the properties, and improve the quality of tenants' physical surroundings. LREIT distinguishes between sustaining and value-added capital expenditures. In general, sustaining capital expenditures reflect the cost of capital expenditures that are required in order to maintain the existing productive capacity of the properties. Value-added capital expenditures tend to be more discretionary in nature and primarily reflect the cost of major renovation and/or expansion projects that are aimed at increasing the future productive capacity of the properties. Given LREIT's working capital and liquidity position, the current focus of its capital improvement program is on sustaining capital expenditures and minimizing discretionary expenditures. Notwithstanding the focus on sustaining capital expenditures, certain value-added expenditures were incurred during the first quarter of 2017 as renovations at select properties were completed in order to more aptly meet the needs of prospective tenants in the post-fire market environment.

During the first quarter of 2017, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the remaining seniors' housing complex, amounted to \$193,339, compared to \$353,327 during the first quarter of 2016.

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

	Three Months Ended March 31	
	2017	2016
Sustaining Capital Expenditures		
- Investment properties	\$ 98,727	\$ 138,833
- Investment properties held for sale	2,344	-
- Property and equipment	19,251	214,494
Value-added capital expenditures		
- Investment properties	73,017	-
	<u>\$ 193,339</u>	<u>\$ 353,327</u>

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	
	2017	2016
Funds from operations (FFO)	\$ (1,777,917)	\$ (4,280,574)
Add (deduct):		
Straight-line rent adjustment	13,060	30,483
Sustaining capital expenditures on investment properties **	(98,727)	(138,833)
Sustaining capital expenditures on investment properties held for sale **	(2,344)	-
Sustaining capital expenditures on property and equipment **	(19,251)	(214,494)
Adjusted funds from operations (AFFO) *	\$ (1,885,179)	\$ (4,603,418)
AFFO per unit *		
- basic and diluted	\$ (0.089)	\$ (0.218)

* 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 2017 with an AFFO deficiency of \$1,885,179, compared to an AFFO deficiency of \$4,603,418 during the first quarter of 2016. On a basic per unit basis, the AFFO increased by \$0.129 per unit during the first quarter of 2017, compared to the first quarter of 2016.

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	
	2017	2016
Cash used in operating activities	\$ (1,218,817)	\$ (1,412,372)
Add (deduct):		
Working capital adjustments	603,748	(242,016)
Amortization of transaction costs	(320,256)	(1,290,745)
Differences in interest accruals	(829,532)	(1,304,958)
Sustaining capital expenditures on investment properties **	(98,727)	(138,833)
Sustaining capital expenditures on investment properties held for sale **	(2,344)	-
Sustaining capital expenditures on property and equipment **	(19,251)	(214,494)
Adjusted funds from operations (AFFO) *	\$ (1,885,179)	\$ (4,603,418)

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

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

Distributions

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

LIQUIDITY AND CAPITAL RESOURCES

General

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

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

	March 31 2017	December 31 2016
Unrestricted cash	\$ 1,012,720	\$ 706,768
Amount available on revolving loan *	<u>4,900,000</u>	<u>7,700,000</u>
Total available liquidity	<u>\$ 5,912,720</u>	<u>\$ 8,406,768</u>

* 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, 2017, the working capital deficit was \$415,939 (December 31, 2016 - \$1,333,161), representing a decrease in working capital deficit of \$917,222, compared to December 31, 2016. Working capital excludes the current portion of long-term debt, as a result, the revolving loan balance of \$25,100,000 (December 31, 2016 - \$22,300,000) is also excluded. Working capital also excludes "held for sale" assets and liabilities that are of a long-term nature and includes the tenant security deposit liability, net of the security deposit balance in restricted cash.

The decrease in the working capital deficit mainly reflects a \$619,323 decrease in trade and other payables and a \$305,952 increase in cash.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used to assess the overall financial position of the Trust. During the first quarter of 2017, the mortgage loan debt service coverage ratio, inclusive of debt service concessions granted under mortgage renewal and forbearance agreements, and excluding mortgage prepayments, was 0.61, compared to 0.76 during the first quarter of 2016.

Interest Coverage Ratio

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

During the first quarter of 2017, the interest coverage ratio increased to 0.83, compared to 0.61 during the first quarter of 2016. After including the cash component of interest on the revolving loan facility and debentures, the interest coverage ratio increased to 0.68 during the first quarter of 2017, compared to 0.47 during the first quarter of 2016.

The increases in the debt service coverage ratio and interest coverage ratio during the first quarter of 2017, compared to the first quarter of 2016, are due to a decrease in debt service costs and an increase in net operating income.

