LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2015	December 31 2014
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$338,053,430**	$406,619,555
Defeasance assets	**2,694,237**	2,731,947
Restricted cash	**3,339,907**	3,480,259
Total non-current assets	**344,087,574**	412,831,761
Current assets		
Cash	**717,909**	1,963,735
Rent and other receivables	**1,831,697**	1,663,043
Deposits and prepaids	**1,340,216**	1,190,396
	3,889,822	4,817,174
Assets held for sale (Note 5)	**92,152,535**	25,124,665
Total current assets	**96,042,357**	29,941,839
TOTAL ASSETS	**$440,129,931**	$442,773,600
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 6)	**$156,003,831**	$101,953,013
Total non-current liabilities	**156,003,831**	101,953,013
Current liabilities		
Trade and other payables (Note 7)	**17,489,427**	17,495,580
Current portion of long-term debt (Note 6)	**157,299,835**	210,073,719
Deposits from tenants	**2,418,119**	2,514,508
	177,207,381	230,083,807
Liabilities held for sale (Note 5)	**14,840,141**	14,846,156
Total current liabilities	**192,047,522**	244,929,963
Total liabilities	**348,051,353**	346,882,976
Total equity	**92,078,578**	95,890,624
TOTAL LIABILITIES AND EQUITY	**$440,129,931**	$442,773,600

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31 2015	2014
Rentals from investment properties	**$ 8,731,719**	$ 8,908,725
Property operating costs	**3,978,737**	4,404,658
Net operating income	**4,752,982**	4,504,067
Interest income	**24,892**	385,218
Interest expense (Note 8)	**(6,409,004)**	(6,954,282)
Trust expense	**(391,859)**	(620,685)
Gain on sale of investment property	**-**	71,235
Fair value adjustments (Note 4)	**(1,896,822)**	-
Income recovery on Parsons Landing	**-**	98,499
Loss before discontinued operations	**(3,919,811)**	(2,515,948)
Income from discontinued operations (Note 5)	**107,765**	111,935
Loss and comprehensive loss	**$ (3,812,046)**	$ (2,404,013)
Loss per unit before discontinued operations:		
Basic	**$ (0.185)**	$ (0.122)
Diluted	**$ (0.185)**	$ (0.122)
Income per unit from discontinued operations:		
Basic	**$ 0.005**	$ 0.006
Diluted	**$ 0.005**	$ 0.006
Loss per unit:		
Basic	**$ (0.180)**	$ (0.116)
Diluted	**$ (0.180)**	$ (0.116)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended March 31	
	2015	**2014**
Issued capital (Note 10)		
Balance, beginning of period	**$116,841,529**	$116,100,394
Units issued on:		
Exercise of options	**-**	19,380
Exercise of warrants	**-**	567,138
Balance, end of period	**116,841,529**	116,686,912
Contributed surplus		
Balance, beginning of period	**17,027,907**	17,091,850
Value of deferred units granted	**-**	18,750
Warrants exercised	**-**	(98,889)
Warrants purchased under normal course issuer bid	**-**	(19,386)
Balance, end of period	**17,027,907**	16,992,325
Cumulative earnings		
Balance, beginning of period	**36,371,223**	58,609,804
Loss and comprehensive loss	**(3,812,046)**	(2,404,013)
Balance, end of period	**32,559,177**	56,205,791
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(74,350,035)**	(74,350,035)
Total equity	**$ 92,078,578**	$115,534,993

