LANESBOROUGH REIT

2015 ANNUAL REPORT

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Unitholder Returns

	Year Ended December 31, 2015 (Per unit)	Year Ended December 31, 2014 (Per unit)
Opening price	$0.47	$1.07
Closing price	$0.13	$0.47

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

CHIEF EXECUTIVE OFFICER'S MESSAGE
2015 Annual Report

Overall Results

As anticipated at the outset of the year, and in view of the hardship experienced by the Canadian energy sector, 2015 proved to be a challenging year for the Trust. LREIT's primary market, the rental market of Fort McMurray, Alberta, continued to deteriorate due to the sustained decline in the price of oil and the resulting reduction in oil-sands development activity. During 2015, the average occupancy level of the Fort McMurray properties dropped to 68%, compared to 86% in 2014. Increased uncertainties as to the timing and extent of a recovery in oil prices, oil-sands development activity, and rental market conditions have also led to reduced property valuations and tightened lending conditions in Fort McMurray, presenting additional challenges to the Trust.

FFO decreased by $4.4 million in 2015, resulting in negative FFO of $8.4 million compared to negative FFO of $4.0 million in the prior year. The decline in FFO was primarily driven by a $8.1 Million or 21% decline in revenue. The decrease in revenue was partially offset by a $2.5 million or 15% reduction in property operating costs, a $1.2 million or 5% reduction in interest expense, and a $0.7 million or 27% reduction in Trust expense.

Overall, LREIT completed 2015 with a net loss of $98.8 million, compared to a net loss of $22.2 million in 2014. Driven by the same factors discussed above, the increase in the net loss mainly reflects a negative adjustment to the fair value of LREIT's Fort McMurray property portfolio of $93.3 million or 32% and a decrease in revenues of the Fort McMurray property portfolio of $7.4 million or 27%.

Cash Flow Results

The decline in the rental market conditions of Fort McMurray negatively affected the operating cash flow of LREIT in 2015 to the extent that LREIT required significant additional sources of cash to fund the cash shortfall from operating activities, monthly debt service obligations, and capital expenditure requirements. During 2015, the cash outflow from operating activities amounted to $6.5 million, compared to cash outflow from operating activities of $0.8 million in 2014.

Liquidity and Capital Resources

During 2015, the mortgage loan debt service coverage ratio decreased to 0.76, after removing the impact of one-time lump-sum principal repayments, compared to 1.00 in 2014, indicating that the net operating income of LREIT is no longer sufficient to fund its debt service obligations. Consequently, subsequent to December 31, 2015, LREIT defaulted on several mortgage loans by withholding payments of $1,262,505, and deferred the payment of interest on the revolving loan facility of $164,022 as well as the payment of the property management fee of $62,886.

The decreased performance of the Fort McMurray portfolio, along with the unlikelihood of a significant recovery in Alberta's economy in the short-term, are key factors that cast doubt as to the ability of the Trust to sustain operations into the foreseeable future.

During 2015, management undertook a number of initiatives in order to address the liquidity and working capital challenges facing LREIT, including the expansion and acceleration of the divestiture program, the upward refinancing of mortgage loans, the renewal and increase of the 2668921 Manitoba Ltd. revolving loan, and the continued implementation of cost reduction measures. A summary of key events from 2015 is provided below:

- As part of the expanded divestiture program, LREIT sold two properties in 2015 at a combined gross selling price of $72.7 million. The net cash proceeds of $30.8 million were used to improve the liquidity and working capital position of the Trust.

- Proceeds from the upward refinancing of mortgage loan debt were used to repay the remaining 9% mortgage bonds in the aggregate principal amount of $6.0 million and reduce the working capital deficit.

- Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term with a maximum balance of $18.0 Million in order to provide the opportunity for increased liquidity and financial flexibility.

- Throughout 2015 management has and will continue to undertake cost reduction measures, to the extent possible, including the reduction of high-interest debt. During 2015, operating costs decreased by $2.5 Million or 15%, capital expenditures decreased by $1.9 Million or 65%, due to the deferral of expenditures deemed discretionary in nature, and the total long-term debt of the Trust decreased by $55.8 Million or 17%.

Subsequent to December 31, 2015, an interest-only mortgage loan in the amount of $7.5 million was fully repaid, funded by advances from the 2668921 Manitoba Ltd. revolving loan.

Outlook and Continuing Operations

The deterioration of the Fort McMurray economy, the successive years of losses and cash deficiencies, the tightening of lending conditions in Fort McMurray, and the large working capital deficit of the Trust, among other factors, continue to present significant challenges and cast doubt as to the ability of the Trust to continue as a going concern.

In response to the challenges facing LREIT with respect to its current financial position and the weak condition of its primary market, LREIT will continue to pursue debt restructuring arrangements with its lenders as well as continue to engage in cost reduction strategies and other initiatives aimed at sustaining the operations of the Trust. Shelter and its parent company 2668921 Manitoba Ltd. have expressed their intention to participate in a coordinated plan with LREIT's lenders that will continue to provide financial support to the Trust during this difficult period.

As LREIT continues to move forward, the critical success factors of the Trust will be the timely completion of property sales under the expanded divestiture program and the willingness and ability of the Trust's lenders, Shelter and 2668921 Manitoba Ltd. to participate in a restructuring of the Trust's debt and fee structure to the degree necessary to allow LREIT the opportunity to stabilize its operations.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
March 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements ("Financial Statements") of LREIT for the year ended December 31, 2015 with reference to the Annual Report for 2014 and the quarterly reports for 2015.

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, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including, but not limited to, risks associated with the uncertainty of LREIT's status as, and its ability to continue as, a going concern, concentration of portfolio in one market, dependence on natural resources industries, commodity price risks, current economic conditions, reliance on Shelter Canadian Properties Limited ("Shelter") or its parent company 2668921 Manitoba Ltd. for interim funding and additional risks associated with debentures, success of the divestiture program, events of default under financing agreements, debt financing, real property ownership, liquidity, interest and financing risk, credit risk, market risk, competition, availability of cash for distributions, tax related risk factors, public market issues, future property acquisitions, availability of suitable investments, general uninsured losses, interest rate fluctuations, dependence on natural resources industries, 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, 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, inability of LREIT to purchase Series G Debentures on a change of control, the Alberta Government's royalty framework, substitutions for residential rental units, and litigation risks. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

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

Purchase Price Information

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

Financial Statements

Throughout this report, the consolidated financial statements as of December 31, 2015 will be referred to as the "Financial Statements"; the consolidated statements of financial position as of December 31, 2015 will be referred to as the "Statement of Financial Position"; the consolidated statements of comprehensive income (loss) for the year ended December 31, 2015 will be referred to as the "Income Statement"; and the consolidated statements of cash flows for the year ended December 31, 2015 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	December 31		
	2015	2014	2013
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 278,524,804	$ 442,773,600	$ 468,072,319
Total long-term financial liabilities (1)	$ 272,429,237	$ 327,980,499	$ 302,335,837
Weighted average interest rate			
- Mortgage loan debt	6.0 %	5.7 %	5.4 %
- Total debt	6.4 %	6.3 %	5.9 %

	Year Ended December 31		
	2015	2014	2013
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 30,215,224	$ 38,291,698	$ 40,328,764
Net operating income	$ 16,151,866	$ 21,775,464	$ 24,208,769
Income (loss) before discontinued operations	$ (96,394,897)	$ (20,878,092)	$ 14,689,374
Income (loss) and comprehensive income (loss)	$ (98,765,643)	$ (22,238,581)	$ 15,519,586
Funds from Operations (FFO) *	$ (8,426,367)	$ (4,047,931)	$ (887,528)
Cash Flows			
Cash provided by (used in) operating activities	$ (6,492,224)	$ (806,632)	$ 1,625,477
Adjusted Funds from Operations (AFFO) *	$ (8,728,029)	$ (5,335,938)	$ (3,863,140)
Per Unit			
Net operating income *			
- basic	$ 0.764	$ 1.040	$ 1.276
- diluted	$ 0.764	$ 0.803	$ 1.045
Income (loss) before discontinued operations *			
- basic and diluted	$ (4.558)	$ (0.997)	$ 0.774
- diluted	$ (4.558)	$ (0.997)	$ 0.634
Income (loss) and comprehensive income (loss)			
- basic and diluted	$ (4.670)	$ (1.062)	$ 0.818
- diluted	$ (4.670)	$ (1.062)	$ 0.670
Funds from Operations (FFO) *			
- basic and diluted	$ (0.398)	$ (0.193)	$ (0.047)
Cash provided by (used in) operating activities			
- basic	$ (0.307)	$ (0.039)	$ 0.086
- diluted	$ (0.307)	$ (0.039)	$ 0.070
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.413)	$ (0.255)	$ (0.204)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability, an interest rate swap liability and mortgage bonds. The mortgage bonds are included at face value.

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

As of December 31, 2015, LREIT owns a portfolio of income-producing real estate properties comprised of 16 investment properties, two investment properties classified as held for sale, and two seniors' housing complexes classified under discontinued operations.

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

- Fort McMurray Properties (Thirteen properties): Accounting for approximately 73% (2014 - 57%) of the residential suites in the portfolio of investment properties, the thirteen multi-residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

- Other Investment Properties (Three properties): The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 13% (2014 - 10%) of the residential suites in the portfolio of investment properties.

- Held for Sale and/or Sold Properties (Four properties): The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Beck Court, Willowdale Gardens, 156/204 East Lake Blvd. which was sold on April 1, 2015 and Colony Square which was sold on November 1, 2015. The held for sale properties account for approximately 14% (2014 - 11%) of the suites in the portfolio of investment properties and the sold properties accounted for approximately 22% of the residential suites in the portfolio of investment properties in 2014.

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

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

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

2015 Operating Results

Key Financial Indicators

	Year Ended December 31				Favourable (Unfavourable) Variance		
		2015		2014		Amount	%
Rentals from investment properties	$	30,215,224	$	38,291,698	$	(8,076,474)	(21)%
Property operating costs		(14,063,358)		(16,516,234)		2,452,876	15 %
Net operating income	$	16,151,866	$	21,775,464	$	(5,623,598)	(26)%
Interest expense	$	(23,272,205)	$	(24,480,925)	$	1,208,720	5 %
Fair value adjustments	$	(87,443,849)	$	(16,527,759)	$	(70,916,090)	(429)%
Loss and comprehensive loss	$	(98,765,643)	$	(22,238,581)	$	(76,527,062)	(344)%
FFO	$	(8,426,367)	$	(4,047,931)	$	(4,378,436)	(108)%

LREIT completed 2015 with negative FFO of $8,426,367, compared to negative FFO of $4,047,931 in 2014, representing a decrease of $4,378,436. On a basic per unit basis, FFO decreased by $0.205 from negative $0.193 in 2014 to negative $0.398 in 2015. The decrease in FFO was primarily the result of a decrease in the Trust's revenue of $8,076,474 or 21%, principally driven by significant reductions in the occupancy levels and rental rates of the Fort McMurray portfolio, partially offset by decreases in property operating costs of $2,452,876 or 15%, interest expense of $1,208,720 or 5% and trust expense of $655,219 or 27%, all of which are explained in greater detail throughout this MD&A.

The decline in the revenue results of the Fort McMurray property portfolio is mainly due to the sustained negative impact from the decline in oil prices on the Fort McMurray economy and rental market during 2015. The average occupancy level of the Fort McMurray properties decreased significantly during 2015 from 86% during 2014 to 68% during 2015, and the average monthly rental rate decreased by $204 or 9% compared to 2014.

Overall, LREIT completed 2015 with a net loss of $98,765,643, compared to a net loss of $22,238,581 in 2014, representing an increase in the net loss of $76,527,062. In addition to the factors discussed above, the increase in the net loss mainly reflects a negative adjustment to the fair value of LREIT's Fort McMurray property portfolio of $93,275,532 or 32% driven primarily by reduced expectations and increased uncertainty as to the timing and extent of recovery of the Fort McMurray rental market. The increase in the loss from discontinued operations of $1,010,257, which was mainly due to an increase in the impairment loss required to bring the carrying value of one of the seniors' homes down to its fair value less selling costs, also contributed to the increase in net loss for 2015.

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

Liquidity and Capital Resources

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

As of December 31, 2015, the unrestricted cash balance of LREIT was $407,513, while the working capital deficit was $6,984,045, representing a decrease of $5,731,763, compared to the working capital deficit as of December 31, 2014, primarily due to the partial use of the net proceeds of the sale of Colony Square to reduce the revolving loan balance. Excluding the amount due on the revolving loan, LREIT had a working capital surplus of $115,955 as of December 31, 2015, compared to a working capital surplus of $1,784,192 as of December 31, 2014.

The decline in the rental market conditions of Fort McMurray negatively affected the operating cash flow of LREIT in 2015 to the extent that LREIT required significant additional sources of cash to fund the cash shortfall from operating activities, monthly debt service obligations, and capital expenditure requirements. During 2015, the cash outflow from operating activities amounted to $6,492,224, compared to cash outflow from operating activities of $806,632 in 2014.

During 2015, the mortgage loan debt service coverage ratio decreased to 0.76, after removing the impact of one-time lump-sum principal repayments, compared to 1.00 in 2014, indicating that the net operating income of LREIT is not sufficient to fund its debt service obligations. Consequently, subsequent to December 31, 2015, LREIT defaulted on several mortgage loans as well as deferred the payment of interest on the revolving loan facility and the payment of the property management fee. Also at December 31, 2015, LREIT was in breach of loan covenants with respect to two mortgage loans. 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.

A summary of covenant breaches, defaults and deferrals is provided below:

Covenant Breaches:

- At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a $24,348,777 first mortgage loan on a property in Fort McMurray, Alberta.
- At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan.

Defaults:

- Subsequent to December 31, 2015, after advising the mortgage company, the Trust began paying interest only on a first mortgage loan with an aggregate principal balance of $24,348,777 and withheld principal payments of $187,870.
- Subsequent to December 31, 2015, after advising the mortgage companies, the Trust withheld principal payments of $388,643 and interest payments of $685,992 on 11 mortgage loans with an aggregate principal balance of $170,154,194 related to properties in its Fort McMurray portfolio.

As of the date of this report, the Trust has not repaid any of the mortgage loans that are in default and, with the exception of the $24,348,777 first mortgage loan above, the lenders have taken no action against the Trust and continue to engage in discussions with respect to the restructuring of the mortgage loans. With respect to the $24,348,777 first mortgage loan above, the lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

Deferrals of Payment:

- Subsequent to December 31, 2015, the Trust deferred payment of property management fee due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016.
- Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for the month of February 2016 in the amount of $164,022. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

During 2015, management undertook a number of initiatives in order to address the liquidity and working capital challenges facing LREIT:

Expanded Divestiture Program

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

- On April 1, 2015, LREIT completed the sale of 156/204 East Lake Blvd. for net proceeds of $2,441,375 resulted in a capital gain of approximately $2,000,000. The net cash proceeds were used to reduce the revolving loan balance outstanding.
- On November 1, 2015, LREIT sold Colony Square, which resulted in net cash proceeds of $28,377,139. The net cash proceeds were used to improve working capital by reducing the revolving loan balance outstanding by $13,500,000 and by fully repaying operating advances from Shelter. The sale of Colony Square resulted in a capital gain of approximately $29,800,000.

