LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 2014 and 2013 and the consolidated statements of comprehensive income (loss), changes in 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, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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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, 2014 has incurred a loss before discontinued operations of $20,878,092 during the year ended December 31, 2014 and, as at that date, has a working capital deficit of $13,234,208 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.

Winnipeg, Manitoba
March 10, 2015

MNP LLP
Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2014	December 31 2013
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$406,619,555**	$421,040,369
Defeasance assets (Note 6)	**2,731,947**	2,879,978
Restricted cash (Note 7)	**3,998,659**	4,241,812
Total non-current assets	**413,350,161**	428,162,159
Current assets		
Cash	**1,445,335**	2,401,741
Rent and other receivables (Note 8)	**1,663,043**	10,129,493
Deposits and prepaids (Note 9)	**1,190,396**	893,063
	4,298,774	13,424,297
Assets classified as held for sale (Note 10)	**25,124,665**	26,485,863
Total current assets	**29,423,439**	39,910,160
TOTAL ASSETS	**$442,773,600**	$468,072,319
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 11)	**$101,953,013**	$154,124,845
Total non-current liabilities	**101,953,013**	154,124,845
Current liabilities		
Trade and other payables (Note 12)	**17,495,580**	47,306,909
Current portion of long-term debt (Note 11)	**210,073,719**	133,107,487
Deposits from tenants	**2,514,508**	2,518,165
	230,083,807	182,932,561
Liabilities classified as held for sale (Note 10)	**14,846,156**	13,562,900
Total current liabilities	**244,929,963**	196,495,461
Total liabilities	**346,882,976**	350,620,306
Total equity	**95,890,624**	117,452,013
TOTAL LIABILITIES AND EQUITY	**$442,773,600**	$468,072,319

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31 2014	2013
Rentals from investment properties	**$ 38,291,698**	$ 40,328,764
Property operating costs	**16,516,234**	16,119,995
Net operating income	**21,775,464**	24,208,769
Interest income	**657,609**	1,272,740
Interest expense (Note 13)	**(24,480,925)**	(27,223,579)
Trust expense	**(2,472,215)**	(2,312,565)
Gain on sale of investment property	**71,235**	221,642
Fair value adjustments (Note 5)	**(16,527,759)**	6,970,031
Fair value adjustment of Parsons Landing (Note 5)	**-**	8,929,707
Income recovery on Parsons Landing	**98,499**	2,622,629
Income (loss) before discontinued operations	**(20,878,092)**	14,689,374
Income (loss) from discontinued operations (Note 10)	**(1,360,489)**	830,212
Income (loss) and comprehensive income (loss)	**$ (22,238,581)**	$ 15,519,586
Income (loss) per unit before discontinued operations:		
Basic	**$ (0.997)**	$ 0.774
Diluted	**$ (0.997)**	$ 0.634
Income (loss) per unit from discontinued operations:		
Basic	**$ (0.065)**	$ 0.044
Diluted	**$ (0.065)**	$ 0.036
Income (loss) per unit:		
Basic	**$ (1.062)**	$ 0.818
Diluted	**$ (1.062)**	$ 0.670