As indicated by the debt service coverage and interest coverage ratios, net operating income is insufficient to fund the debt service or interest payment obligations of the Trust.

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for 2017 and for the next five years and beyond is provided in the following chart, which reflects the upcoming mortgage payments in accordance with the payment terms specified by the applicable mortgage loan and/or forbearance agreement, where applicable.

Summary of Contractual Obligations - Long-term Debt

<u>Payments Due by Period</u>	<u>Total</u>	<u>Remainder of 2017</u>	<u>2018/2019</u>	<u>2020/2021</u>	<u>2022 and beyond</u>
Mortgage loans					
Investment properties (1)	\$ 192,144,104	\$ 58,838,305	\$ 121,369,813	\$ 535,385	\$ 11,400,601
Discontinued operations	<u>3,666,245</u>	<u>3,666,245</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total mortgage loans	195,810,349	62,504,550	121,369,813	535,385	11,400,601
Revolving loan	25,100,000	-	25,100,000	-	-
Debentures	<u>24,810,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,810,800</u>
Total	<u>\$ 245,721,149</u>	<u>\$ 62,504,550</u>	<u>\$ 146,469,813</u>	<u>\$ 535,385</u>	<u>\$ 36,211,401</u>

(1) A forbearance agreement and four loan agreements have been negotiated with the lenders for five mortgage loans affecting five properties in Fort McMurray whereby the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to June 1, 2018. Over the period from March 31, 2017 to maturity, \$1,930,708 of accrued interest will be incurred and added to the outstanding mortgage principal.

Investment property mortgage loans due during the remainder of 2017 of \$58,838,305 consists of six mortgage loans with maturity dates in 2017, in the aggregate principal amount of \$56,973,947, and regular principal payments of \$1,864,358 for other mortgage loans.

All mortgages which have matured prior to the date of this report have been repaid, renewed or refinanced, except for one mortgage loan in forbearance with a balance of \$25,302,916 and one mortgage loan with a balance of \$3,194,206, both of which are currently overholding past their maturity dates of February 28, 2017 and March 1, 2017, respectively.

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

Loan Defaults

As of March 31, 2017, the Trust is current with respect to all debt service payments. However, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64,693,639, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at March 31, 2017 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans. In the event that full repayment is demanded on the mortgage loans in default as of the date of this report, the Trust would be unable to satisfy these obligations with its current resources.

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

Summary of maximum service fees payable

<u>Property</u>	<u>As at March 31, 2017</u>	
	<u>Aggregate principal balance</u>	<u>Estimate of maximum service fees payable (1)</u>
Nelson Ridge Estates	\$ 28,785,448	\$ 394,448
Lakewood Apartments	16,835,837	230,571
Gannet Place / Parkland Apartments	5,630,885	77,144
Lunar Apartments / Whimbrel Terrace	6,902,376	94,563
Snowbird Manor / Skyview Apartments	<u>6,539,093</u>	<u>89,586</u>
	<u>\$ 64,693,639</u>	<u>\$ 886,312</u>

(1) The Financial Statements as of March 31, 2017 include the accrual of the estimated maximum service fees in Trade and other payables on the Statement of Financial Position.

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

If the five mortgage loans with an aggregate principal balance of \$64,693,639, which are classified as being in default for financial statement purposes as of the date of this report, were to be called by the lenders in 2017 and the "Summary of Contractual Obligations - Long-term Debt" chart above was adjusted to reflect the repayments, the total long-term debt due in the remainder of 2017 would increase to \$109,400,625, the total long-term debt due in 2018/2019 would decrease to \$99,573,738, and the total long-term debt due in 2020 and beyond would remain the same.

Debentures

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5.0% and to defer all payments of interest to the amended maturity date. As of March 31, 2017, the total face value of the 5.0% Series G debentures is \$24,810,800 and the cumulative accrued interest is \$2,108,918.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. represents the primary funding source for any cash shortfall from the operating, investing and financing activities of LREIT. The net proceeds from property sales must be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. 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; accordingly, 2668921 Manitoba Ltd. can request repayment of the loan at any time.

The maximum available principal balance on the revolving loan facility is \$30,000,000 and the interest rate is 5% per annum. As of the date of this report, there is \$3,900,000 available under the revolving loan facility.

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

During the first quarter of 2017, the Trust completed the sale of one condominium unit under the Lakewood Townhomes condominium sales program. The sale resulted in the reduction of \$441,135 of first mortgage loan debt and a net cash shortfall of \$106,107.

