LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2016	December 31 2015
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$184,523,467**	$216,434,958
Restricted cash	**2,814,240**	2,850,478
Total non-current assets	**187,337,707**	219,285,436
Current assets		
Cash	**614,469**	407,513
Rent and other receivables	**292,704**	419,815
Deposits and prepaids	**1,120,038**	1,037,538
Defeasance assets	**2,541,910**	2,580,343
	4,569,121	4,445,209
Assets held for sale (Note 6)	**83,979,308**	54,794,159
Total current assets	**88,548,429**	59,239,368
TOTAL ASSETS	**$275,886,136**	$278,524,804
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 7)	**$ 84,514,826**	$122,080,890
Total non-current liabilities	**84,514,826**	122,080,890
Current liabilities		
Trade and other payables (Note 8)	**1,994,398**	1,735,601
Current portion of long-term debt (Note 7)	**183,653,861**	141,300,008
Deposits from tenants	**1,424,090**	1,510,790
	187,072,349	144,546,399
Liabilities held for sale (Note 6)	**14,773,277**	14,772,534
Total current liabilities	**201,845,626**	159,318,933
Total liabilities	**286,360,452**	281,399,823
Total (deficit) equity	**(10,474,316)**	(2,875,019)
TOTAL LIABILITIES AND EQUITY	**$275,886,136**	$278,524,804

Approved by the Board of Trustees

"Charles Loewen"   *"Earl Coleman"*

The accompanying notes are an integral part of these financial statements

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31	
	2016	**2015**
Rentals from investment properties	**$ 4,451,462**	$ 8,731,719
Property operating costs	**2,792,105**	3,978,737
Net operating income	**1,659,357**	4,752,982
Interest income	**17,253**	24,892
Interest expense (Note 9)	**(5,656,180)**	(6,409,004)
Trust expense	**(556,430)**	(391,859)
Fair value adjustments (Note 10)	**(3,104,229)**	(1,896,822)
Loss before discontinued operations	**(7,640,229)**	(3,919,811)
Income from discontinued operations (Note 6)	**40,932**	107,765
Loss and comprehensive loss	**$ (7,599,297)**	$ (3,812,046)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (0.361)**	$ (0.185)
Income per unit from discontinued operations:		
Basic and diluted	**$ 0.002**	$ 0.005
Loss per unit:		
Basic and diluted	**$ (0.359)**	$ (0.180)

The accompanying notes are an integral part of these financial statements
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY

	Three Months Ended March 31	
	2016	**2015**
Issued capital (Note 12)		
Balance, beginning of period	**$ 125,641,529**	$116,841,529
Balance, end of period	**125,641,529**	116,841,529
Contributed surplus		
Balance, beginning of period	**17,027,907**	17,027,907
Balance, end of period	**17,027,907**	17,027,907
Cumulative (deficit) earnings		
Balance, beginning of period	**(62,394,420)**	36,371,223
Loss and comprehensive loss	**(7,599,297)**	(3,812,046)
Balance, end of period	**(69,993,717)**	32,559,177
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(74,350,035)
Balance, end of period	**(83,150,035)**	(74,350,035)
Total (deficit) equity	**$ (10,474,316)**	$ 92,078,578