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Operating activities		
Loss and comprehensive loss	**$ (3,812,046)**	$ (2,404,013)
Adjustments to reconcile income to cash flows		
Fair value adjustments - Investment properties	**1,896,822**	-
Gain on sale of properties	**-**	(71,235)
Loss on warrant repurchases	**-**	34,947
Accrued rental revenue	**147,345**	(88,571)
Gain on debenture repurchases	**(5,976)**	-
Unit-based compensation	**-**	18,750
Interest income	**(24,892)**	(385,218)
Interest received	**27,092**	214,803
Interest expense	**6,716,728**	7,111,939
Interest paid	**(4,658,636)**	(4,578,722)
Cash from operations	**286,437**	(147,320)
Decrease (increase) in rent and other receivables	**(320,309)**	29,723
Decrease (increase) in deposits and prepaids	**(142,863)**	133,578
Increase (decrease) in tenant deposits	**(134,758)**	177,090
Increase in trade and other payables	**19,355**	525,570
	(292,138)	718,641
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**16,000,000**	40,000,000
Repayment of mortgage loans on refinancing	**(8,390,390)**	-
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	**(1,693,027)**	(1,577,312)
Proceeds of revolving loan commitment	**870,000**	14,745,000
Repayment of revolving loan commitment	**(1,300,000)**	(650,000)
Expenditures on transaction costs	**(220,895)**	(1,036,505)
Exercise of options	**-**	19,380
Exercise of warrants	**-**	468,249
Debentures purchased and cancelled under normal course issuer bid	**(34,024)**	-
Warrants purchased and cancelled under normal course issuer bid	**-**	(54,333)
	(768,336)	(2,092,252)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(247,452)**	(198,776)
Capital expenditures on property and equipment	**-**	(15,902)
Decrease in defeasance assets	**37,710**	36,959
Proceeds of mortgage loans receivable	**-**	500,000
Proceeds of sale	**-**	(6,877)
Change in restricted cash	**164,232**	(288,476)
	(45,510)	26,928
Cash decrease	**(1,105,984)**	(1,346,683)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 5)	**(139,842)**	14,702
	(1,245,826)	(1,331,981)
Cash, beginning of period	**1,963,735**	2,755,741
Cash, end of period	**$ 717,909**	$ 1,423,760

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
Warrants expiring December 23, 2015	LRT.WT.A

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

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three months ended March 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 May 11, 2015.

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 Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust incurred a loss before discontinued operations of $3,919,811 for the three months ended March 31, 2015 (2014 - $2,515,948). The Trust incurred a cash deficiency from operating activities of $292,138 for the three months ended March 31, 2015 (2014 - generated cash of $718,641). After deduction of capital expenditures, expenditures on transaction costs and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $2,453,512 for the three months ended March 31, 2015 (2014 - $2,109,854). In addition, the Trust has a working capital deficit of $13,637,847 as at March 31, 2015 (December 31, 2014 - $12,715,808) and the Trust was in breach of debt service coverage requirements on one mortgage loan and a related interest rate swap liability (December 31, 2014 - three mortgage loans and a related interest rate swap liability).

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,217,585 mortgage loan with a maturity date of June 4, 2018 and the related $1,632,668 interest rate swap liability on a property in Fort McMurray, Alberta. Subsequent to March 31, 2015, the mortgage loan was refinanced, the swap liability was settled, and the covenant breach was eliminated.

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

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 24 properties, including one property which was sold subsequent to March 31, 2015, the Trust has successfully renewed mortgage loans at maturity, the Trust has extended the maturity date for the Series G debentures to 2018, the Trust has successfully eliminated covenant breaches on ten mortgage loans through refinancing, obtaining modified loan terms from lenders, and/or improved operations, including one covenant breach that was eliminated subsequent to March 31, 2015 as a result of refinancing, the Trust has completed the acquisition of Parsons Landing, and the Trust has repaid all mortgage bond debt.

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

Statement of compliance

The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same accounting policies under IFRS as disclosed in the December 31, 2014 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at May 11, 2015.

The December 31, 2014 annual report is available on SEDAR at www.sedar.com.

3 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. In the process of applying the Trust's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Trust's Consolidated Financial Statements for the year ended December 31, 2014.

4 Investment properties

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Balance, beginning of period	$406,619,555	$421,040,369
Additions - capital expenditures	247,452	198,776
Fair value adjustments	(1,896,822)	-
Dispositions	-	(373,045)
Investment properties transferred to held for sale	(66,916,755)	-
Balance, end of period	$338,053,430	$420,866,100

Investment properties and investment properties transferred to held for sale have been valued using methods consistent with those used in the annual Financial Statements with the following weighted average capitalization and discount rates:

	Capitalization Rate		Discount Rate	
	Range	Weighted Average	Range	Weighted Average
March 31, 2015	4.50% - 8.00%	6.66 %	6.50% - 10.00%	8.66 %
December 31, 2014	4.75% - 8.00%	6.70 %	6.75% - 10.00%	8.70 %

5 Assets and liabilities of properties held for sale

Assets held for sale
Properties are transferred to assets 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

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

Investment Properties	-	fair value
All other assets	-	lower of carrying value or fair value

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

The following investment properties are non-current assets classified as held for sale.