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31	
	2014	**2013**
Issued capital (Note 15)		
Balance, beginning of year	**$116,100,394**	$107,978,701
Units issued on:		
Payment of distributions	**-**	6,900,000
Exercise of options	**22,780**	2,380
Exercise of warrants	**718,355**	1,219,313
Balance, end of year	**116,841,529**	116,100,394
Contributed surplus		
Balance, beginning of year	**17,091,850**	17,211,070
Value of deferred units granted	**75,000**	75,000
Value of unit options granted	**60,156**	26,093
Warrants exercised	**(126,731)**	(220,313)
Warrants purchased under normal course issuer bid	**(72,368)**	-
Balance, end of year	**17,027,907**	17,091,850
Cumulative earnings		
Balance, beginning of year	**58,609,804**	43,090,218
Income (loss) and comprehensive income (loss)	**(22,238,581)**	15,519,586
Balance, end of year	**36,371,223**	58,609,804
Cumulative distributions to unitholders		
Balance, beginning of year	**(74,350,035)**	(67,450,035)
Distributions declared	**-**	(6,900,000)
Balance, end of year	**(74,350,035)**	(74,350,035)
Total equity	**$ 95,890,624**	$117,452,013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2014	2013
Operating activities		
Income (loss) and comprehensive income (loss)	**$ (22,238,581)**	$ 15,519,586
Adjustments to reconcile income to cash flows		
Fair value adjustments - Investment properties	**16,527,759**	(6,970,031)
Fair value adjustment - Property and equipment (Note 10)	**1,734,126**	-
Fair value adjustment - Parsons Landing	**-**	(8,929,707)
Gain on sale of properties	**(71,235)**	(221,642)
Loss on warrant repurchases	**89,534**	-
Write down of note receivable	**-**	205,000
Accrued rental revenue	**(438,891)**	82,342
Gain on debenture repurchases	**-**	(3,985)
Unit-based compensation	**135,156**	101,093
Deferred income tax expense	**-**	(285,734)
Interest income	**(657,609)**	(1,272,740)
Interest received	**489,644**	660,459
Interest expense	**25,518,333**	27,971,416
Interest paid	**(21,698,794)**	(24,825,831)
Cash from operations	**(610,558)**	2,030,226
Decrease (increase) in rent and other receivables	**(413,241)**	134,017
Decrease (increase) in deposits and prepaids	**(287,348)**	482,084
Increase (decrease) in tenant deposits	**35,016**	83,595
Increase in property sale deposit	**-**	-
Increase (decrease) in trade and other payables	**469,499**	(1,104,445)
	(806,632)	1,625,477
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**50,000,000**	166,500,000
Repayment of mortgage loans on refinancing	**(8,104,208)**	(167,263,300)
Payment of acquisition payable of Parsons Landing	**(44,006,731)**	-
Redemption of mortgage bonds	**(10,000,000)**	-
Repayment of long-term debt	**(6,053,574)**	(7,929,596)
Prepayment of mortgage loans	**-**	(2,998,500)
Proceeds of revolving loan commitment	**24,639,136**	13,880,000
Repayment of revolving loan commitment	**(11,044,136)**	(18,000,000)
Expenditures on transaction costs	**(3,040,713)**	(2,452,158)
Exercise of options	**22,780**	2,380
Exercise of warrants	**591,624**	999,000
Debentures purchased and cancelled under normal course issuer bid	**-**	(83,215)
Warrants purchased and cancelled under normal course issuer bid	**(161,902)**	-
	(7,157,724)	(17,345,389)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(2,479,990)**	(3,275,839)
Capital expenditures on property and equipment	**(378,305)**	(255,686)
Decrease in defeasance assets	**148,031**	145,392
Proceeds of mortgage loans receivable (Note 8)	**9,491,016**	3,200,000
Taxes paid on property sold	**-**	(1,734,702)
Proceeds of sale	**(6,877)**	14,468,789
Change in restricted cash	**237,163**	3,555,578
	7,011,038	16,103,532
Cash increase (decrease)	**(953,318)**	383,620
Add (deduct) decrease (increase) in cash from discontinued operations (Note 10)	**(3,088)**	763,844
	(956,406)	1,147,464
Cash, beginning of year	**2,401,741**	1,254,277
Cash, end of year	**$ 1,445,335**	$ 2,401,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Warrants expiring March 9, 2015	LRT.WT
Warrants expiring December 23, 2015	LRT.WT.A

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, 2014 and 2013 ("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 10, 2015.

The Financial Statements of the Trust reflect the operations of the Trust and 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 Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust incurred a loss before discontinued operations of $20,878,092 for the year ended December 31, 2014 (2013 - income of $14,689,374). The Trust incurred a cash deficiency from operating activities of $806,632 for the year ended December 31, 2014 (2013 - generated cash of $1,625,477). After deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $12,759,214 for the year ended December 31, 2014 (2013 - $12,287,802). In addition, the Trust has a working capital deficit of $13,234,208 as at December 31, 2014 (December 31, 2013 - $4,259,858) and the Trust was in breach of a debt service coverage requirement on three mortgage loans and a related interest rate swap liability (December 31, 2013 - one mortgage loan and the related interest rate swap liability).

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

The Trust was in breach of a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan on a property in Winnipeg, Manitoba. The Trust has notified the lender of the covenant breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

The Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or debentures of the Trust.

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt and the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 23 properties, including two properties during the year ended December 31, 2013, the Trust has successfully renewed mortgage loans at maturity, the Trust has extended the maturity date for the Series G debentures to 2018, the Trust has successfully eliminated covenant breaches on eight mortgage loans through refinancing and/or improved operations, the Trust has completed the acquisition of Parsons Landing, and has repaid all mortgage bond debt subsequent to December 31, 2014.

If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities and reported revenues and expenses used in these Financial Statements.

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 10, 2015.

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.

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) Property, plant and equipment classified as held for sale

Held for sale assets
Property, plant and equipment is transferred to assets held for sale when it is expected that the carrying value 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 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

Property, plant and equipment classified as held for sale is recorded at the lower of carrying value or fair value, and is not depreciated or amortized.

Discontinued operations
A discontinued operation is a part of the business of the Trust that:

- Has been disposed of or has been classified as held for sale and that represents a major line of 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 Statement of Comprehensive Income (loss) and the assets and liabilities are presented separately on the Statement of Financial Position.

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 Income 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 returns 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.

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 held-for-trading. 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 is included in income.

(o) Current and future changes to significant accounting policies

The following new standard was implemented with a January 1, 2014 effective date:

(i) IFRIC Interpretation 21 - Levies

IFRIC Interpretation 21: The interpretation addresses the accounting for a liability to pay a levy within the scope of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The adoption of the interpretation had no impact on the amounts recorded in the Financial Statements of the Trust.

The following new or amended standards have been issued by the International Accounting Standards Board (IASB):

(i) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments was issued in July 2014 and replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, based on how the entity manages its financial instruments and the contractual characteristics of the financial instruments; and has an effective date of implementation of January 1, 2018.

