LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2018	December 31 2017
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$165,569,174**	$178,309,735
Loan receivable (Note 6)	**4,000,000**	4,000,000
Restricted cash	**2,313,361**	2,400,176
Total non-current assets	**171,882,535**	184,709,911
Current assets		
Cash	**1,165,485**	1,638,918
Rent and other receivables	**358,373**	459,234
Deposits and prepaids	**805,881**	1,121,155
	2,329,739	3,219,307
Assets held for sale (Note 7)	**31,715,381**	34,199,238
Total current assets	**34,045,120**	37,418,545
TOTAL ASSETS	**$205,927,655**	$222,128,456
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 8)	**$109,346,527**	$ 58,585,292
Total non-current liabilities	**109,346,527**	58,585,292
Current liabilities		
Trade and other payables (Note 9)	**12,998,372**	8,815,147
Current portion of long-term debt (Note 8)	**132,851,159**	186,307,203
Deposits from tenants	**1,285,188**	1,407,522
	147,134,719	196,529,872
Liabilities held for sale (Note 7)	**3,582,962**	3,655,117
Total current liabilities	**150,717,681**	200,184,989
Total liabilities	**260,064,208**	258,770,281
Total deficit	**(54,136,553)**	(36,641,825)
TOTAL LIABILITIES AND EQUITY	**$205,927,655**	$222,128,456

Approved by the Board of Trustees

"Charles Loewen" *"Earl Coleman"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31 2018	2017
Rentals from investment properties	**$ 4,467,503**	$ 4,644,515
Property operating costs	**2,818,570**	2,412,402
Net operating income	**1,648,933**	2,232,113
Interest income	**49,826**	45,612
Interest expense (Note 10)	**(3,646,134)**	(3,686,254)
Trust expense	**(380,874)**	(415,478)
Gain (loss) on sale of investment property (Note 4)	**(34,882)**	58,377
Fair value adjustments (Note 11)	**(15,105,743)**	(2,926,179)
Loss before discontinued operations	**(17,468,874)**	(4,691,809)
Income (loss) from discontinued operations (Note 7)	**(25,854)**	46,090
Loss and comprehensive loss	**$ (17,494,728)**	$ (4,645,719)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (0.826)**	$ (0.222)
Income (loss) per unit from discontinued operations:		
Basic and diluted	**$ (0.001)**	$ 0.002
Loss per unit:		
Basic and diluted	**$ (0.827)**	$ (0.220)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

	Three Months Ended March 31	
	2018	**2017**
Issued capital (Note 13)		
Balance, beginning and end of period	**$ 125,641,529**	$125,641,529
Contributed surplus		
Balance, beginning and end of period	**17,027,907**	17,027,907
Cumulative deficit		
Balance, beginning of period	**(96,161,226)**	(64,124,544)
Loss and comprehensive loss	**(17,494,728)**	(4,645,719)
Balance, end of period	**(113,655,954)**	(68,770,263)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(83,150,035)**	(83,150,035)
Total deficit	**$ (54,136,553)**	$ (9,250,862)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31	
	2018	2017
Operating activities		
Loss and comprehensive loss	**$ (17,494,728)**	$ (4,645,719)
Adjustments to reconcile income to cash flows		
Fair value adjustments (Note 11)	**15,105,743**	2,926,179
Loss (gain) on sale of properties (Note 4)	**34,882**	(58,377)
Accrued rental revenue	**(19,153)**	13,060
Interest income	**(49,826)**	(45,612)
Interest received	**49,263**	45,892
Interest expense	**3,697,425**	3,734,860
Interest paid	**(2,475,868)**	(2,585,352)
Cash (used in) operations	**(1,152,262)**	(615,069)
Decrease in rent and other receivables	**120,577**	64,762
Decrease (increase) in deposits and prepaids	**324,958**	(40,765)
(Decrease) increase in tenant deposits	**(120,834)**	5,592
(Decrease) in trade and other payables	**(354,281)**	(633,337)
	(1,181,842)	(1,218,817)
Cash provided by financing activities		
Repayment of mortgage loans on refinancing	**(3,200,000)**	-
Repayment of long-term debt	**(903,799)**	(867,544)
Proceeds of revolving loan facility (Note 15)	**-**	2,800,000
Proceeds of Shelter Canadian Properties Limited advances (Note 15)	**5,300,000**	-
Expenditures on transaction costs	**(394,318)**	(36,374)
	801,883	1,896,082
Cash (used in) investing activities		
Capital expenditures on investment properties	**(90,154)**	(171,744)
Capital expenditures on investment properties held for sale	**(78,480)**	(2,344)
Capital expenditures on property and equipment	**-**	(19,251)
Proceeds of sale (Note 4)	**(11,372)**	(106,107)
Change in restricted cash	**90,396**	(41,805)
	(89,610)	(341,251)
Cash (decrease) increase	**(469,569)**	336,014
Add (deduct) decrease (increase) in cash from discontinued operations (Note 7)	**(3,864)**	(30,062)
	(473,433)	305,952
Cash, beginning of period	**1,638,918**	706,768
Cash, end of period	**$ 1,165,485**	$ 1,012,720

