LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2018

TABLE OF CONTENTS

UNIT TRADING PRICE

Unit Trading Price

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

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

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX and that it does not anticipate satisfying such requirements in the foreseeable future. The TSX Venture Exchange (TSXV) has conditionally approved the transition of the listings which is anticipated to occur on or about June 1, 2018.

CHIEF EXECUTIVE OFFICER'S MESSAGE

2018 First Quarter Report

After enduring one of the worst recessions in decades, Alberta experienced a strong rebound in economic activity in 2017. According to a recent economic outlook report by the Alberta Treasury Board and Finance, Alberta's economy is expected to move closer to full recovery in 2018, as it emerges from the impact of the "steepest and most prolonged oil price shock in Canadian history".

Notwithstanding the overall rebound in Alberta's economic activity, rental market conditions remained very competitive in Fort McMurray during the first quarter of 2018. Accordingly, LREIT continues to face significant headwinds and has been unable to generate positive cash flow from its operating activities. The Trust remains dependent on additional sources of cash to fund its operations, regular mortgage loan principal payments, deficits upon loan refinancing, transaction costs for debt financing, and capital expenditures.

Operating Results

LREIT completed the first quarter of 2018 with negative funds from operations ("FFO") of $2.4 million, compared to negative FFO of $1.8 million during the first quarter of 2017, representing a decrease in FFO of $0.6 million. The decrease in FFO mainly reflects a decrease in the net operating income ("NOI") of $0.6 million.

The decrease in NOI is mainly due to a $0.4 million increase in property operating costs and a $0.2 million decrease in rental revenue. The increase in property operating costs is primarily due to an increase in insurance claim costs, as well as an increase in utility costs. The overall decrease in rental revenue is primarily due to a decrease in the revenue of the held for sale and/or sold property segment, as a result of reduced occupancy at Woodland Park; partially offset by a modest increase in the rental revenue of the investment properties segment of the Trust.

LREIT completed the first quarter of 2018 with a loss and comprehensive loss of $17.5 million, compared to a loss and comprehensive loss of $4.6 million during the first quarter of 2017. The increase in the loss is primarily due to an unfavourable variance in the fair value adjustments of the investment properties and the investment property classified as held for sale.

Losses related to fair value adjustments during the first quarter of 2018 were primarily driven by reduced revenue expectations associated with the extent of the impact of the rebuilding efforts in Fort McMurray on the rental market, as well as increased uncertainty as to the timing and/or extent of a rental market recovery associated with the prolonged nature of the depressed level of oil sands development activity.

Liquidity and Capital Resources

During the first quarter of 2018, cash used in operations, prior to working capital adjustments, amounted to $1.2 million (2017 - $0.6 million) and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal payments, capital expenditures, and transactions costs was $2.6 million (2017 - $2.3 million).

The increase in cash used in operations primarily reflects a decrease in net operating income, partially offset by a decrease in interest paid. The increase in the cash shortfall is mainly due to an increase in cash used in operations and an increase in expenditures on transactions costs in conjunction with the renewals of three mortgage loans in the aggregate principal amount of $73.1 million. The increase in the cash shortfall was partially offset by the change in working capital adjustments.

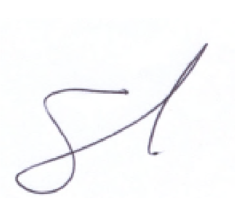
LREIT continues to require additional sources of cash to fund the cash shortfall from operating activities, as well as mortgage loan principal payments, transactions costs for debt financing, and capital expenditures. LREIT also requires additional capital to fund the repayment of mortgage loans at maturity and/or refinancing, to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds. The cash shortfall during the first quarter of 2018 was funded by unsecured loan advances from Shelter.

As of March 31, 2018, the Trust was in default of one mortgage loan with a principal balance of $28.0 million, as the lender of the mortgage loan has indicated that there are service fees outstanding with respect to a previous loan default and that until such fees are paid the loan will remain in default. LREIT continues to meet the debt service obligations of the loan and the lender has taken no action to demand repayment or enforce its security under the loan.

Outlook

The demand for rental accommodations in Fort McMurray is heavily influenced by the level of oil sands development activity in the region, which in turn is driven by oil prices. At present, Alberta heavy oil prices are trading at a large discount, compared to global oil prices, largely due to pipeline bottlenecks and lacking market access. In view of the present issues facing the Alberta oil sands, management anticipates that the Trust will continue to face challenging rental market conditions throughout 2018.

The ability of the Trust to remain a going concern in the near-term is largely contingent upon financial support from Shelter and its parent company, 2668921 Manitoba Ltd., as well as the Trust's capacity to continue to renew and/or refinance its mortgage loan debts as they become due. Addressing the Trust's liquidity concerns continues to be the top priority of LREIT in 2018.



GINO ROMAGNOLI, CPA, CGA
Chief Executive Officer
May 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A OVERVIEW AND ADVISORIES

Management's Discussion and Analysis ("MD&A") of the Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the three months ended March 31, 2018 and accompanying notes and with reference to the Annual Report for 2017, the audited consolidated financial statements for the years ended December 31, 2017 and 2016, and the Annual Information Form ("AIF") dated March 22, 2018. Throughout this MD&A, it is not our intent to reproduce information that is located in these other reported documents, but rather to provide an update with respect to the business activities, financial condition, financial performance, and cash flows of LREIT.

Financial Statements

Throughout this report, the condensed consolidated financial statements as of March 31, 2018 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2018 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, 2018 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three months ended March 31, 2018 will be referred to as the "Statement of Cash Flows".

Forward-Looking Information

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

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

Operating Segments

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

- Fort McMurray Properties (twelve properties): Accounting for approximately 76% (December 31, 2017 - 76%) of the residential suites in the portfolio of investment properties, the twelve multi-unit residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

- Other Investment Properties (three properties): Accounting for approximately 16% (December 31, 2017 - 16%) of the residential suites in the portfolio of investment properties, the three other investment properties consist of two multi-unit residential rental properties located in Alberta and one multi-unit residential rental property located in Manitoba.

- Held for Sale (one property) and/or Sold Properties: Woodland Park, the one property classified as held for sale, accounts for approximately 8% (December 31, 2017 - 8%) of the suites in the portfolio of investment properties. The operating results of held for sale and/or sold properties are analysed separately as they have been sold or are expected to be sold within the next twelve months and the properties do not contribute to net operating income past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, which is classified as held for sale at March 31, 2018.

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

Purchase Price Information

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

FINANCIAL SUMMARY

	March 31	December 31	
	2018	2017	2016
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 205,927,655	$ 222,128,456	$ 245,402,329
Total long-term financial liabilities (1)	$ 242,106,645	$ 245,533,159	$ 243,501,308
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.5 %	5.8 %
- Total debt	5.5 %	5.4 %	5.6 %

	Three Months Ended March 31		
	2018	2017	2016
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 4,467,503	$ 4,644,515	$ 4,451,462
Net operating income *	$ 1,648,933	$ 2,232,113	$ 1,659,357
Loss before discontinued operations *	$ (17,468,874)	$ (4,691,809)	$ (7,640,229)
Loss and comprehensive loss	$ (17,494,728)	$ (4,645,719)	$ (7,599,297)
Funds from Operations (FFO) *	$ (2,354,103)	$ (1,777,917)	$ (4,280,574)
Cash Flows			
Cash used in operating activities	$ (1,181,842)	$ (1,218,817)	$ (1,412,372)
Adjusted Funds from Operations (AFFO) *	$ (2,541,890)	$ (1,885,179)	$ (4,603,418)
Per Unit			
Net operating income *			
- basic and diluted	$ 0.078	$ 0.106	$ 0.078
Loss before discontinued operations *			
- basic and diluted	$ (0.826)	$ (0.222)	$ (0.361)
Loss and comprehensive loss			
- basic and diluted	$ (0.827)	$ (0.220)	$ (0.359)
Funds from Operations (FFO) *			
- basic and diluted	$ (0.111)	$ (0.084)	$ (0.202)
Cash used in operating activities			
- basic and diluted	$ (0.056)	$ (0.058)	$ (0.067)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.120)	$ (0.089)	$ (0.218)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, and the revolving loan facility from 2668921 Manitoba Ltd.