3 *Significant accounting policies (continued)*

(o) Current and future changes to significant accounting policies (continued)

(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, 2017, with earlier adoption permitted.

The Trust is currently evaluating the impact of these standards on its Financial Statements.

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.

(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.

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.

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

(a) Judgments other than estimates (continued)

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 2015 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 fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

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

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

5 *Investment properties*

	Year Ended December 31	
	2014	2013
Balance, beginning of year	$421,040,369	$427,967,800
Additions - capital expenditures	2,479,990	3,275,839
Fair value adjustments	(16,527,759)	6,970,031
Dispositions (a)	(373,045)	(24,389,739)
Fair value adjustment of Parsons Landing (b)	-	8,929,707
Purchase price adjustment of Parsons Landing (b)	-	(1,713,269)
Balance, end of year	$406,619,555	$421,040,369

5 Investment properties (continued)

Investment properties 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 2014		December 31 2013	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	7.25 %	7.00 %	7.50 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Major Canadian cities	4.75 %	4.75 %	4.75 %	4.75 %
Impaired property	7.00 %	7.00 %	7.00 %	7.00 %
Other	5.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	6.50 %	7.25 %	6.50 %	7.25 %

(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 2014		December 31 2013	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.00 %	9.25 %	9.00 %	9.50 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
Major Canadian cities	6.75 %	6.75 %	6.75 %	6.75 %
Impaired property	9.00 %	9.00 %	9.00 %	9.00 %
Other	7.25 %	10.00 %	8.25 %	10.00 %
Commercial properties	8.50 %	9.25 %	8.50 %	9.25 %

5 Investment properties (continued)

(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 East Lake Boulevard and Lakewood Townhomes (2013 - Colony Square, Laird's Landing, Lakewood Apartments, Millennium and Woodland Park).

(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, 2014	Valuation Update Timetable
Greater than $10 Million	9	$ 355,840,561	Three years
Less than $10 Million	11	50,778,994	Five years
	20	$ 406,619,555	

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.

To assist in the determination of fair value at December 31, 2014, external appraisals were obtained in 2014 for 2 properties having an aggregate fair value of $26.2 Million representing 6.5% of the total carrying value of investment properties. Appraisals were obtained in 2013 for 7 properties having an aggregate fair value of $254.6 Million representing 62.5% of the total carrying value of investment properties. Appraisals were obtained in 2012 for 10 properties having an aggregate fair value of $117.4 Million representing 28.9% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 1 property having a fair value of $8.4 Million representing 2.1% of the total carrying value of investment properties.

(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.

5 Investment properties (continued)

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, 2014 were:

Description	Input
Normalized net operating income (year 1)	$27,831,756
Weighted average capitalization rate	6.70%
Growth rate	2.00%
Weighted average discount rate	8.70%

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

(a) Dispositions

On October 1, 2013, the Trust sold the Purolator Building for gross proceeds of $1,600,000. On December 31, 2013, the Trust sold Nova Court for gross proceeds of $21,680,000. Revenue and expenses of the Purolator Building and Nova Court are carried in the "Properties Sold" operating segment effective in the December 31, 2013 Financial Statements and, prior to December 31, 2013, were carried in the "Other Investment Properties" operating segment.

One condominium unit at Lakewood Townhomes was sold during the year ended December 31, 2014 (2013 - three condominium units).

The following table reflects the results of the sale of condominium units at Lakewood Townhomes:

	Year Ended December 31 December 31	
	2014	2013
Units sold	1	3
Gross proceeds	$ 474,900	$ 1,444,700
Gain on sale	$ 71,235	$ 247,011

5 *Investment properties (continued)*

(b) Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

The permanent mortgage financing for the purchase of Parsons Landing was uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement.

In 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. An agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses.

The reconstruction was completed and 84 suites were returned to the Trust on June 1, 2013 and the remaining 76 suites were returned to the Trust on October 3, 2013. The cost of the reconstruction was fully funded from insurance proceeds.

The purchase transaction was completed on March 6, 2014.

The comparative Financial Statements reflect the following:

Adjustments to fair value in 2013 are separately recorded and reflect the reconstruction and re-leasing of the property.

At December 31, 2013, the balance owing in regard to the acquisition of Parsons Landing was reflected in Trade and other payables.

For the period from January 1, 2013 to May 31, 2013, the Financial Statements reflect revenue in regard to recovery of insurance proceeds for revenue losses. The revenue is reflected as "Income recovery on Parsons Landing" in the income of the Trust.
For the period from June 1, 2013 to December 31, 2013, the Financial Statements reflect rental revenues and property operating costs for occupied suites and recovery of insurance proceeds for unoccupied suites.

Effective January 1, 2014, any gain or loss related to a change in the fair value of Parsons Landing is reflected in "Fair value adjustments".

6 *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 $2,584,460 at December 31, 2014 (2013 - $2,644,615), 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, 2013 - 3.83%) 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.