Special Distribution

In order to reduce taxable income for the 2015 tax year as a result of the capital gains discussed above to nil, LREIT declared and paid a special non-cash distribution, followed by a unit consolidation which resulted in the number of units outstanding following the consolidation being identical to the number of units outstanding immediately prior to the non-cash distribution. A more detailed description of the special distribution and its tax implications is provided in the sections of the MD&A titled "Analysis of Cash Flows - Distributions" and "Taxation", respectively.

Proceeds from Upward Refinancing

- On January 12, 2015, the first mortgage loan of Beck Court was upward refinanced with a new first mortgage loan of $16,000,000. The net proceeds from the upward refinancing of $7,438,194, after transaction costs, were used to repay the remaining 9% mortgage bonds in the aggregate principal amount of $6,000,000 and to improve working capital.
- On August 31, 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3,300,000. The net proceeds from the upward refinancing of $1,624,086, after transaction costs, were used to improve working capital.

Renewal and Increase to Revolving Loan

- Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000.

Cost Reduction Measures

- Management undertook a concerted effort to reduce costs to the extent possible. During 2015, operating cost reductions of $2,452,876 or 15% were achieved and capital expenditures decreased by $1,859,306 or 65%.
- During 2015, the total long-term debt of the Trust decreased by $55,847,703 or 17%.
- Subsequent to December 31, 2015, an interest-only second mortgage loan, secured by assets of 2668921 Manitoba Ltd., in the amount of $7,500,000 was fully repaid. The repayment was funded by advances from the revolving loan facility which are expected to be repaid by funds received from the divestiture of properties, resulting in a reduction of total debt and lower total interest paid.

Outlook and Continuing Operations

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

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

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

Current divestiture activities are focused on the sale of the two seniors' housing complexes (Chateau St. Michael's and Elgin Lodge), the properties classified as held for sale (Willowdale Gardens and Beck Court), other properties with consideration of the overall cash needs of the Trust, as well as the condominium sales program for Lakewood Townhomes.

Willowdale Gardens and Beck Court have been classified as held for sale as of December 31, 2015 under IFRS, as a prospective buyer was identified prior to December 31, 2015 and management anticipates that the two properties will be sold within the next 12 months. As part of the expanded divestiture program, other properties have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

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

Risks and Uncertainties

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

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

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Brief History and Overview

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

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

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

Investment Properties

As of December 31, 2015, the real estate portfolio of LREIT consisted of 16 multi-unit residential properties (the "investment properties"), two multi-unit residential properties which are classified as held for sale (the "investment properties held for sale") and two seniors' housing complexes (the "discontinued operations").

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

Strategy and Operations

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

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

Financing

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

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

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

During 2015, the mortgage loan debt service coverage ratio decreased to 0.76, after removing the impact of one-time lump-sum principal repayments, compared to 1.00 in 2014, indicating that the net operating income of LREIT is not sufficient to fund the debt service obligations of the Trust. Consequently, subsequent to December 31, 2015, LREIT defaulted on several mortgage loans and deferred the payment of interest on the revolving loan facility. 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. LREIT is actively pursuing debt restructuring arrangements with certain of its lenders and requesting concessions from Shelter and its parent company, 2668921 Manitoba Ltd.

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

Divestiture Program

In order to address the reduction in operating cash flow and the constraints on working capital which started with the economic downturn in 2008/2009, LREIT instituted a divestiture program in 2009 with the objective of generating gross proceeds of $250,000,000 from the sale of selected properties. Since the inception of the divestiture program to December 31, 2015, LREIT sold 25 properties and 17 condominium units at a combined gross selling price of $333,510,100.

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

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

Divestiture Program

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

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

- April 1, 2015 - 156/204 East Lake Blvd, Airdrie, Alberta: The sale resulted in net proceeds of $2,441,375, after the assumption of the mortgage loan debt by the purchaser and selling costs. The net proceeds from the sale were used to improve working capital by paying down the revolving loan.

- November 1, 2015 - Colony Square, Winnipeg, Manitoba: The sale resulted in net proceeds of $28,377,139, after the assumption of the mortgage loan by the purchaser, the contingent consideration held in escrow, selling costs and standard closing adjustments. The net proceeds from the sale were used to improve working capital by reducing the revolving loan balance outstanding by $13,500,000 and by fully repaying operating advances from Shelter.

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

Willowdale Gardens and Beck Court have been classified as held for sale under IFRS, as a prospective buyer was located prior to December 31, 2015 and management anticipates that the two properties will be sold within the next twelve months. As part of the expanded divestiture program, other properties have been targeted for sale and will be classified as held for sale, in accordance with IFRS, when a sale is determined to be highly probable.

Lakewood Townhomes Condominium Sales Program

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

As of December 31, 2015, 17 condominium units have been sold at a combined gross selling price of $8,243,100.

REAL ESTATE PORTFOLIO

Portfolio Summary - December 31, 2015

As of December 31, 2015, the property portfolio of LREIT consists of 20 rental properties: 16 of which are classified as "Investment properties" on the Statement of Financial Position, including the unsold condominium units at Lakewood Townhomes; two of which are classified as assets held for sale on the Statement of Financial Position and two of which are seniors' housing complexes accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 20 properties has a total purchase price of $356,636,488 and encompasses 1,697 suites.

Changes in Property Portfolio

During 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at Lakewood Townhomes.

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

A list of all of the properties in the LREIT real estate portfolio as at December 31, 2015 is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 16 properties which are classified as investment properties on the Statement of Financial Position as of December 31, 2015 consist of 13 multi-unit residential properties in Fort McMurray, Alberta and one multi-unit property in each of Thompson, Manitoba; Edson, Alberta and Peace River, Alberta (3 properties). The properties which are classified as assets held for sale on the Statement of Financial Position consist of one multi-unit property in each of Yellowknife, Northwest Territories and Brandon, Manitoba (2 properties).

Discontinued Operations

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

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

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

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

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended December 31		Increase (Decrease) in Income	
	2015	2014	Amount	%
Rentals from investment properties	$ 5,957,332	$ 9,483,539	$ (3,526,207)	(37)%
Property operating costs	3,381,486	4,240,746	859,260	20 %
Net operating income	2,575,846	5,242,793	(2,666,947)	(51)%
Interest income	18,187	37,842	(19,655)	(52)%
Interest expense	(5,271,075)	(5,540,625)	269,550	5 %
Trust expense	(454,091)	(697,733)	243,642	35 %
Loss before the following	(3,131,133)	(957,723)	(2,173,410)	(227)%
Gain on sale of investment property	100,504	-	100,504	n/a
Fair value adjustments - Investment properties	(27,120,099)	(15,685,280)	(11,434,819)	(73)%
Loss before discontinued operations	(30,150,728)	(16,643,003)	(13,507,725)	(81)%
Income from discontinued operations	(2,705,645)	(1,653,429)	(1,052,216)	(64)%
Loss and comprehensive loss	$ (32,856,373)	$ (18,296,432)	$ (14,559,941)	(80)%

Analysis of Loss

	Year Ended December 31		Increase (Decrease) in Income	
	2015	2014	Amount	%
Rentals from investment properties	$ 30,215,224	$ 38,291,698	$ (8,076,474)	(21)%
Property operating costs	14,063,358	16,516,234	2,452,876	15 %
Net operating income	16,151,866	21,775,464	(5,623,598)	(26)%
Interest income	86,998	657,609	(570,611)	(87)%
Interest expense	(23,272,205)	(24,480,925)	1,208,720	5 %
Trust expense	(1,816,996)	(2,472,215)	655,219	27 %
Income recovery on Parsons Landing	-	98,499	(98,499)	(100)%
Loss before the following	(8,850,337)	(4,421,568)	(4,428,769)	(100)%
Gain (loss) on sale of investment property	(100,711)	71,235	(171,946)	(241)%
Fair value adjustments - Investment properties	(87,443,849)	(16,527,759)	(70,916,090)	(429)%
Loss before discontinued operations	(96,394,897)	(20,878,092)	(75,516,805)	(362)%
Loss from discontinued operations	(2,370,746)	(1,360,489)	(1,010,257)	(74)%
Loss and comprehensive loss	$ (98,765,643)	$ (22,238,581)	$ (76,527,062)	(344)%

Analysis of Loss per Unit

	Year Ended December 31			
	2015	2014	Change	
Loss before discontinued operations - basic and diluted	$ (4.558)	$ (0.997)	$ (3.561)	(357)%
Loss from discontinued operations - basic and diluted	(0.112)	(0.065)	(0.047)	(72)%
Loss and comprehensive loss - basic and diluted	$ (4.670)	$ (1.062)	$ (3.608)	(340)%

Overall Results

LREIT completed 2015 with a net loss of $98,765,643, compared to a net loss of $22,238,581 in 2014, representing an increase in the net loss of $76,527,062. The increase in the net loss was primarily driven by the results of the Fort McMurray property portfolio, which experienced fair value reductions of $93,275,532 or 32% during the year and a decrease in revenues of $7,410,618 or 27%. The significant decline in the performance of the Fort McMurray portfolio is mainly due to the sustained negative impact of the decline in oil prices on the Fort McMurray economy and rental market.

The net loss resulting primarily from the reduction in fair values and revenue of the Fort McMurray portfolio was partially offset by a $2,452,876 or 15% reduction in property operating costs, a $1,208,720 or 5% reduction in interest expense, and a $655,219 or 27% reduction in Trust expense, all of which are explained in more detail throughout this report.

An increase in loss from discontinued operations of $1,010,257, which was primarily due to an increase in the impairment loss required to bring the carrying value of one of the seniors' homes down to its net realizable value, also contributed to the increase in net loss for 2015.

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 2015 with negative FFO of $8,426,367, representing a decrease of $4,378,436, compared to 2014. On a basic per unit basis, FFO decreased by $0.205, from negative $0.193 in 2014 to negative $0.398 in 2015. The decrease in FFO was primarily driven by the results of the Fort McMurray portfolio and mainly reflects a significant decrease in occupancy levels and rental rates, partially offset by decreases in property operating costs and interest expense.

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

Funds from Operations *

	Three Months Ended December 31		Year Ended December 31	
	2015	2014	2015	2014
Loss and comprehensive loss	$ (32,856,373)	$(18,296,432)	$ (98,765,643)	$ (22,238,581)
Add (deduct):				
Loss (gain) on sale of properties	(100,504)	-	100,711	(71,235)
Fair value adjustment - Property and equipment	2,794,716	1,734,126	2,794,716	1,734,126
Fair value adjustment - Investment properties	27,120,099	15,685,280	87,443,849	16,527,759
Funds from operations (FFO) *	$ (3,042,062)	$ (877,026)	$ (8,426,367)	$ (4,047,931)
FFO per unit *				
- basic and diluted	$ (0.144)	$ (0.042)	$ (0.398)	$ (0.193)

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

Segmented Results

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

Fort McMurray Properties (Thirteen properties)

Accounting for approximately 73% (2014 - 57%) of the residential suites in the portfolio of investment properties, the thirteen multi-residential buildings in the Fort McMurray property portfolio represent the most significant component in LREIT's overall operations.

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

Other Investment Properties (Three properties)

The three other investment properties consist of two multi-unit residential rental properties located in Alberta and one in Manitoba, and account for 13% (2014 - 10%) of the residential suites in the portfolio of investment properties.

Held for Sale and/or Sold Properties (Four properties)

The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Beck Court, Willowdale Gardens, 156/204 East Lake Blvd. which was sold on April 1, 2015 and Colony Square which was sold on November 1, 2015. The held for sale properties account for approximately 14% (2014 - 11%) of the suites in the portfolio of investment properties and the sold properties accounted for approximately 22% of the residential suites in the portfolio of investment properties in 2014.

Rental Revenues

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

Analysis of Rental Revenue

	Year Ended December 31					
	2015	2014	Increase (Decrease)		% of Total	
Fort McMurray properties	$ 19,876,889	$ 27,287,507	$ (7,410,618)	(27)%	66 %	71 %
Other investment properties	1,935,784	1,995,330	(59,546)	(3)%	6 %	5 %
Sub-total	21,812,673	29,282,837	(7,470,164)	(26)%	72 %	76 %
Held for sale and/or sold properties (1)	8,402,551	9,008,861	(606,310)	(7)%	28 %	24 %
Total	$ 30,215,224	$ 38,291,698	$ (8,076,474)	(21)%	100 %	100 %

Occupancy Level, by Quarter (2)

	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 12 Month Average
Fort McMurray properties	76 %	72 %	67 %	55 %	68 %
Other investment properties	85 %	86 %	83 %	79 %	83 %
Total	77 %	73 %	68 %	57 %	69 %
Held for sale and/or sold properties (3)	95 %	94 %	94 %	95 %	94 %

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 12 Month Average
Fort McMurray properties	78 %	90 %	90 %	85 %	86 %
Other investment properties	89 %	88 %	87 %	89 %	88 %
Total	78 %	90 %	90 %	85 %	86 %
Held for sale and/or sold properties (3)	89 %	93 %	96 %	95 %	93 %

Average Monthly Rents, by Quarter

	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 12 Month Average
Fort McMurray properties	$2,242	$2,206	$2,153	$2,057	$2,165
Other investment properties	$949	$967	$973	$971	$965
Total	$2,042	$2,014	$1,971	$1,889	$1,979
Held for sale and/or sold properties (3)	$942	$933	$954	$961	$946

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 12 Month Average
Fort McMurray properties	$2,415	$2,389	$2,367	$2,306	$2,369
Other investment properties	$916	$923	$919	$927	$921
Total	$2,183	$2,162	$2,143	$2,093	$2,145
Held for sale and/or sold properties (3)	$939	$929	$919	$935	$930

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

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

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

During 2015, total revenue from LREIT investment properties, excluding held for sale and/or sold properties, decreased by $7,470,164 or 26%, as compared to 2014. The decrease in revenue is almost entirely attributable to the Fort McMurray portfolio.

The revenue results of the Fort McMurray property portfolio reflect increasingly challenging rental market conditions due to the economic downturn in the region which resulted from the decline in the price of oil that began in the fourth quarter of 2014, and continued throughout 2015. As a result, the average occupancy level for the Fort McMurray portfolio decreased from 86% during 2014 to 68% during 2015 and the average monthly rental rate decreased by $204 per suite or 9%.

As a result of the sustained economic contraction in Fort McMurray, the average occupancy level of the Fort McMurray properties experienced a substantial decrease from 85% in the fourth quarter of 2014 to 55% in the fourth quarter of 2015. In addition, the average monthly rental rate decreased by $249 or 11% as compared to the fourth quarter of 2014. The noted decreases in the occupancy and rental rate levels of the Fort McMurray portfolio, along with the unlikelihood of a significant recovery in the short-term, are key factors that cast significant doubt as to the ability of the Trust to sustain operations into the foreseeable future. Measures being taken by management in order to address the liquidity challenges facing LREIT and improve the operating performance of the Trust are discussed in the "Liquidity and Capital Resources" section of this report.

After including held for sale and/or sold properties, the total revenue of LREIT decreased by $8,076,474 or 21% during 2015, compared to 2014. The decrease in revenue from held for sale and/or sold properties of $606,310 or 7% is primarily due to the sale of Colony Square on November 1, 2015.