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, 2022	LRT.DB.G

On March 31, 2017, the Trust announced that it no longer satisfies the continued listing requirements of the TSX and that it does not anticipate satisfying such requirements in the foreseeable future. The TSX Venture Exchange (TSXV) has conditionally approved the transition of the listings which is anticipated to occur on or about June 1, 2018.

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

2 *Basis of presentation and continuing operations*

The interim condensed consolidated financial statements of the Trust for the three months ended March 31, 2018 and 2017 ("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, 2018.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation, which is a wholly owned operating subsidiary under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties 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: the Trust's concentration of investment properties in Fort McMurray; the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity; the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray; the limited availability of mortgage lending in Fort McMurray; the Trust's limited cash and working capital resources; the Trust's reliance on financing from Shelter Canadian Properties Limited ("Shelter") and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and the Trust's highly leveraged capital structure.

The Trust incurred a loss before discontinued operations of $17,468,874 for the three months ended March 31, 2018 (2017 - $4,691,809). The Trust incurred a cash deficiency from operating activities, after working capital adjustments, of $1,181,842 for the three months ended March 31, 2018 (2017 - $1,218,817). 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 $2,648,593 for the three months ended March 31, 2018 (2017 - $2,316,074).

2 *Basis of presentation and continuing operations (continued)*

The Trust has working capital of $631,367 as at March 31, 2018 (December 31, 2017 - $404,160). The calculation of working capital excludes the revolving loan balance, the Shelter unsecured loan balance, and the current portion of long-term debt. Working capital also excludes "held for sale" assets and liabilities, the tenant security deposit liability, and the security deposit balance in restricted cash.

As of March 31, 2018, the Trust was in default of a mortgage loan with an aggregate principal balance of $28,029,387, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to previous defaults under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

In the event that full repayment is demanded with respect to the mortgage loan in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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

As a result of the obtainment of condominium title for the property classified as held for sale, partially offset by the sale of one condominium unit at Lakewood Townhomes, the appraised value of LREIT's property portfolio was increased from $286,719,362 as at December 31, 2017 to $288,954,043 as at March 31, 2018. At March 31, 2018, LREIT's mortgage indebtedness and the maximum balance under the revolving loan facility amounted to $217.3 million, representing approximately 75.2% of the appraised value of LREIT's total property portfolio.

While LREIT's aggregate mortgage indebtedness exceeds the 75% of appraised value threshold, the Trust is not permitted to increase the outstanding balance of its mortgage loan debt; however, LREIT may continue to renew or refinance its debt at amounts equal to or less than the outstanding principal balance of the existing mortgage loan at the time of the renewal or refinancing and may also obtain financing from unsecured lenders.

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 has achieved and is continuing to pursue debt restructuring arrangements with certain of its lenders, property sales under its divestiture program, cost reduction measures and other efforts to improve operating results.