6 Defeasance assets and defeased liability (continued)

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

	Recorded as	Year Ended December 31 2014	2013
Interest income on Defeasance Assets	Interest income	$ 58,266	$ 60,905
Interest expense on Defeased Liability	Interest expense	(145,862)	(149,136)
Amortization of transaction costs	Interest expense	(10,391)	(10,011)
		$ (97,987)	$ (98,242)

7 Restricted cash

	December 31 2014	2013
Tenant security deposits	$ 2,477,106	$ 2,484,188
Reserves required by mortgage loan agreements	1,521,553	1,757,624
	$ 3,998,659	$ 4,241,812

8 Rent and other receivables

	December 31 2014	2013
Rent receivable	$ 74,791	$ 223,314
Less: allowance for uncollectible accounts	(18,789)	(32,751)
	56,002	190,563
Loans receivable	-	9,320,600
Other receivables	898,648	348,828
Deferred rent receivable	708,393	269,502
	$ 1,663,043	$ 10,129,493

9 Deposits and prepaids

	December 31 2014	2013
Deposits		
Property tax deposits	$ 521,380	$ 368,647
Other	10,850	10,630
	532,230	379,277
Prepaid expenses	658,166	513,786
	$ 1,190,396	$ 893,063

10 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 classified as "held for sale" are as follows:

	December 31 2014	December 31 2013
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 25,014,979	$ 26,370,800
Cash	23,691	20,603
Restricted cash	49,976	43,986
Rent and other receivables	4,446	8,916
Deposits, prepaids and other	31,573	41,558
Assets classified as held for sale	$ 25,124,665	$ 26,485,863
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	$ 14,298,793	$ 13,042,918
Trade and other payables	250,107	261,399
Deposits from tenants	297,256	258,583
Liabilities classified as held for sale	$ 14,846,156	$ 13,562,900

Income information relating to discontinued operations are as follows:

	Year Ended December 31 2014	Year Ended December 31 2013
Rental income	$ 5,185,738	$ 5,152,227
Property operating expenses	3,774,693	3,682,675
Net operating income	1,411,045	1,469,552
Interest expense (c)	(1,037,408)	(747,837)
Fair value adjustment (a)	(1,734,126)	-
Current tax expense (d)	-	(177,237)
Deferred tax recovery (d)	-	285,734
Income (loss) from discontinued operations	$ (1,360,489)	$ 830,212

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

Cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2014	2013
Cash inflow (outflow) from operating activities	$ 635,047	$ 388,915
Cash inflow (outflow) from financing activities	(247,663)	841,487
Cash outflow from investing activities	(384,296)	(1,994,246)
Increase (decrease) in cash from discontinued operations	$ 3,088	$ (763,844)

(a) Property and equipment

December 31, 2014	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book 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
Valuation adjustment	1,412,840	(1,734,126)	-	(321,286)
	$ 27,311,908	$ (1,355,821)	$ (941,108)	$ 25,014,979

December 31, 2013	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	21,295,528	232,028	(902,210)	20,625,346
Furniture, equipment and appliances	215,754	23,658	(38,898)	200,514
	25,643,382	255,686	(941,108)	24,957,960
Valuation adjustment	1,412,840	-	-	1,412,840
	$ 27,056,222	$ 255,686	$ (941,108)	$ 26,370,800

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

(a) Property and equipment (continued)

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

	Year Ended December 31 2014	2013
Balance, beginning of year	$ 26,370,800	$ 26,115,114
Additions - capital expenditures	378,305	255,686
Net gain (loss) on fair value adjustments	(1,734,126)	-
Balance, end of year	$ 25,014,979	$ 26,370,800

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. In 2014, the sale value less selling costs of a property carried in discontinued operations was determined by an updated appraisal and a fair value adjustment of $1,734,126 was recorded.

(b) Long term debt

	December 31 2014	2013
Secured debt		
Mortgage loans	$ 14,376,467	$ 13,042,918
Unamortized transaction costs	(77,674)	-
Total long term debt	$ 14,298,793	$ 13,042,918

All mortgages which have matured prior to March 10, 2015 have been renewed or refinanced.

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of December 31, 2014, the Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

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

(c) Interest expense

	Year Ended December 31 2014	2013
Mortgage loan interest	$ 817,834	$ 705,670
Amortization of transaction costs	219,574	42,167
	$ 1,037,408	$ 747,837

(d) 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 2014	2013
Property and equipment	$ 2,272,271	$ 538,145
Transaction costs	$ 201,004	$ 62,939

Unused tax losses expiring in:

	2014	2013
2027	$ -	$ 43,366
2028	333,199	549,398
2029	447,270	447,270
2030	-	-
2031	-	73,375
2032	90,758	269,519
	$ 871,227	$ 1,382,928

