INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

JUNE 30, 2018

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INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS

MD&A OVERVIEW AND ADVISORIES

The interim Management's Discussion and Analysis - Quarterly Highlights ("Interim MD&A") of the Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the six months ended June 30, 2018 and accompanying notes and with reference to the Annual Report for 2017 ("Annual Report"), the Financial Statements for the years ended December 31, 2017 and 2016, and the Annual Information Form ("AIF") dated March 22, 2018. Throughout this MD&A, it is not our intent to reproduce information that is located in these other reported documents, but rather to provide material updates with respect to the business activities, financial condition, financial performance, and cash flows of LREIT for the three month interim period ended June 30, 2018. This interim MD&A has been prepared in compliance with section 2.2.1 of National Instrument 51-102F1.

Financial Statements

Throughout this report, the condensed consolidated financial statements as of June 30, 2018 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of June 30, 2018 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2018 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three and six months ended June 30, 2018 will be referred to as the "Statement of Cash Flows".

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects, and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions or dispositions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors that could cause actual results to differ materially from the results discussed in forward-looking statements are discussed in the Annual Report and AIF. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither LREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price Information

All purchase prices set forth herein are disclosed prior to closing costs, other adjustments on closing and GST, where applicable.

UNIT TRADING PRICE

	Six Months Ended June 30, 2018 (Per unit)	Year Ended December 31, 2017 (Per unit)
Opening price	$0.02	$0.07
Closing price	$0.01	$0.02

LREIT's trust units and Series G Debentures are listed on the TSX Venture Exchange ("TSX-V") under the symbols of "LRT.UN" and "LRT.DB.G", respectively. Prior to June 1, 2018, LREIT's trust units and Series G Debentures traded on the Toronto Stock Exchange under the same symbols.

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2018

As of June 30, 2018, the property portfolio of LREIT consists of 17 rental properties, comprised of 15 multi-unit residential properties classified as "Investment properties" on the Statement of Financial Position, one multi-unit residential property classified as "Assets held for sale" on the Statement of Financial Position; and one property which is a seniors' housing complex accounted for as "property and equipment" under "discontinued operations" and classified as "Assets held for sale" and "Liabilities held for sale" on the Statement of Financial Position.

A summary of LREIT's real estate portfolio as at June 30, 2018 is provided below.

Real Estate Portfolio as of June 30, 2018

Property Segments	Number of Properties	Purchase Price	Number of Suites	Average Occupancy
Fort McMurray	12	260,984,162	974	71 %
Other	3	12,250,000	197	68 %
Held for Sale	1	36,803,364	104	45 %
Total - Investment Properties	16	**310,037,526**	**1,275**	68 %
Discontinued Operations	1	**7,600,000**	**93**	58 %
Total Real Estate Portfolio	17	**$ 317,637,526**	**1,368**	67 %

During the second quarter of 2018, LREIT sold three condominium units with an aggregate purchase price of $1,061,636, reducing the number of suites in the Held for Sale segment from 107 to 104.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended June 30				Six Months Ended June 30	
			Increase (Decrease) in Income			
	2018	2017	Amount	%	2018	2017
Rentals from investment properties	$ 4,449,474	$ 4,880,593	$ (431,119)	(9)%	$ 8,916,977	$ 9,525,108
Property operating costs	(2,828,493)	(2,406,449)	(422,044)	(18)%	(5,647,063)	(4,818,851)
Net operating income	1,620,981	2,474,144	(853,163)	(34)%	3,269,914	4,706,257
Interest income	50,758	44,612	6,146	14 %	100,584	90,224
Interest expense	(3,749,689)	(3,713,754)	(35,935)	(1)%	(7,395,823)	(7,400,008)
Trust expense	(322,573)	(357,490)	34,917	10 %	(703,447)	(772,968)
Loss before the following	(2,400,523)	(1,552,488)	(848,035)	(55)%	(4,728,772)	(3,376,495)
Gain (loss) on sale of investment property	(48,077)	-	(48,077)	n/a	(82,959)	58,377
Fair value adjustments	(8,399,644)	(7,346,907)	(1,052,737)	(14)%	(23,505,387)	(10,273,086)
Loss before discontinued operations	(10,848,244)	(8,899,395)	(1,948,849)	(22)%	(28,317,118)	(13,591,204)
Income (loss) from discontinued operations	(152,608)	(10,543)	(142,065)	(1,347)%	(178,462)	35,547
Loss and comprehensive loss	$(11,000,852)	$(8,909,938)	$(2,090,914)	(23)%	$(28,495,580)	$(13,555,657)

Overall Results

LREIT completed the second quarter of 2018 with a loss and comprehensive loss of $11,000,852, compared to a loss and comprehensive loss of $8,909,938 during the second quarter of 2017. The increase in the loss mainly reflects an unfavourable variance in the fair value adjustments of the investment properties and the investment property classified as held for sale, as well as a decrease in net operating income.