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

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

Upward Refinancing of Mortgage Loans

Upward refinancing of mortgage loan debt was not a source of funds for LREIT during the first quarter of 2017. The opportunity to complete future upward refinancings is limited by the extent to which the existing property portfolio is leveraged, the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust, and market lending conditions. The upward refinancing of mortgage loans is not expected to be a viable source of funds until market and lending conditions in Fort McMurray improve.

Equity Offerings

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

Outlook and Continuing Operations

After accounting for the cash outflow from operating activities, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed the first quarter of 2017 with a cash shortfall of \$2,316,074, compared to a cash shortfall of \$3,017,434 during the first quarter of 2016. LREIT is expected to incur an additional cash shortfall during the remainder of 2017.

In an effort to meet its ongoing funding obligations and sustain operations, LREIT has continued to pursue debt restructuring arrangements with its lenders and has relied on favourable interim financing arrangements and other support from Shelter and its parent company, 2668921 Manitoba Ltd. Other measures taken in order to address the liquidity challenges facing LREIT include the continuation of the divestiture program, cost control, as well as marketing and other initiatives in order to improve the operating performance of the Trust. The Trust is continuing in its efforts to attract and accommodate homeowners displaced by the wildfire and workers engaged in the Fort McMurray post-fire rebuilding effort.

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

- (i) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust;
- (ii) the willingness and ability of the Trust's lenders to participate in a restructuring of the Trust's debt to the degree necessary and duration required to allow LREIT to stabilize its operations;
- (iii) the Trust's ability to renew or refinance debt as it matures;
- (iv) the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity, and which in the near-term is dependent on the extent of economic activity associated with the post-fire rebuild of Fort McMurray;
- (v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
- (vi) the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

CAPITAL STRUCTURE

The purchase price of LREIT's 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 and 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, 2017		December 31, 2016	
	Amount	%	Amount	%
Long-term debt	\$ 69,951,230	29.8 %	\$ 112,396,096	47.5 %
Current portion of long-term debt	174,023,099	74.1 %	128,921,415	54.5 %
Deficit	(9,250,862)	(3.9)%	(4,605,143)	(1.9)%
Total capitalization	<u>\$ 234,723,467</u>	<u>100.0 %</u>	<u>\$ 236,712,368</u>	<u>100.1 %</u>

Long-term Debt

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

Pursuant to the terms of the Declaration of Trust, LREIT is not permitted to incur mortgage 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 2017	December 31 2016	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgage loans	\$ 192,144,104	\$ 192,674,077	\$ (529,973)
Revolving loan from 2668921 Manitoba Ltd.	25,100,000	22,300,000	2,800,000
Debentures	<u>24,810,800</u>	<u>24,810,800</u>	<u>-</u>
Total secured long-term debt	242,054,904	239,784,877	2,270,027
Accrued interest payable	2,909,457	2,610,724	298,733
Unamortized transaction costs	<u>(990,032)</u>	<u>(1,078,090)</u>	<u>88,058</u>
Total long-term debt - Investment properties	<u>243,974,329</u>	<u>241,317,511</u>	<u>2,656,818</u>
Long-term debt - Discontinued operations			
Mortgage loans	3,666,245	3,716,431	(50,186)
Unamortized transaction costs	<u>(6,301)</u>	<u>(4,125)</u>	<u>(2,176)</u>
Total long-term debt - Discontinued operations	<u>3,659,944</u>	<u>3,712,306</u>	<u>(52,362)</u>
Total long-term debt	<u>\$ 247,634,273</u>	<u>\$ 245,029,817</u>	<u>\$ 2,604,456</u>

As disclosed in the preceding chart, the total long-term debt of LREIT as of March 31, 2017 increased by \$2,604,456 or 1%, compared to the balance as of December 31, 2016. The increase is mainly due to a \$2,800,000 increase in the balance of the revolving loan from 2668921 Manitoba Ltd. and a \$298,733 increase in accrued interest payable, partially offset by a \$529,973 decrease in the secured long-term debt of investment properties, which is discussed in greater detail below.

The increase in the balance of the revolving loan from 2668921 Manitoba Ltd. is described in the "Analysis of Cash Flows - Financing Activities" section of this report. The increase in accrued interest payable mainly reflects the amended terms of the Series G debentures, which defers the payment of interest until the extended maturity date of June 30, 2022.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of March 31, 2017, the total mortgage loan debt of LREIT decreased by \$580,159 compared to the amount payable as of December 31, 2016. As disclosed in the chart below, the decrease primarily reflects regular repayments of principal on mortgage loans and reductions in the balance of mortgage loans on sale of properties, partially offset by interest and forbearance fees capitalized to mortgage loan principal in accordance with mortgage renewal and forbearance agreements.