11 Long-term debt

	December 31 2014	December 31 2013
Secured debt		
Mortgage loans (a)	$ 278,704,067	$ 244,586,398
Interest rate swap liability (b)	1,441,705	1,188,106
Mortgage bonds (c)	5,786,226	14,913,008
Debentures (d)	24,873,800	24,873,800
Defeased liability	2,584,460	2,644,615
Total secured debt	313,390,258	288,205,927
Mortgage guarantee fees	-	91,362
Total debt	313,390,258	288,297,289
Accrued interest payable	1,478,261	1,975,830
Unamortized transaction costs		
Mortgage loans	(1,758,930)	(1,909,636)
Mortgage bonds	(153,325)	(754,795)
Debentures	(915,989)	(352,422)
Defeased liability	(13,543)	(23,934)
Total unamortized transaction costs	(2,841,787)	(3,040,787)
	312,026,732	287,232,332
Less current portion		
Mortgage loans	(202,908,513)	(122,180,991)
Interest rate swap liability	(1,441,705)	(1,188,106)
Mortgage bonds	(5,786,226)	(9,319,958)
Defeased liability	(63,602)	(60,167)
Mortgage guarantee fees	-	(44,587)
Accrued interest payable	(1,478,261)	(1,975,830)
Transaction costs	1,604,588	1,662,152
Total current portion	(210,073,719)	(133,107,487)
	$ 101,953,013	$ 154,124,845
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,212,781	$ 1,023,567
Mortgage bonds	153,325	329,655
Debentures	227,698	298,539
Defeased liability	10,784	10,391
	$ 1,604,588	$ 1,662,152

11 *Long-term debt (continued)*

Long-term debt has both fixed and variable interest rates. At December 31, 2014, the contractual weighted average interest rate for variable rate long-term debt was 7.5% and for fixed rate long-term debt was 4.7% (December 31, 2013 - variable - 7.2%, 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 and Mortgage Bonds	Defeased Liability
2015	$ 1,806,177	$201,102,336	$ 6,000,000	$ 63,602
2016	1,714,656	7,540,966	-	2,520,858
2017	1,634,859	18,008,996	-	-
2018	829,749	18,629,000	24,873,800	-
2019	134,572	27,302,756	-	-
	$ 6,120,013	$272,584,054	$ 30,873,800	$ 2,584,460

Year ending December 31	Total Long-term Debt	Weighted average interest rate of long-term debt
2015	208,972,115	6.3%
2016	11,776,480	7.5%
2017	19,643,855	5.6%
2018	44,332,549	5.8%
2019	27,437,328	5.0%
	$312,162,327	6.1%

In accordance with IFRS, the face value of two mortgage loans in the amount of $55,917,841 and the $1,441,705 fair value of the interest rate swap liability are reflected as current liabilities as the related properties are not in compliance with the loan covenants (Note 11(a)).

The Trust intends to renew or refinance all mortgage debt and debentures at market rates on maturity.

11 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates December 31		Amount December 31	
	2014	2013	2014	2013
First mortgage loans				
Fixed rate	4.5%	4.6%	$ 171,581,117	$ 176,340,766
Variable rate	6.9%	6.1%	89,116,663	50,239,345
Total first mortgage loans	5.3%	4.9%	260,697,780	226,580,111
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,500,000	4,500,000
Variable rate	11.1%	11.1%	13,506,287	13,506,287
Total second mortgage loans	11.3%	11.3%	18,006,287	18,006,287
Total	5.7%	5.4%	$ 278,704,067	$ 244,586,398

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. As of December 31, 2014, the Trust was not in compliance with debt service coverage requirements for two mortgage loans.

As of December 31, 2014, the Trust was not in compliance with a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan. The lender has been notified of the breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

As of December 31, 2014, The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

All mortgages which have matured prior to March 10, 2015 have been renewed or refinanced.

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.

(b) Interest rate swap liability

The Trust has entered into an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan in the amount of $15,494,688 has a fixed rate of 5.82% and matures in 2018. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis.

11 Long-term debt (continued)

(b) Interest rate swap liability (continued)

The interest rate swap liability is a financial instrument classified as fair value through profit and loss. The fair value of the interest rate swap liability has been determined using level 2 of the fair value hierarchy, and is 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 $253,599 during the year ended December 31, 2014 (2013 - $286,699 decrease).

(c) Mortgage bonds

The face value of the 9% mortgage bonds due December 24, 2015 is $6,000,000 (December 31, 2013 - $16,000,000).

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 16,000,000 trust unit purchase warrants for gross proceeds of $16,000,000. Each trust unit purchase warrant entitles the holder to purchase one unit at a price of $0.75 until December 24, 2015. The mortgage bonds are secured by second mortgage charges registered against four investment properties with a fair value of $37,033,806 (December 31, 2013 - $38,192,000).

The carrying value of the mortgage bonds is summarized as follows:

	December 31	
	2014	2013
Balance, beginning of year	$ 14,913,008	$ 14,458,831
Accretion	873,218	454,177
Redemption	(10,000,000)	-
Balance, end of year	$ 5,786,226	$ 14,913,008

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $470,623 was identified, and the residual value of $1,346,282 was assigned to the warrants.

Subsequent to December 31, 2014, the remaining mortgage bonds with a face value of $6,000,000 were repaid.

11 Long-term debt (continued)

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due June 30, 2018 is $24,873,800 (December 31, 2013 - $24,873,800).