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Operating activities		
Loss and comprehensive loss	**$ (7,599,297)**	$ (3,812,046)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 10)	**3,104,229**	1,896,822
Fair value adjustment - Property and equipment (Note 6)	**214,494**	-
Accrued rental revenue	**30,483**	147,345
Gain on debenture repurchases	**-**	(5,976)
Interest income	**(17,253)**	(24,892)
Interest received	**16,957**	27,092
Interest expense	**5,888,733**	6,716,728
Interest paid	**(3,292,734)**	(4,658,636)
Cash provided by (used in) operations	**(1,654,388)**	286,437
Decrease (increase) in rent and other receivables	**96,684**	(320,309)
Decrease (increase) in deposits and prepaids	**(71,033)**	(370,029)
Increase (decrease) in tenant deposits	**(68,212)**	(134,758)
Increase (decrease) in trade and other payables	**284,577**	246,521
	(1,412,372)	(292,138)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**-**	16,000,000
Repayment of mortgage loans on refinancing	**-**	(8,390,390)
Redemption of mortgage bonds	**-**	(6,000,000)
Repayment of long-term debt	**(1,191,354)**	(1,693,027)
Prepayment of mortgage loans	**(7,500,000)**	-
Proceeds of revolving loan facility	**10,900,000**	870,000
Repayment of revolving loan facility	**-**	(1,300,000)
Expenditures on transaction costs	**(60,381)**	(220,895)
Debentures purchased and cancelled under normal course issuer bid	**-**	(34,024)
	2,148,265	(768,336)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(138,833)**	(247,452)
Capital expenditures on property and equipment	**(214,494)**	-
Decrease in defeasance assets	**38,433**	37,710
Change in restricted cash	**35,638**	164,232
	(279,256)	(45,510)
Cash increase (decrease)	**456,637**	(1,105,984)
Deduct increase in cash from discontinued operations (Note 6)	**(249,681)**	(139,842)
	206,956	(1,245,826)
Cash, beginning of period	**407,513**	1,963,735
Cash, end of period	**$ 614,469**	$ 717,909

The accompanying notes are an integral part of these financial statements
(unaudited)

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 condensed consolidated financial statements of the Trust for the three months ended March 31, 2016 and 2015 ("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 10, 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 limited cash and working capital resources, and (vi) the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $7,640,229 for the three months ended March 31, 2016 (2015 - $3,919,811). The Trust incurred a cash deficiency from operating activities of $1,412,372 for the three months ended March 31, 2016 (2015 - $292,138). 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 $3,017,434 for the three months ended March 31, 2016 (2015 - $2,453,512).

During the first quarter of 2016, the Trust defaulted on the debt service requirements of twelve mortgage loans in the aggregate amount of $193,999,150 related to all thirteen properties in its Fort McMurray portfolio and remained in breach of an annual debt covenant requirement on a mortgage loan in the amount of $4,154,410, which was classified as a discontinued operations. Failure to comply with debt service obligations and debt covenant requirements are events of default that allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements. The defaults are discussed in more detail below.

2 Basis of presentation and continuing operations (continued)

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $18,089 and interest payments of $18,733 on a first mortgage loan in the amount of $12,840,134 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to March 31, 2016, the Trust withheld principal payments of $36,375 and interest payments of $37,467 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loan and the lender has taken no action against the Trust and continues to engage in discussions with respect to the restructuring of the mortgage loan. The Trust intends on deferring all principal payments and 40% of the interest payments related to this mortgage loan until an alternative agreement is reached with the lender.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $58,381 and interest payments of $26,075 on one first mortgage loan in the amount of $29,563,459 related to one property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. The affected lender has demanded repayment of the loan. Subsequent to March 31, 2016, the Trust withheld principal payments of $117,484 and interest payments of $52,150 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loan and the lender has not enforced their security or taken further action against the Trust. The lender continues to engage in discussions with the Trust with respect to the restructuring of the mortgage loan and has entered into a pre-negotiation agreement with the Trust for this purpose. The Trust intends on making payments with respect to this mortgage loan equivalent to the available cashflow from the affected property until an alternative agreement is reached with the lender.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld principal payments of $77,083 and interest payments of $65,101 on four first mortgage loans in the amount of $36,937,183 related to seven properties in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender and the affected lender demanded repayment of the loans. Subsequent to March 31, 2016, the Trust withheld principal payments of $155,186 and interest payments of $130,201 with respect to this mortgage loan. As of the date of this report, the Trust has not repaid the loans and the lender has not enforced their security or taken further action against the Trust. The lender continues to engage in discussions with the Trust with respect to the restructuring of the mortgage loans and has entered into a pre-negotiation agreement with the Trust for this purpose. The Trust intends on deferring all principal payments and 40% of the interest payments related to the above mortgage loans until an alternative agreement is reached with the lender.