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Overview

LREIT owns a portfolio of 17 real estate properties, comprised of 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale. LREIT's primary objective is to maximize the income producing potential and market value of its real estate portfolio through the execution of strategic acquisition, development, management and divestiture activities.

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

2018 First Quarter Operating Results

Key Financial Indicators

	Three Months Ended March 31		Favourable (Unfavourable) Variance	
	2018	2017	Amount	%
Rentals from investment properties	$ 4,467,503	$ 4,644,515	$ (177,012)	(4)%
Net operating income (NOI)	$ 1,648,933	$ 2,232,113	$ (583,180)	(26)%
Interest expense	$ (3,646,134)	$ (3,686,254)	$ 40,120	1 %
Fair value adjustments	$ (15,105,743)	$ (2,926,179)	$ (12,179,564)	(416)%
Loss and comprehensive loss	$ (17,494,728)	$ (4,645,719)	$ (12,849,009)	(277)%
Funds from operations (FFO)	$ (2,354,103)	$ (1,777,917)	$ (576,186)	(32)%

LREIT completed the first quarter of 2018 with negative FFO of $2.4 million, compared to negative FFO of $1.8 million during the first quarter of 2017, representing a decrease in FFO of $0.6 million. On a basic per unit basis, FFO decreased by $0.027 during the first quarter of 2018 to negative $0.111. The decrease in FFO mainly reflects a decrease in net operating income (NOI).

The decrease in NOI is mainly due to an increase in operating costs of $0.4 million and a decrease in rental revenue of $0.2 million. The increase in property operating costs is primarily due to an increase in insurance claim costs and an increase in utility costs. The decrease in rental revenue is primarily due to the decreased revenue of the held for sale and/or sold property segment, as a result of reduced occupancy at Woodland Park. The decrease in revenue of the held for sale and/or sold property segment was partially offset by an increase in the rental revenue of the investment properties segment.

Overall, LREIT completed the first quarter of 2018 with a loss and comprehensive loss of $17.5 million, compared to a loss and comprehensive loss of $4.6 million during the first quarter of 2017. The increase in the loss during the first quarter of 2018 mainly reflects an unfavorable variance in the fair value adjustments of the investment properties and the investment property classified as held for sale and a decrease in NOI, as discussed above.

Unfavourable fair value adjustments were relatively higher during the first quarter of 2018, compared to the first quarter of 2017. During the first quarter of 2017, the unfavourable fair value adjustments were mainly due to reduced revenue expectations as a result of perceived delays in the Fort McMurray rebuilding process. During the first quarter of 2018, the carrying values of the Fort McMurray properties were further reduced to reflect the combined impact of lower than anticipated demand for rental accommodations associated with the Fort McMurray rebuilding efforts as well as to reflect increased uncertainty with respect to a longer-term rental market recovery as a result of the prolonged low-level of oil sands development activity.

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, 2018, the unrestricted cash balance of LREIT was $1.2 million and working capital was $0.6 million.

During the first quarter of 2018, cash used in operations, prior to working capital adjustments amounted to $1.2 million and the cash shortfall, after accounting for working capital adjustments, regular mortgage principal repayments, capital expenditures and transaction costs was $2.6 million, compared to cash used in operations and a cash shortfall of $0.6 million and $2.3 million, respectively, during the first quarter of 2017.

The increase in cash used in operations primarily reflects a decrease in net operating income, as previously discussed, partially offset by a decrease in interest paid. The increase in the cash shortfall is mainly due to the increase in cash used in operations and an increase in expenditures on transaction costs related to the renewals of three mortgage loans in the aggregate principal amount of $73.1 million, partially offset by working capital adjustments.

LREIT continues to require additional sources of cash to fund the cash shortfall from operating activities, as well as mortgage loan principal payments, transaction costs for debt financing, and capital expenditures. LREIT also requires additional capital to fund the repayment of mortgage loans at maturity and/or for refinancing to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds. The cash shortfalls during the first quarter of 2018 were funded by unsecured loan advances from Shelter.

As of March 31, 2018, the Trust was in default of a mortgage loan with a principal balance of $28 million, as the lender of the mortgage loan has indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan will remain in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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

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

As a result of the obtainment of condominium title for the property classified as held for sale, partially offset by the sale of one condominium unit at Lakewood Townhomes, the appraised value of LREIT's property portfolio was increased from $286.7 million as at December 31, 2017 to $289.0 million as at March 31, 2018. At March 31, 2018, LREIT's mortgage indebtedness and the maximum balance under the revolving loan facility amounted to $217.3 million, representing approximately 75.2% of the appraised value of LREIT's total property portfolio.

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

As a result, LREIT was unable to request an increase in the $30.0 million revolving loan facility from 2668921 Manitoba Ltd. but, was able to obtain unsecured loan financing from Shelter in the amount of $11.3 million to address the funding of its cash shortfall during 2017 and the first quarter of 2018.

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

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

Debt Restructuring - Mortgage Loans

During the first quarter of 2018, progress was made with respect to the restructuring of mortgage loans, as follows:

- Forbearance agreements were executed upon the maturity of three mortgage loans in the aggregate principal amount of $16.8 million, secured by a total of six properties. The mortgage loans were in default as at December 31, 2017, as the lender had indicated that there were service fees outstanding with respect to previous loan defaults and that until such fees were paid the loans would remain in default. The forbearance agreements required an initial combined repayment of $1.7 million, which was paid on March 5, 2018, and require future combined repayments of $0.6 million, $0.7 million, and $0.3 million in 2018, 2019, and 2020, respectively. The forbearance agreements expire on May 1, 2021. As of the date of this report, there is one mortgage loan from this lender with a principal amount of $28.0 million and a maturity date of March 1, 2019 that remains in default on account of the non-payment of services fees. LREIT continues to meet the debt service obligations of this mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

- LREIT agreed to renewal terms on a $35.5 million first mortgage loan. The renewal terms required an initial principal repayment of $1.0 million, which was paid on March 16, 2018, and additional principal repayments of $0.5 million every six months, commencing September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

- LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of March 31, 2018 of $6.5 million. The renewal terms required an initial principal repayment of $0.5 million, which was paid on March 16, 2018, and call for the sale of a condominium unit every three months commencing with a sale on or before May 1, 2018 and ending on the September 1, 2020 maturity date of the mortgage loan. Third party condominium unit sales are subject to a minimum sales price and the net proceeds from a third party sale are to be remitted to the lender in exchange for a discharge of the security related to the unit sold. If a unit is not sold to a third party within the specified timeframe, LREIT will be required to pay the lender $0.3 million in exchange for a discharge of the security related to one condominium unit. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

Subsequent to March 31, 2018, progress was made with respect to the restructuring of one mortgage loan, as follows:

- LREIT agreed to renewal terms on a $31.1 million first mortgage loan. The renewal terms require a principal repayment of $1.0 million on June 1, 2018, and additional principal repayments of $0.5 million every six months, commencing December 1, 2018 and ending on June 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 30% of the monthly interest payments until the December 1, 2020 maturity date of the loan.

With the exception of one mortgage loan with a principal balance of $3.6 million that matured on April 30, 2018 and is overholding pending completion of an annual credit review, all of the mortgage loans that have matured prior to the date of this report have been renewed, refinanced, or are under a forbearance agreement.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

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

At March 31, 2018, the maximum principal balance available under the revolving loan facility from 2668921 Manitoba Ltd. of $30.0 million had been fully advanced.

As the maximum available balance has been fully advanced under the revolving loan, LREIT obtained an additional $6.0 million of financing from Shelter in the form of unsecured loan advances during 2017 and an additional $5.3 million during the first quarter of 2018. The unsecured loan advances are payable on demand and bear interest at 5%, consistent with the interest rate of the revolving loan facility. Shelter has continued to provide financial support to LREIT, advancing an additional $0.8 million to the Trust subsequent to March 31, 2018.

Divestitures

During the first quarter of 2018, the Trust completed the sale of one condominium unit under the Lakewood Townhomes condominium sales program. The sale resulted in the reduction of $0.3 million of mortgage loan debt.

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

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

Risks and Uncertainties

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

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

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Overview

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

The trust units of LREIT are currently listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G".

