MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2015

TABLE OF CONTENTS

Unitholder Returns

	Three Months Ended March 31, 2015 (Per unit)	Year Ended December 31, 2014 (Per unit)
Opening price	$0.47	$1.07
Closing price	$0.34	$0.47

Lanesborough Real Estate Investment Trust ("LREIT") units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The warrants are listed on the Toronto Stock Exchange under the symbol "LRT.WT.A".

CHIEF EXECUTIVE OFFICER'S MESSAGE
2015 First Quarter Report

Results of Operation

Overview

LREIT completed the first quarter of 2015 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of $2.0 Million, compared to a loss of $2.6 Million during the first quarter of 2014. The decrease in loss mainly reflects a decrease in interest expense, an increase in operating income and a decrease in trust expense, partially offset by a decrease in interest income.

After including gain on sale of investment properties, fair value adjustments and discontinued operations, LREIT completed the first quarter of 2015 with a comprehensive loss of $3.8 Million, compared to a comprehensive loss of $2.4 Million during the first quarter of 2014, representing an increase in the loss of $1.4 Million.

Net Operating Income

During the first quarter of 2015, net operating income increased by $0.2 Million, compared to the first quarter of 2014. Excluding properties held for sale, net operating income decreased by $0.1 Million, as a result of a decrease in the net operating income of the Fort McMurray property portfolio of $0.2 Million, partially offset by an increase of $0.1 Million in the net operating income of the portfolio of other investment properties. The combined total of net operating income for the Fort McMurray property portfolio and the income recovery on Parsons Landing, declined by $0.3 Million during the first quarter of 2015 compared to the first quarter of 2014. The decrease in net operating income for the Fort McMurray property portfolio mainly reflects the impact of more competitive rental market conditions.

Rental market conditions in Fort McMurray continued to present significant challenges as the slow down in oil sands activity persisted into the first quarter of 2015. The occupancy level of the Fort McMurray property portfolio in the first quarter of 2015 was 76% compared to 78% during the same period in 2014. Compared to the first quarter of 2014, revenue for the Fort McMurray property portfolio decreased by $0.5 Million or 8%, during the first quarter of 2015. The decrease in revenue was largely offset by a decrease in operating costs for the Fort McMurray portfolio of $0.4 Million or 13% and, as a result, the decrease in operating income for the segment of $0.2 Million was relatively modest.

Interest Expense

Interest expense decreased by $0.5 Million or 8% during the first quarter of 2015, mainly due to the non-cash component of mortgage bond interest. As $10 Million of mortgage bonds were repaid during the first quarter of 2014, compared to $6 Million repaid during the first quarter of 2015, accretion and transaction costs were comparatively high during the first quarter of 2014.

Trust Expense

Trust expense for the first quarter of 2015 decreased by $0.2 Million or 37% compared to the first quarter of 2014, primarily due to the recovery of a provision for financing fees previously considered unrecoverable.

Interest Income

Interest income for the first quarter of 2015 decreased by $0.3 Million or 94% compared to the first quarter of 2014 due to the collection of $9 Million of mortgage loans receivable during the second quarter of 2014.

Fair Value Adjustments

During the first quarter of 2015, LREIT recorded a loss of $1.9 Million related to fair value adjustments. There were no fair value adjustments during the first quarter of 2014. The loss related to fair value adjustments during the first quarter of 2015 was due to unfavourable changes in revenue and occupancy expectations for the Fort McMurray property portfolio.

Cash Flow Results

During the first quarter of 2015, the cash inflow from operating activities, excluding working capital adjustments, amounted to $0.3 Million, compared to a cash outflow of $0.1 Million during the first quarter of 2014. Including working capital adjustments, LREIT completed the first quarter of 2015 with a cash outflow from operating activities of $0.3 Million, compared to a cash inflow of $0.7 Million during the first quarter of 2014.

Key Events

First Quarter of 2015

- Upward refinancing of mortgage loans: After transaction costs, LREIT generated net proceeds of $7.4 Million from the upward refinancing of Beck Court. The net proceeds repaid the remaining 9% mortgage bonds, in the aggregate principal amount of $6.0 Million, and increased working capital.

- Reclassification of Colony Square: Colony Square is now classified under held for sale and is an additional component of the divestiture strategy of the Trust.

Subsequent to March 31, 2015

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

- Elimination of a debt covenant breach: Subsequent to March 31, 2015, LREIT refinanced the first mortgage loan of Millennium Village, which included an associated interest rate swap liability and debt service coverage breach.

Outlook

The Trust remains optimistic about the long-term prospects for oil sands development. In the near term, seasonal factors have traditionally resulted in improved operating results for the Fort McMurray property portfolio during the second and third quarters of the year, however, the impact of the decline in oil prices creates uncertainty as to the extent and timing of future oil sands activity. In response to this challenge, LREIT has expanded its divestiture program to include Colony Square, which is expected to provide debt reduction during the second half of 2015. In addition, the Trust will pursue additional property sales as opportunities arise. LREIT also intends to pursue refinancing opportunities in an effort to further improve its overall debt burden.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of 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 three months ended March 31, 2015 with reference to the Annual Report for 2014.

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, 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 could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with breaches of covenants under financing agreements, debt financing, availability of cash for distributions, the taxation of trusts, public markets, real property ownership, liquidity, interest and financing risk, credit risk, concentration of portfolio in one market, future property acquisitions, dependence on natural resources industries, reliance on single or anchor tenants, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, multi-family residential sector risk, environmental risks, other tax-related risk factors, supply risk, utility and property tax risk, government regulation, nature of units, dilution, competition, general economic conditions, current economic conditions, relationship with the property manager, reliance on key personnel, reliance on Shelter Canadian Properties Limited ("Shelter") or its parent company 2668921 Manitoba Ltd. for interim funding and additional risks associated with debentures. 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.

Financial Statements

Throughout this report, the condensed consolidated financial statements as of March 31, 2015 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2015 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the three months ended March 31, 2015 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three months ended March 31, 2015 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	March 31	December 31	
	2015	2014	2013
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 440,129,931	$ 442,773,600	$ 468,072,319
Total long-term financial liabilities **(1)**	$ 328,048,045	$ 327,980,499	$ 302,335,837
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.7 %	5.4 %
- Total debt	6.3 %	6.3 %	5.9 %

	Three Months Ended March 31		
	2015	2014	2013
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 8,731,719	$ 8,908,725	$ 9,768,888
Net operating income	$ 4,752,982	$ 4,504,067	$ 5,693,568
Loss before discontinued operations	$ (3,919,811)	$ (2,515,948)	$ (1,044,322)
Loss and comprehensive loss	$ (3,812,046)	$ (2,404,013)	$ (812,228)
Cash Flows			
Cash provided by (used in) operating activities	$ (292,138)	$ 718,641	$ 123,995
Funds from Operations (FFO) *	$ (1,915,224)	$ (2,475,248)	$ (1,171,491)
Adjusted Funds from Operations (AFFO) *	$ (1,610,594)	$ (2,107,868)	$ (1,555,316)
Distributable income (loss)*	$ 38,985	$ (361,998)	$ 15,067
Per Unit			
Net operating income *			
- basic	$ 0.225	$ 0.218	$ 0.303
- diluted	$ 0.225	$ 0.157	$ 0.300
Loss before discontinued operations *			
- basic and diluted	$ (0.185)	$ (0.122)	$ (0.056)
Loss and comprehensive loss			
- basic and diluted	$ (0.180)	$ (0.116)	$ (0.043)
Cash provided by (used in) operating activities			
- basic	$ (0.014)	$ 0.035	$ 0.007
- diluted	$ (0.014)	$ 0.025	$ 0.007
Funds from Operations (FFO) *			
- basic and diluted	$ (0.091)	$ (0.120)	$ (0.062)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.076)	$ (0.102)	$ (0.083)
Distributable income (loss) *			
- basic and diluted	$ 0.002	$ (0.017)	$ 0.001

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability, an interest rate swap liability and mortgage bonds. The mortgage bonds are included at face value.

(2) Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with International Financial Reporting Standards (IFRS) or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

As of March 31, 2015, LREIT owns a portfolio of income-producing real estate properties comprised of 18 investment properties, two investment properties classified as held for sale, and two seniors' housing complexes classified under discontinued operations. The core business activities of LREIT include investment, development, management and divestiture activities which are focused on maximizing the return on the real estate portfolio.

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio. During the past six years, the divestiture program of LREIT, combined with systematic and proactive debt restructuring initiatives, has enabled LREIT to meet significant liquidity challenges.

A more detailed description of the operations and business strategy of LREIT is provided in the section of the MD&A titled, "Overview of Operations and Investment Strategy".

Divestiture Program

During the period from 2009 to 2015, LREIT sold 23 properties and 17 condominium units under its divestiture program at a combined gross selling price of $260.8 Million. The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of Colony Square and the two seniors' housing complexes, as well as the completion of the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration of the overall cash needs of the Trust. The timing and terms of property sales is uncertain.

On April 1, 2015, LREIT completed the sale of 156/204 East Lake Boulevard, located in Airdrie, Alberta, for net proceeds of $2.4 Million, after sales expenses and the assumption of the mortgage loan debt by the purchaser. Proceeds from the sale have been used to pay down the revolving loan and for general working capital purposes.

Highlights of 2015 Q1 Results and Key Issues/Events

1. Background Information

For segmented reporting purposes, LREIT's portfolio of investment properties is divided into three categories:

- Fort McMurray properties: Includes thirteen multi-family properties in Fort McMurray, classified as investment properties on the Statement of Financial Position.