During the first quarter of 2016, after informing the lender of its intentions, the Trust withheld principal payments of $187,870 on a $24,431,365 first mortgage loan related to a property in its Fort McMurray portfolio. In addition, at December 31, 2015, the Trust was in breach of the annual 1.25:1 debt service coverage ratio requirement and the annual 2.5:1 debt-to-equity ratio requirement of the mortgage loan. The Trust entered into a forbearance agreement with the lender, effective March 1, 2016, for a one-year term, expiring February 28, 2017, at an increased interest rate of prime plus 4%, and with minimum monthly interest-only payments of 3.25%. The forbearance agreement provides for any unpaid interest, forbearance and consulting fees to be capitalized and added to the principal balance of the loan over the term of the forbearance agreement.

2 Basis of presentation and continuing operations (continued)

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $87,589 of principal and $189,622 of interest payable on a first mortgage loan in the amount of $37,943,930 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust and lender agreed to terms of renewal for the mortgage loan for a two-year term, effective May 1, 2016, providing for the deferral of 40% of the monthly interest payments until the maturity date of the mortgage loan. The terms of the renewal provide for the deferred interest to be capitalized into the principal balance of the mortgage loan. The terms of the renewal also require a lump sum payment to the lender of $5,500,000 on May 1, 2017.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $147,501 of principal and $283,155 of interest payable on two first mortgage loans in the aggregate amount of $42,294,376 related to two properties in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust was able to renew the mortgage for a two-year term, effective February 1, 2016, on an interest only basis, at a reduced interest rate, encompassing the deferral of 40% of the monthly interest payments until the maturity date of the loan. The terms of the renewal provide for the deferred interest to be capitalized into the principal balance of the mortgage loan.

At December 31, 2015, the Trust was in breach of an annual 1.30:1 debt service coverage ratio requirement of a $4,154,410 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.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld interest payments of $26,438 on an interest-only second mortgage loan in the amount of $4,571,609 related to a property in its Fort McMurray portfolio. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequent to the default, but prior to the end of the first quarter of 2016, 2668921 Manitoba Ltd. acquired the mortgage from the previous lender, extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date. The amended mortgage loan terms provide for the deferred interest to be capitalized to the principal balance of the mortgage loan.

During the first quarter of 2016, the Trust, after informing the lender of its intentions, withheld $48,769 of interest payable on an interest-only second mortgage loan in the amount of $5,417,099. As a result, the Trust defaulted on its debt service obligations to the lender. Subsequently, the Trust renewed the mortgage loan for a seven-month term, effective February 1, 2016, at a reduced interest rate, encompassing the deferral of 40% of the monthly interest payments until maturity date of the loan. The mortgage was secured by a second charge on three properties in its Fort McMurray portfolio, one of which was sold subsequent to March 31, 2016. The mortgage was paid in full from the proceeds of the sale.

2 Basis of presentation and continuing operations (continued)

As of the date of this report, of the 12 mortgage loans that defaulted on debt service obligations during the first quarter of 2016: the Trust has been able to renew three mortgage loans, inclusive of interest rate and deferred payment concessions; has received amended terms on one mortgage loan, inclusive of an extension and deferred payment concessions, and has secured a forbearance agreement, inclusive of deferred payment concessions, for another mortgage loan and six mortgage loans in the aggregate amount of $79,340,776 are in ongoing discussions with the lenders. One mortgage loan, for a property classified in discontinued operations, remains in breach of an annual debt service covenant (December 31, 2015 - two mortgage loans).

During the first quarter of 2016, the Trust deferred the payment of property management fees in the amount of $62,886 to Shelter with respect to its services for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the amount of $86,711 for the month of March 2016. Subsequent to March 31, 2016, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

During the first quarter of 2016, the Trust deferred payment of interest on the revolving loan facility for February 2016 and March 2016 in the aggregate amount of $346,253. Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

In the event that full repayment is demanded on the revolving loan and the six mortgage loans with an aggregate principal balance of $79,340,776 which remain 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.

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 property 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.

2 Basis of presentation and continuing operations (continued)

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 and for the duration 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 the 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 the December 31, 2015 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at May 10, 2016.

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.

2 Basis of presentation and continuing operations (continued)

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.

Adoption of accounting standards

Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1"): Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to the financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

These amendments did not result in a material impact to these condensed consolidated financial statements.

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, 2015.