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

Strategy and Operations

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

Investment Properties

As of March 31, 2018, the property portfolio of LREIT consists of 17 rental properties, comprised of 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale.

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

Current Initiatives

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

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

Debt Restructuring

Mortgage Loans

Forbearance agreements were executed upon the maturity of three mortgage loans in the aggregate principal amount of $16,838,123, secured by a total of six properties. The mortgage loans were in default at December 31, 2017, as the lender of the mortgage loans had indicated that there were service fees outstanding with respect to previous loan defaults and that until such fees were paid the loans would continue to remain in default. The forbearance agreements required an initial combined repayment of $1,700,000, which was paid on March 5, 2018, and require future combined repayments of $633,000, $666,000 and $333,000 in 2018, 2019, and 2020, respectively. The forbearance agreements expire on May 1, 2021. As of the date of this report, there is one mortgage loan with a principal amount of $28,029,387 and a maturity date of March 1, 2019 from this lender that remains in default on account of the non-payment of services fees. LREIT continues to meet the debt service obligations of this mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

During the first quarter of 2018, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of March 31, 2018 of $35,538,901. The renewal terms required an initial principal repayment of $1,000,000, which was paid on March 16, 2018, and additional principal repayments of $500,000 every six months commencing with September 1, 2018 and ending on March 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

During the first quarter of 2018, LREIT agreed to renewal terms on a first mortgage loan with a principal balance outstanding as of March 31, 2018 of $6,487,061. The renewal terms required an initial principal repayment of $500,000, which was paid on March 16, 2018, and call for the sale of a condominium unit every three months commencing with a sale on or before May 1, 2018 and ending on the September 1, 2020 maturity date of the mortgage loan. Third party condominium unit sales are subject to a minimum sales price and the net proceeds from a third party sale are to be remitted to the lender in exchange for a discharge of the security related to the unit sold. If a unit is not sold to a third party within the specified timeframe, LREIT will be required to pay the lender $280,000 in exchange for a discharge of the security related to one condominium unit. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 40% of the monthly interest payments until the September 1, 2020 maturity date of the loan.

Subsequent to March 31, 2018, LREIT agreed to renewal terms on a $31,060,446 first mortgage loan. The renewal terms require a principal repayment of $1,000,000 on June 1, 2018, and additional principal repayments of $500,000 every six months, commencing December 1, 2018 and ending on June 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 30% of the monthly interest payments until the December 1, 2020 maturity date of the loan.

With the exception of one mortgage loan with a principal balance of $3,590,110 that matured on April 30, 2018 and is overholding pending completion of an annual credit review, the Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of March 31, 2018.

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

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

Debentures, Revolving Loan and Shelter Advances

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5% and to defer all payments of interest to the amended maturity date. As of March 31, 2018, $3,349,458 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.

At March 31, 2018, the maximum principal balance available under the revolving loan facility from 2668921 Manitoba Ltd. of $30,000,000 had been fully advanced.

Notwithstanding the maximum being advanced under the revolving loan facility, LREIT obtained an additional $6,000,000 of financing from Shelter in the form of unsecured loan advances during 2017 and an additional $5,300,000 during the first quarter of 2018. The unsecured loan advances are payable on demand and bear interest at 5%, consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $800,000 from April 1, 2018 to the date of this report.

<u>Divestitures</u>

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

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

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

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

Lakewood Townhomes Condominium Sales Program

As of March 31, 2018, 20 condominium units have been sold at a combined gross selling price of $9,295,100.

Upon the sale of each condominium unit, the first mortgage loan required a repayment equal to 95% of the listed sales price as agreed upon with the lender. Additional selling costs, including sale renovation costs, a contribution to the reserve fund of the condominium corporation, and closing costs, were paid by the balance of the net sales proceeds and from working capital.

Effective February 1, 2018, the mortgage loan was renewed and the terms of the mortgage loan as they relate to the condominium sales program were revised. The renewed mortgage loan agreement calls for the sale of a condominium unit every three months commencing with a sale on or before May 1, 2018 and ending on the September 1, 2020 maturity date of the mortgage loan. Third party condominium unit sales are subject to a minimum sales price and the net proceeds from a third party sale are to be remitted to the lender in exchange for a discharge of the security related to the unit sold. If a unit is not sold to a third party within the specified timeframe, LREIT will be required to pay the lender $280,000 in exchange for a discharge of the security related to one condominium unit.

During the first quarter of 2018, the Trust completed the sale of one condominium unit for gross proceeds of $322,000. The terms of the mortgage repayment with respect to the sale were determined prior to the mortgage loan renewal and resulted in a reduction of mortgage loan debt of $254,400. The cash shortfall after the repayment of the existing mortgage loan and the payment of selling costs, inclusive of renovation costs, and standard closing adjustments amounted to $11,372.

The condominium sales program includes service and renovation fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the "Related Party Transactions" section of this report.

Woodland Park Condominium Sales Program

In March, 2018, as a requirement of the forbearance agreement of the mortgage loan secured by the property known as Woodland Park, LREIT commenced a condominium sales program for the 32 townhome units that comprise part of the property.

After funding selling costs, inclusive of a contribution to the reserve fund of the condominium corporation and closing costs, the net proceeds from the sale of a condominium unit will be applied to reduce the first mortgage loan in exchange for a discharge of the lender's security over the condominium unit.

Subsequent to March 31, 2018, LREIT sold one condominium unit at Woodland Park for gross proceeds of $335,000. The net proceeds, after selling costs and standard closing adjustments, were used to repay the mortgage loan in the amount of $300,311.

The condominium sales program includes service fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the "Related Party Transactions" section of this report.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2018

As of March 31, 2018, the property portfolio of LREIT consists of 17 rental properties, comprised of 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position. 13 of the multi-unit residential properties are located in Fort McMurray, Alberta, including the property that is classified as held for sale. The entire portfolio of 17 properties has a total purchase price of $318,699,162 and encompasses 1,371 suites.

A list of properties in the LREIT real estate portfolio as at March 31, 2018 is provided below.

Real Estate Portfolio as of March 31, 2018

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	62 %
Gannet Place	Fort McMurray, AB	6,873,700	June 2006	37	97 %
Lunar Apartments	Fort McMurray, AB	4,457,100	June 2006	24	75 %
Parkland Apartments	Fort McMurray, AB	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray, AB	5,385,800	June 2006	29	90 %
Snowbird Manor	Fort McMurray, AB	6,314,500	June 2006	34	62 %
Whimbrel Terrace	Fort McMurray, AB	6,873,700	June 2006	37	78 %
Laird's Landing	Fort McMurray, AB	51,350,000	August 2006	189	72 %
Lakewood Apartments	Fort McMurray, AB	34,527,719	July 2007	111	68 %
Lakewood Townhomes (1)	Fort McMurray, AB	17,443,443	July 2007	44	77 %
Millennium Village	Fort McMurray, AB	24,220,000	November 2007	72	74 %
Parsons Landing	Fort McMurray, AB	60,733,000	September 2008	160	62 %
		260,984,162		974	
Other					
Highland Tower (2)	Thompson, MB	5,700,000	January 2005	77	68 %
Norglen Terrace	Peace River, AB	2,500,000	October 2004	72	74 %
Westhaven Manor	Edson, AB	4,050,000	May 2007	48	58 %
		12,250,000		197	
Held for sale					
Woodland Park (3)	Fort McMurray, AB	37,865,000	March 2007	107	46 %
Total - Investment properties		**311,099,162**	Total suites	**1,278**	
DISCONTINUED OPERATIONS (SENIORS' HOUSING COMPLEX) (4)					
Chateau St. Michael's	Moose Jaw, SK	**7,600,000**	June 2006	**93**	58 %
Total real estate portfolio		**$ 318,699,162**		**1,371**	

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of March 31, 2018 has been reduced to 44 to account for the sale of 20 condominium units. The purchase price reflects the 44 condominium units that have not been sold.

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

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

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

Recent Changes in the Property Portfolio

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

During the first quarter of 2018, the Trust sold one condominium unit under the Lakewood Townhomes condominium sales program at a gross selling price of $322,000.

Subsequent to March 31, 2018, LREIT sold one condominium unit at Woodland Park for gross proceeds of $335,000. The net proceeds, after selling costs and standard closing adjustments, were used to repay the mortgage loan in the amount of $300,311.