Property Operating Costs

Analysis of Property Operating Costs

	Year Ended December 31			
	2015	2014	Increase (Decrease)	%
Fort McMurray properties	$ 9,021,561	$10,804,409	$ (1,782,848)	(17)%
Other investment properties	1,119,567	1,164,511	(44,944)	(4)%
Sub-total	10,141,128	11,968,920	(1,827,792)	(15)%
Held for sale and/or sold properties	3,922,230	4,547,314	(625,084)	(14)%
Total	$ 14,063,358	$16,516,234	$ (2,452,876)	(15)%

Property operating costs decreased by $2,452,876 or 15% during 2015, compared to the prior year. The decrease, excluding held for sale and/or sold properties, of $1,827,792 or 15% is mainly due to decreases in maintenance, utilities, management fees and property taxes associated with the Fort McMurray portfolio. The decrease in maintenance costs for 2015 was primarily due to a decrease in mechanical repairs and the elimination of the Parsons Landing occupancy fee paid to the developer prior to the completion of the purchase of the property on March 6, 2014. The $625,084 or 14% decrease in held for sale and/or sold properties is primarily due to the sale of Colony Square on November 1, 2015.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Year Ended December 31		Increase (Decrease)		Percent of Total			
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	$ 10,855,328	$ 16,483,098	$ (5,627,770)	(34)%	67 %	76 %	55 %	60 %
Other investment properties	816,217	830,819	(14,602)	(2)%	5 %	4 %	42 %	42 %
Sub-total	11,671,545	17,313,917	(5,642,372)	(33)%	72 %	80 %	54 %	59 %
Held for sale and/or sold properties	4,480,321	4,461,547	18,774	- %	27 %	20 %	53 %	50 %
Total	$ 16,151,866	$ 21,775,464	$ (5,623,598)	(26)%	100 %	100 %	53 %	57 %

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

The net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $5,642,372 or 33%, during 2015, compared to the prior year and the operating margin, excluding held for sale and/or sold properties, decreased from 59% during 2014 to 54% during 2015. The decrease in net operating income and operating margin primarily reflect the reduction in the revenue results of the Fort McMurray property portfolio, partially offset by the reduction in the operating cost results, as analyzed in the preceding sections of this report.

Interest Income

During 2015, interest income amounted to $86,998, compared to $657,609 during 2014. The decrease in interest income mainly reflects the fact that LREIT received full repayment of its mortgage loans receivable in June 2014. Interest income is also earned on defeasance assets and cash.

Interest Expense

General

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

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

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

Analysis of Interest Expense

	Year Ended December 31			
	2015	2014	Increase (Decrease)	Increase (Decrease) %
Investment Properties				
Mortgage Loans and Acquisition Payable				
Mortgage loan interest	$ 17,462,514	$ 16,813,399	$ 649,115	4 %
Acquisition payable interest	-	653,315	(653,315)	(100)%
Amortization of transaction costs	2,572,463	2,100,864	471,599	22 %
Change in fair value of interest rate swap liability	159,295	253,599	(94,304)	(37)%
Total - mortgage loans and acquisition payable	20,194,272	19,821,177	373,095	2 %
Mortgage Bonds				
Mortgage bond interest	123,616	581,918	(458,302)	(79)%
Accretion of debt component	213,774	873,218	(659,444)	(76)%
Amortization of transaction costs	153,325	601,470	(448,145)	(75)%
Total - mortgage bonds	490,715	2,056,606	(1,565,891)	(76)%
Debentures				
Interest on debentures	2,357,026	2,363,011	(5,985)	- %
Amortization of transaction costs	230,192	240,131	(9,939)	(4)%
Total - debentures	2,587,218	2,603,142	(15,924)	(1)%
Total interest expense - investment properties	23,272,205	24,480,925	(1,208,720)	(5)%
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	930,644	817,834	112,810	14 %
Amortization of transaction costs	78,974	219,574	(140,600)	(64)%
Total interest expense - discontinued operations	1,009,618	1,037,408	(27,790)	(3)%
Total - interest expense	$ 24,281,823	$ 25,518,333	$ (1,236,510)	(5)%
Cash and Non-cash Component				
Total cash component	$ 20,873,800	$ 21,229,477	$ (355,677)	(2)%
Non-cash component				
Accretion of mortgage bonds	213,774	873,218	(659,444)	(76)%
Amortization of transaction costs	3,034,954	3,162,039	(127,085)	(4)%
Change in fair value of interest rate swaps	159,295	253,599	(94,304)	(37)%
Total non-cash component	3,408,023	4,288,856	(880,833)	(21)%
Total - interest expense	$ 24,281,823	$ 25,518,333	$ (1,236,510)	(5)%

During 2015, total interest expense decreased by $1,236,510 or 5%, compared to 2014. The decrease in total interest expense primarily reflects a decrease in interest expense for investment properties of $1,208,720 or 5%.

The decrease in interest expense for investment properties is comprised of a decrease in mortgage bond interest of $1,565,891, partially offset by an increase in mortgage loans and acquisition payable interest of $373,095. The decrease in the mortgage bond interest is due to the redemption of $10,000,000 and $6,000,000 in mortgage bonds during the first quarter of 2014 and 2015, respectively. The increase in mortgage loans and acquisition payable interest is mainly comprised of an increase in mortgage loan interest of $649,115 and an increase in the amortization of transaction cost of $471,599, partially offset by a decrease in acquisition payable interest of $653,315.

The increase in mortgage loan interest is primarily due to the new mortgage loan obtained on the acquisition of Parsons Landing during the first quarter of 2014, as well as the upward refinancing of the mortgage loan debt of Beck Court and the refinancing of Millennium Village, which included the acquisition of a new mortgage loan secured by the assets of 2668921 Manitoba Ltd., during the first and second quarter of 2015, respectively, and an increase in the average balance outstanding on the revolving loan from 2668921 Manitoba Ltd. The increase in mortgage loan interest was partially offset by a decrease in interest expense due to $8,400,000 of lump-sum principal paydowns that were required as part of the mortgage refinancings of three investment properties, as well as a decrease in interest expense due to the sale of Colony Square and 156/204 East Lake Blvd.

The increase in amortization of transaction costs was mainly due to the refinancing of Millennium Village during the second quarter of 2015 and the new mortgage loan obtained on the acquisition of Parsons Landing in 2014.

The decrease in acquisition payable interest was due to elimination of the acquisition payable on completion of the Parsons Landing acquisition on March 6, 2014.

Total cash component of interest expense decreased by $355,677 during 2015, compared to 2014. The decrease mainly reflects the decrease in mortgage bond interest of $458,302 due to the redemption of mortgage bonds in the first quarter of 2014 and 2015, as previously noted, partially offset by a $112,810 increase in mortgage loan interest for discontinued operations due to the upward refinancing of the first mortgage loan of Elgin Lodge in May 2014.

Trust Expense

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

During 2015, trust expense decreased by $655,219 or 27%, compared to 2014. The decrease is mainly due to a recovery of financing fees previously provided for as unrecoverable, a loss on warrant repurchases during 2014, a reduction in service fees due to property sales and a decrease in expenses related to unit-based compensation.

Gain (Loss) on Sale of Investment Property

The gain (loss) on sale of investment property represents the extent to which the net proceeds from the sale of an investment property exceed (are less than) the carrying value of the property.

During 2015, the Trust recorded a net loss on sale of investment property of $100,711 related to the sales of 156/204 East Lake Blvd. and Colony Square. During 2014, the Trust recorded a gain on sale of investment property of $71,235 related to the sale of one condominium unit at Lakewood Townhomes.

Fair Value Adjustments

General

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

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

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

Investment Properties

During 2015, LREIT recorded a loss related to fair value adjustments on its investment properties of $92,005,738 and a gain related to fair value adjustments on its investment properties held for sale of $4,561,889. During 2014, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $16,527,759 and nil, respectively .

The decreases in the fair value of investment properties are primarily due to reductions in the carrying value of the Fort McMurray properties of $93,275,532 or 32%, as revenue and occupancy expectations for the Fort McMurray portfolio were further reduced to reflect the impact of continued declines in oil sands development activity and increased uncertainty with respect to the timing and extent of recovery of the Fort McMurray economy.

After accounting for fair value adjustments, capital expenditures and investment properties transferred to held for sale and/or sold properties, the carrying value of investment properties decreased by $190,184,597 and the carrying value of properties held for sale increased by $31,960,000 during 2015.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Year Ended December 31		Increase (Decrease) in income
	2015	2014	
Rental income	$ 5,362,196	$ 5,185,738	$ 176,458
Property operating costs	3,928,608	3,774,693	(153,915)
Net operating income	1,433,588	1,411,045	22,543
Interest expense	(1,009,618)	(1,037,408)	27,790
Fair value adjustment	(2,794,716)	(1,734,126)	(1,060,590)
Loss from discontinued operations	$ (2,370,746)	$ (1,360,489)	$ (1,010,257)

During 2015, the loss from discontinued operations increased by $1,010,257, compared to 2014, primarily due to the relative fair value adjustments made during the two years. The 2015 reduction in fair value of $2,794,716 reflects the application of the direct comparison valuation method utilizing current information. The 2014 reduction in fair value of $1,734,126 reflected the results of an updated appraisal.

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

	2015			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 5,957,332	$ 7,568,402	$ 7,957,771	$ 8,731,719
Net operating income	$ 2,575,846	$ 4,266,094	$ 4,556,944	$ 4,752,982
Loss for the period before discontinued operations	$(30,150,728)	$(27,333,719)	$(34,990,639)	$ (3,919,811)
Loss and comprehensive loss	$(32,856,373)	$(27,276,615)	$(34,820,609)	$ (3,812,046)
Funds from Operations (FFO)	$ (3,042,062)	$ (1,904,147)	$ (1,564,934)	$ (1,915,224)
PER UNIT				
Net operating income				
- basic	$ 0.122	$ 0.202	$ 0.215	$ 0.225
- diluted	$ 0.122	$ 0.202	$ 0.215	$ 0.225
Loss for the period before discontinued operations				
- basic and diluted	$ (1.426)	$ (1.292)	$ (1.654)	$ (0.185)
Loss and comprehensive loss				
- basic and diluted	$ (1.554)	$ (1.290)	$ (1.646)	$ (0.180)
Funds from Operations (FFO)				
- basic and diluted	$ (0.144)	$ (0.090)	$ (0.074)	$ (0.091)

Quarterly Analysis

	2014			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 9,483,539	$ 9,924,262	$ 9,975,172	$ 8,908,725
Net operating income	$ 5,242,793	$ 6,103,953	$ 5,924,651	$ 4,504,067
Loss for the period before discontinued operations	$(16,643,003)	$ (820,772)	$ (898,369)	$ (2,515,948)
Loss and comprehensive loss	$(18,296,432)	$ (795,468)	$ (742,668)	$ (2,404,013)
Funds from Operations (FFO)	$ (877,026)	$ (637,581)	$ (58,076)	$ (2,475,248)
PER UNIT				
Net operating income				
- basic	$ 0.248	$ 0.290	$ 0.283	$ 0.218
- diluted	$ 0.247	$ 0.213	$ 0.201	$ 0.157
Loss for the period before discontinued operations				
- basic and diluted	$ (0.788)	$ (0.039)	$ (0.043)	$ (0.122)
Loss and comprehensive loss				
- basic and diluted	$ (0.866)	$ (0.038)	$ (0.035)	$ (0.116)
Funds from Operations (FFO)				
- basic and diluted	$ (0.042)	$ (0.030)	$ (0.003)	$ (0.120)

Rental Revenue and Net Operating Income

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

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

The phased-in return of reconstructed suites after the fire at Parsons Landing contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses during the period from June 1, 2013 to February 5, 2014, the expiry date for insurance coverage. There was also an impact on the operating results of Parsons Landing between the insurance expiry date and the May 2014 completion of the lease-up phase for the reconstructed suites.

Loss before Discontinued Operations

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

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

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

Loss and Comprehensive Loss

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

ANALYSIS OF CASH FLOWS

Operating Activities

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

Interest Paid

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

Due to the exclusion of non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of the interest swap liability, there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. The most significant variance between accrued interest and interest paid arises in regard to the timing of the Series G debenture interest payments. In 2015, "interest paid" on debentures was $1,178,513 higher in the second quarter, compared to the first quarter, and was $1,178,513 higher in the fourth quarter, compared to the third quarter. Also contributing to the quarterly variance between accrued interest and interest paid during 2015 was the deferral of revolving loan interest payments during the first and second quarters of the year and payment of the deferred balance of $829,952 in the third quarter of 2015.

Cash from Operating Activities

	Three Months Ended December 31		Increase
	2015	2014	(Decrease) in Cash
Net operating income			
Investment properties	$ 2,575,846	$ 5,242,793	$ (2,666,947)
Discontinued operations	321,610	391,590	(69,980)
Total net operating income	2,897,456	5,634,383	(2,736,927)
Accrued rent receivable	33,204	81,448	(48,244)
Net operating income - cash basis	2,930,660	5,715,831	(2,785,171)
Trust expense	(454,091)	(697,733)	243,642
Loss on warrant repurchases	-	9,792	(9,792)
Unit-based compensation	-	18,750	(18,750)
Trust expense - cash basis	(454,091)	(669,191)	215,100
Interest paid			
Investment properties	(5,198,934)	(6,335,488)	1,136,554
Discontinued operations	(231,339)	(236,153)	4,814
Total interest paid	(5,430,273)	(6,571,641)	1,141,368
Interest received	18,761	37,774	(19,013)
Interest expense - cash basis	(5,411,512)	(6,533,867)	1,122,355
Cash provided by (used in) operating activities, before working capital adjustments	(2,934,943)	(1,487,227)	(1,447,716)
Working capital adjustments, net	(945,977)	(240,289)	(705,688)
Cash provided by (used in) operating activities	$ (3,880,920)	$ (1,727,516)	$ (2,153,404)

Cash from Operating Activities

	Year Ended December 31 2015	Year Ended December 31 2014	Increase (Decrease) in Cash
Net operating income			
Investment properties	$ 16,151,866	$ 21,775,464	$ (5,623,598)
Discontinued operations	1,433,588	1,411,045	22,543
Total net operating income	17,585,454	23,186,509	(5,601,055)
Accrued rent receivable	324,258	(438,891)	763,149
Net operating income - cash basis	17,909,712	22,747,618	(4,837,906)
Income recovery on Parsons Landing	-	98,499	(98,499)
Trust expense	(1,816,996)	(2,472,215)	655,219
Gain on debenture repurchases	(11,654)	-	(11,654)
Loss on warrant repurchases	-	89,534	(89,534)
Unit-based compensation	-	135,156	(135,156)
Trust expense - cash basis	(1,828,650)	(2,247,525)	418,875
Interest paid			
Investment properties	(20,282,117)	(20,904,574)	622,457
Discontinued operations	(932,833)	(794,220)	(138,613)
Total interest paid	(21,214,950)	(21,698,794)	483,844
Interest received	90,089	489,644	(399,555)
Interest expense - cash basis	(21,124,861)	(21,209,150)	84,289
Cash provided by (used in) operating activities, before working capital adjustments	(5,043,799)	(610,558)	(4,433,241)
Working capital adjustments, net	(1,448,425)	(196,074)	(1,252,351)
Cash provided by (used in) operating activities	$ (6,492,224)	$ (806,632)	$ (5,685,592)

During 2015, the net cash used in operating activities, excluding working capital adjustments, increased by $4,433,241. The variance mainly reflects a decrease in the cash component of net operating income of $4,837,906 and a decrease in interest received of $399,555, partially offset by a decrease in interest paid of $483,844 and a decrease in the cash component of trust expense of $418,875.