Unfavourable fair value adjustments recognized during the second quarter of 2018 exceeded the unfavourable fair value adjustments recognized during the second quarter of 2017. Losses related to fair value adjustments during both periods were due to reduced revenue expectations as a result of reductions in the anticipated positive impact of the post-wildfire rebuilding efforts on the Fort McMurray rental market and increasing uncertainty surrounding a recovery of the Fort McMurray rental market.

The decrease in net operating income mainly reflects a decrease in rental revenue of $431,119 and an increase in operating costs of $422,044. The decrease in rental revenue is mainly due to the decreased revenue of the held for sale and/or sold property segment, as a result of reduced occupancy and average rental rates at Woodland Park, the property that is classified as held for sale. The increase in property operating costs is mainly due to an increase in insurance related costs, an increase in utility costs, and an increase in property taxes. Also contributing to the increase in property operating costs was an increase in the property operating costs for the held for sale and/or sold properties as a result of certain condominium fees paid to the condominium corporation established as part of the Woodland Park Condominium Sales Program.

Funds from Operations (FFO)

Funds from Operations ("FFO") is a non-IFRS financial metric widely used by the real estate industry and is considered by many analysts to provide a reasonable indication of the past and recurring operating performance of a real estate property portfolio. FFO is a non-IFRS financial measurement and it should not be construed as an alternative to net income or cash flow from operating activities, as determined in accordance with IFRS.

LREIT completed the second quarter of 2018 with negative FFO of $2,553,131, compared to negative FFO of $1,563,031 during the second quarter of 2017, representing a decrease in FFO of $990,100.

The decrease in FFO is mainly due to a decrease in net operating income and an increase in loss from discontinued operations.

A reconciliation between FFO and the closest IFRS comparable measure, loss and comprehensive loss, is provided in the following chart.

Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Loss and comprehensive loss	$ (11,000,852)	$ (8,909,938)	$ (28,495,580)	$ (13,555,657)
Add (deduct):				
Loss (gain) on sale of investment property	48,077	-	82,959	(58,377)
Fair value adjustments	8,399,644	7,346,907	23,505,387	10,273,086
Funds from operations (FFO) *	$ (2,553,131)	$ (1,563,031)	$ (4,907,234)	$ (3,340,948)

* FFO has been calculated in accordance with the recommendations of RealPac. The method that is used by LREIT for calculating FFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Revenues

Rental Revenues

The rental revenue of LREIT is primarily derived from the leasing of residential units. Rental revenue includes revenue from all investment properties, including the rental revenue of sold investment properties from the period prior to their sale.

Analysis of Rental Revenue

	Three Months Ended June 30				Six Months Ended June 30	
			Increase (Decrease)			
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 3,693,273	$ 3,800,949	$ (107,676)	(3)%	$ 7,349,353	$ 7,371,036
Other investment properties	369,677	391,025	(21,348)	(5)%	787,825	774,218
Sub-total	4,062,950	4,191,974	(129,024)	(3)%	8,137,178	8,145,254
Held for sale and/or sold properties (1)	386,524	688,619	(302,095)	(44)%	779,799	1,379,854
Total	$ 4,449,474	$ 4,880,593	$ (431,119)	(9)%	$ 8,916,977	$ 9,525,108

Average Occupancy Level, by Quarter (2)

	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Fort McMurray properties	68 %	71 %	73 %	72 %	69 %	72 %
Other investment properties	71 %	73 %	73 %	75 %	77 %	68 %
Total	68 %	72 %	73 %	72 %	70 %	71 %
Held for sale and/or sold properties (1)	79 %	79 %	69 %	61 %	46 %	51 %

Average Monthly Rents, by Quarter

	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Fort McMurray properties	$1,684	$1,707	$1,711	$1,697	$1,685	$1,650
Other investment properties	$909	$909	$903	$905	$907	$909
Total	$1,554	$1,573	$1,575	$1,563	$1,554	$1,525
Held for sale and/or sold properties (1)	$2,593	$2,611	$2,597	$2,549	$2,484	$2,258

(1) Includes revenue from Woodland Park, the property classified as held for sale,
(2) The average occupancy level represents the portion of potential revenue that was achieved during the quarter.

During the second quarter of 2018, total investment property revenue, excluding held for sale and/or sold properties, decreased by $129,024 or 3%, compared to the second quarter of 2017. The decrease is mainly due to a decrease in the average rental rate of the Fort McMurray property portfolio.

During the second quarter of 2018, revenue from the held for sale and/or sold properties decreased by $302,095 or 44%, compared to the second quarter of 2017. The decrease in revenue from held for sale and/or sold properties was due to a decrease in average occupancy level and average rental rate of Woodland Park, the property classified as held for sale.

The decrease in average occupancy is mainly due to the transfer of two corporate tenants to other LREIT properties that offered lower rental rates or were closer to urban amenities, and due to the departure of tenants that were awaiting the reconstruction of their homes. The Woodland Park property had a relatively high proportion of tenants awaiting the reconstruction of their homes as a result of the property's townhome offering and their proximity to the area of Fort McMurray where the majority of the homes were lost to the wildfire.