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 that have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) in Income	
	2018	2017	Amount	%
Rentals from investment properties	$ 4,467,503	$ 4,644,515	$ (177,012)	(4)%
Property operating costs	(2,818,570)	(2,412,402)	(406,168)	(17)%
Net operating income	1,648,933	2,232,113	(583,180)	(26)%
Interest income	49,826	45,612	4,214	9 %
Interest expense	(3,646,134)	(3,686,254)	40,120	1 %
Trust expense	(380,874)	(415,478)	34,604	8 %
Loss before the following	(2,328,249)	(1,824,007)	(504,242)	(28)%
Gain (loss) on sale of investment property	(34,882)	58,377	(93,259)	(160)%
Fair value adjustments - Investment properties	(15,105,743)	(2,926,179)	(12,179,564)	(416)%
Loss before discontinued operations	(17,468,874)	(4,691,809)	(12,777,065)	(272)%
Income (loss) from discontinued operations	(25,854)	46,090	(71,944)	(156)%
Loss and comprehensive loss	$ (17,494,728)	$ (4,645,719)	$ (12,849,009)	(277)%

Analysis of Loss per Unit

	Three Months Ended March 31		Change	
	2018	2017		
Loss before discontinued operations - basic and diluted	$ (0.826)	$ (0.222)	$ (0.604)	(272)%
Income (loss) from discontinued operations - basic and diluted	(0.001)	0.002	(0.003)	(150)%
Loss and comprehensive loss - basic and diluted	$ (0.827)	$ (0.220)	$ (0.607)	(276)%

Overall Results

LREIT completed the first quarter of 2018 with a loss and comprehensive loss of $17,494,728, compared to a loss and comprehensive loss of $4,645,719 during the first quarter of 2017. The increase in the loss mainly reflects an unfavourable variance in the fair value adjustments of the investment properties and the investment property classified as held for sale and a decrease in net operating income.

Unfavourable fair value adjustments were relatively higher during the first quarter of 2018, compared to the first quarter of 2017. During the first quarter of 2017, the unfavourable fair value adjustments were mainly due to reduced revenue expectations as a result of perceived delays in the Fort McMurray rebuilding process. During the first quarter of 2018, the carrying values of the Fort McMurray properties were further reduced to reflect the combined impact of lower than anticipated demand for rental accommodations associated with the Fort McMurray rebuilding efforts as well as to reflect increased uncertainty with respect to a longer-term rental market recovery as a result of the prolonged low-level of oil sands development activity.

The decrease in net operating income mainly reflects an increase in operating costs of $406,168 or 17% and a decrease in rental revenue of $177,012 or 4%. The increase in property operating costs is primarily due to an increase in insurance claim costs and an increase in utility costs, as a result of an increase in the proportion of all inclusive leases. The decrease in rental revenue is primarily due to the decreased revenue of the held for sale and/or sold property segment, primarily as a result of reduced occupancy at Woodland Park, the property classified as held-for-sale; partially offset by an increase in rental revenue for the investment properties.

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

Funds from Operations (FFO)

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

LREIT completed the first quarter of 2018 with negative FFO of $2,354,103, compared to negative FFO of $1,777,917 during the first quarter of 2017, representing a decrease in FFO of $576,186. On a basic per unit basis, FFO decreased by $0.027, from negative $0.084 during the first quarter of 2017 to negative $0.111 during the first quarter of 2018.

The decrease in FFO is mainly due to a decrease in net operating income and a decrease in income from discontinued operations, partially offset by decreases in trust expense and interest expense.

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	
	2018	2017
Loss and comprehensive loss	$ (17,494,728)	$ (4,645,719)
Add (deduct):		
Loss (gain) on sale - Investment properties	34,882	(58,377)
Fair value adjustment - Investment properties	15,105,743	2,926,179
Funds from operations (FFO) *	$ (2,354,103)	$ (1,777,917)
FFO per unit *		
- basic and diluted	$ (0.111)	$ (0.084)

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

Segmented Results

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

Fort McMurray Properties (twelve properties)

Accounting for approximately 76% of the residential suites in the portfolio of investment properties (December 31, 2017 - 76%), the twelve multi-unit residential rental properties in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

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

Other Investment Properties (three properties)

The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one multi-unit residential rental property located in Manitoba, and account for 16% (December 31, 2017 - 16%) of the residential suites in the portfolio of investment properties.

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

The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to net operating income past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Woodland Park, which is located in Fort McMurray. Woodland Park is classified as held for sale and accounts for approximately 8% of the suites in the portfolio of investment properties (December 31, 2017 - 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					
			Increase (Decrease)		% of Total	
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 3,656,080	$ 3,570,087	$ 85,993	2 %	82 %	77 %
Other investment properties	418,148	383,193	34,955	9 %	9 %	8 %
Sub-total	4,074,228	3,953,280	120,948	3 %	91 %	85 %
Held for sale and/or sold properties (1)	393,275	691,235	(297,960)	(43)%	9 %	15 %
Total	$ 4,467,503	$ 4,644,515	$ (177,012)	(4)%	100 %	100 %

Occupancy Level, by Quarter (2)

	2017					2018
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	68 %	71 %	73 %	72 %	71 %	69 %
Other investment properties	71 %	73 %	73 %	75 %	73 %	77 %
Total	68 %	72 %	73 %	72 %	71 %	70 %
Held for sale and/or sold properties (1)	79 %	79 %	69 %	61 %	72 %	46 %

Average Monthly Rents, by Quarter

	2017					2018
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	$1,684	$1,707	$1,711	$1,697	$1,700	$1,685
Other investment properties	$909	$909	$903	$905	$907	$907
Total	$1,554	$1,573	$1,575	$1,563	$1,566	$1,554
Held for sale and/or sold properties (1)	$2,593	$2,611	$2,597	$2,549	$2,588	$2,484

(1) Includes revenue from Woodland Park, the property classified as held for sale,
(2) The occupancy level represents the portion of potential revenue that was achieved.

During the first quarter of 2018, total investment property revenue, excluding held for sale and/or sold properties, increased by $120,948 or 3%, compared to the first quarter of 2017. The increase mainly reflects an increase in the average occupancy level from 68% during the first quarter of 2017 to 70% during the first quarter of 2018. The increase in average occupancy is largely due to two corporate tenants that transferred from the Woodland Park property, classified as held for sale, to other LREIT properties in Fort McMurray that offered lower rental rates or were closer to urban amenities.

During the first quarter of 2018, revenue from the held for sale and/or sold properties decreased by $297,960 or 43% compared to the first quarter of 2017. The decrease in revenue from held for sale and/or sold properties was primarily due to a decrease in average occupancy level of Woodland Park, the property classified as held for sale. The average occupancy of the Woodland Park property decreased from 79% in the first quarter of 2017 to 46% during the first quarter of 2018. The decrease in average occupancy is primarily due to the transfer of two corporate tenants to other LREIT properties, as discussed above, and the departure of tenants that were awaiting the reconstruction of their homes. The Woodland Park property had a relatively high proportion of tenants awaiting the reconstruction of their homes as a result of the property's townhome offering and their proximity to the area of Fort McMurray where the majority of the homes were lost to the wildfire.

The revenue results of the Fort McMurray property portfolio continue to reflect the challenging rental market conditions in Fort McMurray.

The reduced level of rental revenue, together with the uncertain timing and/or extent of future oil sands development activity and rental market recovery, are key factors that continue to cast significant doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve operating performance are discussed in the "Liquidity and Capital Resources" section of this report.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31			
	2018	2017	Increase (Decrease)	%
Fort McMurray properties	$ 2,207,518	$ 1,859,837	$ 347,681	19 %
Other investment properties	356,282	304,732	51,550	17 %
Sub-total	2,563,800	2,164,569	399,231	18 %
Held for sale and/or sold properties	254,770	247,833	6,937	3 %
Total	$ 2,818,570	$ 2,412,402	$ 406,168	17 %

During the first quarter of 2018, property operating costs, excluding the held for sale and/or sold properties, increased by $399,231 or 18%, compared to the first quarter of 2017. The increase was mainly due to an increase in insurance claim costs, as well as an increase in utility costs, as a result of an increase in the proportion of all inclusive leases.