- Other investment properties: Includes five other investment properties, classified as investment properties on the Statement of Financial Position.

- Held for sale and/or sold properties: Includes the operating results of 156/204 East lake Blvd., which was sold in the second quarter of 2015, and the operating results of Colony Square, classified as assets held for sale on the Statement of Financial Position.

The operating results for the two seniors' housing complexes are classified under "Discontinued operations" in the Income Statement of the Trust. The income and expense analyses which are contained throughout this report do not include the two seniors' housing complexes, except where noted.

In the financial statements of the Trust, cash flow from operating activities includes net operating income, less interest and trust expenses, on a cash basis, from the investment properties and the seniors' housing complexes in discontinued operations. The cash flow analyses which are contained throughout this report provide a break-down of the cash flow from investment properties and discontinued operations.

2. Comparative Income Results

	Three Months Ended March 31		
	2015	2014	Increase (Decrease) in income
Net operating income			
Fort McMurray properties	$ 3,176,797	$ 3,333,129	$ (156,332)
Other investment properties	650,063	591,816	58,247
Sub-total	3,826,860	3,924,945	(98,085)
Held for sale and/or sold properties	926,122	579,122	347,000
Total net operating income	4,752,982	4,504,067	248,915
Interest income	24,892	385,218	(360,326)
Interest expense	(6,409,004)	(6,954,282)	545,278
Trust expense	(391,859)	(620,685)	228,826
Income recovery on Parsons Landing	-	98,499	(98,499)
Loss before the following	(2,022,989)	(2,587,183)	564,194
Gain on sale of investment property	-	71,235	(71,235)
Fair value adjustments - Investment properties	(1,896,822)	-	(1,896,822)
Loss before discontinued operations	(3,919,811)	(2,515,948)	(1,403,863)
Income from discontinued operations	107,765	111,935	(4,170)
Loss and comprehensive Loss	$ (3,812,046)	$ (2,404,013)	$ (1,408,033)

A summary of the key financial performance indicators of LREIT is provided in the "Financial Summary" section of the MD&A which precedes this "Executive Summary".

During the first quarter of 2015, the loss of LREIT, before gain on sale of investment property, fair value adjustments and discontinued operations amounted to $2.0 Million, compared to a loss of $2.6 Million during the first quarter of 2014, representing a decrease in loss of $0.6 Million. The decrease in loss is mainly due to a decrease in interest expense of $0.5 Million, an increase in operating income of $0.2 Million and a decrease in trust expense of $0.2 Million, partially offset by a decrease in interest income of $0.4 Million and a decrease in income recovery on Parsons Landing of $0.1 Million.

During the first quarter of 2015, the net loss of LREIT was $3.8 Million, compared to a net loss of $2.4 Million during the first quarter of 2014, representing an increase in loss of $1.4 Million. In addition to the variables noted in the preceding paragraph, the increase in loss reflects a $1.9 Million loss from fair value adjustments in the first quarter of 2015 and a gain on sale of investment property of $0.1 Million in the first quarter of 2014.

Occupancy/Rental Rate Comparison

	Three Months Ended March 31	
	2015	2014
Average occupancy level		
Fort McMurray properties	76%	78%
Other investment properties	92%	88%
Total	79%	79%
Held for sale and/or sold properties	94%	90%
Average rental rate		
Fort McMurray properties	$2,228	$2,397
Other investment properties	$1,138	$1,137
Total	$1,932	$2,055
Held for sale and/or sold properties *	$760	$741

* Represents the residential portion of Colony Square.

3. Comparative Cash Flow Results

	Three Months Ended March 31		
	2015	2014	Increase (Decrease)
Cash provided by (used in)			
Operating activities before working capital adjustments	$ 286,437	$ (147,320)	$ 433,757
Working capital adjustments	(578,575)	865,961	(1,444,536)
Operating activities	$ (292,138)	$ 718,641	$(1,010,779)

During the first quarter of 2015, the cash used in operating activities, before working capital adjustments, decreased by $0.4 Million, compared to the first quarter of 2014. The decrease mainly reflects an increase in the cash component of net operating income of $0.6 Million and a decrease in the cash component of trust expense of $0.2 Million, partially offset by a decrease in interest received of $0.2 Million, an increase in interest paid of $0.1 Million, and a decrease in income recovery on Parsons Landing of $0.1 Milliion.

4. Interest Expense

	Three Months Ended March 31		
	2015	2014	Increase (Decrease)
Interest expense			
Investment properties	$ 6,409,004	$ 6,954,282	$ (545,278)
Discontinued operations	307,724	157,657	150,067
Total interest expense	$ 6,716,728	$ 7,111,939	$ (395,211)

	As at March 31	
Key Variables	2015	2014
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.7 %	5.7 %
Seniors' housing complexes	6.5 %	5.0 %
Combined operations	5.7 %	5.7 %

Total interest expense for investment properties decreased by $0.5 Million or 8% during the first quarter of 2015, compared to the first quarter of 2014. The decrease mainly reflects a decrease in accretion of $0.5 Million, a net decrease in total amortization charges for transaction costs of $0.2 Million and a decrease in mortgage bond interest of $0.1 Million, partially offset by an increase in interest charges related to fair value adjustments on the interest rate swap liability of $0.3 Million.

During the first quarter of 2014, accretion and amortization charges for transaction costs were comparatively high due to the repayment of $10 Million of mortgage bonds, compared to the repayment of the remaining $6 Million of mortgage bonds during the first quarter of 2015. The repayment of the mortgage bonds also served to decrease mortgage bond interest charges during the first quarter of 2015 compared to the first quarter of 2014.

The increase in interest expense for discontinued operations of $0.2 Million is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

5. Key Financing and Investing Events in 2015

Upward Refinancing of Beck Court - On January 12, 2015, the first mortgage loan of Beck Court was upward refinanced with a new first mortgage loan of $16.0 Million. The net proceeds from the upward refinancing of approximately $7.4 Million, after transaction costs, were used to repay the remaining 9% mortgage bonds, in the aggregate principal amount of $6.0 Million, and increased working capital.

5. Key Financing and Investing Events in 2015 (continued)

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

Debt Covenants - As of March 31, 2015, LREIT was in breach of a debt service coverage requirement on the first mortgage loan and the related interest rate swap liability of Millennium Village. As a result of the refinancing described in the preceeding paragraph, the debt covenant breach on Millennium Village was eliminated.

Sale of Property - The previously announced sale of 156/204 East Lake Blvd. closed on April 1, 2015 resulting in net proceeds of $2.4 Million, after sales expenses and the assumption of the mortgage loan debt by the purchaser.

6. Liquidity

	March 31 2015	December 31 2014
Unrestricted cash	$ 717,909	$ 1,963,735
Restricted cash	$ 3,339,907	$ 3,480,259
Working capital deficit	$ 13,637,847	$ 12,715,808
Amount available on revolving loan*	$ 930,000	$ 500,000

*As at May 11, 2015, there was $1.8 Million available on the revolving loan.

7. Risks and Uncertainties

The key risks and uncertainties affecting the current and future operations of LREIT include the following:

- the working capital deficit of the Trust;
- the concentration of properties in Fort McMurray;
- ability of LREIT to complete additional property sales;
- ability of LREIT to renew and/or upward refinance mortgage debt; and
- reliance on Shelter and its parent 2668921 Manitoba Ltd. for interim funding.

As a result of the extension of the maturity date of the Series G debentures, the repayment of the remaining mortgage bond debt, the renewal or refinancing of mortgage loans, the completion of the Parsons Landing acquisition and the successful completion of property sales over the past six years, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

The decline in oil prices has created a higher level of uncertainty in the Fort McMurray economy, resulting in the slowdown of oil sands development, increased vacancy in the rental market, and more difficult mortgage lending conditions for properties in Fort McMurray. The fair value of LREIT properties located in Fort McMurray have been reduced to reflect the change in the rental market. A prolonged delay or slowdown of development activity in the oil sands industry could further reduce the net operating income results and values for the Fort McMurray property portfolio.

The financial capacity of LREIT to meet all of its debt obligations and continue operations is dependent on improving cash flows from operations and, in particular, the cash flow from operations of the Fort McMurray portfolio; the completion of property sales and/or upward refinancings; the continued ability of the Trust to repay, renew or refinance debt at maturity; the renewal of the revolving loan commitment from 2668921 Manitoba Ltd.; and/or the continued availability of interim funding from Shelter.

A more detailed description of key risks is provided in the "Operating Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

CONTINUING OPERATIONS

The Financial Statements have been prepared using the going concern assumption.

The "going concern" basis of accounting is considered appropriate by management due to management's expectation of maintaining adequate liquidity, renewing maturing mortgage debt, meeting all mortgage principal and interest payment obligations, obtaining modified loan terms from lenders, receiving the continued financial support of Shelter and its parent company 2668921 Manitoba Ltd., completing upward refinancing, reducing high interest debt and generating additional capital through the completion of property sales.

CAPITAL REQUIREMENTS - GENERAL

As of March 31, 2015, the unrestricted cash balance of LREIT was $717,909 and the working capital deficit was $13,637,847, representing an increase of $922,039 compared to the working capital deficit as of December 31, 2014. The increase in the working capital deficit is primarily due to a reduction of the Trust's cash balance as described in the "analysis of cash flow" section of this report, partially offset by the net proceeds of the upward refinancing of Beck Court after repayment of the remaining mortgage bonds. As of March 31, 2015, the balance of the revolving loan is $14,070,000.