During the three months ended March 31, 2018, LREIT received $5,300,000 of unsecured loan advances from Shelter. Subsequent to March 31, 2018, LREIT received an additional $800,000 of unsecured loan advances from Shelter.

Current divestiture activities focus on the sale of the remaining seniors' housing complex; the Lakewood Townhomes Condominium Sales Program; the property held for sale, inclusive of the condominium sales program for the 32 townhouses that comprise part of the property; and other properties with consideration of the overall debt reduction requirements of the Trust. 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: the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust; 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 the Trust to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; 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; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the ability of the Trust to complete additional property sales at prices which exceed the indebtedness related to such properties.

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 condensed 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, 2017 audited financial statements, except for the first-time adoption of IFRS 9, IFRS 15 and IAS 40. The Financial Statements are based on IFRS standards issued and effective as at May 11, 2018.

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:

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. LREIT's leasing activity is primarily comprised of the leasing of residential units under operating leases. LREIT also uses office equipment obtained under leases. As IFRS 16 has minimal impact on the lessor, and LREIT has minimal leasing activity as the lessee, management does not anticipate a significant impact on the consolidated financial statements.

2 Basis of presentation and continuing operations (continued)

Adoption of accounting standards

(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. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard as the single approach to classifying financial assets did not result in a reclassification of LREIT's assets; changes to financial liabilities do not apply and the provisions on impairment and hedge accounting do not apply.

(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. LREIT's primary source of revenue is generated from leases and such revenue is out of scope of IFRS 15. The other revenue sources are from, coin income, miscellaneous income, food and housekeeping services and similar activities where the revenue generated and the service delivery occur at the same time. As a result, there was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

(iii) IAS 40 - Investment Property ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018. There was no significant impact on the consolidated financial statements as a result of the adoption of this standard.

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, 2017.

4 Investment properties

	Three Months Ended March 31	
	2018	2017
Balance, beginning of period	$178,309,735	$198,099,131
Additions - capital expenditures	90,154	171,744
Fair value adjustments (Note 11)	(12,552,804)	(2,602,400)
Dispositions	(277,911)	(277,150)
Balance, end of period	$165,569,174	$195,391,325

During the first quarter of 2018, the Trust did not sell any property classified as investment properties except one condominium unit at Lakewood Townhomes for gross proceeds of $322,000. The sale resulted in net cash shortfall of $11,372 after selling costs of $78,972 and the mortgage loan repayment of $254,400. The condominium unit had a carrying value of $277,911 and the sale resulted in a loss on sale of investment properties of $34,882.

During the first quarter of 2017, the Trust did not sell any property classified as investment properties except one condominium unit at Lakewood Townhomes for gross proceeds of $360,000. The sale resulted in net cash shortfall of $106,107 after selling costs of $24,472 and the mortgage loan repayment of $441,635. The condominium unit had a carrying value of $277,150 and the sale resulted in a gain on sale of investment properties of $58,377.

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 assumptions are the capitalization rates, which are based on reports from external knowledgeable property valuators, and normalized net operating income, which is based on actual net operating income results, adjusted for atypical or non-recurring items and differences from market (as determined by reference to comparable properties, historical data, appraisals and rental market reports) that are considered short-term in nature. 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 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	8.25 %	8.25 %	8.25 %	8.25 %
Other	7.00 %	8.00 %	7.00 %	8.00 %

(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 growth rates applied to the first year cash flows over the analysis period of the investment property, 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 2018		December 31 2017	
	Low	High	Low	High
Fort McMurray	10.25 %	10.25 %	10.25 %	10.25 %
Other	9.00 %	10.00 %	9.00 %	10.00 %

(iii) *Direct comparison*. The direct comparison method may occasionally be used when appropriate information is available, typically from an appraiser or realtor, such as the sale price of a comparable property or an offer to purchase a given property. In certain situations, properties with condominium title may be valued based on the selling price of comparable condominium units, net of selling and condominium conversion costs. Key assumptions associated with the above methods include the appropriateness of each comparison as well as the extent of selling and condominium conversion costs. The direct comparison method was factored into the valuation analysis prepared for Lakewood Townhomes and Woodland Park (2017 - Lakewood Townhomes).