After accounting for held for sale and/or sold properties, property operating costs increased by $406,168 or 17% during the first quarter of 2018, compared to the first quarter of 2017.

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 *	
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 1,448,562	$ 1,710,250	$ (261,688)	(15)%	88 %	77 %	40 %	48 %
Other investment properties	61,866	78,461	(16,595)	(21)%	4 %	4 %	15 %	20 %
Sub-total	1,510,428	1,788,711	(278,283)	(16)%	92 %	81 %	37 %	45 %
Held for sale and/or sold properties	138,505	443,402	(304,897)	(69)%	8 %	19 %	35 %	64 %
Total	$ 1,648,933	$ 2,232,113	$ (583,180)	(26)%	100 %	100 %	37 %	48 %

* 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 2018, the net operating income of the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $278,283 or 16%, compared to the first quarter of 2017. The operating margin, excluding held for sale and/or sold properties, decreased from 45% during the first quarter of 2017 to 37% during the first quarter of 2018. The decreases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the increase in the property operating costs of the Fort McMurray property portfolio, as disclosed in the "Property Operating Costs" section of this report.

The decrease in net operating income from held for sale and/or sold properties of $304,897 is primarily due to a decrease in the revenue of Woodland Park, the Fort McMurray property which is classified as held for sale. After accounting for held for sale and/or sold properties, the total net operating income of LREIT decreased by $583,180 or 26% during the first quarter of 2018, compared to the first quarter of 2017.

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			
	2018	2017	Increase (Decrease)	Increase (Decrease) %
Investment Properties				
Mortgage Loans	$ 2,863,661	$ 3,074,605	$ (210,944)	(7)%
Revolving Loan and Shelter Unsecured Loan	472,338	301,514	170,824	57 %
Debentures	310,135	310,135	-	- %
	3,646,134	3,686,254	(40,120)	(1)%
Discontinued Operations				
Mortgage Loans	51,291	48,606	2,685	6 %
Total - interest expense	$ 3,697,425	$ 3,734,860	$ (37,435)	(1)%

Cash and Non-cash Component

	Three Months Ended March 31			
	2018	2017	Increase (Decrease)	Increase (Decrease) %
Total cash component	$ 3,442,232	$ 3,414,604	$ 27,628	1 %
Total non-cash component	255,193	320,256	(65,063)	(20)%
Total - interest expense	$ 3,697,425	$ 3,734,860	$ (37,435)	(1)%

During the first quarter of 2018, total interest expense decreased by $37,435 or 1%, compared to the first quarter of 2017. The decrease mainly reflects a decrease in mortgage loan interest, partially offset by an increase in interest expense from the revolving loan and the Shelter unsecured loan.

The decrease in mortgage loan interest is primarily due to a reduction in the interest rate under the forbearance agreement on the mortgage secured by the property classified as held for sale, a decrease in the total balance of mortgage debt and a decrease in the amortization of transaction costs. The decrease in total mortgage debt is mainly due to repayments of mortgage loans on refinancing and regular repayment of long-term debt during 2017 and the first quarter of 2018, partially offset by capitalized interest and fees under certain mortgage loan and forbearance agreements all of which are discussed in the "Long Term Debt" sections of the 2017 Annual Report and this report. Increases in the prime rate of interest during 2017 and the first quarter of 2018 impacted the Trust’s variable rate mortgages and partially offset the decrease in mortgage loan interest.

The increase in interest expense on the revolving loan facility and the Shelter unsecured loan reflect an increase in the average balance outstanding of these loans during the first quarter of 2018, compared to the first quarter of 2017.

Cash vs. Non-Cash Component of Interest

The total cash component of interest expense increased by $27,628 during the first quarter of 2018, compared to the first quarter of 2017, as the reduction of the cash component of mortgage loan interest was largely offset by the increase in the cash component of interest on the revolving loan and the Shelter unsecured loan, all of which are discussed in the preceding paragraphs.

During the first quarter of 2018, the total non-cash component of interest expense decreased by $65,063, compared to the first quarter of 2017. The decrease in the non-cash component of interest expense mainly reflects decreases in the amortization of transaction costs related to mortgage loans.

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 2018, trust expense decreased by $34,604 or 8%, compared to the first quarter of 2017. The decrease mainly reflects a decrease in professional fees.

Fair Value Adjustments

Investment Properties

During the first quarter of 2018, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $15,105,743, compared to a loss related to fair value adjustments of $2,926,179 during the first quarter of 2017, representing an unfavourable variance of $12,179,564.

Losses related to fair value adjustments recognized during the first quarter of 2018 were primarily due to reduced revenue expectations as a result of reductions in the anticipated impact of the rebuilding efforts in Fort McMurray on the rental market and increased uncertainty with respect to the timing and/or extent of the recovery of the Fort McMurray economy, resulting from the prolonged low-level of oil sands development activity.

Losses related to fair value adjustments recognized during the first quarter of 2017 were primarily due to a reduction in revenue expectations which resulted from perceived delays in the rebuilding efforts in Fort McMurray.

After accounting for fair value adjustments, dispositions and capital expenditures, the carrying value of investment properties decreased by $12,740,561 while the carrying value of investment properties held for sale decreased by $2,474,459 during the first quarter of 2018.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Three Months Ended March 31 2018	Three Months Ended March 31 2017	Increase (Decrease) in income
Rental income	$ 366,721	$ 426,160	$ (59,439)
Property operating costs	341,284	331,464	(9,820)
Net operating income	25,437	94,696	(69,259)
Interest expense	(51,291)	(48,606)	(2,685)
Fair value adjustment	-	-	-
Income (loss) from discontinued operations	$ (25,854)	$ 46,090	$ (71,944)

The changes in the income from discontinued operations during the first quarter of 2018, compared to the first quarter of 2017, mainly reflect a decrease in the occupancy of the remaining seniors' home, Chateau St. Michael's, resulting from an increase in market competition and increased turnover of tenants requiring the services of a long-term care facility.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Analysis

	2018	2017		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 4,467,503	$ 4,694,808	$ 4,832,286	$ 4,880,593
Net operating income	$ 1,648,933	$ 1,767,884	$ 2,329,361	$ 2,474,144
Loss for the period before discontinued operations	$(17,468,874)	$(11,427,144)	$ (6,858,839)	$ (8,899,395)
Loss and comprehensive loss	$(17,494,728)	$(11,638,560)	$ (6,842,465)	$ (8,909,938)
Funds from Operations (FFO)	$ (2,354,103)	$ (1,996,022)	$ (1,086,920)	$ (1,563,031)
PER UNIT				
Net operating income				
- basic and diluted	$ 0.078	$ 0.084	$ 0.110	$ 0.117
Loss for the period before discontinued operations				
- basic and diluted	$ (0.826)	$ (0.540)	$ (0.324)	$ (0.421)
Loss and comprehensive loss				
- basic and diluted	$ (0.827)	$ (0.550)	$ (0.323)	$ (0.422)
Funds from Operations (FFO)				
- basic and diluted	$ (0.111)	$ (0.094)	$ (0.051)	$ (0.074)

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)

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. During the third and fourth quarters of 2016, in particular, and on a diminishing basis throughout 2017 and the first quarter of 2018, the downward pressure caused by the reduced oil sands development activity was tempered by an increase in economic activity as a result of the entry of homeowners displaced by the May 2016 Fort McMurray wildfire into the rental market, the migration of workers participating in the initial remedial effort and, to a lesser extent, the ongoing rebuilding effort in Fort McMurray.

It is anticipated that the post-fire rental market conditions in Fort McMurray will continue to have some positive impact on operating results for the remainder of 2018; however, the impact has been less than previously anticipated. In the absence of an increase in development activity in the region, which in turn is largely dependent on the price of oil, rental market conditions are expected to regress towards pre-fire levels.

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

Income (loss) before Discontinued Operations

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

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

Losses from fair value adjustments were incurred in the third quarter of 2016, throughout 2017, and in the first quarter of 2018, as revenue and occupancy expectations from the Fort McMurray portfolio were continuously lowered to reflect reductions in the expected impact on revenues of the post-fire rebuilding efforts and increasing levels of uncertainty with respect to the timing and extent of the recovery of the Fort McMurray economy due to the prolonged nature of the low-level of oil sands development activity.