LREIT requires ongoing sources of cash to fund regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures, net of the cash inflow or outflow from operating activities. In addition, LREIT requires additional capital on a periodic basis to fund debenture interest payments. Additional capital is also periodically required to fund the repayment of mortgage loans upon maturity or refinancing to the extent that there is a deficit between the repayment amount and the amount of new mortgage loan proceeds.

The net cash inflow from the upward refinancing of properties and the revolving loan facility from 2668921 Manitoba Ltd. represent funding sources for any cash outflow from operating activities, regular mortgage loan principal payments, transaction costs and capital expenditures. The net proceeds from property sales, after repayment of any related mortgage loan indebtedness, will be used to repay any amounts owing to 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and cash flow from operating activities, LREIT completed the first quarter of 2015 with a cash shortfall of $2,453,512. The cash shortfall was funded by working capital.

Detailed information regarding the funding sources and funding commitments of LREIT are provided in the "Capital Resources and Liquidity" section of this report.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

LREIT is an unincorporated closed-end real estate trust which was established on April 23, 2002 under the laws of the Province of Manitoba. LREIT became a publicly traded entity on August 30, 2002. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The warrants are listed on the Toronto Stock Exchange under the symbol "LRT.WT.A".

The core business activities of LREIT include acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada with a focus on multi-unit residential properties. Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter is also responsible for the property management function for the investment properties of LREIT, pursuant to the terms of a Property Management Agreement.

Investment in Properties

As of March 31, 2015, the real estate portfolio of LREIT consisted of 18 multi-family residential properties (the "investment properties"), one commercial property and one mixed residential/commercial property (the "investment properties held for sale"), as well as two seniors' housing complexes (the "discontinued operations").

The Financial Statements of LREIT provide segmented results for investment properties, with "Fort McMurray", "Other" and "Held for sale and/or sold" properties representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information.

Operations

LREIT seeks to maximize the operating income of its property portfolio through the implementation of sound financial management practices and operating procedures, responsive management services and proactive leasing strategies.

LREIT also has a continuous capital improvement program with respect to its properties. The program is designed to extend the useful life of the properties and improve the quality of tenants' physical surroundings. The capital improvement program encompasses major renovation or expansion projects at selected properties, as deemed appropriate. LREIT capitalizes all expenditures related to the improvement of its properties if the expenditures are expected to enhance operating income in the future.

Financing

The purchase price of the LREIT properties was primarily funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes the upward refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. As an interim source of funds, LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of March 31, 2015, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During the first quarter of 2015, the mortgage loan debt service coverage ratio was 0.81, compared to 0.86 during the first quarter of 2014 and 1.00 during the entire year in 2014. For the purpose of calculating the debt service coverage ratio, the income recovery on Parsons Landing is added to net operating income and, prior to the completion of the acquisition of Parsons Landing on March 6, 2014, interest on the acquisition payable was included in debt service costs.

The reduction in the debt service coverage ratio reflects an increase in debt service costs which was greater than the increase in operating income.

Divestiture Program

General

LREIT initiated a divestiture program in 2009 targeting the sale of assets, with estimated gross proceeds in excess of $250 Million. The objectives of the divestiture program are to reduce total debt, including debenture debt and higher cost mortgage loan financing, and to enable LREIT to improve its working capital position. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

Since the inception of the divestiture program to March 31, 2015, LREIT has sold 23 properties and 17 condominium units at a combined gross selling price of $260.8 Million.

Divestiture Program

Year	Properties Sold	Condominium Units Sold	Gross Proceeds	Net Proceeds At Closing	Vendor Take-back Financing Received	Total Net Proceeds
2009	13	-	$ 90,392,000	$ 29,631,650	$ 6,300,000	$ 35,931,650
2010	5	-	40,385,000	17,563,501	3,790,650	21,354,151
2011	-	4	1,927,100	52,120	-	52,120
2012	3	9	102,896,400	21,927,121	-	21,927,121
2013	2	3	24,724,700	14,468,789	3,200,000	17,668,789
2014	-	1	474,900	(6,877)	9,491,016	9,484,139
Total	23	17	$ 260,800,100	$ 83,636,304	$ 22,781,666	$ 106,417,970

On April 1, 2015, LREIT completed the sale of 156/204 East Lake Blvd. located in Airdrie, Alberta for net proceeds of $2.4 Million after sales expenses and the assumption of the mortgage loan debt by the purchaser. Proceeds from the sale have been used to pay down the revolving loan and for general working capital purposes.

LREIT is currently pursuing the sale of Colony Square, the remaining seniors' housing complexes, and/or other properties and continuing with the condominium sales program at Lakewood Townhomes.

Lakewood Townhomes Condominium Sales

In October 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. Upon sale of each unit, the first mortgage loan requires a repayment equal to 95% of the sale list price agreed upon with the lender. Additional selling costs, including sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, will be paid by the balance of the net sales proceeds and from working capital. The current expectation of management is that the condominium sales program will be substantially completed in 2017. The condominium sales program encompasses services and renovations fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the section of this report titled "Related Party Transactions".

As of March 31, 2015, 17 condominium units have been sold at a combined gross selling price of $8.2 Million.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2015

As of March 31, 2015, the property portfolio of LREIT consists of 22 rental properties, 18 of which are classified as "Investment properties", including all of the unsold condominium units at Lakewood Townhomes, and two of which are classified as assets held for sale on the Statement of Financial Position of the Trust. The remaining properties consist of two seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Assets and liabilities held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 22 properties has a total purchase price of approximately $396.1 Million and encompasses 2,125 suites and 123,126 square feet of leasable commercial area.

Quarterly Changes in Property Portfolio

During 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at Lakewood Townhomes.

During the first quarter of 2015 there were no changes in the property portfolio, except for a change in classification of one commercial property and one mixed-use residential and commercial property transferred to assets held for sale.

Subsequent to March 31, 2015, LREIT completed the sale of 156/204 East Lake Blvd.

After accounting for condominium sales, the number of "revenue generating" suites in the investment property portfolio was unchanged as of March 31, 2015, compared to March 31, 2014.

A list of all of the properties in the LREIT real estate portfolio is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 18 properties which are classified as investment properties on the Statement of Financial Position as of March 31, 2015 consist of 13 multi-family residential properties in Fort McMurray, Alberta and one multi-family property in each of Yellowknife, Northwest Territories; Thompson, Manitoba; Brandon, Manitoba; Edson, Alberta and Peace River, Alberta (5 properties). The two properties which are classified as assets held for sale on the Statement of Financial Position consist of one commercial property located in Airdrie, Alberta, which was sold on April 1, 2015, and one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square)

As noted above, the properties in "discontinued operations" consist of the two seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario.

Discontinued Operations

Discontinued operations is a segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which is held for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the two remaining seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Assets or liabilities held for sale".

Income from discontinued operations is disclosed separately on the Income Statement.

The cash inflows and outflows from properties in discontinued operations are included with the cash inflows and outflows from investment properties in the Statement of Cash Flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the Statement of Cash Flows.

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to units sold, are included with investment properties.

FAIR VALUE MEASUREMENT

General

The fair value of the investment property portfolio of LREIT is determined quarterly based on the same valuation techniques that are used by independent valuation professionals. The capitalized net operating income method and discounted cash flow methods are typically emphasized, although the direct comparison method may occasionally be used when appropriate market comparables are available. In addition, periodic external appraisals and market reports serve to substantiate and guide the internal valuation process of LREIT, particularly with respect to key assumptions, including capitalization rates and discount rates.

Fair value estimates are also sensitive to changes in forecasted net operating income and temporary fluctuations have the potential to skew fair value estimates. As a result, actual operating results are normalized to reflect stabilized future expectations regarding capital expenditures, vacancy rates, inflation, operating costs and rental market conditions. Normalization adjustments are based on appraisals, market reports, historic performance and management projections.

Investment Properties

During the first quarter of 2015, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $1,896,822. During the first quarter of 2014, LREIT did not record any fair value adjustments.

The loss related to fair value adjustments in the first quarter of 2015 was the result of a further reduction in the revenue and occupancy expectations for the Fort McMurray portfolio, partially offset by improvement in key valuation assumptions, including capitalization and discount rates, for the mixed-use residential and commercial property in Winnipeg, Manitoba. Revenue and occupancy expectations for the Fort McMurray portfolio are affected by changes in oil sands development activity, which in turn is affected by the price of oil which remained at depressed levels in the first quarter of 2015.

ANALYSIS OF INCOME (LOSS)

Summary of Quarterly Results

Quarterly Analysis

	2015	2014		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 8,731,719	$ 9,483,539	$ 9,924,262	$ 9,975,172
Net operating income	$ 4,752,982	$ 5,242,793	$ 6,103,953	$ 5,924,651
Loss for the period before discontinued operations	$ (3,919,811)	$(16,643,003)	$ (820,772)	$ (898,369)
Loss and comprehensive loss	$ (3,812,046)	$(18,296,432)	$ (795,468)	$ (742,668)
PER UNIT				
Net operating income				
- basic	$ 0.225	$ 0.248	$ 0.290	$ 0.283
- diluted	$ 0.225	$ 0.247	$ 0.213	$ 0.201
Loss for the period before discontinued operations				
- basic and diluted	$ (0.185)	$ (0.788)	$ (0.039)	$ (0.043)
Loss and comprehensive loss				
- basic and diluted	$ (0.180)	$ (0.866)	$ (0.038)	$ (0.035)

Quarterly Analysis

	2014	2013		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 8,908,725	$ 10,115,906	$ 10,417,760	$ 10,026,210
Net operating income	$ 4,504,067	$ 6,023,275	$ 6,405,204	$ 6,086,722
Income (loss) for the period before discontinued operations	$ (2,515,948)	$ (669,080)	$ 13,422,853	$ 2,979,923
Income (loss) and comprehensive income (loss)	$ (2,404,013)	$ (509,164)	$ 13,505,324	$ 3,335,654
PER UNIT				
Net operating income				
- basic	$ 0.218	$ 0.311	$ 0.339	$ 0.323
- diluted	$ 0.157	$ 0.237	$ 0.337	$ 0.319
Income (loss) for the period before discontinued operations				
- basic	$ (0.122)	$ (0.035)	$ 0.711	$ 0.158
- diluted	$ (0.122)	$ (0.035)	$ 0.706	$ 0.156
Income (loss) and comprehensive income (loss)				
- basic	$ (0.116)	$ (0.026)	$ 0.716	$ 0.177
- diluted	$ (0.116)	$ (0.026)	$ 0.711	$ 0.175

Revenue and Operating Income

The primary variables affecting the quarterly rental revenue and net operating income results of LREIT are rental market conditions in Fort McMurray and property sales.