6 Loan receivable

The loan receivable is comprised of a $4,000,000 vendor take-back second mortgage loan, bearing interest at 4.0% and due May 1, 2022. The loan requires interest only payments throughout the term and may be prepaid without penalty. The loan is secured by a second mortgage registered against Beck Court which was sold on May 1, 2016.

7 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 Chateau St. Michael's seniors' housing complex in Moose Jaw, Saskatchewan, which is owned by a wholly owned subsidiary company, 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.

The financial position, results of operations and cash flows for assets held for sale and discontinued operations are as follows:

	March 31 2018	December 31 2017
ASSETS		
Investment properties held for sale (a)	$ 24,220,665	$ 26,695,124
Assets in discontinued operations		
Property and equipment	7,500,000	7,500,000
Bank indebtedness	(19,625)	(23,489)
Restricted cash	3,198	6,779
Rent and other receivables	1,098	1,098
Deposits, prepaids and other	10,045	19,726
	7,494,716	7,504,114
Assets held for sale	$ 31,715,381	$ 34,199,238
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 3,463,648	$ 3,509,300
Trade and other payables	107,759	135,762
Deposits from tenants	11,555	10,055
Liabilities held for sale	$ 3,582,962	$ 3,655,117

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

Income information relating to discontinued operations are as follows:

	Three Months Ended March 31 2018	2017
Rental income	$ 366,721	$ 426,160
Property operating expenses	341,284	331,464
Net operating income	25,437	94,696
Interest expense	(51,291)	(48,606)
Loss from discontinued operations	$ (25,854)	$ 46,090

Cash flow information relating to discontinued operations are as follows.

	Three Months Ended March 31 2018	2017
Cash (outflow) inflow from operating activities	$ (32,310)	$ 65,934
Cash inflow (outflow) from financing activities	32,592	(15,908)
Cash inflow (outflow) from investing activities	3,582	(19,964)
Increase in cash from discontinued operations	$ 3,864	$ 30,062

(a) Investment properties held for sale

	March 31 2018	December 31 2017
Woodland Park	$ 24,220,665	$ 26,695,124

	Three Months Ended March 31 2018	2017
Balance, beginning of period	$ 26,695,124	$ 31,343,062
Additions - capital expenditures	78,480	2,344
Fair value adjustments (Note 11)	(2,552,939)	(323,779)
Balance, end of period	$ 24,220,665	$ 31,021,627

During the first quarters of 2018 and 2017, the Trust did not sell any properties classified as held for sale.

8 *Long-term debt*

	March 31 2018	December 31 2017
Secured debt		
Mortgage loans (a)	$ 183,831,447	$ 187,206,443
Revolving loan from 2668921 Manitoba Ltd.	30,000,000	30,000,000
Debentures	24,810,800	24,810,800
Total secured debt	238,642,247	242,017,243
Accrued interest and fees payable	4,990,993	3,846,114
Unamortized transaction costs		
Mortgage loans	(1,430,062)	(960,035)
Revolving loan from 2668921 Manitoba Ltd.	(5,492)	(10,827)
Total unamortized transaction costs	(1,435,554)	(970,862)
	242,197,686	244,892,495
Less current portion		
Mortgage loans	(102,115,056)	(155,907,526)
Revolving loan from 2668921 Manitoba Ltd.	(30,000,000)	(30,000,000)
Accrued interest and fees payable	(1,213,983)	(806,791)
Unamortized transaction costs	477,880	407,114
Total current portion	(132,851,159)	(186,307,203)
	$ 109,346,527	$ 58,585,292