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

Income (Loss) and Comprehensive Income (Loss)

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

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 complex, Chateau St. Michael's, classified as discontinued operations.

Cash from Operating Activities

	Three Months Ended March 31		Increase
	2018	2017	(Decrease) in Cash
Net operating income			
Investment properties	$ 1,648,933	$ 2,232,113	$ (583,180)
Discontinued operations	25,437	94,696	(69,259)
Total net operating income	1,674,370	2,326,809	(652,439)
Accrued rent receivable	(19,153)	13,060	(32,213)
Net operating income - cash basis	1,655,217	2,339,869	(684,652)
Trust expense - cash basis	(380,874)	(415,478)	34,604
Interest paid			
Investment properties	(2,434,943)	(2,540,870)	105,927
Discontinued operations	(40,925)	(44,482)	3,557
Total interest paid	(2,475,868)	(2,585,352)	109,484
Interest received	49,263	45,892	3,371
Cash used in operating activities, before working capital adjustments	(1,152,262)	(615,069)	(537,193)
Working capital adjustments, net	(29,580)	(603,748)	574,168
Cash used in operating activities	$ (1,181,842)	$ (1,218,817)	$ 36,975

During the first quarter of 2018, the net cash used in operating activities, before working capital adjustments, increased by $537,193, compared to the first quarter of 2017. The unfavourable variance mainly reflects a decrease in the net operating income on a cash basis of $684,652, primarily as a result of factors described in the "Net Operating Income and Operating Margin" section of this report; partially offset by a decrease in interest paid of $109,484.

The decrease in interest paid of $109,484 was primarily due to the same factors that caused the decrease in the cash component of interest expense, as explained in the "Interest Expense" section of this report, and the relative deferrals of interest payments made in accordance with mortgage loan renewal and forbearance agreements during the first quarter of 2018, in comparison to the first quarter of 2017.

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 $3,697,425 and interest paid of $2,475,868 for the investment properties and discontinued operations, as reported on the Statements of Cash Flow.

After providing for working capital adjustments, the net cash used in operating activities decreased by $36,975 during the first quarter of 2018, compared to the first quarter of 2017.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $801,883 during the first quarter of 2018. The net cash inflow reflects the proceeds of the unsecured loan advances from Shelter, partially offset by the repayment of mortgage loans on refinancing, the repayment of long-term debt, and expenditures on transaction costs.

Advances from Shelter

During the first quarter of 2018, unsecured loan advances from Shelter amounted to $5,300,000, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility.

Repayment of Mortgage Loans on Refinancing

During the first quarter of 2018, lump sum principal repayments in the combined amount of $3,200,000 were made upon the renewal of two mortgage loans, in the aggregate principal amount of $42,025,962, and the execution of three forbearance agreements, in the aggregate principal amount of $16,838,123. The repayments were funded by unsecured loan advances from Shelter.

Repayment of Long-term Debt

During the first quarter of 2018, the regular repayment of mortgage loan principal for both investment properties and discontinued operations amounted to $903,799, compared to $867,544 during the first quarter of 2017.

Expenditures on Transaction Costs

During the first quarter of 2018, expenditures on transaction costs amounted to $394,318, compared to $36,374 during the first quarter of 2017. In addition to transaction costs related to the renewal of the two mortgage loans discussed above, costs were incurred with respect to another mortgage loan, with a principal balance of $31,060,446, which was renewed with an effective date subsequent to March 31, 2018. Transaction costs incurred with respect to the forbearance agreements on the three mortgage loans discussed above have been added to the indebtedness of the loans, in accordance with the forbearance agreements, and are reflected in the accrued interest and fees payable component of long-term debt.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $89,610 during the first quarter of 2018, compared to a net cash outflow of $341,251 during the first quarter of 2017. The net cash outflow during the first quarter of 2018 mainly reflects the cost of capital expenditures, as well as a net cash shortfall on the sale of one condominium unit at Lakewood Townhomes, partially offset by a decrease in restricted cash.

On February 28, 2018, LREIT sold one condominium unit under the Lakewood Townhomes condominium sales program for gross proceeds of $322,000. The sales proceeds, after the payment of selling costs, inclusive of renovation costs and standard closing adjustments, were insufficient to repay the $254,400 required by the lender to discharge its security with respect to the condominium unit that was sold, and resulted in a cash deficiency from the sale in the amount of $11,372.

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

Capital Expenditures

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

During the first quarter of 2018, 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 $168,634, compared to $193,339 during the first quarter of 2017.

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

	Three Months Ended March 31	
	2018	2017
Sustaining Capital Expenditures		
- Investment properties	$ 90,154	$ 98,727
- Investment properties held for sale	78,480	2,344
- Property and equipment	-	19,251
Value-added capital expenditures		
- Investment properties	-	73,017
	$ 168,634	$ 193,339

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	
	2018	2017
Funds from operations (FFO)	$ (2,354,103)	$ (1,777,917)
Add (deduct):		
Straight-line rent adjustment	(19,153)	13,060
Sustaining capital expenditures on investment properties **	(90,154)	(98,727)
Sustaining capital expenditures on investment properties held for sale **	(78,480)	(2,344)
Sustaining capital expenditures on property and equipment **	-	(19,251)
Adjusted funds from operations (AFFO) *	$ (2,541,890)	$ (1,885,179)
AFFO per unit *		
- basic and diluted	$ (0.120)	$ (0.089)

* 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 2018 with an AFFO deficiency of $2,541,890, compared to an AFFO deficiency of $1,885,179 during the first quarter of 2017. On a basic per unit basis, the AFFO decreased by $0.031 per unit during the first quarter of 2018, compared to the first quarter of 2017.

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

Reconciliation Between Cash Used in Operating Activities and Adjusted Funds from Operations

	Three Months Ended March 31	
	2018	2017
Cash used in operating activities	$ (1,181,842)	$ (1,218,817)
Add (deduct):		
Working capital adjustments	29,580	603,748
Amortization of transaction costs	(255,193)	(320,256)
Differences in interest accruals	(965,801)	(829,532)
Sustaining capital expenditures on investment properties **	(90,154)	(98,727)
Sustaining capital expenditures on investment properties held for sale **	(78,480)	(2,344)
Sustaining capital expenditures on property and equipment **	-	(19,251)
Adjusted funds from operations (AFFO) *	$ (2,541,890)	$ (1,885,179)

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

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

Distributions

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

LIQUIDITY AND CAPITAL RESOURCES

General

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

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

	March 31 2018	December 31 2017
Unrestricted cash	$ 1,165,485	$ 1,638,918
Amount available on revolving loan *	-	-
Total available liquidity	$ 1,165,485	$ 1,638,918

* As of March 31, 2018 and the date of this report, there is nil available under the revolving loan facility.

Working Capital

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

The calculation of working capital excludes the revolving loan balance, the Shelter unsecured loan balance, and the current portion of long-term debt. Working capital also excludes "held for sale" assets and liabilities, the tenant security deposit liability, and the security deposit balance in restricted cash.

As of March 31, 2018, working capital was $631,367, compared to working capital of $404,160 as at December 31, 2017, representing an improvement in working capital of $227,207.

The increase in the working capital mainly reflects a $1,116,775 decrease in trade and other payables, excluding advances payable to Shelter of $11,300,000 (December 31, 2017 - $6,000,000), mainly attributable to the reclassification of mortgage loan servicing fees from accounts payable to long-term debt and current portion of long-term debt; partially offset by a $473,433 decrease in cash and a $315,274 decrease in deposits and prepaids.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used to assess the overall financial position of the Trust. During the first quarter of 2018, the mortgage loan debt service coverage ratio, inclusive of debt service concessions granted under mortgage renewal and forbearance agreements, and excluding mortgage prepayments and repayment of mortgage loans on refinancing, was 0.42, compared to 0.61 during the first quarter of 2017.