In general, rental market conditions in Fort McMurray are affected by oil sands development activity, which has increased over the past decade. Although management's long-term growth expectations remain strong, there was a slowdown of development activity in 2014, which continues to affect revenue and operating income results. The rental market is also affected by seasonal variations in demand, with stronger levels of demand typically being experienced in the second and third quarters of the year. Variations in the supply of rental units and increased competition from work camp accommodations have also affected the quarterly revenue and operating income results of LREIT.

The comparative results for 2013 in the preceding table included the operations of the Purolator Building and Nova Court, which were sold on October 1, 2013 and December 31, 2013, respectively.

The phased-in return of reconstructed suites at Parsons Landing contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses during the period from June 1, 2013 to February 5, 2014, the expiry date for insurance coverage. There was also an impact on the operating results of Parsons Landing between the insurance expiry date and the May 2014 completion of the lease-up phase for the reconstructed suites.

Net Income (Loss) before Discontinued Operations

After accounting for operating income, quarterly variances in interest expense and fair value adjustments represent the two main "ongoing" factors that affect quarterly variances in income/loss before discontinued operations.

Interest expense on mortgage loans includes interest on mortgage loans and the revolving loan commitment. The main variables affecting decreases in interest expense on mortgage loans/acquisition payable have been the discharge of mortgage loan debt on the sale of properties, periodic lump-sum paydowns of mortgage loan debt, reduction of interest expense due to refinancing and, in March 2014, the elimination of the acquisition payable on Parsons Landing. The main variables affecting increases in interest expense have been the upward refinancing of mortgage loan debt and the new mortgage loan financing for Parsons Landing which was obtained in March 2014. Changes in the balance of the revolving loan and the weighted average interest rate also contribute to quarterly variances in interest expense.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly changes in the fair value of investment properties. Losses from fair value adjustments were most pronounced in the fourth quarter of 2014 ($15.7 Million), as revenue and occupancy expectations from the Fort McMurray portfolio were reduced to reflect an anticipated slow down in oil sands development activity resulting from the significant decline in oil prices experienced in the fourth quarter of 2014 and into 2015. Gains from fair value adjustments were most pronounced in the third quarter of 2013 ($12.8 Million). The gains were primarily due to an improvement in key valuation assumptions, including capitalization and discount rates, as well as an improvement in the revenue and occupancy expectation for Parsons Landing relating to the reconstruction of suites as a result of the fire.

Net Income (Loss)

The operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, have also contributed to variations in quarterly net income.

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) in Income	
	2015	2014	Amount	%
Rentals from investment properties	$ 8,731,719	$ 8,908,725	$ (177,006)	(2)%
Property operating costs	3,978,737	4,404,658	425,921	10 %
Net operating income	4,752,982	4,504,067	248,915	6 %
Interest income	24,892	385,218	(360,326)	(94)%
Interest expense	(6,409,004)	(6,954,282)	545,278	8 %
Trust expense	(391,859)	(620,685)	228,826	37 %
Income recovery on Parsons Landing	-	98,499	(98,499)	(100)%
Loss before the following	(2,022,989)	(2,587,183)	564,194	22 %
Gain on sale of investment property	-	71,235	(71,235)	(100)%
Fair value adjustments - Investment properties	(1,896,822)	-	(1,896,822)	n/a
Loss before discontinued operations	(3,919,811)	(2,515,948)	(1,403,863)	56 %
Income from discontinued operations	107,765	111,935	(4,170)	(4)%
Loss and comprehensive loss	$ (3,812,046)	$ (2,404,013)	$ (1,408,033)	59 %

Analysis of Loss per Unit

	Three Months Ended March 31		Change	
	2015	2014		
Loss before discontinued operations - basic and diluted	$ (0.185)	$ (0.122)	$ (0.063)	52 %
Loss and comprehensive loss - basic and diluted	$ (0.180)	$ (0.116)	$ (0.064)	55 %

Overall Results

During the first quarter of 2015, the loss of LREIT, before gain on sale of investment property, fair value adjustments and discontinued operations decreased by $564,194 compared to the first quarter of 2014. The decrease in the loss is mainly due to a decrease in interest expense of $545,278, an increase in operating income of $248,915 and a decrease in Trust expense of $228,826, partially offset by a decrease in interest income of $360,326 and a decrease in income recovery on Parsons Landing of $98,499.

After accounting for the gain on sale of investment property and fair value adjustments, LREIT completed the first quarter of 2015 with a loss of $3,919,811, compared to a loss of $2,515,948 during the first quarter of 2014, representing a variance of $1,403,863.

After accounting for discontinued operations, LREIT completed the first quarter of 2015 with a comprehensive loss of $3,812,046, compared to comprehensive loss of $2,404,013 during the first quarter of 2014, representing a variance of $1,408,033.

Per Unit Results

During the first quarter of 2015, the loss before discontinued operations amounted to $0.185 per unit, compared to a loss of $0.122 per unit during the first quarter of 2014, representing an increase in the loss of $0.063 per unit.

The increase in loss per unit mainly reflects an increase in the overall loss of the Trust before discontinued operations, partially offset by an increase in the weighted average number of units. From March 31, 2014 to March 31, 2015, the weighted average number of units increased by 442,485 units or 2%. The increase largely reflects the exercise of trust unit purchase warrants during the second quarter of 2014.

Net Operating Income

Net operating income consists of rental revenue less property operating costs.

Rental Revenue

All of the rental revenue of LREIT is derived from the leasing of residential units or commercial space. Rental revenue includes revenue from all investment properties, and the rental revenue in regard to investment properties which are sold during the year, including condominium units at Lakewood Townhomes.

Investment Properties

The investment properties of LREIT are separated into three operating segments, as noted below.

Fort McMurray Properties (Thirteen properties)

Accounting for approximately 57% of the residential suites in the portfolio of investment properties, the thirteen multi-residential buildings in the Fort McMurray property portfolio, including Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

Other Investment Properties (Five properties)

The five other investment properties consist of five multi-family residential rental properties located in Alberta, Manitoba, and the Northwest Territories.

Held for Sale and/or Sold Properties (Two properties)

The operating results of held for sale and/or sold properties are analysed separately as they have been or are expected to be sold within the next twelve months and the properties do not contribute to the net operating income of the Trust past the date of sale. The operating results for held for sale and/or sold properties as disclosed in the analysis of net operating income pertain to the operations of Colony Square and 156/204 East Lake Blvd.

Discontinued Operations

At March 31, 2015, the property portfolio includes two seniors' housing complexes which are classified under discontinued operations. The following analysis excludes the revenue and operating costs of the seniors' housing complexes.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended March 31					
			Increase (Decrease)		% of Total	
	2015	2014	Amount	%	2015	2014
Fort McMurray properties	$ 5,766,039	$ 6,292,446	$ (526,407)	(8)%	66 %	71 %
Other investment properties	1,288,782	1,237,004	51,778	4 %	15 %	14 %
Sub-total	7,054,821	7,529,450	(474,629)	(6)%	81 %	85 %
Held for sale and/or sold properties (1)	1,676,898	1,379,275	297,623	22 %	19 %	15 %
Total	$ 8,731,719	$ 8,908,725	$ (177,006)	(2)%	100 %	100 %

(1) Represents revenue from Colony Square and 156/204 East Lake Blvd.

During the first quarter of 2015, the total revenue from investment properties of LREIT, excluding held for sale and/or sold properties, decreased by $474,629, compared to the first quarter of 2014. The variance is mainly due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

As disclosed in the following charts, the decrease in revenue from the Fort McMurray property portfolio, is due to a decrease in the average occupancy level and a decrease in the average rental rate. The average occupancy level for the Fort McMurray portfolio decreased from 78% during the first quarter of 2014 to 76% during the first quarter of 2015, while the average monthly rental rate decreased by $169 per suite or 7.1%.

The revenue results for the Fort McMurray property portfolio reflect increasingly competitive rental market conditions as a result of a slowdown in oil sands development activity due to a decline in the price of oil during the fourth quarter of 2014 and the continued depressed level of oil prices in the first quarter of 2015. As a result, the occupancy level and average rental rates decreased in the first quarter of 2015, compared to the first quarter of 2014, as noted in the following charts.

Occupancy Level, by Quarter

	2014					2015
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	78 %	90 %	90 %	85 %	86 %	76 %
Other investment properties	88 %	91 %	94 %	93 %	92 %	92 %
Total	79 %	90 %	91 %	86 %	87 %	79 %
Held for sale and/or sold properties	90 %	93 %	93 %	93 %	92 %	94 %

The occupancy level represents the portion of potential revenue that was achieved.