On June 16, 2014, LREIT obtained approval from the holders of the Series G debentures to extend the maturity date of the debentures from February 28, 2015 to June 30, 2018.

The Series G debentures are redeemable, subject to notice requirements, and the Trust is required to redeem debentures from the net proceeds of property sales, after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

On June 17, 2013, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust was entitled to purchase up to $2,493,000 of Series G debentures. The normal course issuer bid expired on June 16, 2014.

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

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

During the period from January 1, 2015 to March 10, 2015, the Trust purchased and cancelled Series G debentures with a face value of $36,000 at an average price of $85.61 per $100.00.

12 Trade and other payables

	December 31 2014	December 31 2013
Accounts payable - vendor invoices	$ 1,256,193	$ 982,173
Accrued payables	708,197	658,892
Prepaid rent	1,031,190	754,113
Revolving loan from 2668921 Manitoba Ltd. (Note 19)	14,500,000	905,000
Payable on acquisition of Parsons Landing	-	44,006,731
	$ 17,495,580	$ 47,306,909

13 Interest expense

	Year Ended December 31 2014	2013
Mortgage loan interest	$ 16,813,399	$ 16,838,750
Change in fair value of interest rate swap	253,599	(286,699)
Mortgage bond interest	581,918	1,440,000
Accretion of mortgage bonds	873,218	454,177
Debenture interest	2,363,011	2,367,153
Amortization of transaction costs	2,942,465	2,706,476
Interest on acquisition payable	653,315	3,703,722
	$ 24,480,925	$ 27,223,579

14 Per unit calculations

	Year Ended December 31 2014	2013
Income (loss) before discontinued operations	$ (20,878,092)	$ 14,689,374
Income (loss) from discontinued operations	(1,360,489)	830,212
Income (loss)	$ (22,238,581)	$ 15,519,586

	Year Ended December 31 2014	2013
Weighted average number of units:		
Units	20,099,659	18,211,934
Deferred units	847,265	765,279
Total basic	20,946,924	18,977,213
Total diluted	20,946,924	23,172,093

15 Units

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Units	Amount	Units	Amount
Outstanding, beginning of year	19,423,011	$116,100,394	18,084,011	$107,978,701
Units issued on:				
Exercise of options	67,000	22,780	7,000	2,380
Exercise of warrants	762,375	718,355	1,332,000	1,219,313
Payment of distribution	-	-	6,448,598	6,900,000
Consolidation of units	-	-	(6,448,598)	-
Outstanding, end of year	20,252,386	$116,841,529	19,423,011	$116,100,394

16 Warrants

Warrants expiring March 9, 2015:

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants ("March 2015 warrants"). Each warrant entitles the purchaser to purchase one unit at a price of $1.00 prior to March 9, 2015.

	Year Ended December 31 2014	2013
Balance, beginning of year	6,780,000	6,780,000
Warrants exercised	(79,375)	-
Purchased and cancelled under normal course issuer bid	(130,600)	-
Balance, end of year	6,570,025	6,780,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 678,000 March 2015 warrants. The normal course issuer bid commenced on January 24, 2014 and expired on January 23, 2015. The normal course issuer bid was not renewed at the January 23, 2015 expiry.

Subsequent to December 31, 2014, the remaining 6,570,025 of the March 2015 warrants expired.

Warrants expiring December 23, 2015:

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000,000 trust unit purchase warrants ("December 2015 warrants"). Each warrant entitles the purchaser to purchase one unit at a price of $0.75 prior to December 23, 2015.

	Year Ended December 31 2014	2013
Balance, beginning of year	14,493,000	15,825,000
Warrants exercised	(683,000)	(1,332,000)
Purchased and cancelled under normal course issuer bid	(300,800)	-
Balance, end of year	13,509,200	14,493,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 1,404,150 December 2015 warrants. The normal course issuer bid commenced on January 24, 2014 and expired on January 23, 2015. The normal course issuer bid was not renewed at the January 23, 2015 expiry.

17 *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, 2014		Year Ended December 31, 2013	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	333,000	$ 0.41	891,000	$ 1.69
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, January 7, 2013	-	-	(231,000)	5.10
Issued, January 15, 2013	-	-	180,000	0.65
Exercised, February 15, 2013	-	-	(7,000)	0.34
Cancelled, July 15, 2013	-	-	(350,000)	0.60
Cancelled, July 15, 2013	-	-	(150,000)	0.65
Outstanding, end of year	466,000	$ 0.72	333,000	$ 0.41
Vested, end of year	466,000		333,000	

At December 31, 2014 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	200,000	200,000	May 19, 2019
	466,000	466,000	

18 *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 72,419 for the year ended December 31, 2014 (2013 - 98,606). Aggregate deferred units outstanding and fully vested at December 31, 2014 were 896,509 (December 31, 2013 - 824,090).

Unit-based compensation expense of $75,000 for the year ended December 31, 2014 (2013 - $75,000) relating to deferred units granted was recorded to unit-based compensation expense under trust expense.

19 *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.