(a) Mortgage loans

	Weighted average interest rates		Amount	
	March 31 2018	December 31 2017	March 31 2018	December 31 2017
First mortgage loans				
Fixed rate	4.8%	4.7%	$ 99,872,095	$ 102,020,638
Variable rate	6.6%	6.4%	78,338,647	79,688,009
Total first mortgage loans	5.6%	5.4%	$ 178,210,742	$ 181,708,647
Second mortgage loans				
Total second mortgage loans	9.0%	9.0%	$ 5,620,705	$ 5,497,796
All mortgage loans				
Fixed rate	5.0%	4.9%	$ 105,492,800	$ 107,518,434
Variable rate	6.6%	6.4%	78,338,647	79,688,009
Total mortgage loans	5.7%	5.5%	$ 183,831,447	$ 187,206,443

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.

8 *Long-term debt (continued)*

(a) Mortgage loans (continued)

As of March 31, 2018, the Trust was in default of the payment of service fees on a mortgage loan in the aggregate principal amount of $28,029,387. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

In the event that full repayment is demanded with respect to the mortgage loan in default, the Trust would not be able to satisfy the associated obligation with its current resources.

Additional information related to the default of mortgage loans is provided in Note 2: *Basis of presentation and continuing operations*.

With the exception of one mortgage loan with a principal balance of $3,590,110 that matured on April 30, 2018 and is overholding pending completion of an annual credit review, all mortgages which have matured prior to the date of the Financial Statements have been renewed, refinanced or are under a forbearance agreement.

9 *Trade and other payables*

	March 31 2018	December 31 2017
Accounts payable	$ 1,084,211	$ 2,230,589
Accrued payables	369,268	313,249
Prepaid rent	244,893	271,309
Advances from Shelter (Note 15)	11,300,000	6,000,000
	$ 12,998,372	$ 8,815,147

10 *Interest expense*

	Three Months Ended March 31 2018	2017
Mortgage loan interest	$ 2,624,169	$ 2,763,221
Revolving loan interest	369,863	296,767
Debenture interest	310,135	310,135
Shelter advances interest	97,140	-
Amortization of transaction costs	244,827	316,131
	$ 3,646,134	$ 3,686,254

11 *Fair value adjustments*

	Three Months Ended March 31 2018	2017
Fair value adjustments - investment properties (Note 4)	$ (12,552,804)	$ (2,602,400)
Fair value adjustments - investment properties held for sale (Note 7)	(2,552,939)	(323,779)
	$ (15,105,743)	$ (2,926,179)

12 *Per unit calculations*

	Three Months Ended March 31 2018	Three Months Ended March 31 2017
Loss before discontinued operations	$ (17,468,874)	$ (4,691,809)
Income (loss) from discontinued operations	(25,854)	46,090
Loss and comprehensive loss	$ (17,494,728)	$ (4,645,719)

	Three Months Ended March 31 2018	Three Months Ended March 31 2017
Weighted average number of units:		
Units	20,557,320	20,557,320
Deferred units	591,576	591,576
Total basic and diluted	21,148,896	21,148,896

13 *Units and deferred units*

As of March 31, 2018, there were 20,557,320 trust units issued at an amount of $125,641,529 (2017 - 20,557,320 and $125,641,529) and 591,576 (2017 - 591,576) deferred trust units outstanding and fully vested.

14 *Unit option plan*

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

	Three Months Ended March-31-18		Year Ended December 31, 2017	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	195,000	$ 1.06	240,000	$ 0.99
Cancelled, February 18, 2017	-	-	(5,000)	1.11
Cancelled, November 19, 2017	-	-	(40,000)	0.60
Cancelled, January 15, 2018	(20,000)	0.65	-	-
Outstanding, end of period	175,000	$ 1.11	195,000	$ 1.06
Vested, end of period	175,000		195,000	

15 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 is a related party as it has entered into a property management and service agreement and provides management services to the Trust. 2668921 Manitoba Ltd., the parent company of Shelter, is a related party through common control as 2668921 Manitoba Ltd. is owned by a family member of a Trustee of the Trust.