4 Investment properties

	Three Months Ended March 31 2016	2015
Balance, beginning of period	$216,434,958	$406,619,555
Additions - capital expenditures	138,833	247,452
Fair value adjustments (Note 10)	(3,104,229)	(1,896,822)
Investment properties transferred to held for sale	(28,946,095)	(66,916,755)
Balance, end of period	$184,523,467	$338,053,430

During the first quarter of 2016, the Trust did not sell any property classified as investment properties, however, $28,946,095 was transferred to investment properties held for sale. During the first quarter of 2015, the Trust did not sell any property classified as investment properties, however, $66,916,755 was transferred to investment properties held for sale.

Investment properties have been valued using the methods and key assumptions in Note 5: *Valuations of investment properties and investment properties held for sale*.

5 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:

	March 31 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	8.00 %	8.00 %	8.00 %	8.00 %
Yellowknife	6.75 %	6.75 %	6.75 %	6.75 %
Other	5.25 %	7.50 %	5.25 %	7.50 %

5 *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:

	March 31 2016		December 31 2015	
	Low	High	Low	High
Fort McMurray	10.00 %	10.00 %	10.00 %	10.00 %
Yellowknife	8.75 %	8.75 %	8.75 %	8.75 %
Other	7.25 %	9.50 %	7.25 %	9.50 %

6 *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. In addition, other properties have been targeted for sale and will be classified as investment properties held for sale, in accordance with IFRS, where a sale is determined to be highly probable.

Assets and liabilities held for sale are as follows:

	March 31 2016	December 31 2015
ASSETS		
Investment properties held for sale (a)	$ 60,906,095	$ 31,960,000
Assets in discontinued operations		
Property and equipment	22,350,000	22,350,000
Cash	673,037	423,356
Restricted cash	21,019	20,419
Rent and other receivables	7,392	7,152
Deposits, prepaids and other	21,765	33,232
	23,073,213	22,834,159
Assets held for sale	$ 83,979,308	$ 54,794,159
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 14,153,035	$ 14,196,924
Trade and other payables	313,991	287,847
Deposits from tenants	306,251	287,763
Liabilities held for sale	$ 14,773,277	$ 14,772,534

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

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 an annual 1.30:1 debt service coverage ratio requirement of a $4,154,410 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.

Income information relating to discontinued operations are as follows:

	Three Months Ended March 31	
	2016	2015
Rental income	$ 1,378,405	$ 1,372,520
Property operating expenses	890,426	957,031
Net operating income	487,979	415,489
Interest expense	(232,553)	(307,724)
Fair value adjustment	(214,494)	-
Income from discontinued operations	$ 40,932	$ 107,765

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended March 31	
	2016	2015
Cash inflow from operating activities	$ 312,659	$ 147,953
Cash inflow (outflow) from financing activities	152,116	(31,991)
Cash (outflow) inflow from investing activities	(215,094)	23,880
Increase in cash from discontinued operations	$ 249,681	$ 139,842

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

(a) Investment properties held for sale

	March 31 2016	December 31 2015
Beck Court	$ 22,975,000	$ 22,975,000
Willowdale Gardens	8,985,000	8,985,000
Woodland Park	28,946,095	-
	$ 60,906,095	$ 31,960,000

	Three Months Ended March 31 2016	2015
Balance, beginning of period	$ 31,960,000	$ -
Investment properties transferred to held for sale (Note 4)	28,946,095	66,916,755
Balance, end of period	$ 60,906,095	$ 66,916,755

Properties are classified as held for sale when it is expected that the carrying value will be recovered principally through sale rather than their continued use and when it is expected that the sale will occur within the next twelve months.

Investment properties held for sale are carried at fair value as at the financial statement date and reflect the prices that would be received for their sale in an orderly transaction between market participants that are motivated but not forced or otherwise compelled to enter into a transaction. Properties are actively marketed to recover appropriate values that reflect current market conditions and/or entity specific circumstances. The ultimate sales price obtained is subject to uncertainty and may or may not reflect the fair value the property is recorded at the financial statement date. Gains or losses arising from differences between the sales price and the carrying value or arising from changes in the fair values between financial statement dates are included in income in the period in which they arise.