The decrease in the average rental rate is mainly due to the turnover of a number of three-bedroom units and townhome units, which had been rented shortly after the wildfire at rates that were higher than the competitive rates required in the current market environment.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30				Six Months Ended June 30	
			Increase (Decrease)			
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 2,145,605	$ 1,883,781	$ 261,824	14 %	$ 4,353,123	$ 3,743,618
Other investment properties	389,788	300,223	89,565	30 %	746,070	604,955
Sub-total	2,535,393	2,184,004	351,389	16 %	5,099,193	4,348,573
Held for sale and/or sold properties	293,100	222,445	70,655	32 %	547,870	470,278
Total	$ 2,828,493	$ 2,406,449	$ 422,044	18 %	$ 5,647,063	$ 4,818,851

During the second quarter of 2018, property operating costs, excluding the held for sale and/or sold properties, increased by $351,389 or 16%, compared to the second quarter of 2017. The increase is mainly due to an increase in insurance related costs, as a result of an increase in insurance premiums and an increase in insurance deductibles; an increase in utility costs, primarily due to an increase in the number of all inclusive leases; and an increase in property taxes.

After accounting for held for sale and/or sold properties, property operating costs increased by $422,044 or 18% during the second quarter of 2018, compared to the second quarter of 2017. The increase in operating costs of the held for sale and/or sold properties of $70,655 was primarily due to the capital reserve portion of condominium fees paid by LREIT for its portion of ownership of Woodland Park, the property held for sale. Prior to the establishment of the condominium sales program, capital expenditures at Woodland Park were capitalized.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended June 30		Increase (Decrease)		Percent of Total		Operating Margin *	
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 1,547,668	$ 1,917,168	$ (369,500)	(19)%	95 %	77 %	42 %	50 %
Other investment properties	(20,111)	90,802	(110,913)	(122)%	(1)%	4 %	(5)%	23 %
Sub-total	1,527,557	2,007,970	(480,413)	(24)%	94 %	81 %	38 %	48 %
Held for sale and/or sold properties	93,424	466,174	(372,750)	(80)%	6 %	19 %	24 %	68 %
Total	$ 1,620,981	$ 2,474,144	$ (853,163)	(34)%	100 %	100 %	36 %	51 %

Analysis of Net Operating Income

	Net Operating Income							
	Six Months Ended June 30		Increase (Decrease)		Percent of Total		Operating Margin *	
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 2,996,230	$ 3,627,418	$ (631,188)	(17)%	92 %	77 %	41 %	49 %
Other investment properties	41,755	169,263	(127,508)	(75)%	1 %	4 %	5 %	22 %
Sub-total	3,037,985	3,796,681	(758,696)	(20)%	93 %	81 %	37 %	47 %
Held for sale and/or sold properties	231,929	909,576	(677,647)	(75)%	7 %	19 %	30 %	66 %
Total	$ 3,269,914	$ 4,706,257	$ (1,436,343)	(31)%	100 %	100 %	37 %	49 %

* Operating margin is a measurement of the relative profitability of the investment properties and represents the amount of net operating income which is derived from rental revenues, on a percentage basis. Operating margin is calculated by dividing net operating income by rental revenue.

During the second quarter of 2018, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $480,413 or 24%, compared to the second quarter of 2017. The operating margin, excluding held for sale and/or sold properties, decreased from 48% during the second quarter of 2017 to 38% during the second quarter of 2018. The decreases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the decrease in revenue and the increase in the property operating costs of the Fort McMurray property portfolio, as discussed above.

The decrease in net operating income from held for sale and/or sold properties of $372,750 is due to the decrease in the revenue and the increase in the operating costs of Woodland Park, as discussed above. After accounting for held for sale and/or sold properties, the total net operating income of LREIT decreased by $853,163 or 34% during the second quarter of 2018, compared to the second quarter of 2017.

Interest Expense

During the second quarter of 2018, interest expense remained relatively consistent with the prior period, increasing by $35,935 or 1%, compared to the second quarter of 2017. The modest increase reflects an increase in the cash component of interest expense of the revolving loan and the Shelter unsecured loan in the total amount of $210,534, which was largely offset by a decrease in the cash component of mortgage loan interest of $119,178 and a decrease in the amortization of transaction costs of $55,421.

The increase in the total interest expense of the revolving loan facility and the Shelter unsecured loan is due to the increase in the average outstanding balance of the loans during the second quarter of 2018, compared to the second quarter of 2017.

The decrease in the cash component of mortgage loan interest is mainly due to a decrease in the interest rate under the second forbearance agreement relating to the mortgage secured by the property classified as held for sale and a decrease in the total average balance of mortgage debt outstanding. The decrease in mortgage loan interest was partially offset by the impact of increases in the prime rate of interest during 2017 and the first quarter of 2018 on the Trust's variable rate mortgages.