Average Monthly Rents, by Quarter

	2014					2015
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray properties	$2,397	$2,373	$2,351	$2,291	$2,354	$2,228
Other investment properties	$1,137	$1,126	$1,117	$1,123	$1,126	$1,138
Total	$2,055	$2,034	$2,016	$1,976	$2,020	$1,932
Held for sale and/or sold properties *	$741	$739	$732	$754	$741	$760

* Represents the residential portion of Colony Square.

After including held for sale and/or sold properties, total revenue from the investment properties of LREIT decreased by $177,006 during the first quarter of 2015, compared to the first quarter of 2014. The decrease in rental revenue is mainly attributable to the Fort McMurray portfolio, largely offset by an increase in revenue from held for sale and/or sold properties of $297,623. The increase in revenue from held for sale and/or sold properties mainly reflects additional revenue as a result of charges to a tenant that was overholding at Colony Square, as well as the lease up of 156/204 East Lake Blvd. in the third quarter of 2014.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31		Increase (Decrease)	
	2015	2014	Amount	%
Fort McMurray properties	$ 2,589,242	$ 2,959,317	$ (370,075)	(13)%
Other investment properties	638,719	645,188	(6,469)	(1)%
Sub-total	3,227,961	3,604,505	(376,544)	(10)%
Held for sale and/or sold properties	750,776	800,153	(49,377)	(6)%
Total	$ 3,978,737	$ 4,404,658	$ (425,921)	(10)%

During the first quarter of 2015, property operating costs for the portfolio of investment properties, excluding held for sale and/or sold, decreased by $376,544 or 10%, compared to the first quarter of 2014. The decrease is comprised of a decrease of $370,075 in the operating costs of the Fort McMurray portfolio and a $6,469 decrease in the operating costs of the other investment properties portfolio.

The decrease in operating costs of the Fort McMurray portfolio is mainly due to decreases in maintenance costs, utilities and management fees. The decrease in maintenance costs included the elimination of the Parsons Landing occupancy fee paid to the developer prior to the completion of the purchase of the property and a decrease in repair costs related to water damage, net of insurance recoveries.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Three Months Ended March 31		Increase (Decrease)		Percent of Total			
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	$ 3,176,797	$ 3,333,129	$ (156,332)	(5)%	67 %	74 %	55 %	53 %
Other investment properties	650,063	591,816	58,247	10 %	14 %	13 %	50 %	48 %
Sub-total	3,826,860	3,924,945	(98,085)	(2)%	81 %	87 %	54 %	52 %
Held for sale and/or sold properties	926,122	579,122	347,000	60 %	19 %	13 %	55 %	42 %
Total	$ 4,752,982	$ 4,504,067	$ 248,915	6 %	100 %	100 %	54 %	51 %

After considering the decrease in rental revenue and the decrease in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding held for sale and/or sold properties, decreased by $98,085 or 2% during the first quarter of 2015, compared to the first quarter of 2014.

The decrease in net operating income is comprised of a $156,332 decrease in net operating income from the Fort McMurray properties, partially offset by a $58,247 increase in net operating income from the Other investment properties.

After accounting for the increase in net operating income related to held for sale and/or sold properties, net operating income increased by $248,915 or 6% during the first quarter of 2015, compared to the first quarter of 2014.

Overall, the operating margin for the property portfolio, excluding held for sale and/or sold properties, increased from 52% during the first quarter of 2014, to 54% during the first quarter of 2015. The increase in the operating margin is mainly due to the favourable variance in property operating costs for Fort McMurray properties portfolio.

The 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. The operating margin is calculated by dividing net operating income by rental revenue.

Interest Income

During the first quarter of 2015, interest income amounted to $24,892, compared to $385,218 during the first quarter of 2014. The decrease in interest income mainly reflects the fact that LREIT received full repayment of its mortgage loans receivable in June 2014. Interest income is also earned on defeasance assets and cash.

Interest Expense

General

Interest expense includes interest expense for investment properties, including investment properties held for sale, and discontinued operations. On the Income Statement, interest expense for investment properties is disclosed as a separate line item, while interest expense for discontinued operations is included in the line item "Income from discontinued operations". On the Statement of Cash Flows, "interest expense" and "interest paid" includes the total amount of interest for both investment properties and discontinued operations.

As disclosed in the following chart, total interest expense amounted to $6,716,728 during the first quarter of 2015, of which $6,409,004 pertains to investment properties and $307,724 pertains to discontinued operations.

Total interest expense for investment properties decreased by $545,278 or 8% during the first quarter of 2015, compared to the first quarter of 2014. The decrease reflects a decrease in accretion of $512,817, a net decrease in total amortization charges for transaction costs of $234,070 and a decrease in mortgage bond interest of $53,302, partially offset by an increase in interest charges related to fair value adjustments on the interest rate swap liability of $265,675.

Total interest expense for discontinued operations increased by $150,067 or 95% during the first quarter of 2015, compared to the first quarter of 2014 as a result of the upward refinancing of Elgin Lodge in May 2014.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and interest charges related to the change in fair value of the interest rate swap liability. The $395,211 decrease in total interest expense during the first quarter of 2015, compared to the first quarter of 2014, is comprised of a $408,350 decrease in the "non-cash" component of interest expense, partially offset by a $13,139 increase in the cash component of interest expense.

Analysis of Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
	2015	2014	Amount	%
Investment Properties				
Mortgage Loans and Acquisition Payable				
Mortgage loan interest	$ 4,539,471	$ 3,895,983	$ 643,488	17 %
Acquisition payable interest	-	653,315	(653,315)	(100)%
Amortization of transaction costs	550,117	420,469	129,648	31 %
Change in fair value of interest rate swap liability	190,963	(74,712)	265,675	356 %
Total - mortgage loans and acquisition payable	5,280,551	4,895,055	385,496	8 %
Mortgage Bonds				
Mortgage bond interest	123,616	176,918	(53,302)	(30)%
Accretion of debt component	213,774	726,591	(512,817)	(71)%
Amortization of transaction costs	153,325	502,174	(348,849)	(69)%
Total - mortgage bonds	490,715	1,405,683	(914,968)	(65)%
Debentures				
Interest on debentures	581,723	582,660	(937)	- %
Amortization of transaction costs	56,015	70,884	(14,869)	(21)%
Total - debentures	637,738	653,544	(15,806)	(2)%
Total interest expense - investment properties	6,409,004	6,954,282	(545,278)	(8)%
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	234,862	157,657	77,205	49 %
Amortization of transaction costs	72,862	-	72,862	n/a
Total interest expense - discontinued operations	307,724	157,657	150,067	95 %
Total - interest expense	$ 6,716,728	$ 7,111,939	$ (395,211)	(6)%

Cash and Non-cash Component				
Non-cash component				
Accretion	$ 213,774	$ 726,591	$ (512,817)	(71)%
Amortization of transaction costs	832,319	993,527	(161,208)	(16)%
Change in fair value of interest rate swaps	190,963	(74,712)	265,675	356 %
Total non-cash component	1,237,056	1,645,406	(408,350)	(25)%
Cash component				
Interest	5,479,672	5,466,533	13,139	- %
Total cash component	5,479,672	5,466,533	13,139	- %
Total - interest expense	$ 6,716,728	$ 7,111,939	$ (395,211)	(6)%

Cash Component of Interest Expense - General

The cash component of interest expense consists of mortgage loan interest, including mortgage loan interest in discontinued operations, interest on the revolving loan, and interest on acquisition payable. The cash component of interest also includes mortgage bond interest and debenture interest.

During the first quarter of 2015, the total cash component of interest expense increased by $13,139, compared to the first quarter of 2014. The increase reflects an increase of $77,205 in the cash component of interest expense for discontinued operations, partially offset by a decrease of $64,066 in the cash component of interest expense for investment properties.

As a percentage of net operating income for both investment properties and discontinued operations and after including the income recovery on Parsons Landing, the cash component of interest on mortgage loans and acquisition payable, decreased from 97% during the first quarter of 2014 to 92% during the first quarter of 2015.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio decreased to 106% during the first quarter of 2015, compared to 112% during the first quarter of 2014.

Cash Component of Interest Expense - Investment Properties

Interest on Mortgage Loans and Acquisition Payable

Mortgage loan and acquisition payable interest for investment properties decreased by $9,827 during the first quarter of 2015, compared to the first quarter of 2014. The decrease in interest expense on mortgage loan/acquisition payable debt mainly reflects a decrease in mortgage loan interest expense combined with the interest on acquisition payable relating to Parsons Landing of $127,628, largely offset by an increase in interest expense due to the upward refinancing of Beck Court.

Mortgage Bond Interest

Interest on the mortgage bonds decreased by $53,302 during the first quarter of 2015, compared to the first quarter of 2014. The decrease in interest on the mortgage bonds is due to the partial repayment of $10,000,000 aggregate principal amount of mortgage bonds during the first quarter of 2014 and the repayment of the remaining $6,000,000 of mortgage bonds during the first quarter of 2015.

Debenture Interest

During the first quarter of 2015, interest on debentures amounted to $581,723, compared to $582,660 during the first quarter of 2014.

Cash Component of Interest Expense - Discontinued Operations

The cash component of interest expense for discontinued operations consists of interest payments on mortgage loans. Mortgage loan interest for discontinued operations increased by $77,205 or 49% during the first quarter of 2015, compared to the first quarter of 2014. The increase is mainly due to the upward refinancing of the mortgage loan debt of Elgin Lodge in May 2014.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense decreased by $408,350 during the first quarter of 2015, compared to the first quarter of 2014. The decrease mainly reflects a decrease in accretion charges of $512,817, a decrease in total amortization charges for transaction costs of $161,208, partially offset by a $265,675 increase in interest charges related to fair value adjustments on the interest rate swap liability.