*19 Related party transaction*s (continued)

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.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,594,910 for the year ended December 31, 2014 (2013 - $1,678,677).

Included in trade and other payables at December 31, 2014 is a balance of $10,210 receivable from (December 31, 2013 - $7,160 payable to) Shelter Canadian Properties Limited 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 $1,337,131 for the year ended December 31, 2014 (2013 - $1,435,351).

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.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $24,932 for the year ended December 31, 2014 (2013 - $75,847). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the year ended December 31, 2014 (2013 - nil).

19 Related party transactions (continued)

Financing

On January 1, 2013, the Trust had a $12 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $15 Million effective July 1, 2013. The loan matured September 30, 2014 and bore interest at 12%, subject to a maximum interest and fee payment of $1,206,357 for the period from January 1, 2014 to September 30, 2014 and was renewed on October 1, 2014 to June 30, 2015 bearing interest at 12%, subject to a maximum interest and fee payment of $1,375,000 for the period from October 1, 2014 to June 30, 2015 (2013 - 12% to June 30, 2013, 12% from July 1, 2013 to December 31, 2013 subject to maximum interest and fee payments of $404,916 and $897,637, respectively). The renewals at January 1, 2014 and October 1, 2014 encompassed extension fees of $25,000 and $25,000, respectively (2013 - $25,000 and $25,000 at January 1, 2013 and July 1, 2013, respectively).

During the year ended December 31, 2014, the Trust received advances of $24,639,136 (2013 - $13,880,000) and repaid advances of $11,044,136 (2013 - $18,000,000) against the revolving loan, resulting in a balance of $14,500,000 (December 31, 2013 - $905,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $1,369,005 for the year ended December 31, 2014 (2013 - $1,170,123) is included in interest expense.

Included in accrued interest payable at December 31, 2014 is a balance of nil (December 31, 2013 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

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

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

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, 2014 was $564,000 (2013 - $564,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $14,438 (2013 - $11,456).

Guarantees

Obligations, including certain mortgage loans payable, have been 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.

20 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 takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk - debt covenant requirements
At December 31, 2014, The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,494,688 mortgage loan with a maturity date of June 4, 2018 and the related $1,441,705 interest rate swap liability on a property in Fort McMurray, Alberta. LREIT has received conditional commitments to refinance the loan and the existing lender has agreed to provide a forbearance extension to April 30, 2015 to allow for the completion of the refinancing.

At December 31, 2014, the Trust was in breach of a 1.18 debt service coverage requirement of a $40,423,153 mortgage loan on a property in Winnipeg, Manitoba. The Trust has notified the lender of the covenant breach. Subsequent to December 31, 2014, the lender has provided a waiver of the covenant requirement for the year ended December 31, 2014.

At December 31, 2014, the Trust was in breach of the 1.30 debt service coverage requirement of a $4,376,467 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. The Trust has requested a waiver of the covenant requirement from the lender.

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.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years.

As at December 31, 2014, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.5 years (December 31, 2013 - 3.4 years).

20 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)
The repayment obligations in regard to the financial liabilities of the Trust, at face value, are as follows:

December 31, 2014	Long-term Debt Obligations (1) (Note 11)	Other Payables (2)	Total
2015	$ 208,972,115	$ 22,930,054	$ 231,902,169
2016	11,776,480	-	11,776,480
2017	19,643,855	-	19,643,855
2018	44,332,549	-	44,332,549
2019	27,437,328	-	27,437,328
	$ 312,162,327	$ 22,930,054	$ 335,092,381

(1) Mortgage loan principal maturities include two mortgage loans which are not in compliance with the debt service coverage requirement. In accordance with IFRS, the mortgage loans in the amount of $55,917,841 are reflected as current liability.

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

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, 2014 the percentage of fixed rate mortgage loans to total mortgage loans was 63% (December 31, 2013 - 72%).

The Trust has variable rate mortgage loans on investment properties totaling $102,622,950, or 37% of the total mortgage loans at December 31, 2014 (December 31, 2013 - 28%). Should interest rates change by 1%, interest expense would change by $1,026,230 per year.
As at December 31, 2014, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to December 31, 2017 of $69,624,916 representing 25% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $696,249 per year.

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

20 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 2014	December 31 2013
Rent receivable overdue:		
0 to 30 days	$ 48,222	$ 123,531
31 to 60 days	3,087	38,555
More than 60 days	23,482	61,228
	$ 74,791	$ 223,314

A reconciliation of allowance for doubtful accounts is as follows:

	Year Ended December 31 2014	Year Ended December 31 2013
Balance, beginning of year	$ 32,751	$ 20,051
Amount charged to bad debt expense relating to impairment of rent receivable	43,186	48,664
Amounts written off as uncollectible	(57,148)	(35,964)
Balance, end of year	$ 18,789	$ 32,751
Amount charged to bad debts as a percent of rentals from investment properties	0.11%	0.12%

20 *Financial instruments and risk management (continued)*

Credit risk (continued)
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, 2014, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $64,499,331 (December 31, 2013 - $66,264,365) which expires between 2015 and 2022 (December 31, 2013 - expires between 2014 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.