Investment properties held for sale have been valued using the methods and key assumptions in Note 5: Valuations of investment properties held for sale.

During 2016, the Trust did not sell any properties classified as held for sale. During 2015, the Trust sold the following two 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)

7 Long-term debt

	March 31 2016	December 31 2015
Secured debt		
Mortgage loans (a)	$ 222,688,466	$ 230,897,904
Debentures (b)	24,810,800	24,810,800
Defeased liability	2,504,397	2,520,859
Revolving loan from 2668921 Manitoba Ltd. (c)	18,000,000	7,100,000
Total secured debt	268,003,663	265,329,563
Accrued interest payable	2,201,500	1,139,300
Unamortized transaction costs		
Mortgage loans	(1,368,693)	(2,352,726)
Debentures	(625,180)	(685,797)
Defeased liability	-	(2,759)
Revolving loan from 2668921 Manitoba Ltd.	(42,603)	(46,683)
Total unamortized transaction costs	(2,036,476)	(3,087,965)
	268,168,687	263,380,898
Less current portion		
Mortgage loans	(162,526,027)	(131,925,665)
Defeased liability	(2,504,397)	(2,520,859)
Revolving loan from 2668921 Manitoba Ltd.	(18,000,000)	(7,100,000)
Accrued interest payable	(2,201,500)	(1,139,300)
Transaction costs	1,578,063	1,385,816
Total current portion	(183,653,861)	(141,300,008)
	$ 84,514,826	$ 122,080,890
Current portion of unamortized transaction costs		
Mortgage loans and revolving loan	$ 1,318,696	$ 1,130,541
Debentures	259,367	252,516
Defeased liability	-	2,759
	$ 1,578,063	$ 1,385,816

7 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates		Amount	
	March 31 2016	December 31 2015	March 31 2016	December 31 2015
First mortgage loans				
Fixed rate	4.9%	4.6%	$ 100,711,532	$ 125,497,028
Variable rate	6.1%	6.9%	111,988,226	87,994,589
Total first mortgage loans	5.5%	5.5%	212,699,758	213,491,617
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,571,609	4,500,000
Variable rate	6.0%	10.4%	5,417,099	12,906,287
Total second mortgage loans	8.6%	10.7%	9,988,708	17,406,287
Total	5.7%	5.9%	$ 222,688,466	$ 230,897,904

As of March 31, 2016, the Trust was in default of six mortgage loans in the aggregate amount of $79,340,776 related to nine properties in its Fort McMurray portfolio. Additional information related to the default of mortgage loans is provided in Note 2: *Basis of presentation and continuing operations*.

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

At March 31, 2016, the Trust did not meet the cash management provisions which have a 1.15:1 debt service coverage requirement on a first mortgage loan in the amount of $29,563,459, with a maturity date of March 1, 2019, 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 attach net cash receipts from the property. The lender has not initiated action 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.

7 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, 2015 - $24,810,800).

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 sale of such property; 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.

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.

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

During the three months ended March 31, 2016 and to the date of this report, the Trust has not purchased any Series G debentures under the normal course issuer bid.

(c) Revolving loan

The Trust obtained a revolving loan from 2668921 Manitoba Limited. As of March 31, 2016, the total amount available under the revolving loan facility is nil. Advances on the revolving loan bear interest at 12%. The revolving loan matures on June 30, 2018. As of March 31, 2016, the amount drawn on the revolving loan was $18,000,000.

8 Trade and other payables

	March 31 2016	December 31 2015
Accounts payable - vendor invoices	$ 1,280,741	$ 798,373
Accrued payables	481,048	588,348
Prepaid rent	232,609	348,880
	$ 1,994,398	$ 1,735,601

9 *Interest expense*

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Mortgage loan interest	$ 3,313,569	$ 4,133,948
Revolving loan interest	463,984	405,523
Change in fair value of interest rate swap	-	190,963
Mortgage bond interest	-	123,616
Accretion of mortgage bonds	-	213,774
Debenture interest	589,257	581,723
Amortization of transaction costs	1,289,370	759,457
	$ 5,656,180	$ 6,409,004