The decrease in the amortization of transaction costs was primarily due to a reduction in the fees charged under the second forbearance agreement relating to the mortgage secured by the property classified as held for sale.

The weighted average interest rate on mortgage loan debt was 5.7% as at June 30, 2018, compared to 5.5% as at December 31, 2017 and 5.7% as at June 30, 2017.

Fair Value Adjustments

Investment Properties

During the second quarter of 2018, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $8,399,644, compared to a loss related to fair value adjustments of $7,346,907 during the second quarter of 2017, representing a variance of $1,052,737.

Losses related to fair value adjustments recognized during both the second quarter of 2018 and the second quarter of 2017 were primarily due to reduced revenue expectations as a result of reductions in the anticipated impact of the rebuilding efforts in Fort McMurray on the rental market and increased uncertainty with respect to the timing and/or extent of the recovery of the Fort McMurray economy, resulting from the prolonged low-level of oil sands development activity.

After accounting for fair value adjustments, dispositions, and capital expenditures, the carrying value of investment properties decreased by $20,070,474 and the carrying value of investment properties held for sale decreased by $4,282,110 during the first six months of 2018.

Discontinued Operations

Income from discontinued operations includes the net operating income, interest expense, and fair value adjustment for the seniors' housing complex.

Analysis of Income from Discontinued Operations

	Three Months Ended June 30				Six Months Ended June 30	
			Increase (Decrease) in Income			
	2018	2017	Amount	%	2018	2017
Rental income	$ 366,773	$ 429,217	$ (62,444)	(15)%	$ 733,494	$ 855,377
Property operating costs	(465,933)	(396,068)	(69,865)	(18)%	(807,217)	(727,532)
Net operating income	(99,160)	33,149	(132,309)	(399)%	(73,723)	127,845
Interest expense	(53,448)	(43,692)	(9,756)	(22)%	(104,739)	(92,298)
Income (loss) from discontinued operations	$ (152,608)	$ (10,543)	$ (142,065)	(1,347)%	$ (178,462)	$ 35,547

During the second quarter of 2018, the loss from discontinued operations was $152,608, compared to a loss of $10,543 during the second quarter of 2017. The increase in the loss is mainly due to an increase in property operating costs combined with a decrease in rental revenue. The increase in property operating costs was due to an increase in professional fees as a result of a review conducted on the operations of the seniors' housing complex that led to a change in the management of the property. The decrease in rental revenue was due to a decrease in the occupancy of the seniors' housing complex, which resulted from an increase in market competition and an increase in tenants requiring the services of a long-term care facility.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to the overall ability to generate and have sufficient funds available to fund the ongoing operating, investing, and financing activities of the Trust. This section begins with an analysis of the operating and non-operating cash flows during the three month period ended June 30, 2018 and is followed by an assessment of the Trust's working capital, capital commitments, capital resources, capital structure, and ability to provide sufficient liquidity in the near and long-term.

Cash Flow Analysis

The competitive rental market conditions in Fort McMurray continue to affect operating cash flow to the extent that LREIT requires ongoing additional sources of cash to fund the cash outflow from operating activities, the regular mortgage loan principal payments, transaction costs for debt financing, and capital expenditures. LREIT also requires additional capital in order to fund the repayment of mortgage loans upon maturity or refinancing to the extent that there is a deficit resulting from the difference between the repayment amount and the amount of new mortgage loan proceeds.

Cash Used in Operating Activities

During the second quarter of 2018, the net cash used in operating activities, before working capital adjustments, increased by $1,229,265, compared to the second quarter of 2017. The unfavourable variance mainly reflects a decrease in the net operating income on a cash basis, including discontinued operations, of $1,032,741, primarily as a result of factors described in the "Net Operating Income and Operating Margin" section of this report, as well as an increase in interest paid of $238,058, primarily as a result of an increase in interest paid on the revolving loan and Shelter unsecured loan as described in the "Interest Expense" section of this report.

Cash Used in Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $1,522,963 during the second quarter of 2018. The net cash inflow reflects the proceeds of the unsecured loan advances from Shelter, partially offset by the repayment of mortgage loans on refinancing and the repayment of long-term debt.

Advances from Shelter

During the second quarter of 2018, unsecured loan advances from Shelter amounted to $3,800,000 and were used to fund the repayment of mortgage loans on refinancing, the repayment of long-term debt, and to fund operations.

Repayment of Mortgage Loan on Refinancing

During the second quarter of 2018, a lump sum principal repayment in the amount of $1,000,000 was made upon the renewal of one mortgage loan, reducing the principal amount of the mortgage loan to $30,137,798.

Repayment of Long-term Debt

During the second quarter of 2018, the repayment of long-term debt for both investment properties and discontinued operations amounted to $1,247,432, compared to $878,861 during the second quarter of 2017. Included in repayment of long-term debt during the second quarter of 2018 were lump-sum payments totaling $300,000 required by the terms of three mortgage loans, secured by six properties, with an aggregate principal balance of $16,378,089 following such lump sum payments.