The decrease in net operating income on a cash basis during 2015, compared to 2014, are mainly due to the same factors discussed in the "Net Operating Income and Operating Margin" section of this MD&A. The decrease in interest paid is mainly due to the same factors discussed in the "Interest Expense" section of this MD&A as well as a decrease from the payment of the accrued interest on the GST payable on the acquisition of Parsons Landing in the fourth quarter of 2014, partially offset by an increase as a result of the reduction of accrued interest as of December 31, 2015, as compared to December 31, 2014. The decrease in interest received reflects the full repayment of mortgage loans receivable in the second quarter of 2014. The decrease in Trust expense is mainly due to the same factors discussed in the "Trust Expense" section of this MD&A.

After providing for working capital adjustments, the net cash used in operating activities increased by $5,685,592 during 2015, compared to 2014.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash outflow of $25,294,800 during 2015. The net cash outflow mainly reflects the repayment of mortgage loans on refinancing, the repayment of the revolving loan facility and Shelter advances, the regular principal repayment of long-term debt, the redemption of mortgage bonds, expenditures on transaction costs, the prepayment of mortgage loans, and the repayment of the interest rate swap liability, partially offset by the proceeds of mortgage loan financing, Shelter advances, and the revolving loan facility.

Mortgage Loan Financing

During the first quarter of 2015, the Trust upward refinanced Beck Court with a new first mortgage loan of $16,000,000. Net proceeds after the repayment of the existing mortgage loan of $8,390,390 and transaction costs amounted to $7,438,194, which were used to fully repay mortgage bonds with a face value of $6,000,000 and for general working capital purposes.

During the second quarter of 2015, the first mortgage loan of Millennium Village was refinanced with a new first mortgage loan of $13,000,000 and a new $7,500,000 interest-only second mortgage loan secured by assets of 2668921 Manitoba Ltd. The net proceeds of the two loans were used to discharge the existing first mortgage loan in the amount of $15,217,585 and an associated interest rate swap liability in the amount of $1,601,000 and to prepay the balance of a loan with a second secured charge over Millennium Village by $3,000,000 in exchange for discharge of the security.

During the third quarter of 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3,300,000. The net proceeds from the upward refinancing after repayment of the existing mortgage loan of $1,606,709 and transaction costs amounted to $1,624,086, and were used for general working capital purposes.

During the fourth quarter of 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8,166,666. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3,000,000 on October 29, 2015. The principal payment was funded by additional advances from Shelter.

The repayment of mortgage loans on refinancing of $36,614,684 includes lump-sum principal payments in the aggregate amount of $8,400,000 as required as part of the mortgage refinancings of three investment properties.

Revolving Loan Facility

Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. During 2015, proceeds from the revolving loan amounted to $9,804,000 and served as a supplemental funding source for the cash outflow from operating activities, mortgage loan principal payments, transactions costs, and capital expenditures.

The revolving loan was partially repaid during 2015 by the net proceeds from the sales of Colony Square and 156/204 East Lake Blvd. Total repayments on the revolving loan during 2015 amounted to $17,204,000.

Advances from Shelter

During 2015, Shelter provided $15,615,000 of unsecured interest-free advances as an interim funding measure. During the third quarter of 2015, LREIT repaid $2,500,000 of the advances with proceeds drawn from the revolving loan facility and repaid the remaining advances in full from the net proceeds of the sale of Colony Square in the fourth quarter of 2015.

Repayment of Long-term Debt

During 2015, the cash outflow for regular repayment of mortgage loan and defeased mortgage loan principal for both investment properties and discontinued operations amounted to $7,221,562, compared to $6,053,574 during 2014.

The increase in regular principal repayments primarily reflects an increase in regular mortgage principal repayments for one mortgage loan that was previously interest-only prior to its renewal in the fourth quarter of 2014.

Mortgage Bonds

On February 12, 2015, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000.

Transaction Costs

Transaction costs primarily reflect the incremental costs associated with the acquisition or disposal of mortgage loan debt and generally include fees, commissions, and other costs paid to agents, advisers, brokers and dealers, and regulatory agencies.

During 2015, expenditures on transaction costs amounted to $3,206,208, compared to $3,040,713 during 2014.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $30,630,467 during 2015. The net cash inflow mainly reflects the net proceeds of sale from investment properties, as well as a reduction in restricted cash, partially offset by capital expenditures on investment properties.

Divestitures

On April 1, 2015, LREIT sold 156/204 East Lake Blvd. for gross proceeds of $4,000,000. The net proceeds of $2,441,375, after the assumption of the mortgage loan debt by the purchaser and selling costs, were used to reduce the revolving loan balance outstanding. The sale of 156/204 East Lake Blvd. resulted in a capital gain of approximately $2,000,000.

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $68,710,000, net of contingent consideration of $1,540,000. The net proceeds of $28,377,139, after the assumption of the mortgage loan by the purchaser, the contingent consideration held in escrow, selling costs and standard closing adjustments, were used to improve working capital by reducing the revolving loan balance outstanding by $13,500,000 and by fully repaying operating advances from Shelter. The sale of Colony Square resulted in a capital gain of approximately $29,800,000.

As a condition of the sale, $1,540,000 of contingent consideration was placed in escrow on closing to cover rent and recoveries for any commercial space that was vacant as of the date of the sale. The amount in escrow will be released monthly to the purchaser while the commercial space remains vacant for a period of up to two years from the date of the sale. If the vacant commercial space is leased in accordance with the terms of the agreement, any remaining funds in escrow will be returned to LREIT.

In order to reduce its taxable income for the 2015 tax year resulting from the capital gains on the sales of Colony Square and 156/204 East Lake Blvd. to nil, LREIT declared a special non-cash distribution. Immediately following the special distribution, the number of outstanding trust units was consolidated so that each Unitholder held exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution.

A more detailed description of the special distribution and its tax implications is provided in the sections of the MD&A titled "Analysis of Cash Flows - Distributions" and "Taxation", respectively.

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

Capital Expenditures

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

During 2015, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the two remaining seniors' homes, amounted to $998,989, compared to $2,858,295 during 2014.

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

	Year ended December 31, 2015	Year ended December 31, 2014
Sustaining Capital Expenditures		
- Investment properties	869,252	1,732,784
- Property and equipment	129,737	378,305
Value-added capital expenditures	-	747,206
	998,989	2,858,295

Change in Restricted Cash

Restricted cash consists of tenant security deposits and reserves required by mortgage loan agreements. The decrease in restricted cash during 2015 compared to 2014 mainly reflects a decrease in tenant security deposits due to a decrease in occupancy levels for the Fort McMurray property portfolio, partially offset by an increase in reserves required by mortgage loan agreements.

Adjusted Funds from Operations (AFFO)

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

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

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

Adjusted Funds from Operations *

	Year Ended December 31	
	2015	2014
Funds from operations (FFO)	$ (8,426,367)	$ (4,047,931)
Add (deduct):		
Straight-line rent adjustment	324,258	(438,891)
Accretion of debt component of mortgage bonds	213,774	873,218
Unit-based compensation	-	135,156
Change in fair value of interest rate swaps	159,295	253,599
Capital expenditures on investment properties **	(697,896)	(1,732,784)
Capital expenditures on investment properties held for sale **	(171,356)	-
Capital expenditures on property and equipment **	(129,737)	(378,305)
Adjusted funds from operations (AFFO) *	$ (8,728,029)	$ (5,335,938)
AFFO per unit *		
- basic and diluted	$ (0.413)	$ (0.255)

* 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 2015 with an AFFO deficiency of $8,728,029, compared to AFFO deficiency of $5,335,938 during 2014. On a basic per unit basis, the AFFO deficiency increased by $0.158 per unit during 2015, compared to 2014.

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

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

	Year Ended December 31	
	2015	2014
Cash provided by (used in) operating activities	$ (6,492,224)	$ (806,632)
Add (deduct):		
Working capital adjustments	1,448,425	196,074
Loss on warrant repurchases	-	(89,534)
Gain on debenture repurchases	11,654	-
Amortization of transaction costs	(3,034,954)	(3,162,039)
Differences in interest accruals	338,059	637,282
Capital expenditures on investment properties **	(697,896)	(1,732,784)
Capital expenditures on investment properties held for sale **	(171,356)	-
Capital expenditures on property and equipment **	(129,737)	(378,305)
Adjusted funds from operations (AFFO) *	$ (8,728,029)	$ (5,335,938)

* 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.

Special Distribution

In order to reduce its taxable income for the 2015 taxation year arising from capital gains on property sales during 2015 to nil, LREIT declared a special distribution of $8,800,000 by the issuance of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units was consolidated so that each Unitholder holds exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution.

A detailed description of the tax implications is provided in the "Taxation" section of this report.

LIQUIDITY AND CAPITAL RESOURCES

General

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

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

	December 31 2015	December 31 2014
Unrestricted cash	$ 407,513	$ 1,963,735
Amount available on revolving loan *	10,900,000	500,000
Total available liquidity	$ 11,307,513	$ 2,463,735
Working capital deficit	$ 6,984,045	$ 12,715,808

* As of the date of this report, there is $400,000 available under the revolving loan facility.

Working Capital Deficit

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

As of December 31, 2015, the working capital deficit was $6,984,045, representing a decrease in the working capital deficit of $5,731,763, compared to the working capital deficit as of December 31, 2014. The working capital deficit excludes the current portion of long-term debt, as well as "held for sale" assets and liabilities that are of a long-term nature, and includes the tenant security deposit liability, net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. of $7,100,000 (2014 - $14,500,000) is included in the calculation of the working capital deficit.

The decrease in the working capital deficit mainly reflects a $7,400,000 decrease in the revolving loan balance and a $1,259,979 decrease in trade and other payables, partially offset by a $1,243,228 decrease in accounts receivable and a $1,556,222 reduction in cash. The decrease in the working capital deficit was the result of the use of the net proceeds from the sale of Colony Square to fully repay operating advances from Shelter and reduce the revolving loan balance by $13,500,000.

Excluding the amount due on the revolving loan, LREIT had a working capital surplus of $115,955 as of December 31, 2015, as compared to a working capital surplus of $1,784,192 as of December 31, 2014.

Periodic credit support from Shelter and/or its parent company, 2668921 Manitoba Ltd., continue to represent funding sources for cash outflows from operating activities, regular mortgage loan principal payments, transaction costs and capital expenditures. 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 facility from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds under the revolving loan facility, at the discretion of 2668921 Manitoba Ltd., for the payment of LREIT's ongoing funding obligations.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used by the Trust to assess the overall financial position of the Trust. During 2015, the mortgage loan debt service coverage ratio was 0.53, compared to 1.00 during 2014. Excluding one-time mortgage principal payments on refinancing of $8,400,000 and prepayment of $3,000,000 paid during 2015, the mortgage loan debt service coverage ratio was 0.76.

For the purpose of calculating the debt service coverage ratio, the income recovery on Parsons Landing is added to net operating income and, prior to the completion of the acquisition of Parsons Landing on March 6, 2014, interest on the acquisition payable was included in debt service costs.

The reduction in the debt service coverage ratio during 2015 reflects a decrease in operating income and an increase in debt service costs, compared to 2014.

Interest Coverage Ratio

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

During 2015, the interest coverage ratio decreased to 0.96, compared to 1.32 in 2014. After including the cash component of interest on mortgage bonds and debentures, the interest coverage ratio decreased to 0.84 in 2015, compared to 1.13 in 2014.

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

Summary of Total Debt Obligations by Year

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	2016	2017/2018	2019/2020	2021 and beyond
Mortgage loans					
Investment properties	$ 230,897,904	$ 131,925,665	$ 44,899,014	$ 28,857,345	$ 25,215,880
Discontinued operations	14,199,674	14,199,674	-	-	-
Total mortgage loans	245,097,578	146,125,339	44,899,014	28,857,345	25,215,880
Debentures	24,810,800	-	24,810,800	-	-
Total	$ 269,908,378	$ 146,125,339	$ 69,709,814	$ 28,857,345	$ 25,215,880

The amount due in 2016 for mortgage loans on investment properties of $131,925,665 consists of nine mortgage loans, with maturity dates in 2016, in the aggregate principal amount of $129,535,521 and regular principal payments of $2,390,144 for other mortgage loans.

All mortgages which have matured prior to the date of this report have been repaid, renewed or refinanced with the exception of one mortgage loan in the amount of $24,348,777 which matured on December 5, 2015 and is currently overholding past the maturity date. The full principal balance of this mortgage loan is included in the amount due in 2016. Subsequent to December 31, 2015, LREIT entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

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

Loan Defaults and Covenant Breaches

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

At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a first mortgage loan in the aggregate principal amount of $24,348,777 on a property in Fort McMurray, Alberta. As of February 2016, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan and withheld principal payments of $187,870. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

Subsequent to December 31, 2015, the Trust withheld principal payments of $388,643 and interest payments of $685,992 on 11 mortgage loans with an aggregate principal balance of $170,154,194 related to properties in its Fort McMurray portfolio. The Trust communicated its intention to withhold these payments to the affected lenders in advance of the withholdings. As of the date of this report, the Trust has not repaid the loans and the lenders have taken no action against the Trust and continue to engage in discussions with respect to the restructuring of the mortgage loans.

If the lenders of the 12 mortgage loans that are in default as of the date of this report demanded repayment during 2016 and the chart above was adjusted to reflect the repayments, the total long-term debt due in 2016 would increase to $209,701,514, the total long-term debt due in 2017/2018 would decrease to $6,747,131, the total long-term debt due in 2019/2020 would decrease to $907,521 and the total long-term debt due in 2021 and beyond would decrease to $13,541,738.

At December 31, 2015, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first and a second mortgage loan in the amount of $29,679,501 and $4,500,000, respectively, with maturity dates of March 1, 2019 and November 1, 2016, respectively, on a property in Fort McMurray, Alberta. Failure to meet the cash management requirement is not an event of default, but entitles the lender to execute cash sweeps from the property. No cash sweeps have been initiated to the date of this report.

Deferral of Interest Payment on Revolving Loan Facility

Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for February 2016 in the amount of $164,022. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and the 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Deferral of property management fee payment

Subsequent to December 31, 2015, the Trust deferred the payment of property management fees due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Debentures and Mortgage Bonds

As of December 31, 2015, the total face value of the 9.5% Series G debentures is $24,810,800. The debentures mature on June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. The extent of future debenture repayments, if any, is dependent on the extent and proceeds of property sales, the amount of mortgage loan indebtedness related to the properties sold and the balance of amounts owing to Shelter and/or its parent company 2668921 Manitoba Ltd.

LREIT has a NCIB in place for the Series G debentures. The previous NCIB provided for the repurchase of debentures by LREIT to a maximum principal amount of $2,476,380 during the twelve month period ended June 22, 2015. On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expires on June 29, 2016. For the period from January 1, 2015 to the date of this report, the Trust purchased and cancelled Series G debentures with a face value of $63,000 at an average price of $79.11 per $100.00.

On February 12, 2015, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During 2015, funds in the amount of $877,097 were released from escrow following the completion of capital improvements or sale of property and $396,992 of new cash deposits were added to mortgage and capital improvement reserves. As of December 31, 2015, cash deposits in escrow for capital expenditures amount to $298,936.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. and interest free advances from Shelter represent the primary funding sources for any cash shortfall from the operating, investing and financing activities of LREIT. The repayments to Shelter or 2668921 Manitoba Ltd. under the revolving loan from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds under the revolving loan facility, at the discretion of 2668921 Manitoba Ltd., for the payment of LREIT's ongoing funding obligations.

Revolving Loan Facility from 2668921 Manitoba Ltd.

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

Effective October 1, 2014, the revolving loan facility was renewed for a nine-month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15,000,000.