10 *Fair value adjustments*

Fair value adjustments consist of the following:

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Fair value adjustments - investment properties (Note 4)	$ (3,104,229)	$ (1,896,822)

11 *Per unit calculations*

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Loss before discontinued operations	$ (7,640,229)	$ (3,919,811)
Income from discontinued operations	40,932	107,765
Loss	$ (7,599,297)	$ (3,812,046)

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Weighted average number of units:		
Units	20,252,386	20,252,386
Deferred units	896,510	896,510
Total basic and diluted	21,148,896	21,148,896

12 Units

	Three Months Ended March 31, 2016		Year Ended December 31, 2015	
	Units	Amount	Units	Amount
Outstanding, beginning of period	20,252,386	$125,641,529	20,252,386	$116,841,529
Units issued on:				
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	$125,641,529

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.

13 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, 2016		Year Ended December 31, 2015	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	446,000	$ 0.71	466,000	$ 0.72
Cancelled, July 14, 2015	-	-	(20,000)	1.11
Outstanding, end of period	446,000	$ 0.71	446,000	$ 0.71
Vested, end of period	446,000		446,000	

At March 31, 2016 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	

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 $174,055 for the three months ended March 31, 2016 (2015 - $349,862).

Included in trade and other payables at March 31, 2016 is a balance of $33,912 receivable from Shelter Canadian Properties Limited (December 31, 2015 - $87,442 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 $260,133 for the three months ended March 31, 2016 (2015 - $318,235).

Included in trade and other payables at March 31, 2016 is a balance of $86,711 (December 31, 2015 - 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.

14 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 three months ended March 31, 2016 (2015 - nil).

Financing
Revolving loan
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
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 three months ended March 31, 2016, the Trust received advances of $10,900,000 (2015 - $870,000) and repaid advances of nil (2015 - $1,300,000) against the revolving loan, resulting in a balance of $18,000,000 (December 31, 2015 - $7,100,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $463,984 for the three months ended March 31, 2016 (2015 - $405,523) is included in interest expense.

Included in accrued interest payable at March 31, 2016 is a balance of $346,253 (December 31, 2015 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

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

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

Nelson Ridge second mortgage loan
On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan in the amount of $4,571,609, inclusive of accrued interest, with an interest rate of 11.75% and maturity date of November 1, 2016.

Immediately following the purchase, 2668921 Manitoba Ltd. extended the maturity date to March 31, 2017 and waived the requirement to pay interest until the amended maturity date. The amended mortgage loan terms provide for the deferred interest to be capitalized to the principal balance of the mortgage loan.

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.

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 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 an annual 1.30:1 debt service coverage ratio requirement of a $4,154,410 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 and for he duration 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.

15 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 March 31, 2016, the weighted average term to maturity of the fixed rate mortgages on investment properties is 3.6 years (December 31, 2015 - 3.0 years).

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

	Mortgage Loans				
March 31, 2016	Normal Principal Installments (1)	Principal Maturities (2)	Revolving Loan	Debentures	Defeased Liability
2016 - Remainder of year	2,867,826	12,777,273	-	-	2,504,397
2017	8,894,436	53,420,611	-	-	-
2018	1,672,282	95,052,342	18,000,000	24,810,800	-
2019	830,001	27,302,754	-	-	-
2020	724,590	-	-	-	-
Thereafter	1,991,402	23,224,477	-	-	-
	$ 16,980,537	$211,777,457	$18,000,000	$24,810,800	$2,504,397

March 31, 2016	Subtotal Long-term Debt Obligations (3)	Other Payables (4)	Total
2016 - Remainder of year	$ 18,149,496	$ 5,619,988	$ 23,769,484
2017	62,315,047	-	62,315,047
2018	139,535,424	-	139,535,424
2019	28,132,755	-	28,132,755
2020	724,590	-	724,590
Thereafter	25,215,879	-	25,215,879
	$ 274,073,191	$ 5,619,988	$279,693,179

(1) The normal principal installments amount in the chart above for 2017 of $8,894,436 includes a one-time lump-sum principal repayment of $5,500,000 for a first mortgage loan in accordance with the terms of the renewal agreement.