The decrease in accretion and amortization charges are mainly attributable to the relative repayment of mortgage bonds with a face value of $6,000,000 in the first quarter of 2015 in comparison to $10,000,000 during the same period of 2014. The decrease in amortization charges for mortgage bonds of $348,849 was partially offset by an increase in the amortization charges for mortgage loans of investment properties and discontinued operations of $129,648 and $72,862, respectively.

Trust Expense

Trust expense for the first quarter of 2015 decreased by $228,826 compared to the first quarter of 2014, primarily due to the recovery of a provision for financing fees previously considered unrecoverable.

Gain on Sale of Investment Property

The gain on sale of investment property represents the extent to which the net proceeds from the sale of an investment property exceeds the carrying value of the property as determined at the end of the preceding year.

The Trust did not sell any properties during the first quarter of 2015. During the first quarter of 2014, the Trust recorded a gain on sale of investment property of $71,235 related to the sale of one condominium unit at Lakewood Townhomes.

Fair Value Adjustments

Gains/losses on fair value adjustments are included in the income of the Trust and are disclosed as positive or negative "adjustments". Losses on fair value adjustments amounted to $1,896,822 in the first quarter of 2015 (Q1 2014 - nil). After accounting for fair value adjustments, capital expenditures, property dispositions and investment properties transferred to held for sale and/or sold, the carrying value of investment properties decreased by $68,566,125 during the first quarter of 2015.

The determination of the fair market value of investment properties is based on a comprehensive valuation process. Additional information regarding the fair market value of investment properties and the valuation process is provided in the "Fair Value Measurement" section of this report.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Three Months Ended March 31		Increase (Decrease)
	2015	2014	in income
Rental income	$ 1,372,520	$ 1,286,961	$ 85,559
Property operating costs	957,031	1,017,369	60,338
Net operating income	415,489	269,592	145,897
Interest expense	(307,724)	(157,657)	(150,067)
Income from discontinued operations	$ 107,765	$ 111,935	$ (4,170)

During the first quarter of 2015, LREIT recorded an income from discontinued operations of $107,765, compared to income of $111,935 during the first quarter of 2014, representing a variance of $4,170. The variance is due to an increase in interest expense of $150,067, mainly offset by an increase in net operating income of $145,897.

The increase in interest expense for discontinued operations is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

Comparison to Preceding Quarter

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	March 31, 2015	December 31, 2014	Amount	%
Rentals from investment properties	$ 8,731,719	$ 9,483,539	$ (751,820)	(8)%
Property operating costs	3,978,737	4,240,746	262,009	6 %
Net operating income	4,752,982	5,242,793	(489,811)	(9)%
Interest income	24,892	37,842	(12,950)	(34)%
Interest expense	(6,409,004)	(5,540,625)	(868,379)	(16)%
Trust expense	(391,859)	(697,733)	305,874	44 %
Loss before the following	(2,022,989)	(957,723)	(1,065,266)	(111)%
Fair value adjustments	(1,896,822)	(15,685,280)	13,788,458	(88)%
Loss for the period before discontinued operations	(3,919,811)	(16,643,003)	12,723,192	76 %
Income (loss) from discontinued operations	107,765	(1,653,429)	1,761,194	(107)%
Comprehensive loss	$ (3,812,046)	$ (18,296,432)	$ 14,484,386	79 %

During the first quarter of 2015, LREIT incurred a loss of $2,022,989, before fair value adjustments, and discontinued operations, compared to a loss of $957,723 during the fourth quarter of 2014. The increase in the loss mainly reflects a decrease in net operating income of $489,811 and an increase in interest expense of $868,379, partially offset by a decrease in trust expense of $305,874. The decrease in net operating income is mainly due to a decrease in the net operating income of the Fort McMurray portfolio. The increase in interest expense mainly reflects an increase in mortgage loan interest, accretion charges, amortization charges on transaction costs, and interest charges related to the change in fair value of the interest rate swap liability.

After accounting for the variance in fair value adjustments in the amount of $13,788,458, the loss before discontinued operations decreased by $12,723,192 during the first quarter of 2015, compared to the fourth quarter of 2014. Fair value losses were comparatively high during the fourth quarter of 2014 due to reduced revenue and occupancy expectations related to the decline in oil prices.

Income from discontinued operations increased by $1,761,194 during the first quarter of 2015, compared to the fourth quarter of 2014. Income from discontinued operations was comparatively low during the fourth quarter of 2014 due to a fair value adjustment for Elgin Lodge that reduced the fair value of the property by $1,734,126.

After accounting for discontinued operations, LREIT completed the first quarter of 2015 with a comprehensive loss of $3,812,046, compared to a comprehensive loss of $18,296,432 during the fourth quarter of 2014.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash Flow from Operating Activities

The net cash flow from operating activities is equal to the cash component of net operating income, income recovery on Parsons Landing and net interest paid, the cash component of trust expense and the net increase or decrease in working capital items (disclosed as "working capital adjustments") for both investment properties and the seniors' housing complexes classified as discontinued operations. The calculation of the cash component of net operating income excludes "accrued rent receivable", while the calculation of the cash component of trust expense excludes "unit based compensation" and "loss on warrant repurchases". Net interest paid consists of interest paid, net of interest received.

"Interest paid" on the Statements of Cash Flows is based on the cash component of interest expense for both investment properties and discontinued operations after adjusting for the change in accrued interest during the period.

Due to the exclusion of non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of the interest swap liability, there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. Quarterly variances in accrued interest in regard to the Series G debentures and mortgage bonds also serve to increase "interest paid" by a substantial amount in the second and fourth quarters of the year, compared to the first and third quarters of the year. In 2014, "interest paid" was approximately $1.45 Million higher in the second and fourth quarters of the year, compared to the first and third quarters. In 2015, "interest paid" is expected to be $1.2 Million higher in the second and fourth quarters, compared to the first and third quarters, due to the Series G debenture interest. During the first quarter of 2015 concurrently with the repayment of the remaining mortgage bonds in the principal amount of $6.0 Million, $169,480 of accrued mortgage bond interest was paid.

Q1 2015 vs Q1 2014 Comparatives

Cash from Operating Activities

	Three Months Ended March 31		Increase
	2015	2014	(Decrease)
Net operating income			
Investment properties	$ 4,752,982	$ 4,504,067	$ 248,915
Discontinued operations	415,489	269,592	145,897
Total net operating income	5,168,471	4,773,659	394,812
Accrued rent receivable	147,345	(88,571)	235,916
Net operating income - cash basis	5,315,816	4,685,088	630,728
Income recovery on Parsons Landing	-	98,499	(98,499)
Gain on debenture repurchases	(5,976)	-	(5,976)
Trust expense	(391,859)	(620,685)	228,826
Loss on warrant repurchases	-	34,947	(34,947)
Unit-based compensation	-	18,750	(18,750)
Trust expense - cash basis	(391,859)	(566,988)	175,129
Interest paid			
Investment properties	(4,423,592)	(4,419,620)	(3,972)
Discontinued operations	(235,044)	(159,102)	(75,942)
Total interest paid	(4,658,636)	(4,578,722)	(79,914)
Interest received	27,092	214,803	(187,711)
Interest expense - cash basis	(4,631,544)	(4,363,919)	(267,625)
Cash used in operating activities, before working capital adjustments	286,437	(147,320)	433,757
Working capital adjustments, net	(578,575)	865,961	(1,444,536)
Cash provided by (used in) operating activities	$ (292,138)	$ 718,641	$ (1,010,779)

During the first quarter of 2015, net cash provided by operating activities, excluding working capital adjustments, was $286,437 compared to net cash used in operating activities of $147,320 during the first quarter of 2014, representing a variance of $433,757. The variance mainly reflects an increase in the cash component of net operating income of $630,728 and a decrease in the cash component of trust expense of $175,129, partially offset by an increase in interest paid of $79,914, a decrease in interest received of $187,711, and a decrease in the income recovery on Parsons Landing of $98,499.

After providing for working capital adjustments, cash used in operating activities amounted to $292,138 during the first quarter of 2015, compared to cash provided by operating activities of $718,641 during the first quarter of 2014, representing a variance of $1,010,779.

Comparison to Fourth Quarter of 2014

Cash from Operating Activities

	Three Months Ended March 31 2015	Three Months Ended December 31 2014	Increase (Decrease)
Net operating income			
Investment properties	$ 4,752,982	$ 5,242,793	$ (489,811)
Discontinued operations	415,489	391,590	23,899
Total net operating income	5,168,471	5,634,383	(465,912)
Accrued rent receivable	147,345	81,448	65,897
Net operating income - cash basis	5,315,816	5,715,831	(400,015)
Gain on debenture repurchases	(5,976)	-	(5,976)
Trust expense	(391,859)	(697,733)	305,874
Loss on warrant repurchases	-	9,792	(9,792)
Unit-based compensation	-	18,750	(18,750)
Trust expense - cash basis	(391,859)	(669,191)	277,332
Interest paid			
Investment properties	(4,423,592)	(6,335,488)	1,911,896
Discontinued operations	(235,044)	(236,153)	1,109
Total interest paid	(4,658,636)	(6,571,641)	1,913,005
Interest received	27,092	37,774	(10,682)
Interest expense - cash basis	(4,631,544)	(6,533,867)	1,902,323
Cash used in operating activities, before working capital adjustments	286,437	(1,487,227)	1,773,664
Working capital adjustments, net	(578,575)	(240,289)	(338,286)
Cash used in operating activities	$ (292,138)	$ (1,727,516)	$ 1,435,378

During the first quarter of 2015, net cash provided by operating activities, excluding working capital adjustments, was $286,437 compared to net cash used in operating activities of $1,487,227 during the fourth quarter of 2014, representing a variance of $1,773,664. The variance mainly reflects a decrease in interest paid of $1,913,005 and a decrease in the cash component of trust expense of $277,332, partially offset by a decrease in the cash component of net operating income of $400,015. The decrease in interest paid mainly reflects the timing of interest payments on the Series G debentures and mortgage bonds, as noted above. Interest paid during the fourth quarter of 2014 was also comparatively high as a result of a $628,496 payment of interest on the GST payable from the acquisition of Parsons Landing.