	March 31 2015	December 31 2014
156/204 East Lake Blvd.	$ 3,900,000	$ -
Colony Square	63,016,755	-
	$ 66,916,755	$ -

Subsequent to March 31, 2015, the Trust sold the following property:

Property	Sale Date	Consideration
156/204 East Lake Blvd.	April 1, 2015	$ 4,000,000

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 Condensed Consolidated Statement of Comprehensive Loss and the assets and liabilities are presented separately on the face of the Condensed 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).

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

Assets and liabilities held for sale are as follows:

	March 31 2015	December 31 2014
ASSETS		
Investment properties held for sale	$ 66,916,755	$ -
Assets in discontinued operations		
Property and equipment	25,014,979	25,014,979
Cash	163,533	23,691
Restricted cash	26,096	49,976
Rent and other receivables	6,556	4,446
Deposits, prepaids and other	24,616	31,573
	25,235,780	25,124,665
Assets held for sale	$ 92,152,535	$ 25,124,665
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 14,330,299	$ 14,298,793
Trade and other payables	250,955	250,107
Deposits from tenants	258,887	297,256
Liabilities held for sale	$ 14,840,141	$ 14,846,156

Income information relating to discontinued operations are as follows:

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Rental income	$ 1,372,520	$ 1,286,961
Property operating expenses	957,031	1,017,369
Net operating income	415,489	269,592
Interest expense	(307,724)	(157,657)
Income from discontinued operations	$ 107,765	$ 111,935

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Cash inflow from operating activities	$ 147,953	$ 98,103
Cash outflow from financing activities	(31,991)	(93,138)
Cash inflow (outflow) from investing activities	23,880	(19,667)
Increase (decrease) in cash from discontinued operations	$ 139,842	$ (14,702)

6 Long-term debt

	March 31 2015	December 31 2014
Secured debt		
Mortgage loans (a)	$ 284,679,026	$ 278,704,067
Interest rate swap liability (b)	1,632,668	1,441,705
Mortgage bonds (c)	-	5,786,226
Debentures (d)	24,833,800	24,873,800
Defeased liability	2,568,890	2,584,460
Total secured debt	313,714,384	313,390,258
Accrued interest payable	1,893,957	1,478,261
Unamortized transaction costs		
Mortgage loans	(1,433,816)	(1,758,930)
Mortgage bonds	-	(153,325)
Debentures	(859,974)	(915,989)
Defeased liability	(10,885)	(13,543)
Total unamortized transaction costs	(2,304,675)	(2,841,787)
	313,303,666	312,026,732
Less current portion		
Mortgage loans	(154,663,808)	(202,908,513)
Interest rate swap liability	(1,632,668)	(1,441,705)
Mortgage bonds	-	(5,786,226)
Defeased liability	(64,494)	(63,602)
Accrued interest payable	(1,893,957)	(1,478,261)
Transaction costs	955,092	1,604,588
Total current portion	(157,299,835)	(210,073,719)
	$ 156,003,831	$ 101,953,013
Current portion of unamortized transaction costs		
Mortgage loans	$ 710,331	$ 1,212,781
Mortgage bonds	-	153,325
Debentures	233,876	227,698
Defeased liability	10,885	10,784
	$ 955,092	$ 1,604,588

6 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates		Amount	
	March 31 2015	December 31 2014	March 31 2015	December 31 2014
First mortgage loans				
Fixed rate	4.5%	4.5%	$ 177,806,075	$ 171,581,117
Variable rate	6.9%	6.9%	88,866,664	89,116,663
Total first mortgage loans	5.3%	5.3%	266,672,739	260,697,780
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,500,000	4,500,000
Variable rate	11.1%	11.1%	13,506,287	13,506,287
Total second mortgage loans	11.3%	11.3%	18,006,287	18,006,287
Total	5.7%	5.7%	$ 284,679,026	$ 278,704,067

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. As of March 31, 2015, the Trust was not in compliance with a 1.15 overall Trust debt service coverage requirement of a $15,217,585 mortgage loan and the related $1,632,668 interest rate swap liability on a property in Fort McMurray, Alberta. Subsequent to March 31, 2015, the mortgage loan was refinanced, the swap liability was settled, and the covenant breach was eliminated.

Subsequent to March 31, 2015, one interest-only mortgage loan with a balance of $40,000,000 matured and is currently overholding past the maturity date. The lender has not demanded repayment and LREIT continues to be current with its scheduled interest payments. As of the date of this report, renewal discussions with the lender are in progress.