(2) Includes $6,069,528 of future capitalized interest per the terms of forbearance and certain debt renewal agreements and mortgage loan amendments.

(3) If the lenders of the 6 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 the remainder of 2016 would increase to $101,616,942, the total long-term debt due in 2017 would decrease to $43,790,239, the total long-term debt due in 2018 would decrease to $119,836,739, 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.

(4) Other payables include trade and other payables, accrued interest payable and deposits from tenants.

15 Financial instruments and risk management (continued)

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, 2016 the percentage of fixed rate mortgage loans to total mortgage loans was 47% (December 31, 2015 - 56%).

The Trust has variable rate mortgage loans on investment properties totaling $117,405,325, or 53% of the total mortgage loans at March 31, 2016 (December 31, 2015 - 44%). Should interest rates change by 1%, interest expense would change by $1,174,053 per year.

As at March 31, 2016, the Trust has total fixed rate mortgage principal maturities on investment properties which mature on or prior to March 31, 2019 of $76,857,665 representing 35% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $768,577 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.

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 2016	December 31 2015
Rent receivable overdue:		
0 to 30 days	$ 35,691	$ 51,497
31 to 60 days	6,301	4,562
More than 60 days	34,357	42,795
	$ 76,349	$ 98,854

15 Financial instruments and risk management (continued)

Credit risk (continued)

	Three Months Ended March 31 2016	Three Months Ended March 31 2015
Balance, beginning of period	$ 31,502	$ 18,789
Amount charged to bad debt expense relating to impairment of rent receivable	15,172	8,289
Amounts written off as uncollectible	(13,603)	(1,648)
Balance, end of period	$ 33,071	$ 25,430
Amount charged to bad debts as a percent of rentals from investment properties	0.34%	0.09%

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, 2016, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $38,944,961 (December 31, 2015 - $45,382,027) which expires between 2016 and 2022 (December 31, 2015 - expires between 2016 and 2022). There have been no defaults by the primary obligor for debts on which the Trust has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

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

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

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

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

15 Financial instruments and risk management (continued)

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	
	March 31 2016	December 31 2015	March 31 2016	December 31 2015
Financial assets				
Defeasance assets	$ 2,541,910	$ 2,580,343	$ -	$ -
Restricted cash	2,814,240	2,850,478	2,176,093	2,192,702
Cash	614,469	407,513	614,469	407,513
Rent and other receivables	292,704	419,815	292,704	419,815
Deposits	797,445	558,108	797,445	558,108
Financial liabilities				
Mortgages loans	222,688,466	230,897,904	223,928,494	232,347,987
Debentures	24,810,800	24,810,800	5,182,163	11,901,341
Defeased liability	2,504,397	2,520,859	-	-
Trade and other payables	1,994,398	1,735,601	1,994,398	1,735,601
Deposits from tenants	1,424,090	1,510,790	1,424,090	1,510,790

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.
  - 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 3.29% 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.

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, 2016:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	2,744,317	419,002	1,288,143	-	4,451,462
Property operating costs	1,907,568	280,385	604,152	-	2,792,105
Net operating income	836,749	138,617	683,991	-	1,659,357
Interest income	2,437	307	1,035	13,474	17,253
Interest expense	3,520,469	134,302	845,676	1,155,733	5,656,180
Income (loss) before discontinued operations	(5,823,350)	4,621	(122,811)	(1,698,688)	(7,640,228)
Cash from (used in) operating activities	(1,514,301)	(7,705)	589,579	(623,872)	(1,556,299)
Cash from (used in) financing activities	1,664,948	45,470	(552,215)	660,446	1,818,649
Cash from (used in) investing activities	(96,281)	7,269	(4,815)	38,433	(55,394)
Total assets excluding discontinued operations (Note 6) at March 31, 2016	173,924,051	14,122,140	61,689,598	3,077,134	252,812,923