After providing for working capital adjustments, cash used in operating activities decreased by $1,435,378 compared to the fourth quarter of 2014.

Funds from Operations ("FFO") & Adjusted Funds from Operations ("AFFO")

LREIT considers "Funds from Operations" ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance. FFO measures the cash generating abilities of LREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions.

During the first quarter of 2015, the FFO deficiency decreased by $560,024, compared to the first quarter of 2014, while the AFFO deficiency decreased by $497,274. On a basic per unit basis, the FFO deficiency decreased by $0.029 per unit, compared to the first quarter of 2014, while the AFFO deficiency decreased by $0.026 per unit.

The cash increase or decrease from discontinued operations is included in the calculation of FFO and AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended March 31	
	2015	2014
Comprehensive income (loss)	$ (3,812,046)	$ (2,404,013)
Add (deduct):		
Gain on sale of properties	-	(71,235)
Fair value adjustments - Investment properties	1,896,822	-
Funds from operations (FFO) *	(1,915,224)	(2,475,248)
Add (deduct):		
Straight-line rent adjustment	147,345	(88,571)
Accretion of debt component of mortgage bonds	213,774	726,591
Unit-based compensation	-	18,750
Change in fair value of interest rate swaps	190,963	(74,712)
Capital expenditures on investment properties	(247,452)	(198,776)
Capital expenditures on property and equipment	-	(15,902)
Adjusted funds from operations (AFFO) *	$ (1,610,594)	$ (2,107,868)
FFO per unit *		
- basic and diluted	$ (0.091)	$ (0.120)
AFFO per unit *		
- basic and diluted	$ (0.076)	$ (0.102)

* FFO and AFFO are non-IFRS financial measures of operating performance widely used by the real estate industry. Accordingly, FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

FFO has been calculated in accordance with the recommendations of RealPac. The method that is used by LREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers. The FFO and AFFO per unit amounts have been calculated on a basis consistent with that prescribed by IFRS for calculating earnings per unit.

AFFO is determined by taking the amounts reported as FFO and adjusting for capital expenditures and other items that impact available cash flow. Capital expenditures are referred to as expenditures that by standard accounting definitions are accounted for as capital in that the expenditure itself provides economic benefits beyond the current financial year.

As many analysts consider AFFO to be a cash flow statistic, the following chart reconciles cash flow from operations to AFFO.

Reconciliation Between Cash from Operating Activities and Adjusted Funds from Operations

	Three Months Ended March 31	
	2015	2014
Cash provided by (used in) operating activities	$ (292,138)	$ 718,641
Add (deduct):		
Working capital adjustments	578,575	(865,961)
Loss on warrant repurchases	-	(34,947)
Gain on debenture repurchases	5,976	-
Amortization of transaction costs and accrued interests	(1,655,555)	(1,710,923)
Capital expenditures on investment properties	(247,452)	(198,776)
Capital expenditures on property and equipment	-	(15,902)
Adjusted funds from operations (AFFO)	$ (1,610,594)	$ (2,107,868)

Distributable Income (Loss)

Distributable income (loss) is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income (loss) does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of LREIT is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements. Accordingly, a reconciliation between the net cash flow from operating activities and distributable income (loss) is provided in the chart below.

Distributable income (loss) is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures, from both investment properties and discontinued operations. Working capital adjustments are excluded from LREIT's calculation of distributable income as working capital adjustments are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Reconciliation Between Cash from Operating Activities and Distributable Income (Loss)

	Three Months Ended March 31	
	2015	2014
Cash provided by (used in) operating activities	$ (292,138)	$ 718,641
Working capital adjustments	578,575	(865,961)
	286,437	(147,320)
Add (deduct):		
Capital expenditures on investment properties	(247,452)	(198,776)
Capital expenditures on property and equipment	-	(15,902)
Distributable Income (loss)	$ 38,985	$ (361,998)
Per unit		
- basic and diluted	$ 0.002	$ (0.017)

As disclosed in the preceding chart, LREIT completed the first quarter of 2015 with a distributable income of $38,985, compared to a distributable loss of $361,998 during the first quarter of 2014. The decrease in the distributable loss reflects the decrease in cash flow, including working capital adjustments.

Distributions

Cash distributions will continue to be suspended for the foreseeable future, given the debt reduction priorities of LREIT.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $768,336 during the first quarter of 2015. Financing activities consist of cash inflows and outflows related to the repayment and refinancing of mortgage loan debt, including transaction costs, draws and repayments on the revolving loan commitment, the repayment of mortgage bonds and cash outflows related to the purchase of Series G debentures under the normal course issuer bid (NCIB) of LREIT.

Additional information regarding the financing activities of LREIT is provided in other sections of this report.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $45,510 during the first quarter of 2015. Investing activities that resulted in a cash inflow during the period include a decrease in restricted cash of $164,232 and an increase in defeasance assets of $37,710. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties and discontinued operations of $247,452 and nil, respectively.

Cash Flow Summary

During the first quarter of 2015, the net cash outflow from operating, financing and investing activities was $1,245,826. After providing for the opening cash balance of $1,963,735, LREIT completed the first quarter of 2015 with a cash balance of $717,909.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2015

Working Capital/Existing Cash

As of March 31, 2015, the unrestricted cash balance of LREIT was $717,909 and the working capital deficit was $13,637,847, representing an increase in the working capital deficit of $922,039 compared to the working capital deficit as of December 31, 2014. The working capital deficit consists of current assets less current liabilities, excluding the current portion of long-term debt, and excluding assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd., as of March 31, 2015, of $14,070,000 is included in the calculation of the working capital deficit.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating working capital may differ from the method which is used by other issuers. Accordingly, working capital as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Excluding the amount due on the revolving loan, LREIT has a working capital surplus of $432,153 as of March 31, 2015. The working capital consists primarily of the combined working capital of individual properties for use in the day-to-day operations of the properties.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter). Effective October 1, 2014, the revolving loan commitment was renewed for a nine-month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15,000,000. As of the date of this report, $1,800,000 is available under the revolving loan commitment.

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

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

The primary focus of LREIT in regard to current divestiture activities is the sale of Colony Square and the two seniors' housing complexes as well as the completion of the condominium sales program for Lakewood Townhomes. The sale of other properties will continue as opportunities arise and with consideration to the overall cash needs of the Trust. The timing and terms of additional property sales, if any, is uncertain.

On April 1, 2015, LREIT finalized the sale of 156/204 East Lake Blvd. located in Airdrie, Alberta for net cash proceeds of $2,426,240 after sales expenses and the assumption of the mortgage loan debt by the purchaser, which have been used to repay debt.

Upward Refinancing of Mortgage Loans

The upward refinancing of mortgage loan debt is expected to be a source of capital for LREIT during 2015. The opportunity to complete upward refinancings is limited by the extent to which the existing property portfolio is leveraged and the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust.

In January 2015, the first mortgage loan of Beck Court was upward refinanced, resulting in net proceeds of approximately $7,438,194 after transaction costs. The net proceeds were used to repay the remaining mortgage bonds in the aggregate principal amount of $6,000,000 and for working capital purposes.

Details regarding mortgage loan transactions in the first quarter of 2015 are disclosed in the "Long-term Debt" section of the MD&A.

Debt and/or Equity Offerings

LREIT may pursue additional offerings of debt and/or equity in the future as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

Exercise of Warrants

As of March 31, 2015, the unexercised trust unit purchase warrants of LREIT consisted of 13,509,200 warrants with an exercise price of $0.75 and an expiry date of December 23, 2015.

During the first quarter of 2015, no warrants were exercised and 6,570,025 warrants exercisable at $1.00 expired on March 9, 2015. If all outstanding warrants were exercised as of the date of this report, LREIT would receive additional proceeds of $10,131,900, however, the warrants may not be exercised prior to expiry on December 23, 2015.

Uses of Funds - 2015

Cash Outflow from Operating Activities

The overall funding requirements of LREIT are affected by the level of cash inflows or outflows from operating activities. LREIT completed the first quarter of 2015 with a cash outflow from operating activities of $292,138 compared to a cash inflow of $718,641 in the first quarter of 2014.

Long-term Debt Principal Payments

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for 2015 and for the next five years, is provided in the following chart. The chart reflects mortgage payments in accordance with the payment terms specified by the applicable mortgage loan.

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2015	2016/2017	2018/2019	2020 and beyond
Mortgage loans					
Investment properties *	$ 284,679,026	$ 139,096,924	$ 33,305,543	$ 98,272,075	$ 14,004,484
Discontinued operations	14,333,661	4,333,661	10,000,000	-	-
Total mortgage loans	299,012,687	143,430,585	43,305,543	98,272,075	14,004,484
Debentures	24,833,800	-	-	24,833,800	-
Total	$ 323,846,487	$ 143,430,585	$ 43,305,543	$ 123,105,875	$ 14,004,484

* The amount due in "2018/2019" includes a mortgage loan in the aggregate amount of $15,217,585 which was subject to an interest rate swap arrangement. The loan matures in 2018 and was in breach of a debt service coverage requirement as of March 31, 2015. Under IFRS, mortgages in breach of debt covenants are classified as a current liability, regardless of the maturity date. If the above chart was adjusted to reflect the mortgage loan as a current liability, the total long-term debt due in 2015 would increase to $158,189,180.