Effective July 1, 2015, the revolving loan facility was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. As of the date of this report, there is $400,000 available under the revolving loan facility.

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan facility is included in mortgage loan interest.

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

Proceeds from the Sale of Select Properties

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

Upward Refinancing of Mortgage Loans

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

Equity Offerings

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

Outlook and Continuing Operations

After accounting for the cash outflow from operating activities, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed 2015 with a cash shortfall of $17,918,983, compared to a cash shortfall of $12,759,214 in 2014. LREIT is expected to incur an additional cash shortfall in 2016.

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

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 facility from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds under the revolving loan facility, at the discretion of 2668921 Manitoba Ltd., for the payment of LREIT's ongoing funding obligations.

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

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

CAPITAL STRUCTURE

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

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

Capital Structure

	December 31, 2015 Amount	%	December 31, 2014 Amount	%
Long-term debt	$ 122,080,890	48.1 %	$ 101,953,013	25.0 %
Current portion of long-term debt	134,200,008	53.0 %	210,073,719	51.5 %
Equity	(2,875,019)	(1.1)%	95,890,624	23.5 %
Total capitalization	$ 253,405,879	100.0 %	$ 407,917,356	100.0 %

Long-term Debt

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

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

As disclosed in the chart below, the total long-term debt of LREIT as of December 31, 2015 decreased by $55,847,703 or 17% compared to the total long-term debt as of December 31, 2014. The decrease mainly reflects a decrease in mortgage loan debt due to property sales and principal repayments, and the repayment of the remaining mortgage bond debt and interest rate swap liability.

Summary of Long-term Debt

	December 31 2015	December 31 2014	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 230,897,904	$ 278,704,067	$ (47,806,163)
Interest rate swap liability	-	1,441,705	(1,441,705)
Mortgage bonds	-	5,786,226	(5,786,226)
Debentures	24,810,800	24,873,800	(63,000)
Defeased liability	2,520,859	2,584,460	(63,601)
Total secured long-term debt	258,229,563	313,390,258	(55,160,695)
Accrued interest payable	1,139,300	1,478,261	(338,961)
Unamortized transaction costs	(3,087,965)	(2,841,787)	(246,178)
Total long-term debt - Investment properties	256,280,898	312,026,732	(55,745,834)
Long-term debt - Discontinued operations			
Mortgage loans	14,199,674	14,376,467	(176,793)
Unamortized transaction costs	(2,750)	(77,674)	74,924
Total long-term debt - Discontinued operations	14,196,924	14,298,793	(101,869)
Total long-term debt	$ 270,477,822	$ 326,325,525	$ (55,847,703)

Mortgage Loans

Change in Total Mortgage Loan Debt

As of December 31, 2015, the total mortgage loan debt of LREIT decreased by $47,982,956 compared to the amount payable as of December 31, 2014. As disclosed in the chart below, the decrease primarily reflects a reduction in the balance of mortgage loans as a result of the sale of properties, lump-sum repayments on refinancing, regular repayments of principal, and the prepayment of mortgage loans, partially offset by an increase in net mortgage loan refinancing for investment properties.

	Year Ended December 31, 2015		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 39,800,000	$ 39,800,000	$ -
Repayment of mortgage loans on refinancing	(36,614,684)	(36,614,684)	-
Net proceeds	3,185,316	3,185,316	-
Regular repayment of principal on mortgage loans	(7,157,961)	(6,981,168)	(176,793)
Prepayment of mortgage loans	(3,000,000)	(3,000,000)	-
Reduction of mortgage loans on sale of properties	(41,010,311)	(41,010,311)	-
Increase (decrease) in mortgage loans	(47,982,956)	(47,806,163)	(176,793)
Total mortgage loans - December 31, 2014	293,080,534	278,704,067	14,376,467
Total mortgage loans - December 31, 2015	$ 245,097,578	$ 230,897,904	$ 14,199,674

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount December 31, 2015	Percentage of Total
Investment Properties			
Fixed rate			
2015	3.3 %	$ 24,348,777	9.9 %
2016	9.2 %	7,568,690	3.1 %
2017	5.7 %	20,137,171	8.2 %
2018	5.0 %	19,704,158	8.0 %
2019	5.0 %	29,679,501	12.1 %
2022	4.0 %	15,682,617	6.4 %
2025	4.4 %	12,876,114	5.3 %
	4.8 %	129,997,028	53.0 %
Demand/variable rate	7.3 %	100,900,876	41.2 %
Principal amount		230,897,904	94.2 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	4.1 %
Demand/variable rate	4.8 %	4,199,674	1.7 %
Principal amount		14,199,674	5.8 %
Total		$ 245,097,578	100.0 %

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

(2) As of December 31, 2015, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.9%, 6.5% and 6.0%, respectively, compared to 5.7%, 6.6% and 5.7% at December 31, 2014. The weighted average interest rate for mortgage loan debt excludes the interest on the revolving loan.

Mortgage Loan Debt Summary

	2015			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.8%	4.6%	4.6%	4.7%
Variable rate mortgage loans	7.3%	7.3%	7.6%	7.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.4%	6.3%	6.3%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	91%	79%	75%	70%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	100%	85%	82%	75%

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

* Excludes the revolving loan and advances from Shelter.

Mortgage Bonds

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

Debentures

As of December 31, 2015, LREIT has 9.5% Series G debentures outstanding with a face value of $24,810,800, due June 30, 2018.

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

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

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2014	20,252,386
- December 31, 2015	20,252,386
- March 9, 2016	20,252,386

As of December 31, 2015, LREIT had 20,252,386 units outstanding, which was unchanged compared to the number of units outstanding as of December 31, 2014.

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

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

Shelter currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. In May 2014, the independent trustees of LREIT approved an extension of the term of the Services Agreement to December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to a Property Management Agreement. Shelter has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on-site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments, leasing commissions on renewal of 1.5% to 2.5% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of improvements and/or renovations. In May 2014, the independent trustees of LREIT approved an extension of the term of the Property Management Agreement to 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 2015, fees payable to Shelter for investment properties included service fees and property management fees of $1,263,673 and $1,187,470, respectively, compared to $1,337,131 and $1,594,910, respectively, in 2014.

Subsequent to December 31, 2015, the Trust deferred the payment of property management fees due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

During 2015, LREIT incurred service fees in regard to the condominium sales program of nil and renovation fees of nil, compared to nil and $24,932, respectively, during 2014.

Loans

Revolving loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of December 31, 2015, the revolving loan facility was secured by mortgage charges against the title to two investment properties and two seniors' housing complexes.

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

Revolving Loan Term				Maximum	Maximum Loan
From	To	Renewal Fees	Interest Rate	Interest Charge	Commitment
January 1, 2014	September 30, 2014	$ 25,000	12.00%	$ 1,181,357	$ 15,000,000
October 1, 2014	June 30, 2015	25,000	12.00%	1,375,000	15,000,000
July 1, 2015	June 30, 2018	25,000	12.00%	6,480,000	18,000,000

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

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense and categorized under "mortgage loan interest". Renewal and extension fees are included in transaction costs.

During 2015, interest on the loan facility amounted to $1,689,898, compared to $1,369,005 during 2014.

During 2015, the Trust received advances of $9,804,000 and repaid $17,204,000 on the revolving loan, resulting in a balance of $7,100,000 at December 31, 2015. Subsequent to December 31, 2015, the Trust received advances of $10,500,000 and repaid nil, resulting in a balance of $17,600,000 as of the date of this report.

Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for February 2016 in the amount of $164,022. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and the 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Interest free advances

During 2015, Shelter provided $15,615,000 of unsecured interest-free advances as an interim funding measure. LREIT made repayments of $15,615,000 resulting in an outstanding balance of nil at December 31, 2015.

Approval

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

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. For a summary of certain additional key risks relating to LREIT, see 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: (i) the Trust's concentration of investment properties in Fort McMurray; (ii) the deterioration of the Fort McMurray rental apartment market and, in particular, the significant deterioration which began in the fourth quarter of 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the tightening of lending conditions in Fort McMurray; (v) the Trust's large working capital deficit; and, (vi) the Trust's highly leveraged capital structure.

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

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

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

Real Property Ownership

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced tenant demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors.

The properties of LREIT generate income through rent payments made by the tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. Leasing results are affected by a number of factors, including location of the property and, in particular, the level of supply and demand in the local rental market.

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

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

Concentration of the Portfolio of LREIT in One Market

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

At December 31, 2015, there were 20 properties in the real estate portfolio of LREIT, 13 of which were located in Fort McMurray, Alberta. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 73% of the total suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $202,916,641, which represents approximately 82% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 66% of investment property revenue and 67% of the net operating income of the Trust during 2015.

Oil Sands Industry

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

Financing

General

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

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

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

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

During 2015, the mortgage loan debt service coverage ratio decreased to 0.76, after removing the impact of one-time lump-sum principal repayments, compared to 1.00 in 2014, indicating that the net operating income of LREIT is not sufficient to fund the debt service obligations of the Trust. Consequently, subsequent to December 31, 2015, LREIT defaulted on several mortgage loans and deferred the payment of interest on the revolving loan facility.

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

Loan Defaults and Debt Covenant Breaches

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

At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a first mortgage loan with an aggregate principal balance outstanding of $24,348,777 on a property in Fort McMurray, Alberta. As of February 2016, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan and withheld principal payments of $187,870. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

At December 31, 2015, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first and a second mortgage loan in the amount of $29,679,501 and $4,500,000, respectively, with maturity dates of March 1, 2019 and November 1, 2016, respectively, on a property in Fort McMurray, Alberta. Failure to meet the cash management requirement is not an event of default, but entitles the lender to execute cash sweeps from the property. No cash sweeps have been initiated to the date of this report.

Subsequent to December 31, 2015, the Trust withheld principal payments of $388,643 and interest payments of $685,992 on 11 mortgage loans with an aggregate principal balance of $170,154,194 related to properties in its Fort McMurray portfolio. The Trust communicated its intention to withhold these payments to the affected lenders in advance of the withholdings. As of the date of this report, the Trust has not repaid the loans and the lenders have taken no further action against the Trust and continue to engage in discussions with respect to the restructuring of the mortgage loans.

Mortgage Maturities

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

Revolving Loan Facility From 2668921 Manitoba Ltd.

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

Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for February 2016 in the amount of $164,022. As of the date of this report, the Trust has not repaid the loan and the 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Credit Support from Shelter

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

Subsequent to December 31, 2015, the Trust deferred the payment of property management fees due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

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

Divestiture Program

In order to address the reduction in operating cash flow and the constraints on working capital, which resulted from the economic downturn in 2008/2009, LREIT instituted a divestiture program in 2009 with the objective of generating gross proceeds of $250,000,000 from the sale of selected properties. Since the inception of the divestiture program to December 31, 2015, LREIT has sold 25 properties and 17 condominium units at a combined gross selling price of $333,510,100.

Notwithstanding the achievement of generating gross proceeds in excess of the targeted amount, the divestiture program continues to remain in effect and is being expanded as part of LREIT's strategy to address the current operating cash flow and working capital constraints. The purpose of the divestiture program, together with the pursuit of debt-restructuring arrangements, is to improve working capital in order to assist LREIT in meeting its ongoing funding obligations and sustain operations into the foreseeable future.

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

No condominium units were sold at Lakewood Townhomes during 2015.

On April 1, 2015, LREIT sold 156/204 East Lake Blvd. for gross proceeds of $4,000,000. The net proceeds of $2,441,375, after the assumption of the mortgage loan debt by the purchaser and selling costs, were used to reduce the revolving loan balance outstanding. The sale of 156/204 East Lake Blvd. resulted in a capital gain of approximately $2,000,000.

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $68,710,000, net of contingent consideration of $1,540,000. The net proceeds of $28,377,139, after the assumption of the mortgage loan by the purchaser, the contingent consideration held in escrow, selling costs and standard closing adjustments, were used to improve working capital by reducing the revolving loan balance outstanding by $13,500,000 and by fully repaying operating advances from Shelter. The sale of Colony Square resulted in a capital gain of approximately $29,800,000.

Additional information is provided in the "Analysis of Cash Flows - Investing Activities" section of this report.

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

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

Public Market Risk

It is not possible to predict the price at which units or other publicly traded securities of LREIT will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units and other publicly traded securities of LREIT may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to pay distributions is dependent upon a number of factors, including the level of operating cash flows, the amount of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. The Trust does not currently pay cash distributions. To the extent that it does make cash distributions in the future, such cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

LREIT currently qualifies as a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of Trust, the distributions of LREIT are established at the discretion of the Trustees. If circumstances permit and subject to the application of the SIFT Rules discussed below, it is the intent of the Trust to distribute an amount which is not less than all of its taxable income to its Unitholders. The Declaration of Trust provides that if the Trustees determine that available cash is not sufficient to satisfy payment of distributions, the Trustees may declare that the distribution be satisfied through the issuance of additional units, followed by an immediate consolidation of units such that, subject to the Declaration of Trust, unitholders own the same number of units on a post-consolidation basis.

Due to the decline in operating cash flow since 2009, LREIT suspended cash distributions.

Tax Treatment of LREIT

The annual determination of LREIT's status in regard to qualifying for the REIT Exception has a significant impact on the tax treatment of the Trust. The determination as to whether LREIT qualifies for the REIT Exception is subject to uncertainty and, as such, there is a risk that the tax treatment of the Trust may be less favourable than anticipated. Details regarding the REIT Exception are provided in the "Taxation" section of this report.

Legal Claims

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the cost to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

Relationship with Shelter

The financial performance of LREIT will depend in part on the performance of Shelter, and its key personnel, in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Conflicts of Interest

There are potential conflicts of interest to which Trustees and officers of LREIT are, or may become, subject to in connection with the operations of LREIT. Arni Thorsteinson, a Trustee and Chief Executive Officer of LREIT, is also a director and officer of Shelter and the director and the President of 2668921 Manitoba Ltd., the parent company of Shelter. Shelter provides Asset Management and Property Management services to LREIT and is also engaged in a wide range of real estate and other business activities, including the development and management of real estate. Gary Benjaminson, the Chief Financial Officer and Secretary of LREIT, is also an employee of Shelter.

Shelter and its affiliates and associates and its directors and officers, including Mr. Thorsteinson, may become involved in transactions in which their interests actually, or are perceived to, conflict with the interests of LREIT. Such conflicts will be subject to the procedures and remedies set out in the Canada Business Corporations Act.

Shelter has granted LREIT a right of first refusal to acquire interests in multi-unit residential properties on the terms and conditions available to Shelter and/or its affiliates, subject to limited exceptions in the case of properties which are managed by Shelter and/or its affiliates outside of the LREIT portfolio.

Credit Risk

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

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At December 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $45,382,027 (December 31, 2014 - $64,874,902) which expires between 2016 and 2022 (December 31, 2014 - expires between 2015 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

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

Other

Other risks and uncertainties are more fully explained in other regulatory filings of LREIT, including the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

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

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

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

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

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

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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

Future Changes In Accounting Policies

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

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

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

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

TAXATION

Taxation of LREIT

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

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2015, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

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

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

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

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

On April 1, 2015, LREIT sold 156/204 East Lake Blvd. for gross proceeds of $4,000,000, which resulted in a capital gain of approximately $2,000,000. On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000, inclusive of contingent consideration of $1,540,000, which resulted in a capital gain of approximately $29,800,000. In order to reduce its taxable income from these capital gains, after the application of LREIT's estimated operating losses for the 2015 taxation year and non-capital losses carried forward from the 2014 taxation year, under the Income Tax Act for the 2015 taxation year to nil, LREIT declared and paid a special distribution of $8,800,000 by the issuance of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units was consolidated so that each Unitholder held exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution.