Three months ended March 31, 2015:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	5,003,577	489,588	3,238,554	-	8,731,719
Property operating costs	2,284,651	299,448	1,394,638	-	3,978,737
Net operating income	2,718,926	190,140	1,843,916	-	4,752,982
Interest income	5,279	1,826	2,457	15,330	24,892
Interest expense	3,887,052	111,445	829,063	1,581,444	6,409,004
Income (loss) before discontinued operations	(3,971,411)	80,524	1,929,049	(1,957,973)	(3,919,811)
Cash from (used in) operating activities	(1,548,504)	29,477	1,203,820	(124,884)	(440,091)
Cash from (used in) financing activities	839,825	(102,691)	(1,438,825)	(34,654)	(736,345)
Cash from (used in) investing activities	(50,263)	75,449	(135,951)	41,375	(69,390)
Total assets excluding discontinued operations (Note 6) at December 31, 2015	176,920,334	14,059,384	61,651,889	3,059,038	255,690,645

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

Revolving loan
Subsequent to March 31, 2016, the Trust received advances of nil and repaid $3,900,000 on the revolving loan, resulting in a balance of $14,100,000 as of the date of the Financial Statements.

Advances from Shelter Canadian Properties Limited
Subsequent to March 31, 2016, the Trust received advances of $650,000 and repaid advances of $650,000, resulting in a balance of nil as of the date of the Financial Statements.

Deferral of principal and interest payments: Mortgage loans on Fort McMurray properties
Subsequent to March 31, 2016, the Trust withheld principal payments of $309,044 and interest payments of $219,818 related to six mortgage loans, in the aggregate amount of $79,340,776, on nine properties in its Fort McMurray portfolio. As of the date of this report, the Trust has not repaid the loans and the lenders have not enforced their security or taken further action against the Trust. The lenders continue to engage in discussions with the Trust with respect to the restructuring of the mortgage loans and one of the two lenders has entered into a pre-negotiation agreement with the Trust for this purpose. The Trust intends on deferring all principal payments and 40% of the interest payments related to the above mortgage loans until an alternative agreement is reached with the lenders.

Divestiture program
On May 1, 2016, LREIT sold Beck Court for gross proceeds of $23,000,000. The Trust provided vendor take back financing to the purchaser in the amount of $4,000,000, bearing interest at 4%, with monthly interest only payments and maturing on May 1, 2022. The net cash proceeds of approximately $3,400,000, after the assumption of the mortgage loan by the purchaser, the vendor take back financing, selling costs, and standard closing adjustments, were used to reduce the revolving loan balance. The sale of Beck Court resulted in a capital gain of approximately $6,800,000.

On May 1, 2016, LREIT sold Willowdale Gardens for gross proceeds of $9,000,000. The net proceeds of approximately $5,945,000, after the repayment of the existing $3,055,000 mortgage loan, selling costs, and standard closing adjustments, were used to pay a $5,449,594 second mortgage loan in full with a second secured charge over the property, in exchange for discharge of the security. The remaining proceeds were used to reduce the revolving loan balance. The sale of Willowdale Gardens resulted in a capital gain of approximately $4,300,000.

Deferral of property management fee and service fee payment
Subsequent to March 31, 2016, the Trust deferred the payment of property management fees in the aggregate amount of $117,091 for the months of April 2016 and May 2016. Also, the Trust deferred the payment of service fees in the aggregate amount of $171,812 for the months of April 2016 and May 2016. Shelter continues to engage in discussions with the Trust with respect to concessions regarding property management and service fees.

Deferral of revolving loan interest payment
Subsequent to March 31, 2016, the Trust deferred payment of interest on the revolving loan facility for April 2016 in the amount of $180,951. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time. As of the date of this report, the Trust has not repaid the loan and 2668921 Manitoba Ltd. has taken no action against the Trust and continues to engage in discussions with respect to concessions and/or restructuring of the revolving loan.

18 Subsequent event (continued)

Fort McMurray wildfire
In May 2016 a wildfire occurred in the Regional Municipality of Wood Buffalo. LREIT owns thirteen residential properties in Fort McMurray, comprising a total of 1,084 suites, or 73% of its total suites in the investment property portfolio. As of the date of this report, LREIT is not aware of any structural fire damage to these properties. An assessment of potential damages will be undertaken and it is anticipated that LREIT has sufficient insurance coverage to adequately protect it from any significant financial loss as a result of the wildfire.

19 Comparative figures

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