LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

To the Unitholders of Lanesborough Real Estate Investment Trust:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

MNP LLP

Emphasis of Matter

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

Winnipeg, Manitoba
March 9, 2016

MNP LLP
Chartered Accountants

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY

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

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

The accompanying notes are an integral part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

1 *Organization*

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

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

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

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

2 *Basis of presentation and continuing operations*

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

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

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

2 Basis of presentation and continuing operations (continued)

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

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

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

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

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

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

2 Basis of presentation and continuing operations (continued)

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

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

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

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

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

Statement of compliance

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

3 Significant accounting policies

(a) Principles of consolidation

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

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

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

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

(b) Investment Properties

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

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

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

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

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

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

3 Significant accounting policies (continued)

(c) Property and Equipment

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

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

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

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

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

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

(d) Rent and other receivables

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

3. Significant accounting policies (continued)

(e) Cash

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

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

(f) Assets and liabilities of properties held for sale

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

(g) Mortgages loans, mortgage bonds, and debentures

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

(h) Unit options

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

(i) Tenant deposits

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

(j) Revenue recognition

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

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

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

3 Significant accounting policies (continued)

(j) Revenue recognition (continued)

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

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

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

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

(k) Income taxes

(i) The Trust

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

(ii) Wholly owned subsidiary companies

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

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

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

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

3 Significant accounting policies (continued)

(l) Provisions

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

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

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

(m) Per unit calculations

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

(n) Financial instruments

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

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

3 Significant accounting policies (continued)

(n) Financial instruments (continued)

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

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

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

(o) Future changes to significant accounting policies

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

(i) IFRS 9 - Financial Instruments

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

(ii) IFRS 15 - Revenue from Contracts with Customers

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

3 Significant accounting policies (continued)

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

(iii) IFRS 16 - Leases

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

4 Significant accounting judgments, estimates and assumptions

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

(a) Judgments other than estimates

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

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

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

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

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

(a) Judgments other than estimates (continued)

Operating lease contracts

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

Income taxes

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

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

(b) Estimates

Valuations of property

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

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

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

5 Investment properties

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

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

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

6 Valuations of investment properties and investment properties held for sale

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7 *Defeasance assets and defeased liability*

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

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

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

8 *Restricted cash*

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

9 *Rent and other receivables*

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

10 Deposits and prepaids

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

11 Assets and liabilities of properties held for sale

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

Assets and liabilities held for sale are as follows:

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

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

Income information relating to discontinued operations are as follows:

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

Cash flow information relating to discontinued operations are as follows.

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

(a) Investment properties held for sale

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

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

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

(a) Investment properties held for sale (continued)

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

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

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

(b) Property and equipment

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

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

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

(b) Property and equipment (continued)

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

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

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

(c) Long term debt

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

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

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

(d) Interest expense

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

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

(e) Deferred tax

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

Deductible temporary differences:

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

Unused tax losses expiring in:

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

12 Long-term debt

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

12 *Long-term debt (continued)*

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

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

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

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

12 Long-term debt (continued)

(a) Mortgage loans

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

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

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

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

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

12 Long-term debt (continued)

(b) Debentures

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

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

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

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

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

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

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

(c) Interest rate swap liability

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

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

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

12 *Long-term debt (continued)*

(d) Mortgage bonds

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

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

13 *Trade and other payables*

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

14 *Interest expense*

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

15 Fair value adjustments

Fair value adjustments consist of the following:

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

16 Per unit calculations

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

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

17 Units

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

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

18 Warrants

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

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

19 Unit option plan

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

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

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

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

19 Unit option plan (continued)

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

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

20 Deferred unit plan

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

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

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

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

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

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

21 Related party transactions

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

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

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

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

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

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

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

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21 Related party transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

22 Financial instruments and risk management

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

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

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

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

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

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

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

22 *Financial instruments and risk management (continued)*

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

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

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

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

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

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

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

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

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

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

22 Financial instruments and risk management (continued)

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

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

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

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

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

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

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

22 *Financial instruments and risk management (continued)*

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

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

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

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

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

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

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

22 *Financial instruments and risk management (continued)*

Fair values (continued)

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

23 *Management of capital*

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

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

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

The overall capital management strategy addresses the following considerations:

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

23 Management of capital (continued)

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

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

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

24 Segmented financial information

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

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

Year ended December 31, 2015:

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

24 *Segmented financial information (continued)*

Year ended December 31, 2014:

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

25 *Commitments*

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

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

26 *Contingencies*

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

27 *Subsequent event*

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

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

27 Subsequent event (continued)

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

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

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

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

28 Comparative figures

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