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

(b) Interest rate swap liability

The Trust has entered into an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan in the amount of $15,217,585 has a fixed rate of 5.82% and matures in 2018. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis.

The change in fair value of interest rate swap liability increased by $190,963 during the three months ended March 31, 2015 (2014 - $74,712 decrease).

Subsequent to March 31, 2015, the swap liability was settled along with the refinancing of the related mortgage loan.

6 *Long-term debt (continued)*

(c) Mortgage bonds

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

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

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due June 30, 2018 is $24,833,800 (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 is entitled to purchase up to $2,476,380 of Series G debentures. The normal course issuer bid expires on June 22, 2015.

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

During the three months ended March 31, 2015, the Trust purchased and cancelled Series G debentures with a face value of $40,000 at an average price of $83.15 per $100.00.

Subsequent to March 31, 2015, the Trust purchased and cancelled Series G debentures with a face value of $23,000 at an average price of $72.09 per $100.00.

7 *Trade and other payables*

	March 31 2015	December 31 2014
Accounts payable - vendor invoices	$ 1,356,239	$ 1,256,193
Accrued payables	841,332	708,197
Prepaid rent	816,333	1,031,190
	3,013,904	2,995,580
Revolving loan from 2668921 Manitoba Ltd. (Note 18)	14,070,000	14,500,000
Accrued interest on Revolving loan from 2668921 Manitoba Ltd.	405,523	-
	$ 17,489,427	$ 17,495,580

8 Interest expense

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Mortgage loan interest	$ 4,539,471	$ 3,895,983
Change in fair value of interest rate swap	190,963	(74,712)
Mortgage bond interest	123,616	176,918
Accretion of mortgage bonds	213,774	726,591
Debenture interest	581,723	582,660
Amortization of transaction costs	759,457	993,527
Interest on acquisition payable	-	653,315
	$ 6,409,004	$ 6,954,282

9 Per unit calculations

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Loss before discontinued operations	$ (3,919,811)	$ (2,515,948)
Income from discontinued operations	107,765	111,935
Loss	$ (3,812,046)	$ (2,404,013)

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Weighted average number of units:		
Units	20,252,386	19,882,320
Deferred units	896,510	824,091
Total basic	21,148,896	20,706,411
Total diluted	21,148,896	20,706,411

10 Units

	Three Months Ended March 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
Outstanding, end of period	20,252,386	$116,841,529	20,252,386	$116,841,529

11 Warrants

Warrants expired March 9, 2015:

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.

	March 31 2015	December 31 2014
Balance, beginning of period	6,570,025	6,780,000
Warrants expired	(6,570,025)	-
Warrants exercised	-	(79,375)
Purchased and cancelled under normal course issuer bid	-	(130,600)
Balance, end of period	-	6,570,025

Warrants expiring December 23, 2015:

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

	March 31 2015	December 31 2014
Balance, beginning of period	13,509,200	14,493,000
Warrants exercised	-	(683,000)
Purchased and cancelled under normal course issuer bid	-	(300,800)
Balance, end of period	13,509,200	13,509,200

12 Unit option plan

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

	Three Months Ended March 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
Outstanding, end of period	466,000	$ 0.72	466,000	$ 0.72
Vested, end of period	466,000		466,000	

12 *Unit option plan (continued)*

At March 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	200,000	200,000	May 19, 2019
	466,000	466,000	

13 *Deferred unit plan*

Deferred units granted to Trustees totaled nil for the three months ended March 31, 2015 (2014 - 15,244). Aggregate deferred units outstanding and fully vested at March 31, 2015 were 896,510 (December 31, 2014 - 896,510).

Unit-based compensation expense of nil for the three months ended March 31, 2015 (2014 - $18,750) relating to deferred units granted was recorded to unit-based compensation expense under trust expense.

14 *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.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $349,862 for the three months ended March 31, 2015 (2014 - $377,633).

Included in trade and other payables at March 31, 2015 is a balance of $3,380 receivable from Shelter Canadian Properties Limited (December 31, 2014 - $10,210 receivable) in regard to outstanding property management fees.

14 Related party transactions (continued)

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 $318,235 for the three months ended March 31, 2015 (2014 - $337,163).

Included in trade and other payables at March 31, 2015 is a balance of $318,235 (December 31, 2014 - nil) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

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

The Trust incurred service fees payable to Shelter Canadian Properties Limited of nil for the three months ended March 31, 2015 (2014 - $24,932).