	Three Months Ended March 31, 2017		
	Total	Investment Properties	Seniors' Housing Complexes
Regular repayment of principal on mortgage loans	\$ (867,544)	\$ (817,358)	\$ (50,186)
Interest and fees capitalized, net of repayments	728,520	728,520	-
Reduction of mortgage loans on sale of properties	<u>(441,135)</u>	<u>(441,135)</u>	<u>-</u>
Increase (decrease) in mortgage loans	(580,159)	(529,973)	(50,186)
Total mortgage loans - December 31, 2016	<u>196,390,508</u>	<u>192,674,077</u>	<u>3,716,431</u>
Total mortgage loans - March 31, 2017	<u>\$ 195,810,349</u>	<u>\$ 192,144,104</u>	<u>\$ 3,666,245</u>

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount March 31, 2017	Percentage of Total
Investment Properties			
Fixed rate			
2017	7.0 %	\$ 24,656,100	12.6 %
2018	5.0 %	19,072,354	9.7 %
2019	5.0 %	28,785,448	14.7 %
2025	4.4 %	<u>12,599,770</u>	<u>6.4 %</u>
	5.5 %	85,113,672	43.4 %
Demand/variable rate	6.1 %	<u>107,030,432</u>	<u>54.7 %</u>
Principal amount	5.8 %	<u>192,144,104</u>	<u>98.1 %</u>
Discontinued Operations			
Demand/variable rate	4.8 %	<u>3,666,245</u>	<u>1.9 %</u>
Total	5.8 %	<u>\$ 195,810,349</u>	<u>100.0 %</u>

- (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, 2017, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.8%, 4.8% and 5.8%, respectively, compared to 5.8%, 4.8% and 5.8% at December 31, 2016.

Mortgage Loan Debt Summary

	2017		2016	
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.5%	5.5%	5.5%	5.4%
Variable rate mortgage loans	6.1%	6.1%	6.1%	6.1%
Investment properties and discontinued operations				
Mortgage loans, debentures, defeased liability and revolving loan	5.6%	5.6%	5.7%	6.5%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	84%	83%	85%	82%
Ratio of mortgage loans and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations *	94%	93%	94%	91%
	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, 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 and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations *	97%	100%	85%	82%

* Excludes the revolving loan and advances from Shelter.

Debentures

As of March 31, 2017, LREIT has 5% Series G debentures outstanding with a face value of \$24,810,800, due June 30, 2022. Interest is payable on June 30, 2022 and is to be accrued on a non-compounded basis. As of March 31, 2017, \$2,108,918 of interest was accrued on the Series G debentures.

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

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

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2016	20,557,320
- March 31, 2017	20,557,320
- May 8, 2017	20,557,320

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

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

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

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

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

During the first quarter of 2017, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of \$190,458 and \$224,592, respectively, compared to \$174,055 and \$260,133, respectively, during the first quarter of 2016.

Included in trade and other payables at March 31, 2017 is a balance of \$254,135 payable to Shelter (December 31, 2016 - \$247,215) in regard to outstanding amounts due under the property management agreement.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

LREIT incurred service fees payable to Shelter of \$18,900 for the three months ended March 31, 2017 (2016 - nil) in regard to the condominium sales program.

Loans

Revolving Loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of March 31, 2017, the revolving loan facility was secured by mortgage charges against the title of the remaining seniors' housing complex and the assignment of a vendor take-back mortgage.

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

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

* Notwithstanding the amendments to the revolving loan facility subsequent to July 1, 2015, the maximum interest charge allowable for the three-year term from July 1, 2015 to June 30, 2018 is \$6,480,000.

Advances on the revolving loan are made at the discretion of 2668921 Manitoba Ltd. and the revolving loan is payable on demand.

During the first quarter of 2017, interest on the loan facility amounted to \$296,767, compared to \$463,984 during the first quarter of 2016.

During the first quarter of 2017, the Trust received advances of \$2,800,000 and repaid nil on the revolving loan, resulting in a balance of \$25,100,000 at March 31, 2017. Subsequent to March 31, 2017, the Trust received advances of \$1,000,000 and repaid nil on the revolving loan, resulting in a balance of \$26,100,000 as of the date of this report.

Nelson Ridge Second Mortgage Loan

On March 31, 2016 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan. Immediately following the purchase, 2668921 Manitoba Ltd. extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date.