A detailed description of the tax implications of the special distribution for Unitholders is provided in the section titled "Taxation of Unitholders", below.

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

Taxation of Unitholders

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

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

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

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

As noted above, in order to prevent LREIT from having taxable income under the Income Tax Act for the 2015 taxation year, LREIT declared and paid a special distribution in the form of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units was consolidated so that each Unitholder held exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution.

LREIT recommends that Unitholders consult their own tax advisers regarding the income tax consequences of the special distribution. However, LREIT expects that a Unitholder of record on the record date of the special distribution which is a resident of Canada and holds trust units as capital property for Canadian income tax purposes shall be required to include in computing its income for Canadian income tax purposes for its taxation year that includes December 31, 2015, its proportionate share of LREIT's net taxable capital gains for 2015 of approximately $1,500,000 or $0.07407 per unit reduced by the application of LREIT's operating losses for the 2015 taxation year and non-capital losses carried forward from the 2014 taxation year which are available to offset the taxable portion of the capital gain. Furthermore, LREIT expects that the adjusted cost base to such a Unitholder of those trust units for Canadian income tax purposes immediately after the special distribution shall be increased by the Unitholder's proportionate share of the special distribution. LREIT cautions that the foregoing comments are not intended and should not be construed to be legal or tax advice to any particular Unitholder.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

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

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

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

During the year ended December 31, 2015, 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 2015 Annual Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
March 9, 2016

SCHEDULE I

Real Estate Portfolio as of December 31, 2015

Property	Location	Purchase Price	Acquisition Date	Number of Suites	Occupancy December 31 2015
INVESTMENT PROPERTIES					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	47 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	81 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	67 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	50 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	41 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	62 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	59 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	47 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	51 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	32 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	45 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	36 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	42 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	79 %
Westhaven Manor	Edson	4,050,000	May 2007	48	73 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	69 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	96 %
Total - Investment properties		**330,914,488**	Total suites	**1,489**	
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	76 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	79 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 356,636,488**		**1,697**	

Notes to the Property Portfolio:

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

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Gary Benjaminson"

Gary Benjaminson
Chief Financial Officer

March 9, 2016

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in (deficit) equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

MNP LLP

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2015 has incurred a loss before discontinued operations of $96,394,897 during the year ended December 31, 2015 and, as at that date, has a working capital deficit of $6,984,045 and is in breach of certain debt covenants. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

MNP LLP

Winnipeg, Manitoba
March 9, 2016

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2015	December 31 2014
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$216,434,958**	$406,619,555
Defeasance assets (Note 7)	**-**	2,731,947
Restricted cash (Note 8)	**2,850,478**	3,480,259
Total non-current assets	**219,285,436**	412,831,761
Current assets		
Cash	**407,513**	1,963,735
Rent and other receivables (Note 9)	**419,815**	1,663,043
Deposits and prepaids (Note 10)	**1,037,538**	1,190,396
Defeasance assets (Note 7)	**2,580,343**	-
	4,445,209	4,817,174
Assets held for sale (Note 11)	**54,794,159**	25,124,665
Total current assets	**59,239,368**	29,941,839
TOTAL ASSETS	**$278,524,804**	$442,773,600
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	**$122,080,890**	$101,953,013
Total non-current liabilities	**122,080,890**	101,953,013
Current liabilities		
Trade and other payables (Note 13)	**8,835,601**	17,495,580
Current portion of long-term debt (Note 12)	**134,200,008**	210,073,719
Deposits from tenants	**1,510,790**	2,514,508
	144,546,399	230,083,807
Liabilities held for sale (Note 11)	**14,772,534**	14,846,156
Total current liabilities	**159,318,933**	244,929,963
Total liabilities	**281,399,823**	346,882,976
Total (deficit) equity	**(2,875,019)**	95,890,624
TOTAL LIABILITIES AND EQUITY	**$278,524,804**	$442,773,600

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31 2015	2014
Rentals from investment properties	**$ 30,215,224**	$ 38,291,698
Property operating costs	**14,063,358**	16,516,234
Net operating income	**16,151,866**	21,775,464
Interest income	**86,998**	657,609
Interest expense (Note 14)	**(23,272,205)**	(24,480,925)
Trust expense	**(1,816,996)**	(2,472,215)
Gain (loss) on sale of investment property (Note 11) (Note 5)	**(100,711)**	71,235
Fair value adjustments (Note 15)	**(87,443,849)**	(16,527,759)
Income recovery on Parsons Landing	**-**	98,499
Loss before discontinued operations	**(96,394,897)**	(20,878,092)
Loss from discontinued operations (Note 11)	**(2,370,746)**	(1,360,489)
Loss and comprehensive loss	**$ (98,765,643)**	$ (22,238,581)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (4.558)**	$ (0.997)
Loss per unit from discontinued operations:		
Basic and diluted	**$ (0.112)**	$ (0.065)
Loss per unit:		
Basic and diluted	**$ (4.670)**	$ (1.062)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY

	Year Ended December 31	
	2015	**2014**
Issued capital (Note 17)		
Balance, beginning of period	**$ 116,841,529**	$116,100,394
Units issued on:		
Payment of distributions	**8,800,000**	-
Exercise of options	**-**	22,780
Exercise of warrants	**-**	718,355
Balance, end of period	**125,641,529**	116,841,529
Contributed surplus		
Balance, beginning of period	**17,027,907**	17,091,850
Value of deferred units granted	**-**	75,000
Value of unit options granted	**-**	60,156
Warrants exercised	**-**	(126,731)
Warrants purchased under normal course issuer bid	**-**	(72,368)
Balance, end of period	**17,027,907**	17,027,907
Cumulative (deficit) earnings		
Balance, beginning of period	**36,371,223**	58,609,804
Loss and comprehensive loss	**(98,765,643)**	(22,238,581)
Balance, end of period	**(62,394,420)**	36,371,223
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(74,350,035)**	(74,350,035)
Distributions declared	**(8,800,000)**	-
Balance, end of period	**(83,150,035)**	(74,350,035)
Total (deficit) equity	**$ (2,875,019)**	$ 95,890,624

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2015	2014
Operating activities		
Loss and comprehensive loss	**$ (98,765,643)**	$ (22,238,581)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 15)	**87,443,849**	16,527,759
Fair value adjustment - Property and equipment (Note 11)	**2,794,716**	1,734,126
Loss (gain) on sale of properties	**100,711**	(71,235)
Loss on warrant repurchases	**-**	89,534
Accrued rental revenue	**324,258**	(438,891)
Gain on debenture repurchases	**(11,654)**	-
Unit-based compensation	**-**	135,156
Interest income	**(86,998)**	(657,609)
Interest received	**90,089**	489,644
Interest expense	**24,281,823**	25,518,333
Interest paid	**(21,214,950)**	(21,698,794)
Cash provided by (used in) operations	**(5,043,799)**	(610,558)
Decrease (increase) in rent and other receivables	**633,638**	(413,241)
Decrease (increase) in deposits and prepaids	**151,199**	(287,348)
Increase (decrease) in tenant deposits	**(1,013,211)**	35,016
Increase (decrease) in trade and other payables	**(1,220,051)**	469,499
	(6,492,224)	(806,632)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**39,800,000**	50,000,000
Repayment of mortgage loans on refinancing	**(36,614,684)**	(8,104,208)
Repayment of interest rate swap liability	**(1,601,000)**	-
Payment of acquisition payable of Parsons Landing	**-**	(44,006,731)
Redemption of mortgage bonds	**(6,000,000)**	(10,000,000)
Repayment of long-term debt	**(7,221,562)**	(6,053,574)
Prepayment of mortgage loans	**(3,000,000)**	-
Proceeds of revolving loan facility	**9,804,000**	24,639,136
Repayment of revolving loan facility	**(17,204,000)**	(11,044,136)
Proceeds of Shelter Canadian Properties Limited advances	**15,615,000**	-
Repayment of Shelter Canadian Properties Limited advances	**(15,615,000)**	-
Expenditures on transaction costs	**(3,206,208)**	(3,040,713)
Exercise of options	**-**	22,780
Exercise of warrants	**-**	591,624
Debentures purchased and cancelled under normal course issuer bid	**(51,346)**	-
Warrants purchased and cancelled under normal course issuer bid	**-**	(161,902)
	(25,294,800)	(7,157,724)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(697,896)**	(2,479,990)
Capital expenditures on investment properties held for sale	**(171,356)**	-
Capital expenditures on property and equipment	**(129,737)**	(378,305)
Decrease in defeasance assets	**151,604**	148,031
Proceeds of mortgage loans receivable	**-**	9,491,016
Proceeds of sale	**30,818,514**	(6,877)
Change in restricted cash	**659,338**	401,563
	30,630,467	7,175,438
Cash decrease	**(1,156,557)**	(788,918)
Deduct increase in cash from discontinued operations (Note 11)	**(399,665)**	(3,088)
	(1,556,222)	(792,006)
Cash, beginning of period	**1,963,735**	2,755,741
Cash, end of period	**$ 407,513**	$ 1,963,735

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

1 *Organization*

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

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

Units	LRT.UN
Series G Debentures due June 30, 2018	LRT.DB.G

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

2 *Basis of presentation and continuing operations*

The consolidated financial statements of the Trust for the years ended December 31, 2015 and 2014 ("Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on March 9, 2016.

The Financial Statements of the Trust reflect the operations of the Trust, LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars. The going concern basis assumes that the Trust will continue in operation for the foreseeable future and be able to realize its assets and settle its obligations in the normal course of business. There is significant doubt regarding the appropriateness of the going concern assumption and the use of accounting principles applicable to a going concern because of the material uncertainties caused by: (i) the Trust's concentration of investment properties in Fort McMurray, (ii) the deterioration of the Fort McMurray rental apartment market over the past several years and, in particular, the significant deterioration that occurred as a result of the decline in oil prices that began in the fourth quarter of 2014; (iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; (iv) the tightening of lending conditions in Fort McMurray, (v) the Trust's large working capital deficit, and (vi) the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $96,394,897 for the year ended December 31, 2015 (2014 - $20,878,092). The Trust incurred a cash deficiency from operating activities of $6,492,224 for the year ended December 31, 2015 (2014 - $806,632). After the deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $17,918,983 for the year ended December 31, 2015 (2014 - $12,759,214). In addition, the Trust has a working capital deficit of $6,984,045 as at December 31, 2015 (December 31, 2014 - $12,715,808) and was in breach of debt covenant requirements on two mortgage loans (December 31, 2014 - three mortgage loans and a related interest rate swap liability).

2 Basis of presentation and continuing operations (continued)

At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a first mortgage loan with an aggregate principal balance outstanding of $24,348,777 on a property in Fort McMurray, Alberta. As of February 2016, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan and withheld principal payments of $187,870. Failure to comply with debt service obligations is an event of default that allows the lender to accelerate payment of the mortgage loan and/or enforce its security in accordance with the underlying financing agreement. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

Subsequent to December 31, 2015, the Trust withheld principal payments of $388,643 and interest payments of $685,992 on 11 mortgage loans with an aggregate principal balance of $170,154,194 related to properties in its Fort McMurray portfolio. Failure to comply with debt service obligations is an event of default that allows the lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements. The Trust communicated its intention to withhold these payments to the affected lenders in advance of the withholdings. As of the date of this report, the Trust has not repaid the loans and the lenders have taken no action against the Trust and continue to engage in discussions with respect to the restructuring of the mortgage loans.

Subsequent to December 31, 2015, the Trust deferred the payment of property management fees due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for February 2016 in the amount of $164,022. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and the 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

In the event that full repayment is demanded on the revolving loan and the mortgage loans which are in a position of default as of the date of this report, the Trust would be unable to satisfy these obligations with its current resources.

2 Basis of presentation and continuing operations (continued)

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

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

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

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

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

Statement of compliance

The Financial Statements of the Trust have been prepared in accordance with IFRS using the same presentation and accounting policies under IFRS as disclosed in Note 3. The Financial Statements are based on IFRS standards issued and effective as at March 9, 2016.

3 Significant accounting policies

(a) Principles of consolidation

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

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

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

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

(b) Investment Properties

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

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

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

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

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

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

3 Significant accounting policies (continued)

(c) Property and Equipment

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

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

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

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

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

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

(d) Rent and other receivables

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. Significant accounting policies (continued)

(e) Cash

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

Cash deposits, which are not available for use by the Trust within a period of twelve months, are carried as restricted cash.

(f) Assets and liabilities of properties held for sale

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

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

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

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

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

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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 Significant accounting policies (continued)

(g) Mortgages loans, mortgage bonds, and debentures

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

(h) Unit options

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

(i) Tenant deposits

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

(j) Revenue recognition

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

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

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

3 Significant accounting policies (continued)

(j) Revenue recognition (continued)

Premiums received to terminate leases are recognized in the income statement when they arise.

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

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

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

(k) Income taxes

(i) The Trust

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

(ii) Wholly owned subsidiary companies

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

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

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

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

3 Significant accounting policies (continued)

(l) Provisions

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

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

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

(m) Per unit calculations

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

(n) Financial instruments

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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 Significant accounting policies (continued)

(n) Financial instruments (continued)

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

Financial Statement Item	Classification	Measurement
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Mortgage bonds	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Interest rate swap liability	Fair value through profit and loss	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage guarantee fees	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

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

(o) Future changes to significant accounting policies

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

(i) IFRS 9 - Financial Instruments

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

(ii) IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts, excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

3 Significant accounting policies (continued)

(o) Future changes to significant accounting policies (continued)

(iii) IFRS 16 - Leases

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

4 Significant accounting judgments, estimates and assumptions

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

(a) Judgments other than estimates

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

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

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

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

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

(a) Judgments other than estimates (continued)

Operating lease contracts

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

Income taxes

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

Management expects that the Trust will continue to qualify as a real estate investment trust for 2016 and beyond. If the Trust were to fail to qualify as a real estate investment trust, the Trust would be required to account for income taxes arising from all of its activities and material adjustments to the consolidated financial statements could be required.

(b) Estimates

Valuations of property

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

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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 Investment properties

	Year Ended December 31 2015	2014
Balance, beginning of period	$406,619,555	$421,040,369
Additions - capital expenditures	697,896	2,479,990
Fair value adjustments (Note 15)	(92,005,738)	(16,527,759)
Dispositions	-	(373,045)
Investment properties transferred to held for sale (Note 11(a))	(98,876,755)	-
Balance, end of period	$216,434,958	$406,619,555

During 2015, the Trust did not sell any property classified as investment properties, however, $98,876,755 was transferred to investment properties held for sale. During 2014, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $474,900, resulted in a gain on sale of investment properties of $71,235.