Financing
On January 1, 2014, the Trust had a $15 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan matured September 30, 2014 and bore interest at 12%, subject to a maximum interest and fee payment of $1,206,357 for the period from January 1, 2014 to September 30, 2014 and was renewed on October 1, 2014 to June 30, 2015 bearing interest at 12%, subject to a maximum interest and fee payment of $1,375,000 for the period from October 1, 2014 to June 30, 2015. The renewal at October 1, 2014 encompassed extension fees of $25,000.

During the three months ended March 31, 2015, the Trust received advances of $870,000 (2014 - $14,745,000) and repaid advances of $1,300,000 (2014 - $650,000) against the revolving loan, resulting in a balance of $14,070,000 (December 31, 2014 - $14,500,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $405,523 for the three months ended March 31, 2015 (2014 - $377,186) is included in interest expense.

Included in trade and other payables at March 31, 2015 is a balance of $405,523 (December 31, 2014 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

14 Related party transactions (continued)

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

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

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

15 Financial instruments and risk management

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

Liquidity risk - debt covenant requirements
At March 31, 2015, The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,217,585 mortgage loan with a maturity date of June 4, 2018 and the related $1,632,668 interest rate swap liability on a property in Fort McMurray, Alberta. Subsequent to March 31, 2015, the mortgage loan was refinanced, the swap liability was settled, and the covenant breach was eliminated.

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

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

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

As at March 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).

15 Financial instruments and risk management (continued)

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

March 31, 2015	Mortgage Loans Normal Principal Installments	Mortgage Loans Principal Maturities	Debentures and Mortgage Bonds	Defeased Liability
2015 - Remainder of year (1)	$ 3,187,359	$150,668,160	$ -	$ 48,032
2016	3,223,618	7,540,967	-	2,520,858
2017	3,205,429	18,008,996	-	-
2018	1,655,792	55,302,118	24,833,800	-
2019	579,349	27,302,754	-	-
Thereafter	-	14,004,484	-	-
	$ 11,851,547	$272,827,479	$ 24,833,800	$ 2,568,890

March 31, 2015	Subtotal	Other Payables (2)	Total
2015 - Remainder of year (1)	$153,903,551	$ 23,434,171	$177,337,722
2016	13,285,443	-	13,285,443
2017	21,214,425	-	21,214,425
2018	81,791,710	-	81,791,710
2019	27,882,103	-	27,882,103
Thereafter	14,004,484	-	14,004,484
	$312,081,716	$ 23,434,171	$335,515,887

(1) Mortgage loan principal maturities include one mortgage loan which is not in compliance with the debt service coverage requirement. In accordance with IFRS, the mortgage loan in the amount of $15,217,585 is reflected as current liability.

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

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At March 31, 2015 the percentage of fixed rate mortgage loans to total mortgage loans was 64% (December 31, 2014 - 63%).

The Trust has variable rate mortgage loans on investment properties totaling $102,372,951, or 36% of the total mortgage loans at March 31, 2015 (December 31, 2014 - 37%). Should interest rates change by 1%, interest expense would change by $1,023,730 per year.

As at March 31, 2015, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to March 31, 2018 of $76,277,346 representing 27% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $762,773 per year.

15 Financial instruments and risk management (continued)

Interest rate risk (continued)

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

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:

	March 31 2015	December 31 2014
Rent receivable overdue:		
0 to 30 days	$ 49,336	$ 48,222
31 to 60 days	7,423	3,087
More than 60 days	29,629	23,482
	$ 86,388	$ 74,791

A reconciliation of allowance for doubtful accounts is as follows:

	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Balance, beginning of period	$ 18,789	$ 32,751
Amount charged to bad debt expense relating to impairment of rent receivable	8,289	2,247
Amounts written off as uncollectible	(1,648)	(23,324)
Balance, end of period	$ 25,430	$ 11,674
Amount charged to bad debts as a percent of rentals from investment properties	0.09%	0.03%

15 Financial instruments and risk management (continued)

Credit risk (continued)
The Trust continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the Trust's covenants. At March 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $53,070,953 (December 31, 2014 - $64,499,331) which expires between 2015 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 condensed consolidated financial statements.