As of March 31, 2017, the amount owing on the mortgage loan was \$5,138,664, inclusive of accrued interest, and the mortgage loan bore interest at a rate of 11.75% per annum. On April 1, 2017, the mortgage loan was renewed at an interest rate of 9% per annum and matures on March 31, 2019. The amended mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

Approval

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations / Liquidity Risks

Material uncertainties exist as to LREIT's ability to remain a going concern due to various factors, including the Trust's concentration of investment properties in Fort McMurray; the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity; the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; the limited availability of mortgage lending in Fort McMurray; the Trust's limited cash and working capital resources; the Trust's reliance on financing from Shelter and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

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

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

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

Concentration of the Portfolio of LREIT in One Market

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

At March 31, 2017, there were 17 properties in the real estate portfolio of LREIT, 13 of which were located in Fort McMurray, Alberta. The 13 properties in Fort McMurray comprise a total of 1,082 suites, or 85% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of \$214,247,827, which represents approximately 95% of the total aggregate carrying value of the investment property portfolio as at March 31, 2017.

The Fort McMurray properties, excluding one property classified as investment property held for sale, accounted for 77% of investment property revenue and 77% of net operating income during the first quarter of 2017.

Financing

General

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

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

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

Loan Defaults

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

As of March 31, 2017, the Trust is current with respect to all debt service payments. However, the lender of five mortgage loans on eight properties with an aggregate principal balance of \$64,693,639, which were previously in default of debt service payments, maintains that there are service fees outstanding and that until such fees are paid the loans will remain in default. As a result of the lender's position, the financial statements as at March 31, 2017 reflect such mortgage loans as being in default. Management expects that an agreement with respect to the servicing fees will be negotiated and any default remedied. In the interim, LREIT continues to meet the debt service obligations of these mortgages and the lender has taken no action to enforce the loans.

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

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

Revolving Loan Facility From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal 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.

Credit Support from Shelter

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

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

Divestiture Program

Detailed information with respect to the Divestiture Program is provided in the "Analysis of Cash Flows - Investing Activities" and the "Overview of Operations and Investment Strategy" sections of this report.

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

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

Insurance Risk

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

In May 2016, a wildfire developed in Fort McMurray, Alberta which resulted in the evacuation of the entire city of Fort McMurray. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,082 suites or 85% of its total suites in the investment property portfolio. None of LREIT's properties incurred structural damage as a result of the wildfire; however, all of the Fort McMurray properties sustained smoke damage to varying degrees. It is anticipated that the insurance coverage of LREIT will be sufficient to cover all restoration costs and the rental loss incurred as a result of the wildfire; however, there remains a risk that proceeds of insurance, or timing of receipt thereof, may be inadequate to fully compensate LREIT for all of the losses associated with the wildfire.

Credit Risk

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

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At March 31, 2017, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is \$29,100,153 (December 31, 2016 - \$29,312,604) which expires between 2017 and 2022 (December 31, 2016 - expires between 2017 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

- the determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;
- the determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;
- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;
- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates; and
- the determination of the status of the Trust for income tax purposes: qualification for the REIT Exception is subject to uncertainties in the interpretation and application of the SIFT Rules and can only be determined for a given year after the year has ended.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

Future Changes In Accounting Policies

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

- IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as the single approach to classifying financial assets is not expected to result in a reclassification of LREIT's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.
- IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. LREIT's primary source of revenue is generated from leases and such revenue is out of scope of IFRS 15. The other revenue sources are from coin income, miscellaneous income, food and housekeeping services and similar activities where the revenue generated and the service delivery occur at the same time. As a result, management does not anticipate a significant impact on the consolidated financial statements to result from the adoption of IFRS 15.
- IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. LREIT's leasing activity is primarily comprised of the leasing of residential units under operating leases. LREIT also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and LREIT has minimal leasing activity as the Lessee, management does not anticipate a significant impact on the consolidated financial statements.
- IAS 40 - Investment Property ("IAS 40") - During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Management does not anticipate a significant impact on the consolidated financial statements as a result of the clarifications in the amendment.

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, 2017, 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, 2015 and 2016.

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 2017 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 2017 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, 2016. 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, 2016.

During the first quarter of 2017, there were no changes to LREIT's DC&P. LREIT continuously reviews the design of the DC&P in order to provide reasonable assurance that material information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, as defined in National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Internal Control over Financial Reporting

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

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

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of LREIT have evaluated, or caused to be evaluated under their supervision, the effectiveness of ICFR as at December 31, 2016. 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, 2016. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO") control framework.

During the first quarter of 2017, no changes were made to the design of the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2017 First Quarter Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 8, 2017