Property management agreement
The Trust has entered into a property management agreement with Shelter, the current term of which expires on December 31, 2024. Under the property management agreement, Shelter administers the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complex. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust and compensation for reimbursable expenses. In regard to commercial properties, Shelter 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 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 fees under the property management agreement payable to Shelter of $177,734 for the three months ended March 31, 2018 (2017 - $190,458).

Included in trade and other payables at March 31, 2018 is a balance of $1,780 payable to Shelter (December 31, 2017 - $8,302 receivable) in regard to outstanding amounts due under the property management agreement.

Services agreement
The Trust has entered into a services agreement with Shelter, the current term of which expires on December 31, 2024. Under the services agreement, Shelter 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 payable to Shelter of $225,616 for the three months ended March 31, 2018 (2017 - $224,592).

Services fee and renovation fee for Lakewood Townhomes condominium sales program
The Trust has entered into an agreement with Shelter in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter administers 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 is responsible for the payment of a fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fee to the external real estate broker due to market conditions, the fee payable to Shelter increases by the amount of the increase in the 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 of $19,217 for the three months ended March 31, 2018 (2017 - $18,900).

15 *Related party transactions* (continued)

Services fee for the Woodland Park Townhomes condominium sales program
LREIT has entered into an agreement with Shelter, in regard to the condominium sales program at Woodland Park. Under the agreement, Shelter will provide overall management services for the condominium sales program and will be paid a service fee equal to 6.5% of the gross sales proceeds. Shelter is responsible for the payment of a fixed percentage fee to an external real estate broker for providing brokerage services with respect to the condominium sales program.

Financing
Revolving loan
A summary of the terms for the revolving loan facility from July 1, 2015 is provided in the following chart.

Revolving Loan Term		Renewal	Interest	Maximum	Maximum Loan
From	To	Fees	Rate	Interest Charge	Commitment
July 1, 2015	June 30, 2016	25,000	12.00 %	6,480,000 *	18,000,000
July 1, 2016	November 13, 2016	-	5.00 %	6,480,000 *	18,000,000
November 14, 2016	June 30, 2018	-	5.00 %	6,480,000 *	30,000,000

***** Notwithstanding the amendments to the revolving loan facility subsequent to July 1, 2015, the combined maximum interest charge allowable by 2668921 Manitoba Ltd. and any of its subsidiaries or affiliates including Shelter for the three-year term from July 1, 2015 to June 30, 2018 is $6,480,000.

During the three months ended March 31, 2018, the Trust received advances of nil (2017 - $2,800,000) and repaid advances of nil (2017 - nil) against the revolving loan, resulting in a balance of $30,000,000 (December 31, 2017 - $30,000,000). The revolving loan balance is included in current portion of long-term debt.

Interest on the revolving loan of $369,863 for the three months ended March 31, 2018 (2017 - $296,767) is included in interest expense.

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

Shelter loan advances
During the three months ended March 31, 2018, Shelter made unsecured loan advances totaling $5,300,000 to LREIT (2017 - nil), the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility.

During the three months ended March 31, 2018, the Trust made repayments of nil (2017 - nil), resulting in an outstanding unsecured loan balance of $11,300,000 at March 31, 2018 (December 31, 2017 - $6,000,000). The unsecured loan is included in trade and other payables.

Interest on the Shelter advances of $97,140 for the three months ended March 31, 2018 (2017 - nil) is included in interest expense.

15 Related party transactions (continued)

Financing (continued)

Nelson Ridge second mortgage loan

On March 31, 2016, 2668921 Manitoba Ltd. purchased the Nelson Ridge second mortgage loan. 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. On April 1, 2017, the mortgage loan was renewed at an interest rate of 9% per annum and matures on March 31, 2019. The amended mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of March 31, 2018, the amount owing on the mortgage loan was $5,620,705 (December 31, 2017 - $5,497,796), inclusive of accrued interest.

Guarantees

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

16 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 - defaults

As of March 31, 2018, the Trust was in default of a mortgage loan with an aggregate principal balance of $28,029,387, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to previous defaults under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan in default and the lender has taken no action to demand repayment or enforce its security under the loan.