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

6 Valuations of investment properties and investment properties held for sale

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

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to normalized net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

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

	December 31 2015		December 31 2014	
	Low	High	Low	High
Residential properties				
Fort McMurray	8.00 %	8.00 %	7.00 %	7.25 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Major Canadian cities	N/A	N/A	4.75 %	4.75 %
Other	5.25 %	7.50 %	5.25 %	8.00 %
Commercial properties	N/A	N/A	6.50 %	7.25 %

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

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

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

	December 31 2015		December 31 2014	
	Low	High	Low	High
Residential properties				
Fort McMurray	10.00 %	10.00 %	9.00 %	9.25 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
Major Canadian cities	N/A	N/A	6.75 %	6.75 %
Other	7.25 %	9.50 %	7.25 %	10.00 %
Commercial properties	N/A	N/A	8.50 %	9.25 %

(iii) *Direct comparison*. The direct comparison method may occasionally be used when appropriate information is available, typically from an appraiser or realtor, such as the sale price of a comparable property or an offer to purchase a given property. In certain situations, properties with condominium title may be valued based on the selling price of comparable condominium units, net of selling and condominium conversion costs. Key assumptions associated with the above methods include the appropriateness of each comparison as well as the extent of selling and condominium conversion costs. The direct comparison method was factored into the valuation analysis prepared for 156/204 East Lake Blvd., Colony Square, Beck Court, Willowdale Gardens and Lakewood Townhomes (2014 - 156/204 East Lake Blvd. and Lakewood Townhomes).

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying value of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Carrying Value at December 31, 2015	Valuation Update Timetable
Greater than $10 Million	8	$ 211,348,400	Three years
Less than $10 Million	10	37,046,558	Five years
	18	$ 248,394,958	

The Trust utilizes capitalization and discount rates within the ranges provided in market reports by knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount rate ranges change from one reporting period to the next, or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

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

(iv) *External appraisals and reports* (continued)

To assist in the determination of fair value at December 31, 2015, external appraisals were obtained. The most recent external appraisals for the remaining 18 investment properties as at December 31, 2015 were obtained as follows: 6 properties having an aggregate fair value of $108.0 Million representing 43.5% of the total carrying value of the investment properties in 2015; 2 properties having an aggregate fair value of $35.1 Million representing 14.1% of the total carrying value of investment properties in 2014; 3 properties having an aggregate fair value of $86.2 Million representing 34.7% of the total carrying value of investment properties in 2013; 7 properties having an aggregate fair value of $19.0 Million representing 7.7% of the total carrying value of investment properties in 2012.

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

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

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

The inputs used in the valuation at December 31, 2015 were:

Description	Input
Normalized net operating income (year 1)	$20,640,928
Weighted average capitalization rate	7.75%
Growth rate	2.00%
Weighted average discount rate	9.75%

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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7 Defeasance assets and defeased liability

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Defeased Liability has a balance of $2,520,859 at December 31, 2015 (December 31, 2014 - $2,584,460), is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.87% (December 31, 2014 - 3.87%) and have been placed in escrow. The Defeasance Assets and the Defeased Liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

The following table reflects the effect of the Defeasance Assets and the Defeased Liability on income.

	Recorded as	Year Ended December 31 2015	Year Ended December 31 2014
Interest income on Defeasance Assets	Interest income	$ 54,693	$ 58,266
Interest expense on Defeased Liability	Interest expense	(143,000)	(145,862)
Amortization of transaction costs	Interest expense	(10,784)	(10,391)
		$ (99,091)	$ (97,987)

8 Restricted cash

	December 31 2015	December 31 2014
Tenant security deposits	$ 1,497,480	$ 2,477,106
Reserves required by mortgage loan agreements	1,352,998	1,003,153
	$ 2,850,478	$ 3,480,259

9 Rent and other receivables

	December 31 2015	December 31 2014
Rent receivable	$ 98,854	$ 74,791
Less: allowance for uncollectible accounts	(31,502)	(18,789)
	67,352	56,002
Other receivables	247,863	898,648
Deferred rent receivable	104,600	708,393
	$ 419,815	$ 1,663,043

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 Deposits and prepaids

	December 31 2015	December 31 2014
Deposits		
Property tax deposits	$ 543,599	$ 521,380
Other	14,509	10,850
	558,108	532,230
Prepaid expenses	479,430	658,166
	$ 1,037,538	$ 1,190,396

11 Assets and liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations.

Assets and liabilities held for sale are as follows:

	December 31 2015	December 31 2014
ASSETS		
Investment properties held for sale (a)	$ 31,960,000	$ -
Assets in discontinued operations		
Property and equipment (b)	22,350,000	25,014,979
Cash	423,356	23,691
Restricted cash	20,419	49,976
Rent and other receivables	7,152	4,446
Deposits, prepaids and other	33,232	31,573
	22,834,159	25,124,665
Assets held for sale	$ 54,794,159	$ 25,124,665
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (c)	$ 14,196,924	$ 14,298,793
Trade and other payables	287,847	250,107
Deposits from tenants	287,763	297,256
Liabilities held for sale	$ 14,772,534	$ 14,846,156

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2015	2014
Rental income	$ 5,362,196	$ 5,185,738
Property operating expenses	3,928,608	3,774,693
Net operating income	1,433,588	1,411,045
Interest expense (d)	(1,009,618)	(1,037,408)
Fair value adjustment (b)	(2,794,716)	(1,734,126)
Loss from discontinued operations	$ (2,370,746)	$ (1,360,489)

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2015	2014
Cash inflow from operating activities	$ 526,826	$ 635,047
Cash outflow from financing activities	(26,981)	(247,663)
Cash outflow from investing activities	(100,180)	(384,296)
Increase in cash from discontinued operations	$ 399,665	$ 3,088

(a) Investment properties held for sale

	December 31 2015	December 31 2014
Beck Court	$ 22,975,000	$ -
Willowdale Gardens	8,985,000	-
	$ 31,960,000	$ -

	Year Ended December 31 2015	2014
Balance, beginning of period	$ -	$ -
Investment properties transferred to held for sale (Note 5)	98,876,755	-
Additions - capital expenditures	171,356	-
Fair value adjustments (Note 15)	4,561,889	-
Dispositions	(71,650,000)	-
Balance, end of period	$ 31,960,000	$ -

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

(a) Investment properties held for sale (continued)

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

During 2015, the Trust sold the following two (2014 - nil) properties classified as held for sale:

Property	Sale Date	Selling Price	Carrying Value	Selling Costs and Other	Gain(Loss) on Sale
156/204 East Lake Blvd.	Apr 1, 2015	$ 4,000,000	$ (3,900,000)	$ (301,215)	$ (201,215)
Colony Square	Nov 1, 2015	68,710,000	(67,750,000)	(859,496)	100,504
		72,710,000	(71,650,000)	(1,160,711)	(100,711)

(b) Property and equipment

December 31, 2015	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Carrying Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,754,064	127,748	(902,210)	20,979,602
Furniture, equipment and appliances	391,209	1,989	(38,898)	354,300
	26,277,373	129,737	(941,108)	25,466,002
Fair value adjustments	(321,286)	(2,794,716)	-	(3,116,002)
	$ 25,956,087	$ (2,664,979)	$ (941,108)	$ 22,350,000

December 31, 2014	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Carrying Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,527,556	226,508	(902,210)	20,851,854
Furniture, equipment and appliances	239,412	151,797	(38,898)	352,311
	25,899,068	378,305	(941,108)	25,336,265
Fair value adjustments	1,412,840	(1,734,126)	-	(321,286)
	$ 27,311,908	$ (1,355,821)	$ (941,108)	$ 25,014,979

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

(b) Property and equipment (continued)

The carrying value in property and equipment is comprised of the following:

	Year Ended December 31 2015	2014
Balance, beginning of period	$ 25,014,979	$ 26,370,800
Additions - capital expenditures	129,737	378,305
Fair value adjustments	(2,794,716)	(1,734,126)
Balance, end of period	$ 22,350,000	$ 25,014,979

Assets in discontinued operations are carried at the lower of carrying value or fair value with fair value determined by sale value less selling costs. The 2015 reduction in fair value of $2,794,716 reflects the application of the direct comparison valuation method utilizing current information. The 2014 reduction in fair value of $1,734,126 reflected the results of an updated appraisal.

(c) Long term debt

	December 31 2015	December 31 2014
Secured debt		
Mortgage loans	$ 14,199,674	$ 14,376,467
Unamortized transaction costs	(2,750)	(77,674)
Total long term debt	$ 14,196,924	$ 14,298,793

All mortgages which have matured prior to the date of the Financial Statements have been renewed or refinanced.

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

(d) Interest expense

	Year Ended December 31 2015	2014
Mortgage loan interest	$ 930,644	$ 817,834
Amortization of transaction costs	78,974	219,574
	$ 1,009,618	$ 1,037,408

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

(e) Deferred tax

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

Deductible temporary differences:

	December 31 2015	2014
Property and equipment	$ 4,965,827	$ 2,272,271
Transaction costs	$ 199,659	$ 201,004

Unused tax losses expiring in:

	2015	2014
2028	$ 75,077	$ 333,199
2029	447,270	447,270
2030	-	-
2031	-	-
2032	-	90,758
	$ 522,347	$ 871,227

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 Long-term debt

	December 31 2015	December 31 2014
Secured debt		
Mortgage loans (a)	$ 230,897,904	$ 278,704,067
Debentures (b)	24,810,800	24,873,800
Defeased liability	2,520,859	2,584,460
Interest rate swap liability (c)	-	1,441,705
Mortgage bonds (d)	-	5,786,226
Total secured debt	258,229,563	313,390,258
Accrued interest payable	1,139,300	1,478,261
Unamortized transaction costs		
Mortgage loans	(2,399,409)	(1,758,930)
Mortgage bonds	-	(153,325)
Debentures	(685,797)	(915,989)
Defeased liability	(2,759)	(13,543)
Total unamortized transaction costs	(3,087,965)	(2,841,787)
	256,280,898	312,026,732
Less current portion		
Mortgage loans	(131,925,665)	(202,908,513)
Interest rate swap liability	-	(1,441,705)
Mortgage bonds	-	(5,786,226)
Defeased liability	(2,520,859)	(63,602)
Accrued interest payable	(1,139,300)	(1,478,261)
Transaction costs	1,385,816	1,604,588
Total current portion	(134,200,008)	(210,073,719)
	$ 122,080,890	$ 101,953,013
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,130,541	$ 1,212,781
Mortgage bonds	-	153,325
Debentures	252,516	227,698
Defeased liability	2,759	10,784
	$ 1,385,816	$ 1,604,588

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At December 31, 2015, the contractual weighted average interest rate for variable rate long-term debt was 7.3% and for fixed rate long-term debt was 4.8% (December 31, 2014 - variable - 7.5%, fixed - 4.7%).

Normal principal installments and principal maturities at face value are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Debentures	Defeased Liability
2016	$ 3,944,991	$127,980,674	$ -	$ 2,520,859
2017	2,324,250	22,448,575	-	-
2018	1,497,191	18,628,999	24,810,800	-
2019	830,001	27,302,754	-	-
2020	724,590	-	-	-
Thereafter	1,991,402	23,224,477	-	-
	$ 11,312,425	$219,585,479	$ 24,810,800	$ 2,520,859

Year ending December 31	Total Long-term Debt	Weighted average interest rate of long-term debt
2016	$134,446,524	6.6%
2017	24,772,825	5.5%
2018	44,936,990	7.5%
2019	28,132,755	5.0%
2020	724,590	4.2%
Thereafter	25,215,879	4.2%
	$258,229,563	6.2%

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates		Amount	
	December 31 2015	December 31 2014	December 31 2015	December 31 2014
First mortgage loans				
Fixed rate	4.6%	4.5%	$ 125,497,028	$ 171,581,117
Variable rate	6.9%	6.9%	87,994,589	89,116,663
Total first mortgage loans	5.5%	5.3%	213,491,617	260,697,780
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,500,000	4,500,000
Variable rate	10.4%	11.1%	12,906,287	13,506,287
Total second mortgage loans	10.7%	11.3%	17,406,287	18,006,287
Total	5.9%	5.7%	$ 230,897,904	$ 278,704,067

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a $24,348,777 first mortgage loan on a property in Fort McMurray, Alberta. As of February 2016, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan and withheld principal payments of $187,870. Failure to comply with debt service obligations is an event of default that allows the lender to accelerate payment of the mortgage loan and/or enforce its security in accordance with the underlying financing agreement. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

All mortgages which have matured prior to the date of the Financial Statements have been repaid, renewed or refinanced, except the above mentioned mortgage loan with a balance of $24,348,777 which matured on December 5, 2015 and is currently overholding past the maturity date.

At December 31, 2015, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first and a second mortgage loan in the amount of $29,679,501 and $4,500,000, respectively, with maturity dates of March 1, 2019 and November 1, 2016, respectively, on a property in Fort McMurray Alberta. Failure to meet the cash management requirement is not an event of default, but entitles the lender to execute cash sweeps from the property. No cash sweeps have been initiated to the date of this report.

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 Long-term debt (continued)

(b) Debentures

The face value and carrying value of the 9.5% Series G debentures due June 30, 2018 is $24,810,800 (December 31, 2014 - $24,873,800).

On June 23, 2014, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust was entitled to purchase up to $2,476,380 of Series G debentures. The normal course issuer bid expired on June 22, 2015.

On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expires on June 29, 2016.

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.

The Trust is not required to purchase any debentures under the normal course issuer bid.

During the year ended December 31, 2015, the Trust purchased and cancelled Series G debentures with a face value of $63,000 at an average price of $79.11 per $100.00.

(c) Interest rate swap liability

The Trust entered into an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan was fixed at a rate of 5.82%. In April 2015, the swap liability was settled along with the refinancing of the related mortgage loan.

The interest rate swap liability was a financial instrument classified as fair value through profit and loss. The fair value of the interest rate swap liability was determined using level 2 of the fair value hierarchy, and was estimated based on the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity, using discount rates currently available for debt of similar terms and remaining maturities.

The change in fair value of interest rate swap liability increased by $159,295 during 2015 (2014 - $253,599 increase) prior to its settlement.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

12 Long-term debt (continued)

(d) Mortgage bonds

On February 12, 2015, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000. The carrying value and face value of the mortgage bonds is summarized as follows:

	December 31 2015	December 31 2014
Carrying value, beginning of period	$ 5,786,226	$ 14,913,008
Accretion	213,774	873,218
Repayment	(6,000,000)	(10,000,000)
Carrying value, end of period	$ -	$ 5,786,226
Face value	$ -	$ 6,000,000

13 Trade and other payables

	December 31 2015	December 31 2014
Accounts payable - vendor invoices	$ 798,373	$ 1,256,193
Accrued payables	588,348	708,197
Prepaid rent	348,880	1,031,190
	1,735,601	2,995,580
Revolving loan from 2668921 Manitoba Ltd. (Note 21)	7,100,000	14,500,000
	$ 8,835,601	$ 17,495,580

14 Interest expense

	Year Ended December 31 2015	2014
Mortgage loan interest	$ 17,462,514	$ 16,813,399
Change in fair value of interest rate swap	159,295	253,599
Mortgage bond interest	123,616	581,918
Accretion of mortgage bonds	213,774	873,218
Debenture interest	2,357,026	2,363,011
Amortization of transaction costs	2,955,980	2,942,465
Interest on acquisition payable	-	653,315
	$ 23,272,205	$ 24,480,925

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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15 Fair value adjustments

Fair value adjustments consist of the following:

	Year Ended December 31 2015	2014
Fair value adjustments - investment properties (Note 5)	$(92,005,738)	$(16,527,759)
Fair value adjustments - investment properties held for sale (Note 11(a))	4,561,889	-
	$(87,443,849)	$(16,527,759)

16 Per unit calculations

	Year Ended December 31 2015	2014
Loss before discontinued operations	$ (96,394,897)	$ (20,878,092)
Loss from discontinued operations	(2,370,746)	(1,360,489)
Loss	$ (98,765,643)	$ (22,238,581)

	Year Ended December 31 2015	2014
Weighted average number of units:		
Units	20,252,386	20,099,659
Deferred units	896,510	847,265
Total basic and diluted	21,148,896	20,946,924

17 Units

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Units	Amount	Units	Amount
Outstanding, beginning of period	20,252,386	$116,841,529	19,423,011	$116,100,394
Units issued on:				
Exercise of options	-	-	67,000	22,780
Exercise of warrants	-	-	762,375	718,355
Payment of distribution	67,692,308	8,800,000	-	-
Consolidation of units	(67,692,308)	-	-	-
Outstanding, end of period	20,252,386	$125,641,529	20,252,386	$116,841,529

Units issued on payment of distributions
As a result of realized capital gains, the Trust paid "special" distributions in the form of additional units on December 31, 2015. The distributions were followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distributions as were held prior to the distributions.