Interest Coverage Ratio

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

During the first quarter of 2018, the interest coverage ratio decreased to 0.63, compared to 0.83 during the first quarter of 2017. After accounting for the cash component of interest on the revolving loan facility, Shelter advances, and debentures, the interest coverage ratio was 0.49 during the first quarter of 2018, compared to 0.68 during the first quarter of 2017. The decreases in the debt service coverage ratio and interest coverage ratio during the first quarter of 2018, compared to the first quarter of 2017, are due to a decrease 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 as at March 31, 2018 for the next five years and beyond is provided in the following chart. The chart reflects the upcoming mortgage payments in accordance with the payment terms specified by the applicable mortgage loan and/or forbearance agreement in place at March 31, 2018, where applicable.

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

Payments Due by Period	Total	Remainder of 2018	2019/2020	2021/2022	2023 and beyond
Mortgage loans					
Investment properties (2)	$ 183,831,447	$ 67,796,416	$ 91,157,469	$ 13,762,715	$ 11,114,847
Discontinued operations	3,464,398	3,464,398	-	-	-
Total mortgage loans	187,295,845	71,260,814	91,157,469	13,762,715	11,114,847
Revolving loan	30,000,000	30,000,000	-	-	-
Debentures	24,810,800	-	-	24,810,800	-
Total	$ 242,106,645	$ 101,260,814	$ 91,157,469	$ 38,573,515	$ 11,114,847

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

(2) As at March 31, 2018, four loan agreements and a forbearance agreement had been negotiated with the lenders of five mortgage loans affecting five properties in Fort McMurray such that the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to September 1, 2020. Over the period from April 1, 2018 to maturity, $3,823,643 of accrued interest and fees is expected to be incurred and added to the outstanding mortgage principal.

The investment property mortgage loan payments presented as due during the remainder of 2018 in the above chart, in the aggregate principal amount of $67,796,416, are comprised of five mortgage loans which mature during 2018 in the aggregate principal amount of $64,620,932, and regular principal payments of $3,175,484.

With the exception of one mortgage loan with a principal balance of $3,590,110 that matured on April 30, 2018 and is overholding pending completion of an annual credit review, all mortgage loans which have matured prior to the date of this report have been renewed, refinanced, or are operating under the terms of a forbearance agreement.

Loan Defaults

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

As of March 31, 2018, the Trust was in default of a mortgage loan with a principal balance of $28,029,387 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan remains in default. The estimated maximum service fee related to this mortgage is $394,448 and is reflected in the current portion of long-term debt as part of the current portion of accrued interest and fees on the Statement of Financial Position. LREIT continues to meet the debt service obligations of the mortgage loan in default and the lender has taken no action to demand repayment or enforce its security under the loan.

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

If the mortgage loan which is classified as being in default as of the date of this report was to be called by the lenders in 2018, total long-term debt due in 2018 would increase to $128,698,141, the total long-term debt due in 2019/2020 would decrease to $63,720,142, and the total long-term debt due in 2021 and beyond would remain the same.

Debentures

On June 22, 2016, the terms of the Series G debentures were amended to extend the maturity date to June 30, 2022, to reduce the interest rate for the period commencing June 30, 2016 from 9.5% to 5.0% and to defer all payments of interest to the amended maturity date. As of March 31, 2018, the total face value of the 5.0% Series G debentures is $24,810,800 and the cumulative accrued interest is $3,349,458.

Capital Resources

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

Revolving Loan Facility from 2668921 Manitoba Ltd.

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

The maximum available principal balance on the revolving loan facility is $30,000,000 and the interest rate is 5% per annum. At March 31, 2018, the maximum of $30,000,000 was advanced and there is no availability under the facility as of the date of this report.

Advances from Shelter

Shelter has provided LREIT with interim funding in the form of unsecured loan advances on a periodic basis. During the first quarter of 2018, Shelter made unsecured loan advances totaling $5,300,000 to LREIT, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility. As the $30,000,000 maximum available balance under the revolving loan facility was reached during the third quarter of 2017, the advances from Shelter continued to serve as a source of funding for the cash outflow from operating activities, mortgage loan principal payments, transaction costs, capital expenditures, and for the repayment of mortgage loans on refinancing.

Subsequent to March 31, 2018 and to the date of this report, Shelter continued to provide financial support to LREIT by providing additional unsecured loan advances of $800,000.

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

Proceeds from the Sale of Select Properties

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

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

Upward Refinancing of Mortgage Loans

Upward refinancing of mortgage loan debt was not a source of funds for LREIT during the first quarter of 2018 and during 2017. The opportunity to complete future upward refinancings is limited by the extent to which the existing property portfolio is leveraged, the restriction in the Declaration of Trust on incurring additional mortgage indebtedness if incurring such mortgage indebtedness will result in such indebtedness exceeding 75% of appraised value as defined in the Declaration of Trust, and market lending conditions. The upward refinancing of mortgage loans is not expected to be a viable source of funds until market and lending conditions in Fort McMurray improve.

Equity Offerings

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

Outlook and Continuing Operations

After accounting for the cash outflow from operating activities after working capital adjustments, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed the first quarter of 2018 with a cash shortfall of $2,648,593, compared to a cash shortfall of $2,316,074 during the first quarter of 2017. LREIT is expected to incur an additional cash shortfall during the remainder of 2018.

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

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

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

CAPITAL STRUCTURE

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

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

Capital Structure

	March 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Long-term debt	$ 109,346,527	58.1 %	$ 58,585,292	28.1 %
Current portion of long-term debt	132,851,159	70.6 %	186,307,203	89.5 %
Deficit	(54,136,553)	(28.8)%	(36,641,825)	(2.0)%
Total capitalization	$ 188,061,133	99.9 %	$ 208,250,670	115.6 %

Long-term Debt

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

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

As at March 31, 2018, LREIT's mortgage indebtedness and maximum balance under the revolving loan facility amounted to $217,295,845, representing approximately 75.2% of the appraised value of LREIT's total property portfolio.

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

Summary of Long-term Debt

	March 31 2018	December 31 2017	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgage loans	$ 183,831,447	$ 187,206,443	$ (3,374,996)
Revolving loan from 2668921 Manitoba Ltd.	30,000,000	30,000,000	-
Debentures	24,810,800	24,810,800	-
Total secured long-term debt	238,642,247	242,017,243	(3,374,996)
Accrued interest and fees payable	4,990,993	3,846,114	1,144,879
Unamortized transaction costs	(1,435,554)	(970,862)	(464,692)
Total long-term debt - Investment properties	242,197,686	244,892,495	(2,694,809)
Long-term debt - Discontinued operations			
Mortgage loans	3,464,398	3,515,916	(51,518)
Unamortized transaction costs	(750)	(6,616)	5,866
Total long-term debt - Discontinued operations	3,463,648	3,509,300	(45,652)
Total long-term debt	$ 245,661,334	$ 248,401,795	$ (2,740,461)

As disclosed in the preceding chart, the total long-term debt of LREIT as of March 31, 2018 decreased by $2,740,461 or 1%, compared to the balance as of December 31, 2017. The decrease is mainly due to a $3,374,996 decrease in the secured long-term debt of investment properties and a $464,692 increase in unamortized transaction costs, partially offset by a $1,144,879 increase in accrued interest and fees payable.

The decrease in the secured long-term debt of investment properties is discussed in greater detail in the "Mortgage Loans" section below.

The increase in the balance of unamortized transaction costs is mainly due to transaction costs associated with the renewal of two mortgage loans, in the aggregate principal amount of $42,025,962, and the execution of three forbearance agreements, in the aggregate principal amount of $16,838,123, during the first quarter of 2018 and one mortgage loan, with a principal balance of $31,060,446, which was renewed with an effective date subsequent to March 31, 2018.

The increase in accrued interest and fees payable mainly reflects the reclassification of accrued service fees from accounts payable to long-term debt as a result of forbearance agreements obtained during the first quarter of 2018 that allow for the fees to be added to the loan indebtedness and paid on the expiry date of the forbearance agreements, as well as interest accrued on the Series G debentures for the quarter.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of March 31, 2018, the total mortgage loan debt of LREIT decreased by $3,426,514, compared to the amount payable as of December 31, 2017. As disclosed in the chart below, the decrease primarily reflects repayment of mortgage loans on refinancing, regular repayments of principal on mortgage loans, and reductions in the balance of mortgage loans on sale of properties, partially offset by interest and forbearance fees capitalized, net of repayment, to mortgage loan principal in accordance with mortgage loan and forbearance agreements.