Cash Used in Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $317,650 during the second quarter of 2018, compared to a net cash outflow of $336,698 during the second quarter of 2017. The net cash outflow during the second quarter of 2018 reflects the cost of capital expenditures and an increase in restricted cash, partially offset by proceeds on the sale of condominium units.

During the second quarter of 2018, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the seniors' housing complex, remained focused on sustaining capital expenditures and amounted to $232,277, compared to $284,833 during the second quarter of 2017.

During the second quarter of 2018, the Trust sold three condominium units at Woodland Park for aggregate gross proceeds of $1,005,000. The sale resulted in net cash proceeds of $21,185 after accounting for selling costs of $82,881 and a mortgage loan repayment of $900,934.

Cash Shortfall

After accounting for the cash outflow from operating activities after working capital adjustments, regular payments of debt, transaction costs for debt financing, and capital expenditures, LREIT completed the second quarter of 2018 with a cash shortfall of $2,876,566, compared to a cash shortfall of $2,155,983 during the second quarter of 2017. LREIT is expected to incur an additional cash shortfall during the remainder of 2018.

Working Capital

LREIT requires working capital for use in the day-to-day operations of its properties. The calculation of working capital excludes the revolving loan balance, the Shelter unsecured loan balance, and the current portion of long-term debt principal, but includes the current portion of accrued interest and fees. The calculation of working capital also excludes assets and liabilities classified as held for sale, the tenant security deposit liability, and the security deposit balance in restricted cash.

As of June 30, 2018, the working capital deficit was $747,687, compared to working capital deficit of $402,631 as at December 31, 2017, representing a decrease in working capital of $345,056.

The decrease in the working capital mainly reflects a $711,875 decrease in cash and a $449,323 increase in the current portion of accrued interest and fees, partially offset by a $776,386 decrease in trade and other payables, mainly attributable to the reclassification of mortgage loan servicing fees from accounts payable to long-term debt and current portion of long-term debt.

Debt Service

Debt Service Coverage

The ratio of net operating income to mortgage loan debt service costs is one of the measures used to assess the overall financial position of the Trust. During the second quarter of 2018, the mortgage loan debt service coverage ratio, inclusive of debt service concessions granted under mortgage renewal and forbearance agreements, and excluding mortgage prepayments and repayment of mortgage loans on refinancing, was 0.36, compared to 0.63 during the second quarter of 2017.

Interest Coverage Ratio

The ratio of net operating income to the cash component of interest on mortgage loans assesses LREIT's ability to pay mortgage loan interest out of net operating income, including discontinued operations. During the second quarter of 2018, the interest coverage ratio decreased to 0.56, compared to 0.89 during the second quarter of 2017. After accounting for the cash component of interest on the revolving loan facility, Shelter advances, and debentures, the interest coverage ratio was 0.43 during the second quarter of 2018, compared to 0.73 during the second quarter of 2017.

The decreases in the debt service coverage ratio and interest coverage ratio during the second quarter of 2018, compared to the second quarter of 2017, are mainly due to a decrease in net operating income.

As indicated by the debt service coverage and interest coverage ratios, net operating income is insufficient to fund the debt service or interest payment obligations of the Trust.

Loan Defaults

Events of default allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements.

As of June 30, 2018, the Trust was in default of a mortgage loan with a principal balance of $27,834,465 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan remains in default. The estimated maximum service fee related to this mortgage is $394,448 and is reflected in the current portion of long-term debt as part of the current portion of accrued interest and fees on the Statement of Financial Position. 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.

Composition of Debt

	June 30 2018	%	March 31 2018	%	December 31 2017	%
Debt (1)						
Mortgage loans	$ 181,593,872	75.6 %	$ 183,831,447	75.9 %	$ 187,206,443	76.4 %
Revolving loan from 2668921 Manitoba Ltd.	30,000,000	12.5 %	30,000,000	12.4 %	30,000,000	12.3 %
Debentures	24,810,800	10.3 %	24,810,800	10.2 %	24,810,800	10.1 %
Total debt	236,404,672	98.4 %	238,642,247	98.5 %	242,017,243	98.8 %
Accrued interest and fees payable (2)	5,343,258	2.2 %	4,990,993	2.1 %	3,846,114	1.6 %
Unamortized transaction costs	(1,449,040)	(0.6)%	(1,435,554)	(0.6)%	(970,862)	(0.4)%
Total debt (1)	$ 240,298,890	100.0 %	$ 242,197,686	100.0 %	$ 244,892,495	100.0 %

(1) Excludes debt of discontinued operations.

(2) The accrued interest and fees payable mainly reflects accrued interest on the Series G debentures, regular monthly accrued interest on mortgage loans and fees payable that are due on expiry of certain forbearance agreements and on maturity of certain mortgage loans.