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

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

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

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

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

	Carrying Value		Fair Value	
	March 31 2015	December 31 2014	March 31 2015	December 31 2014
Financial assets				
Defeasance assets	2,694,237	2,731,947	-	-
Restricted cash	3,339,907	3,480,259	3,071,441	3,181,875
Cash	717,909	1,963,735	717,909	1,963,735
Rent and other receivables	1,831,697	1,663,043	1,831,697	1,663,043
Deposits	817,832	532,230	817,832	532,230
Financial liabilities				
Mortgages loans	284,679,026	278,704,067	289,964,559	282,108,110
Mortgage bonds	-	5,786,226	-	6,000,000
Debentures	24,833,800	24,873,800	19,819,572	24,131,239
Defeased liability	2,568,890	2,584,460	-	-
Trade and other payables	17,489,427	17,495,580	17,489,427	17,495,580
Deposits from tenants	2,418,119	2,514,508	2,418,119	2,514,508

15 Financial instruments and risk management (continued)

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

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying value due to the short-term maturities of these instruments.
- Restricted cash is estimated by discounting expected future cash flows using current market interest rates. Tenant security deposits included in restricted cash approximate their carrying value.
- The fair value of the defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
- In regard to mortgages loans and mortgage guarantee fees:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 1.45% and 5.51%.
  - The fair value of the swap mortgage is estimated based on the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity, using discount rates currently available for debt of similar terms and remaining maturities.
- The fair value of debentures is based on quoted market prices. The valuation method is classified as level 1 of the fair value hierarchy as the inputs are from an active market.
- The fair value of mortgage bonds approximates the face value due to the short term maturity.

16 *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.

Three months ended March 31, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	5,766,039	1,288,782	1,676,898	-	8,731,719
Property operating costs	2,589,242	638,719	750,776	-	3,978,737
Net operating income	3,176,797	650,063	926,122	-	4,752,982
Interest income	6,239	2,701	622	15,330	24,892
Interest expense	4,110,049	303,850	413,661	1,581,444	6,409,004
Income (loss) before discontinued operations	(4,155,702)	348,917	1,844,947	(1,957,973)	(3,919,811)
Cash from (used in) operating activities	(1,178,268)	580,218	282,843	(124,884)	(440,091)
Cash from (used in) financing activities	272,042	(669,451)	(304,282)	(34,654)	(736,345)
Cash from (used in) investing activities	(44,557)	61,951	(128,159)	41,375	(69,390)
Total assets excluding discontinued operations at March 31, 2015 (Note 5)	297,504,554	46,106,901	68,089,091	3,193,605	414,894,151

Three months ended March 31, 2014:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	6,292,446	1,237,004	1,379,275	-	8,908,725
Property operating costs	2,959,317	645,188	800,153	-	4,404,658
Net operating income	3,333,129	591,816	579,122	-	4,504,067
Interest income	9,028	1,577	1,136	373,477	385,218
Interest expense	3,850,502	209,471	409,364	2,484,945	6,954,282
Income (loss) before discontinued operations	(338,610)	383,922	170,894	(2,732,154)	(2,515,948)
Cash from (used in) operating activities	484,587	388,523	29,200	(281,772)	620,538
Cash from (used in) financing activities	(932,103)	(423,232)	(257,634)	(386,145)	(1,999,114)
Cash from (used in) investing activities	(313,791)	(65,977)	(105,175)	531,538	46,595
Total assets excluding discontinued operations at December 31, 2014 (Note 5)	300,843,803	46,437,500	66,831,246	3,536,386	417,648,935

17 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.

18 Subsequent event

Mortgage loan refinancing
Subsequent to March 31, 2015, the first mortgage loan of Millennium Village was refinanced with a new first mortgage loan of $13.0 Million and a $7.5 Million interest-only second mortgage loan secured by assets of 2668921 Manitoba Ltd. The net proceeds of the two loans, after a $0.7 Million holdback, were used to discharge the existing $15.2 Million first mortgage loan and an associated $1.6 Million interest rate swap liability and to reduce the balance of a loan with a second secured charge over Millennium Village by $3.0 Million in exchange for discharge of the security.

Divestiture program
On April 1, 2015, LREIT completed the sale of a commercial property in Airdrie, Alberta for net proceeds of $2.4 Million, after sales expenses and assumption of the mortgage loan debt by the purchaser.

Revolving loan
Subsequent to March 31, 2015, the Trust received advances of $1,534,000 and repaid $2,404,000 on the revolving loan, resulting in a balance of $13,200,000 as of the date of the Financial Statements.

19 Comparative figures

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