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 is 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		December 31	
	2014	2013	2014	2013
Financial assets				
Defeasance assets	2,731,947	2,879,978	-	-
Restricted cash	3,998,659	4,241,812	3,650,405	4,241,812
Cash	1,445,335	2,401,741	1,445,335	2,401,741
Rent and other receivables	1,663,043	10,129,493	1,663,043	10,129,493
Deposits	532,230	379,277	532,230	379,277
Financial liabilities				
Mortgages loans	278,704,067	244,586,398	282,108,110	245,530,710
Mortgage bonds	5,786,226	14,913,008	6,000,000	15,226,306
Debentures	24,873,800	24,873,800	24,131,239	24,647,812
Defeased liability	2,584,460	2,644,615	-	-
Mortgage guarantee fees	-	91,362	-	91,362
Trade and other payables	17,495,580	47,306,909	17,495,580	47,306,909
Deposits from tenants	2,514,508	2,518,165	2,514,508	2,518,165

20 Financial instruments and risk management (continued)

Fair values (continued)
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 fair value of 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.
- In regard to mortgages loans and mortgage guarantee fees:
  - 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 1.97% and 5.51%.
  - The fair value of the swap mortgage is 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 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 approximates the face value due to the short term maturity.

21 Management of capital

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

	December 31 2014	December 31 2013
Mortgage loans	$276,945,137	$242,676,762
Interest rate swap liability	1,441,705	1,188,106
Mortgage bonds	5,632,901	14,158,213
Debentures	23,957,811	24,521,378
Equity	95,890,624	117,452,013
	$403,868,178	$399,996,472

The Trust manages capital in order to safeguard 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 in order to reduce total debt including debenture debt.

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.

22 *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 properties sold.

An operating segment was established for Parsons Landing in order to segregate the operations of the property as a result of a fire and the subsequent reconstruction and re-leasing of the property.

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

Year ended December 31, 2014:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	22,737,066	11,003,126	1,065	4,550,441	-	38,291,698
Property operating costs	9,237,202	5,608,388	103,437	1,567,207	-	16,516,234
Net operating income	13,499,864	5,394,738	(102,372)	2,983,234	-	21,775,464
Interest income	28,849	21,778	341	6,138	600,503	657,609
Interest expense	11,986,070	2,468,357	-	3,804,230	6,222,268	24,480,925
Income (loss) before discontinued operations	(18,876,595)	7,078,956	(102,031)	(912,894)	(8,065,528)	(20,878,092)
Cash from (used in) operating activities	2,730,634	2,898,045	(255,009)	(415,813)	(6,399,536)	(1,441,679)
Cash from (used in) financing activities	(2,545,483)	(1,690,510)	(876)	704,902	(3,378,094)	(6,910,061)
Cash from (used in) investing activities	(711,361)	(1,302,911)	-	(224,681)	9,634,287	7,395,334
Total assets excluding assets held for sale at December 31, 2014	247,255,342	113,268,746	-	53,588,461	3,536,386	417,648,935

Year ended December 31, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	24,422,889	10,892,024	3,425,499	1,588,352	-	40,328,764
Property operating costs	8,707,915	5,277,117	1,593,323	541,640	-	16,119,995
Net operating income	15,714,974	5,614,907	1,832,176	1,046,712	-	24,208,769
Interest income	73,229	11,262	37,492	2,801	1,147,956	1,272,740
Interest expense	11,384,536	3,756,848	516,994	3,703,722	7,861,479	27,223,579
Income (loss) before discontinued operations	6,235,907	5,235,984	3,344,923	8,898,126	(9,025,566)	14,689,374
Cash from (used in) operating activities	5,728,756	2,015,236	1,388,337	300,516	(8,196,283)	1,236,562
Cash from (used in) financing activities	(3,620,136)	(884,323)	(15,602,893)	1,543,087	377,389	(18,186,876)
Cash from (used in) investing activities	(1,355,509)	(931,915)	14,399,089	(1,804,977)	7,791,090	18,097,778
Total assets excluding assets held for sale at December 31, 2013	267,258,190	107,485,081	366,541	53,557,016	12,919,628	441,586,456

23 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, 2015
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016

24 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.

25 Subsequent event

Divestiture program
Subsequent to December 31, 2014, LREIT agreed to sell 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million. The purchaser will assume the existing first mortgage loan and the net cash proceeds of approximately $2.5 Million will be used to repay debt. The sale is subject to the removal of final conditions and is expected to close on May 1, 2015.

Revolving loan
Subsequent to December 31, 2014, the Trust received advances of $100,000 and repaid $1,300,000 on the revolving loan, resulting in a balance of $13,300,000 as of the date of the Financial Statements.

Beck Court upward refinancing
Subsequent to December 31, 2014, the first mortgage loan of Beck Court was upward refinanced resulting in net proceeds of approximately $7.4 Million after transaction costs.

Mortgage bonds repayment
Subsequent to December 31, 2014, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000 from the net proceeds of the Beck Court upward refinancing.

26 Comparative figures

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