Contractual Obligations

A summary of the debt obligations of LREIT as at June 30, 2018 for the next five years and beyond is provided in the chart below. The chart reflects the upcoming mortgage payments in accordance with the payment terms specified by the applicable mortgage loan and/or forbearance agreement in place at June 30, 2018, where applicable.

Summary of Contractual Obligations (1)

Payments Due by Period	Total	Remainder of 2018	2019/2020	2021/2022	2023 and beyond
Mortgage loans (2)	$ 181,593,872	$ 36,156,222	$ 120,560,088	$ 13,762,715	$ 11,114,847
Revolving loan (3)	30,000,000	30,000,000	-	-	-
Debentures (4)	24,810,800	-	-	24,810,800	-
Total debt	236,404,672	66,156,222	120,560,088	38,573,515	11,114,847
Liabilities held for sale					
Discontinued operations	3,425,527	3,425,527	-	-	-
Total contractual obligations	$ 239,830,199	$ 69,581,749	$ 120,560,088	$ 38,573,515	$ 11,114,847

(1) The Summary of Contractual Obligations does not include advances payable to Shelter as the advances are unsecured with no fixed term of repayment.

(2) As at June 30, 2018, four loan agreements and a forbearance agreement had been negotiated with the lenders of five mortgage loans affecting five properties in Fort McMurray such that the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to December 1, 2020. Over the period from July 1, 2018 to maturity, $4,559,385 of accrued interest and fees is expected to be incurred and added to the outstanding mortgage principal.

(3) The revolving loan matured on June 30, 2018 and was renewed on July 1, 2018 until December 31, 2019. The renewal encompassed an increase in the interest rate from 5% to 7% on any additional advances above $30,000,000 and removed the limit on the maximum that may be advanced under the facility.

(4) The Series G debentures bear interest at 5.0% and mature on June 30, 2022. The cumulative accrued interest on the Series G debentures is $3,659,593 and is due at maturity.

The investment property mortgage loan payments presented as due during the remainder of 2018 in the above chart, in the aggregate principal amount of $36,156,222, are comprised of four mortgage loans which mature during 2018 in the aggregate principal amount of $32,697,004, and regular principal payments of $3,459,218.

If the mortgage loan with a principal balance of $27,834,465 which is classified as being in default as of the date of this report was to be called by the lender in 2018, total long-term debt due in the table above would increase to $97,019,076 in 2018, would decrease to $93,122,761 in 2019/2020, and would remain the same in 2021 and beyond.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of June 30, 2018, except for one mortgage loan with a principal balance of $3,535,214 and one mortgage loan with a principal balance of $3,425,527 that is secured by the property classified as discontinued operations, both of which are overholding past their maturity dates pending completion of annual credit reviews.

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. and unsecured loan advances from Shelter represent the primary funding sources for any cash shortfall from the operating, investing, and financing activities of LREIT. The net proceeds from property sales must be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, 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. Repayments to 2668921 Manitoba Ltd. and/or Shelter from the net proceeds of the sale of properties, in effect, serves to facilitate the advancing of additional funds, at the discretion of 2668921 Manitoba Ltd. and/or Shelter, for the payment of LREIT's ongoing funding obligations.

Revolving Loan Facility from 2668921 Manitoba Ltd.

LREIT utilizes advances made by 2668921 Manitoba Ltd., the parent company of Shelter, under a revolving loan facility. The revolving loan is a demand loan; accordingly, 2668921 Manitoba Ltd. can request repayment of the loan at any time.

At June 30, 2018, the maximum available principal balance on the revolving loan facility was $30,000,000 and had been fully advanced.

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remained at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

The revolving loan facility is expected to continue to serve as a source of funding for the cash outflow from operating activities, mortgage loan principal payments, transaction costs, capital expenditures, and for the repayment of mortgage loans on refinancing, subject to the ability and willingness of 2668921 Manitoba Ltd. to provide further advances under the facility.

Subsequent to June 30, 2018, 2668921 Manitoba Ltd. continued to provide additional support to LREIT by advancing $17,200,000 on the revolving loan. These advances were used to repay the unsecured loan from Shelter in full and to fund operations.

Advances from Shelter

During the six months ended June 30, 2018, Shelter made unsecured loan advances totaling $9,100,000 to the Trust, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

As indicated above, subsequent to June 30, 2018, the unsecured loan in the amount of $15,100,000 was paid in full using the proceeds of additional advances under the revolving loan facility.

Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. and Shelter are provided in the "Related Party Transactions" sections of this report.

Proceeds from the Sale of Select Properties

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; condominium units as part of the Lakewood Townhomes condominium sales program; and the property classified as held for sale, Woodland Park, inclusive of the condominium sales program for the remaining 29 townhouses that comprise part of the property. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs and debt reduction requirements of the Trust. The timing and terms of property sales is uncertain.