In the event that full repayment is demanded with respect to the mortgage loan in default, the Trust would not be able to satisfy the associated obligation with its current resources.

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. Should the Trust default on its debt obligations, debt maturities may be accelerated by the lenders.

16 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)

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: the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility and/or provide other forms of financial support to the Trust; 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 to stabilize its operations; the Trust's ability to renew or refinance debt as it matures; 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 and in the near term is also dependent on the demand for rental accommodations during the post-fire rebuild; the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

Liquidity risk is mitigated by the ongoing monitoring activities of the Trust's management; open communication with the Trust's lenders; the continued financial support from Shelter and its parent company, 2668921 Manitoba Ltd.; continuation of the Trust's divestiture program; and the staggering of mortgage maturity dates over a number of years.

As at March 31, 2018, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.0 years (December 31, 2017 - 1.7 years).

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

	Mortgage Loans				
March 31, 2018	Normal Principal Installments	Principal Maturities (1)	Other Debt (2)	Other Payables (3)	Total
2018 - Remainder of year	$ 3,345,902	$ 64,450,514	$ 30,000,000	$19,274,553	$117,070,969
2019	3,951,429	45,478,519	-	-	49,429,948
2020	2,221,559	39,505,962	-	-	41,727,521
2021	545,916	12,931,045	-	-	13,476,961
Thereafter	1,030,127	10,370,474	24,810,800	-	36,211,401
	$ 11,094,933	$172,736,514	$ 54,810,800	$19,274,553	$257,916,800

(1) If the lender of the one mortgage loan that is in default as of the date of this report demanded repayment during 2018 and the chart above was adjusted to reflect the repayments, the total repayment obligations due in 2018 would increase to $144,508,296, the total long-term debt due in 2019 would decrease to $21,992,621, the total long-term debt due in 2020 and beyond would remain the same.

(2) Other debt includes a revolving loan with balance outstanding of $30,000,000, maturing June 30, 2018, and Series G debentures with balance outstanding of $24,810,800, due on June 30, 2022.

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

16 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, 2018 the percentage of fixed rate mortgage loans to total mortgage loans on investment properties was 57% (December 31, 2017 - 57%).

The Trust has variable rate mortgage loans on investment properties totaling $78,338,647, or 43% of the total mortgage loans at March 31, 2017 (December 31, 2017 - $79,688,009 or 43%). Should interest rates change by 1%, interest expense would change by $783,386 per year.

As at March 31, 2018, the Trust has total mortgage principal maturities on investment properties which mature on or prior to March 31, 2020 of $112,599,794 representing 61% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $1,125,998 per year.

The Trust has not traded in derivative 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 and a reconciliation of allowance for doubtful accounts:

	March 31 2018	December 31 2017
Rent receivable overdue:		
0 to 30 days	$ 77,864	$ 98,925
31 to 60 days	31,388	35,456
More than 60 days	70,751	65,575
	$ 180,003	$ 199,956

16 Financial instruments and risk management (continued)

Credit risk (continued)

	Three Months Ended March 31 2018	Three Months Ended March 31 2017
Balance, beginning of period	$ 56,339	$ 109,748
Amount charged to bad debt expense relating to impairment of rent receivable	5,575	12,898
Amounts written off as uncollectible	(15,337)	(25,416)
Balance, end of period	$ 46,577	$ 97,230
Amount charged to bad debts as a percent of rentals from investment properties	0.12%	0.28%

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, 2018, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $27,301,496 (December 31, 2017 - $27,512,300) which expires in 2022 (December 31, 2017 - expires in 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.