	Three Months Ended March 31, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (903,799)	$ (852,281)	$ (51,518)
Repayment of mortgage loans on refinancing	(3,200,000)	(3,200,000)	-
Reduction of mortgage loans on sale of properties	(254,400)	(254,400)	-
Non cash - interest and fees capitalized, net of repayment	931,685	931,685	-
Decrease in mortgage loans	(3,426,514)	(3,374,996)	(51,518)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - March 31, 2018	$ 187,295,845	$ 183,831,447	$ 3,464,398

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount March 31, 2018	Percentage of Total
Investment Properties			
Fixed rate			
2018	4.0 %	$ 28,308,247	15.1 %
2019	5.7 %	47,978,862	25.6 %
2021	5.0 %	16,838,123	9.0 %
2025	4.4 %	12,367,568	6.6 %
	5.0 %	105,492,800	56.3 %
Demand/variable rate	6.6 %	78,338,647	41.8 %
Principal amount	5.7 %	183,831,447	98.1 %
Discontinued Operations			
Demand/variable rate	5.5 %	3,464,398	1.9 %
Total	5.5 %	$ 187,295,845	100.0 %

(1) The year of maturity is based on the contractual loan obligation and does not reflect the IFRS Financial Statement disclosure requirement to disclose fixed term loans which are secured by a demand promissory note and loans in breach of a covenant and/or default as a current liability.

(2) As of March 31, 2018, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 5.5% and 5.7%, respectively, compared to 5.5%, 5.2% and 5.5% at December 31, 2017.

Mortgage Loan Debt Summary

	2018	2017		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	5.0%	4.9%	5.3%	5.3%
Variable rate mortgage loans	6.6%	6.4%	6.6%	6.1%
Investment properties and discontinued operations				
Mortgage loans, debentures, defeased liability and revolving loan	5.5%	5.4%	5.6%	5.6%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	95%	89%	87%	86%
Ratio of mortgage loans and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations *	108%	101%	98%	97%

	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%

* Excludes the revolving loan and Shelter unsecured loan.

Revolving Loan

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

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

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

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

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

Debentures

As of March 31, 2018, LREIT has 5% Series G debentures outstanding with a face value of $24,810,800, due June 30, 2022. Interest is payable on June 30, 2022 and is to be accrued on a non-compounded basis. As of March 31, 2018, $3,349,458 (December 31, 2017 - $3,039,323) of interest was accrued on the Series G debentures.

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

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

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2017	20,557,320
- March 31, 2018	20,557,320
- May 11, 2018	20,557,320

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

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

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

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

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

During the first quarter of 2018, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of $177,734 and $225,616, respectively, compared to $190,458 and $224,592, respectively, during the first quarter of 2017.

Included in trade and other payables at March 31, 2018 is a balance of $1,780 payable to Shelter (December 31, 2017 - $8,302 receivable) 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 $19,217 for the three months ended March 31, 2018 (2017 - $18,900) in regard to the condominium sales program.

Services fee for the Woodland Park Townhomes condominium sales program

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

Loans

Revolving Loan

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

During the first quarter of 2018, interest on the loan facility amounted to $369,863, compared to $296,767 during the first quarter of 2017.

During the first quarter of 2018, the Trust received no advances and made no repayments on the revolving loan. At March 31, 2018, the revolving loan balance was $30,000,000 (December 31, 2017 - $30,000,000), which is the maximum balance allowed under the terms of the revolving loan facility.

Advances from Shelter

During the first quarter of 2018, the Trust received advances of $5,300,000 (2017 - nil) and made no repayments (2017 - nil) on the unsecured loan from Shelter, resulting in a balance of $11,300,000 at March 31, 2018 (December 31, 2017 - $6,000,000). The terms of the unsecured loan from Shelter provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility. Shelter continues to provide financial support to LREIT advancing an additional $800,000 from April 1, 2018 to the date of this report.

During the first quarter of 2018, interest on the Shelter advances amounted to $97,140, compared to nil during the first quarter of 2017.

Nelson Ridge Second Mortgage Loan

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

As of March 31, 2018, the amount owing on the mortgage loan was $5,620,705 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

Approval

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations / Liquidity Risks

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

In response to the uncertainties that exist with respect to the Trust's ability to remain a going concern, and in order to improve liquidity, meet ongoing funding obligations, and sustain operations, management has achieved and is continuing to pursue new and renew existing debt restructuring arrangements with certain of its lenders, is continuing its divestiture program, cost control measures, marketing initiatives, select renovations, and other efforts to improve operating results.

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

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

Concentration of the Portfolio of LREIT in One Market

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

At March 31, 2018, 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 1,081 suites, or 85% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $178,780,010, which represents approximately 94% of the total aggregate carrying value of the investment property portfolio as at March 31, 2018.

The 13 properties located in Fort McMurray accounted for 91% of investment property revenue and 96% of net operating income for the first quarter of 2018.

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, 2018, the Trust was in default of a mortgage loan with a principal balance of $28,029,387 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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

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

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

Revolving Loan Facility From 2668921 Manitoba Ltd.

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

Credit Support from Shelter

Shelter has provided LREIT with interim funding on a periodic basis.

During the first quarter of 2018, the Trust received unsecured loan advances from Shelter of $5,300,000 (2017 - nil) and repaid nil (2017 - nil), resulting in an outstanding balance of $11,300,000 as at March 31, 2018 (December 31, 2017 - $6,000,000). Shelter continues to provide financial support to LREIT advancing an additional $800,000 from April 1, 2018 to the date of this report.

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

Divestiture Program

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

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

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

Insurance Risk

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

In May 2016, a wildfire in Fort McMurray, Alberta resulted in the evacuation of the entire community. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,081 suites or 85% of its total suites in the investment property portfolio. None of LREIT's properties incurred structural damage as a result of the wildfire; however, all of the Fort McMurray properties sustained smoke damage to varying degrees. Although the restoration of LREIT's properties is complete and the majority of the costs of the restoration have been covered by insurance to date, the insurance claim is not complete and there has been no settlement reached with respect to rental losses incurred as a result of the wildfire. It is anticipated that the insurance coverage of LREIT will be sufficient to cover all restoration costs and the rental loss; however, there remains a risk that proceeds of insurance, or timing of receipt thereof, may be inadequate to fully compensate LREIT for all of the losses associated with the wildfire.

Credit Risk

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

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At March 31, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $27,301,496 (December 31, 2017 - $27,512,300) which expires in 2022 (December 31, 2017 - expires in 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

Credit risk arises in the event that the primary obligors default on repayment of their debt since they are guaranteed by LREIT. This credit risk may be mitigated as LREIT has recourse under these guarantees in the event of a default by the primary obligors, in which case LREIT's claim would be against the underlying real estate investments, subject to the rights of senior lenders, as applicable.

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

- the determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- the determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates; and

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

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

Future Changes In Accounting Policies

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

- IFRS 16 - Leases replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. 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.

Adoption of Accounting Standards

- 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. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard as the single approach to classifying financial assets did not 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. 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, there was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

- IAS 40 - Investment Property ("IAS 40") - During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

TAXATION

Taxation of LREIT

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT qualified for the REIT Exception in 2017 and will qualify for the REIT Exception in 2018 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2018 or any subsequent year.

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

Please refer to the 2017 Annual Report and the Annual Information Form for a more detailed discussion regarding the taxation of LREIT, the SIFT Rules, and the taxation of Unitholders.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of LREIT have evaluated, or caused to be evaluated under their supervision, the effectiveness of DC&P as at December 31, 2017. Based on the evaluation performed, the CEO and CFO have concluded that the DC&P of the Trust are appropriately designed and were operating effectively as at December 31, 2017.

During the first quarter of 2018, there were no changes to LREIT's DC&P. LREIT continuously reviews the design of the DC&P in order to provide reasonable assurance that material information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, as defined in National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Internal Control over Financial Reporting

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

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

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of LREIT have evaluated, or caused to be evaluated under their supervision, the effectiveness of ICFR as at December 31, 2017. Based on the evaluation performed, the CEO and CFO have concluded that the ICFR of the Trust are appropriately designed and were operating effectively as at December 31, 2017. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO") control framework.

During the first quarter of 2018, 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 2018 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 11, 2018