Capital Structure

Capital Structure

	June 30, 2018 Amount	%	December 31, 2017 Amount	%
Long-term debt	$ 137,107,001	78.3 %	$ 58,585,292	28.1 %
Current portion of long-term debt	103,191,889	58.9 %	186,307,203	89.5 %
Deficit	(65,137,405)	(37.2)%	(36,641,825)	(2.0)%
Total capitalization	$ 175,161,485	100.0 %	$ 208,250,670	115.6 %

On June 21, 2018, at the Annual and Special Meeting of Unitholders, the Trust's unitholders approved an amendment to the Declaration of Trust that resulted in the removal of the restriction on the Trust incurring or assuming any mortgage indebtedness if, after the incurrence or assumption of the mortgage indebtedness, the total mortgage indebtedness of the Trust would be more than 75% of the appraised value of the Trust's properties.

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount Payable	Percentage of Total
Investment Properties			
Fixed rate debt			
2018	4.0 %	$ 27,508,702	14.9 %
2019	5.7 %	47,760,395	25.8 %
2021	5.0 %	16,378,089	8.9 %
2025	4.4 %	12,307,915	6.7 %
Total fixed rate debt	5.0 %	103,955,101	56.3 %
Variable rate debt	6.6 %	77,638,771	42.0 %
Total	5.7 %	181,593,872	98.3 %
Discontinued Operations			
Variable rate debt	5.5 %	3,425,527	1.9 %
Total	5.7 %	$ 185,019,399	100.0 %

(1) The year of maturity is based on the contractual loan obligation and does not reflect the IFRS Financial Statement disclosure requirement to disclose fixed term loans which are secured by a demand promissory note and loans in breach of a covenant and/or default as a current liability.

(2) As of June 30, 2018, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 5.5% and 5.7%, respectively, compared to 5.5%, 5.2% and 5.5%, respectively, at December 31, 2017.

Debt to Carrying Value

	2018 Q2	2017 Q2
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations (1)	98 %	84 %
Ratio of mortgage loans, 2668921 Manitoba Ltd. revolving loan and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations (1)	127 %	116 %

(1) Excludes the Shelter unsecured loan included in trade and other payables.

Outlook and Continuing Operations

On the basis of the information presented above and in the previous sections of this report, it is evident that there are factors that cause significant doubt as to the ability of the Trust to continue as a going concern, including:

(i) the Trust's concentration of investment properties in Fort McMurray;
(ii) the depressed rental apartment market in Fort McMurray during the past several years, primarily driven by the low level of oil sands development activity;
(iii) the successive years of losses and cash deficiencies from operations, in particular from the operations in Fort McMurray;
(iv) the limited availability of mortgage lending in Fort McMurray;
(v) the Trust's limited cash and working capital resources;
(vi) the Trust's reliance on financing from Shelter and/or its parent company, 2668921 Manitoba Ltd., in amounts and on terms which are favourable relative to the commercial lending market; and,
(vii) the Trust's highly leveraged capital structure.

In an effort to meet ongoing funding obligations and sustain operations, LREIT has continued to pursue new and renew existing debt restructuring arrangements with certain of its lenders and has relied on favourable interim financing arrangements and other support from Shelter and its parent company, 2668921 Manitoba Ltd. Other measures taken in order to address the liquidity challenges facing LREIT include the continuation of the divestiture program and operational initiatives aimed at improving operating performance. The operational initiatives include a continued focus on cost control, as well as marketing and select renovation initiatives.

A summary of LREIT's progress during the second quarter of 2018 with respect to the above noted initiatives is provided below.

Debt Restructuring - Mortgage Loans

During the second quarter of 2018, LREIT agreed to renewal terms on a first mortgage loan secured by a property in Fort McMurray. The renewal terms required an initial principal repayment of $1.0 million, which reduced the principal balance on the loan to $30.1 million, and additional principal repayments of $0.5 million every six months, commencing December 1, 2018 and ending on June 1, 2020. The renewed mortgage loan bears interest at prime plus 3.30% and allows for the deferral of 30% of the monthly interest payments until the December 1, 2020 maturity date of the loan.

Subsequent to June 30, 2018, one mortgage loan with a principal balance of $2,617,600 matured and was renewed for a 24 month term at interest rate of 6%, maturing on July 1, 2020. An initial principal repayment of $500,000 was paid concurrent with the execution of the renewal. Additional principal repayments of $500,000 are due every six months during the term of the mortgage loan, commencing with a payment on January 1, 2019.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of June 30, 2018, except for one mortgage loan with a principal balance of $3,535,214 and one mortgage loan with a principal balance of $3,425,527 that is secured by the property classified as discontinued operations, both of which are overholding past their maturity dates pending completion of annual credit reviews.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

As the maximum available balance had been fully advanced under the revolving loan during the third quarter of 2017, LREIT obtained $3.8 million of financing from Shelter in the form of unsecured loan advances during the second quarter of 2018 in order to sustain operations.