16 Financial instruments and risk management (continued)

Fair values

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 2018	December 31 2017	March 31 2018	December 31 2017
Financial assets				
Restricted cash	$ 2,313,361	$ 2,400,176	$ 1,811,331	$ 1,886,901
Cash	1,165,485	1,638,918	1,165,485	1,638,918
Rent and other receivables	358,373	459,234	358,373	459,234
Deposits	506,996	585,261	506,996	585,261
Financial liabilities				
Mortgages loans	183,831,447	187,206,443	202,895,404	204,615,479
Debentures	24,810,800	24,810,800	2,157,259	2,721,945
Trade and other payables	12,998,372	8,815,147	12,998,372	8,815,147
Deposits from tenants	1,285,188	1,407,522	1,285,188	1,407,522

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 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.
- In regard to mortgage loans:
  - The fair value of floating rate borrowings is estimated by discounting expected cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The current market interest rates used to calculate the fair value range between 4.55% and 5.84%.
- 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.

17 *Reconciliation of liabilities arising from financing activities*

	Three Months Ended March 31, 2018		
	Total	Investment Properties	Seniors' Housing Complex
Regular repayment of principal on mortgage loans	$ (903,799)	$ (852,281)	$ (51,518)
Repayment of mortgage loans on refinancing	(3,200,000)	(3,200,000)	-
Reduction of mortgage loans on sale of properties	(254,400)	(254,400)	-
Non cash - interest and fees capitalized, net of repayment	931,685	931,685	-
Decrease in mortgage loans	(3,426,514)	(3,374,996)	(51,518)
Total mortgage loans - December 31, 2017	190,722,359	187,206,443	3,515,916
Total mortgage loans - March 31, 2018	$187,295,845	$183,831,447	$3,464,398

18 *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, 2018:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,656,080	418,148	393,275	-	4,467,503
Property operating costs	2,207,518	356,282	254,770	-	2,818,570
Net operating income	1,448,562	61,866	138,505	-	1,648,933
Interest income	6,819	588	1,002	41,417	49,826
Interest expense	2,380,529	139,537	343,596	782,472	3,646,134
Loss before discontinued operations	(12,446,662)	(1,145,579)	(2,757,028)	(1,119,605)	(17,468,874)
Cash used in operating activities	(192,536)	(64,172)	(67,582)	(825,242)	(1,149,532)
Cash from (used in) financing activities	(23,085)	122,082	(5,934)	676,228	769,291
Cash from (used in) investing activities	16,613	(59,006)	(54,580)	3,781	(93,192)
Total assets excluding discontinued operations (Note 7) at March 31, 2018	157,954,162	11,339,290	24,475,637	4,663,850	198,432,939

18 Segmented financial information (continued)

Three months ended March 31, 2017:

	Investment Properties				
	Fort McMurray	Other	Held for sale and/or sold	Trust	Total
Rental revenue	3,570,087	383,193	691,235	-	4,644,515
Property operating costs	1,859,837	304,732	247,833	-	2,412,402
Net operating income	1,710,250	78,461	443,402	-	2,232,113
Interest income	4,402	280	677	40,253	45,612
Interest expense	2,279,301	129,950	665,353	611,650	3,686,254
Income (loss) before discontinued operations	(3,109,884)	(50,069)	(545,052)	(986,804)	(4,691,809)
Cash from (used in) operating activities	(242,542)	(12,507)	(75,448)	(954,254)	(1,284,751)
Cash from (used in) financing activities	1,022,038	7,911	(66,614)	948,655	1,911,990
Cash from (used in) investing activities	(308,039)	(9,154)	4,756	(8,850)	(321,287)
Total assets excluding discontinued operations (Note 7) at December 31, 2017	170,345,640	12,318,910	27,141,421	4,818,371	214,624,342

19 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.

20 Subsequent events

Shelter advances
Subsequent to March 31, 2018, the Trust received advances from Shelter of $800,000 and repaid nil, resulting in a balance of $12,100,000 as of the date of the issuance of the Financial Statements.

Sale of condominium unit at Woodland Park
Subsequent to March 31, 2018, LREIT sold one condominium unit at Woodland Park for gross proceeds of $335,000. The net proceeds, after selling costs and standard closing adjustments, were used to repay the mortgage loan in the amount of $300,311.