18 *Warrants*

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants. Each warrant entitled the purchaser to purchase one unit at a price of $1.00 prior to March 9, 2015. On March 9, 2015, the warrants expired and the rights under 6,570,025 warrants were extinguished.

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000,000 trust unit purchase warrants. Each warrant entitles the purchaser to purchase one unit at a price of $0.75 prior to December 23, 2015. On December 23, 2015, the warrants expired and the rights under 13,509,200 warrants were extinguished.

19 *Unit option plan*

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

On May 19, 2014, the Trust granted options to purchase 200,000 units at $1.11 per trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $60,156 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 27.55% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.50%. The fair value of the options issued was recorded to unit-based compensation expense under trust expense.

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

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	466,000	$ 0.72	333,000	$ 0.41
Exercised, February 14, 2014	-	-	(30,000)	0.34
Exercised, March 25, 2014	-	-	(27,000)	0.34
Exercised, April 11, 2014	-	-	(10,000)	0.34
Issued, May 19, 2014	-	-	200,000	1.11
Cancelled, July 14, 2015	(20,000)	1.11	-	-
Outstanding, end of period	446,000	$ 0.71	466,000	$ 0.72
Vested, end of period	446,000		466,000	

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19 Unit option plan (continued)

At December 31, 2015 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	176,000	176,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
1.11	180,000	180,000	May 19, 2019
	446,000	446,000	

20 Deferred unit plan

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

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

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

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

Deferred units granted to Trustees totaled nil for the year ended December 31, 2015 (2014 - 72,419). Aggregate deferred units outstanding at December 31, 2015 were 896,510 (December 31, 2014 - 896,510). All deferred units outstanding as of December 31, 2015 were fully vested.

Unit-based compensation expense of nil for the year ended December 31, 2015 (2014 - $75,000) relating to deferred units granted was recorded to unit-based compensation expense under trust expense.

21 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

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

Property Management agreement (continued)
The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,187,470 for the year ended December 31, 2015 (2014 - $1,594,910).

Included in trade and other payables at December 31, 2015 is a balance of $87,442 receivable from Shelter Canadian Properties Limited (December 31, 2014 - $10,210 receivable) in regard to outstanding property management fees.

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

The Trust incurred service fees of $1,263,673 for the year ended December 31, 2015 (2014 - $1,337,131).

Services fee and renovation fee for Lakewood Townhomes condominium sales program
The Trust has entered into an agreement with Shelter Canadian Properties Limited, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian Properties Limited will administer the sales program and the completion of the in-suite renovations. The Trust pays a service fee equal to 5% of the gross sales proceeds and Shelter Canadian Properties Limited 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 to the external real estate broker due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed rate. The Trust also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

21 Related party transactions (continued)

Services fee and renovation fee for Lakewood Townhomes condominium sales program (continued)
The Trust incurred service fees payable to Shelter Canadian Properties Limited of nil for the year ended December 31, 2015 (2014 - $24,932).

Financing
On January 1, 2014, the Trust had a $15 Million revolving loan facility from 2668921 Manitoba Ltd. for general operating purposes. The revolving loan facility was increased to $18 Million effective July 1, 2015.

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

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
January 1, 2014	September 30, 2014	$ 25,000	12.00%	$ 1,181,357	$ 15,000,000
October 1, 2014	June 30, 2015	25,000	12.00%	1,375,000	15,000,000
July 1, 2015	June 30, 2018	25,000	12.00%	6,480,000	18,000,000

During the year ended December 31, 2015, the Trust received advances of $9,804,000 (2014 - $24,639,136) and repaid advances of $17,204,000 (2014 - $11,044,136) against the revolving loan, resulting in a balance of $7,100,000 (December 31, 2014 - $14,500,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $1,689,898 for the year ended December 31, 2015 (2014 - $1,369,005) is included in interest expense.

The loan is secured by mortgage charges against the title to two investment properties and two seniors' housing complexes.

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

During the year ended December 31, 2015, Shelter Canadian Properties Limited advanced $15,615,000 (2014 - nil) on an interest-free basis as an interim funding measure. The Trust made repayments of $15,615,000 (2014 - nil), resulting in an outstanding balance of nil at December 31, 2015 (December 31, 2014 - nil).

Key management compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel, other than securities-based compensation under the unit option plan. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2015 was $564,000 (2014 - $564,000). In addition, the Trust granted unit options to its key management personnel with a fair value of nil (2014 - $14,438).

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

22 Financial instruments and risk management

Risk management

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

Liquidity risk - debt covenant requirements

At December 31, 2015, the Trust was in breach of a 1.25:1 debt service coverage ratio requirement and a 2.5:1 debt-to-equity ratio covenant of a $24,348,777 first mortgage loan on a property in Fort McMurray, Alberta. As of February 2016, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan and withheld principal payments of $187,870. Failure to comply with debt service obligations is an event of default that allows the lender to accelerate payment of the mortgage loan and/or enforce its security in accordance with the underlying financing agreement. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

At December 31, 2015, the Trust was in breach of a 1.30:1 debt service coverage ratio requirement of a $4,199,674 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale and discontinued operations. As of the date of this report, the lender has not demanded repayment of the loan or caused the acceleration of mortgage payments under the loan. All payments of principal and interest have been made as scheduled. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from the sale to repay the first mortgage loan.

There are no other cross-default covenants with respect to other mortgage loans of the Trust.

Liquidity risk - debt maturities

Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to refinance its debt as it matures or to meet its other obligations as they become due.

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

Liquidity risk is mitigated by the ongoing monitoring activities of the Trust's management; open communication with the Trust's lenders; expansion of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

22 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
The risk associated with the refinancing of maturing debt is partially mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. However, should the Trust default on its debt obligations debt maturities may be accelerated by the lenders.

As at December 31, 2015, the weighted average term to maturity of the fixed rate mortgages on investment properties is 3.0 years (December 31, 2014 - 2.5 years).

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

December 31, 2015	Long-term Debt Obligations (2) (Note 12)	Other Payables (1)	Total
2016	$ 134,446,524	$ 11,485,691	$145,932,215
2017	24,772,825	-	24,772,825
2018	44,936,990	-	44,936,990
2019	28,132,755	-	28,132,755
2020	724,590	-	724,590
Thereafter	25,215,879	-	25,215,879
	$ 258,229,563	$ 11,485,691	$269,715,254

(1) Other payables include trade and other payables, accrued interest payable and deposits from tenants. The revolving loan from 2668921 Manitoba Ltd. is also included in trade and other payables.

(2) If the lenders of the 12 mortgage loans that are in default as of the date of this report demanded repayment during 2016 and the chart above was adjusted to reflect the repayments, the total long-term debt due in 2016 would increase to $212,222,373, the total long-term debt due in 2017 would decrease to $6,319,626, the total long-term debt due in 2018 would decrease to $25,238,305, the total long-term debt due in 2019 would decrease to $444,776, the total long-term debt due in 2020 would decrease to $462,745, and the total long-term debt due in 2021 and beyond would decrease to $13,541,738.

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2015 the percentage of fixed rate mortgage loans to total mortgage loans was 56% (December 31, 2014 - 63%).

The Trust has variable rate mortgage loans on investment properties totaling $100,900,876, or 44% of the total mortgage loans at December 31, 2015 (December 31, 2014 - 37%). Should interest rates change by 1%, interest expense would change by $1,009,009 per year.

As at December 31, 2015, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to December 31, 2018 of $71,758,796 representing 31% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $715,880 per year.

With the exception of the interest rate swap arrangement eliminated in the first quarter of 2015, the Trust has not traded in financial instruments.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

22 Financial instruments and risk management (continued)

Credit risk

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

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

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due but not impaired:

	December 31 2015	December 31 2014
Rent receivable overdue:		
0 to 30 days	$ 51,497	$ 48,222
31 to 60 days	4,562	3,087
More than 60 days	42,795	23,482
	$ 98,854	$ 74,791

	Year Ended December 31 2015	2014
Balance, beginning of period	$ 18,789	$ 32,751
Amount charged to bad debt expense relating to impairment of rent receivable	50,998	43,186
Amounts written off as uncollectible	(38,285)	(57,148)
Balance, end of period	$ 31,502	$ 18,789
Amount charged to bad debts as a percent of rentals from investment properties	0.17%	0.11%

The Trust continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the Trust's covenants. At December 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $45,382,027 (December 31, 2014 - $64,874,902) which expires between 2016 and 2022 (December 31, 2014 - expires between 2015 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

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

22 Financial instruments and risk management (continued)

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

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

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

Fair values
Except for the interest rate swap liability which was carried at fair value, a comparison of the carrying value and fair value of the financial instruments of the Trust is provided below.

	Carrying Value		Fair Value	
	December 31 2015	December 31 2014	December 31 2015	December 31 2014
Financial assets				
Defeasance assets	$ 2,580,343	$ 2,731,947	$ -	$ -
Restricted cash	2,850,478	3,480,259	2,192,702	3,181,875
Cash	407,513	1,963,735	407,513	1,963,735
Rent and other receivables	419,815	1,663,043	419,815	1,663,043
Deposits	558,108	532,230	558,108	532,230
Financial liabilities				
Mortgages loans	230,897,904	278,704,067	232,347,987	282,108,110
Mortgage bonds	-	5,786,226	-	6,000,000
Debentures	24,810,800	24,873,800	11,901,341	24,131,239
Defeased liability	2,520,859	2,584,460	-	-
Trade and other payables	8,835,601	17,495,580	8,835,601	17,495,580
Deposits from tenants	1,510,790	2,514,508	1,510,790	2,514,508

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

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.
- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- The defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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22 Financial instruments and risk management (continued)

Fair values (continued)

- In regard to mortgage loans:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 3.24% and 5.47%.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.
- The fair value of mortgage bonds was based on the face value due to the short term maturity.

23 Management of capital

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

	December 31 2015	December 31 2014
Mortgage loans	$228,498,495	$276,945,137
Interest rate swap liability	-	1,441,705
Mortgage bonds	-	5,632,901
Debentures	24,125,003	23,957,811
(Deficit) equity	(2,875,019)	95,890,624
	$249,748,479	$403,868,178

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

The overall capital management strategy addresses the following considerations:

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23 Management of capital (continued)

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

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

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

24 Segmented financial information

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

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

Year ended December 31, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	19,876,889	1,935,784	8,402,551	-	30,215,224
Property operating costs	9,021,561	1,119,567	3,922,230	-	14,063,358
Net operating income	10,855,328	816,217	4,480,321	-	16,151,866
Interest income	18,617	2,942	6,436	59,003	86,998
Interest expense	15,642,257	477,026	2,205,818	4,947,104	23,272,205
Income (loss) before discontinued operations	(98,043,842)	(904,747)	9,255,589	(6,701,897)	(96,394,897)
Cash from (used in) operating activities	(3,021,676)	316,949	1,570,670	(5,884,993)	(7,019,050)
Cash from (used in) financing activities	2,212,702	(76,570)	(33,031,591)	5,627,640	(25,267,819)
Cash from (used in) investing activities	(258,901)	(280,133)	31,115,435	154,246	30,730,647
Total assets excluding discontinued operations (Note 11) at December 31, 2015	206,220,764	14,059,384	32,351,459	3,059,038	255,690,645

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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24 Segmented financial information (continued)

Year ended December 31, 2014:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	27,287,507	1,995,330	9,008,861	-	38,291,698
Property operating costs	10,804,409	1,164,511	4,547,314	-	16,516,234
Net operating income	16,483,098	830,819	4,461,547	-	21,775,464
Interest income	34,987	2,545	19,574	600,503	657,609
Interest expense	15,790,300	463,043	2,005,314	6,222,268	24,480,925
Income (loss) before discontinued operations	(19,789,489)	(609,265)	7,586,190	(8,065,528)	(20,878,092)
Cash from (used in) operating activities	2,314,821	438,885	2,204,151	(6,399,536)	(1,441,679)
Cash from (used in) financing activities	(1,840,581)	(341,663)	(1,349,723)	(3,378,094)	(6,910,061)
Cash from (used in) investing activities	(771,642)	(98,509)	(1,204,402)	9,634,287	7,559,734
Total assets excluding discontinued operations (Note 11) at December 31, 2014	300,843,803	15,013,410	98,255,336	3,536,386	417,648,935

25 Commitments

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

Property	Manager	Term Expiring
Chateau St. Michael's	Integrated Life Care Inc.	October 31, 2016
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016

26 Contingencies

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

27 Subsequent event

Revolving loan
Subsequent to December 31, 2015, the Trust received advances of $10,500,000 and repaid nil on the revolving loan, resulting in a balance of $17,600,000 as of the date of the Financial Statements.

Mortgage default: Woodland Park
Subsequent to December 31, 2015, after advising the mortgage company, the Trust began paying interest only on the first mortgage loan with an aggregate principal balance outstanding of $24,348,777 and withheld principal payments of $187,870. Failure to comply with debt service obligations is an event of default that allows the lender to accelerate payment of the mortgage loan and/or enforce its security in accordance with the underlying financing agreement. The lender demanded repayment of the loan by February 18, 2016 and issued notification of its intent to enforce its security. LREIT has since entered into a forbearance agreement with the lender for a one-year term expiring February 28, 2017.

27 Subsequent event (continued)

Mortgage default: Other Fort McMurray properties
Subsequent to December 31, 2015, the Trust withheld principal payments of $388,643 and interest payments of $685,992 on 11 mortgage loans with an aggregate principal balance of $170,154,194 related to properties in its Fort McMurray portfolio. Failure to comply with debt service obligations is an event of default that allows the lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements. The Trust communicated its intention to withhold these payments to the affected lenders in advance of the withholdings. As of the date of this report, the Trust has not repaid the loans and the lenders have taken no action against the Trust and continue to engage in discussions with respect to the restructuring of the mortgage loans.

Deferral of property management fee payment
Subsequent to December 31, 2015, the Trust deferred the payment of property management fees due on March 1, 2016 in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Deferral of revolving loan facility interest payment
Subsequent to December 31, 2015, the Trust deferred payment of interest on the revolving loan facility for February 2016 in the amount of $164,022. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and the 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

Mortgage loan repayment
Subsequent to December 31, 2015, an interest-only second mortgage loan, secured by assets of 2668921 Manitoba Ltd., in the amount of $7,500,000 was fully repaid. The repayment was funded by advances from the revolving loan facility.

28 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.

UNITHOLDER INFORMATION

Trustees and Officers

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

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr. Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is an entrepreneur, formerly President of Big Freight Systems Inc. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter.

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

Administrator of the Trust

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

Property Management

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

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Unit Listing

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

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