As a result of the removal of the restriction in the Declaration of Trust relating to the maximum ratio of mortgage loan indebtedness to appraised value, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd. Effective July 1, 2018, the revolving loan facility was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remained at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

Subsequent to June 30, 2018, additional advances of $17,200,000 were provided under the revolving loan facility and were used to repay the $15,100,000 of unsecured loan advances from Shelter in full and to fund operations.

Divestitures

During the second quarter of 2018, the Trust sold three condominium units at Woodland Park for aggregate gross proceeds of $1,005,000. The sale resulted in net cash proceeds of $21,185, after accounting for selling costs of $82,881 and a mortgage loan repayment of $900,934. The condominium units had an aggregate carrying value of $970,197 and the sale resulted in a loss on sale of investment properties of $48,078.

Risks and Uncertainties

Notwithstanding the effort and initiatives undertaken by management, the continuation of the Trust's ability to operate as a going concern into the foreseeable future will be 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 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;
(ii) the Trust's ability to renew or refinance debt as it matures;
(iii) the willingness and ability of the Trust's lenders to participate in the restructuring of the Trust's debt to the degree necessary and duration required to allow LREIT to stabilize its operations;
(iv) the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter provides administrative and asset management services to LREIT, pursuant to the terms of a Service Agreement, and Shelter is also the Property Manager for LREIT, pursuant to the terms of a Property Management Agreement. Shelter has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, inclusive of the seniors' housing complex, for which Shelter assumed property management responsibility from the third party manager on June 1, 2018.

During the second quarter of 2018, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of $179,053 and $225,124, respectively, compared to $205,469 and $204,529, respectively, during the second quarter of 2017.

Loans

Revolving Loan

As described in the "Liquidity and Capital Resources" section of this report, LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. Effective July 1, 2018, the revolving loan facility was amended to remove the limit on the maximum amount that may be advanced under the facility and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remained at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000.

During the second quarter of 2018, interest on the loan facility amounted to $373,973, compared to $325,726 during the second quarter of 2017.

During the second quarter of 2018, the Trust received no advances (2017 - $2.1M) and made no repayments (2017 - nil) on the revolving loan. At June 30, 2018, the revolving loan balance was $30,000,000 (March 31, 2018 - $30,000,000), which was the maximum balance allowed under the terms of the revolving loan facility prior to its amendment and renewal, as described above.

Subsequent to June 30, 2018, additional advances of $17,200,000 were provided under the revolving loan facility and were used to repay the unsecured loan advances from Shelter in full and to fund operations.

Advances from Shelter

During the second quarter of 2018, the Trust received advances of $3,800,000 (2017 - nil) and made no repayments (2017 - nil) on the unsecured loan from Shelter, resulting in a balance of $15,100,000 at June 30, 2018 (March 31, 2018 - $11,300,000). The terms of the unsecured loan from Shelter provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During the second quarter of 2018, interest on the Shelter advances amounted to $162,287, compared to nil during the second quarter of 2017.

Subsequent to June 30, 2018, the Trust received no advances and made repayments of $15,100,000, repaying the unsecured loan in full.

Nelson Ridge Second Mortgage Loan

The Nelson Ridge second mortgage loan is held by 2668921 Manitoba Ltd., bares interest at a rate of 9% per annum and matures on March 31, 2019. The mortgage loan terms provide for the deferral and capitalization of interest payments until the maturity date.

As of June 30, 2018, the amount owing on the mortgage loan was $5,747,770 (March 31, 2018 - $5,620,705), inclusive of accrued interest.

Approval

The terms of the related party agreements and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the related party agreements. All necessary regulatory and unitholder approvals were obtained for the revolving loan and all renewals.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. In addition to the forward-looking statements provided throughout this MD&A, a summary of key risks is provided in the Annual Report and AIF which are available at www.sedar.com.

The discussion below highlights material changes in key risks.

Financing

Loan Defaults

Failure to comply with debt service obligations and debt covenants are considered to be 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.

As of June 30, 2018, the Trust was in default of a mortgage loan with a principal balance of $27,834,465 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default 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 of the mortgage loan in default is demanded, the Trust would not be able to satisfy the associated obligation with its current resources.

Revolving Loan Facility From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is, in the near term, dependent on advances under the revolving loan facility from 2668921 Manitoba Ltd. which is subject to the willingness/ability of 2668921 Manitoba Ltd. to advance funds, as required. The revolving loan is a demand loan and as such 2668921 Manitoba Ltd. can request repayment of the loan at any time.

CONTROLS AND PROCEDURES

Processes have been established to accumulate and communicate information to management, including the Chief Executive Officer and Chief Financial Officer, in order to support management's representation that it has exercised reasonable diligence to ensure that the Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered; and, that the interim financial statements and quarterly highlights fairly present in all material respects the financial condition, results of operations and cash flows of the Trust, as of the date and for the periods presented.

In contrast to the usual certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate prescribed by NI 52-109 filed by the Trust does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS).

LREIT's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of an issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2018 Second Quarter Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 23, 2018