Summary of Mortgage Loan Debt Due in 2015

The amount due for the remainder of 2015 for mortgage loans on investment properties of $139,096,924 consists of nine mortgage loans, with maturity dates in 2015, in the aggregate amount of $136,274,640 and regular principal payments of $2,822,284 for other mortgage loans.

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

An analysis of mortgage loans is provided in the "Mortgage Loans" section of the MD&A.

Principal Payments - Debentures and Mortgage Bonds

As of March 31, 2015, the total face value of the 9% Series G debentures is $24,833,800. The debentures mature on June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to redeem the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness, if applicable, and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage loan and mortgage bond indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

LREIT has a NCIB in place for the Series G debentures. The NCIB provides for the repurchase of debentures by LREIT to a maximum principal amount of $2,476,380 during the twelve month period ending June 22, 2015. For the period from January 1, 2015 to the date of this report, the Trust purchased and cancelled Series G debentures with a face value of $23,000 at an average price of $72.09 per $100.00.

On February 12, 2015, LREIT repaid all outstanding mortgage bonds in the aggregate principal amount of $6,000,000.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During the first quarter of 2015, funds in the amount of $60,000 were released from escrow following the completion of capital improvements and $101,450 of new cash deposits were added to mortgage and capital improvement reserves. As of March 31, 2015, cash deposits in escrow for capital expenditures amount to $820,491.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $1.5 Million for the remainder of 2015.

Summary

After accounting for the cash outflow from operating activities, regular payments of debt, transaction costs for debt financing, and capital improvements, LREIT completed the first quarter of 2015 with a cash shortfall of $2,453,512, compared to a shortfall of $2,109,854 during the first quarter of 2014. LREIT is expected to incur a substantial cash shortfall in 2015 and will continue to require other sources of cash to meet its ongoing funding commitments.

Management expects that the proceeds from sale of properties and upward refinancings, supplemented by draws on the revolving loan commitment and periodic credit support from Shelter, as required, will be sufficient to cover the projected funding commitments of LREIT for the remainder of 2015. As of the date of this report, $1,800,000 is available under the revolving loan commitment.

The net proceeds from property sales, after repayment of any related mortgage loan indebtedness, will be used to repay any amounts owing to 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the repayment of the Series G debentures.

CAPITAL STRUCTURE

Capital Structure - March 31, 2015

	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Long-term debt	$ 156,003,831	38.5 %	$ 101,953,013	25.0 %
Current portion of long-term debt	157,299,835	38.8 %	210,073,719	51.5 %
Equity	92,078,578	22.7 %	95,890,624	23.5 %
Total capitalization	$ 405,382,244	100.0 %	$ 407,917,356	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, mortgage bonds, debenture debt, a defeased liability and accrued interest payable, less unamortized transaction costs. On the Statement of Financial Position, the long-term debt of investment properties, including investment properties held for sale, is separated into current and non-current portions, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of March 31, 2015 increased by $1,308,440 or 0.4% compared to the total long-term debt as of December 31, 2014. The increase mainly reflects an increase in mortgage loan debt, an increase in accrued interest payable and a decrease in unamortized transaction costs, partially offset by a decrease in mortgage bond debt.

	March 31 2015	December 31 2014	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 284,679,026	$ 278,704,067	$ 5,974,959
Interest rate swap liability	1,632,668	1,441,705	190,963
Mortgage bonds	-	5,786,226	(5,786,226)
Debentures	24,833,800	24,873,800	(40,000)
Defeased liability	2,568,890	2,584,460	(15,570)
Total secured long-term debt	313,714,384	313,390,258	324,126
Accrued interest payable	1,893,957	1,478,261	415,696
Unamortized transaction costs	(2,304,675)	(2,841,787)	537,112
Total long-term debt - Investment properties	313,303,666	312,026,732	1,276,934
Long-term debt - Discontinued operations			
Mortgage loans	14,333,661	14,376,467	(42,806)
Unamortized transaction costs	(3,362)	(77,674)	74,312
Total long-term debt - Discontinued operations	14,330,299	14,298,793	31,506
Total long-term debt	$ 327,633,965	$ 326,325,525	$ 1,308,440

Mortgage Bonds

During the first quarter of 2015, LREIT repaid all outstanding mortgage bonds. The face value of the repaid mortgage bonds was $6,000,000.

Debentures

As of March 31, 2015, LREIT has Series G debentures outstanding with a face value of $24,833,800, due June 30, 2018.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of March 31, 2015, the total mortgage loan debt of LREIT increased by $5,932,153 compared to the amount payable as of December 31, 2014. As disclosed in the following chart, the increase is mainly attributable to an increase in mortgage loan financing for investment properties, partially offset by regular repayments of principal.

	Three Months Ended March 31, 2015		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 16,000,000	$ 16,000,000	$ -
Repayment of mortgage loans on refinancing	(8,390,390)	(8,390,390)	-
Net proceeds	7,609,610	7,609,610	-
Regular repayment of principal on mortgage loans	(1,677,457)	(1,634,651)	(42,806)
Increase (decrease) in mortgage loans	5,932,153	5,974,959	(42,806)
Total mortgage loans - December 31, 2014	293,080,534	278,704,067	14,376,467
Total mortgage loans - March 31, 2015	$ 299,012,687	$ 284,679,026	$ 14,333,661

Net Proceeds of Mortgage Loan Financing

During the first quarter of 2015, the Trust upward refinanced Beck Court. Net proceeds from the transaction amounted to $7,609,610, which were used to repay mortgage bonds with a face value of $6,000,000. After accounting for the repayment of the mortgage bonds, the remainder of the proceeds were used for general working capital purposes.

Regular Repayments of Principal

During the first quarter of 2015, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $1,677,457, compared to $1,562,586 during the first quarter of 2014.

The decrease in mortgage loans for discontinued operations of $42,806 is entirely attributable to regular repayments of principal.

Revolving Loan

As of March 31, 2015, the amount drawn on the revolving loan was $14,070,000, compared to $14,500,000 as of December 31, 2014, representing a decrease of $430,000. The decrease is attributable to the upward refinancing of Beck Court during the first quarter of 2015, as a portion of the proceeds were used to reduce the revolving loan balance.

During 2014 and the first quarter of 2015, the interest rate on the revolving loan was 12%. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan commitment is included in mortgage loan interest.

Composition of Mortgage Loan Debt - March 31, 2015

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount March 31, 2015	Percentage of Total
Investment Properties			
Fixed rate			
2015	3.7 %	$ 33,901,689	11.3 %
2016	9.2 %	7,629,277	2.6 %
2017	5.7 %	19,181,405	6.4 %
2018	4.5 %	75,434,941	25.2 %
2019	5.0 %	30,190,032	10.1 %
2022	4.0 %	15,968,731	5.3 %
	4.7 %	182,306,075	60.9 %
Demand/variable rate	7.5 %	102,372,951	34.3 %
Principal amount		284,679,026	95.2 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	3.3 %
Demand/variable rate	4.9 %	4,333,661	1.5 %
Principal amount		14,333,661	4.8 %
Total		$ 299,012,687	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 as a current liability.

(2) As of March 31, 2015, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 6.5% and 5.7%, respectively, compared to 5.7%, 6.6% and 5.7% at December 31, 2014. The weighted average interest rate for mortgage loan debt excludes the interest on the revolving loan.

Mortgage Loan Debt Summary

	2015	2014		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.7%	4.7%	4.7%
Variable rate mortgage loans	7.5%	7.5%	7.5%	7.5%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	6.3%	6.3%	6.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	70%	68%	66%	66%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	75%	75%	73%	73%

	2014	2013		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.8%	4.5%	4.6%
Variable rate mortgage loans	7.5%	7.2%	7.7%	7.7%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	5.9%	6.2%	6.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	66%	65%	64%	66%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	73%	76%	73%	76%

* Excludes the revolving loan.

Long-term Debt Maturities

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

Debt Covenants

As of March 31, 2015, LREIT was in breach of debt service covenants on one mortgage loan and a related swap liability in the aggregate amount of $16,850,253. Subsequent to March 31, 2015, the mortgage loan was refinanced, the swap liability was settled, and the covenant breach was eliminated.

A summary of the mortgage loan debt which matures during 2015 is provided in the "Capital Resources and Liquidity" section of this report.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2014	20,252,386
- March 31, 2015	20,252,386
- May 11, 2015	20,252,386

As of March 31, 2015, LREIT had 20,252,386 units outstanding, which was unchanged compared to the number of units outstanding as of December 31, 2014.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan, the Deferred Unit Plan and the terms of the outstanding warrants of LREIT are provided in the Annual Information Form (AIF). The AIF is available on the SEDAR website at www.sedar.com.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Shelter currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. In May 2014, the independent trustees of LREIT approved an extension of the term of the Services Agreement to December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to 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, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments, leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of improvements and/or renovations. In May 2014, the independent trustees of LREIT approved an extension of the term of the Property Management Agreement to December 31, 2024.

Property management fees are included in property operating costs. Leasing commissions and tenant improvement and renovation fees are capitalized to investment properties. During the period of major in-suite renovations or development, operating costs are capitalized to the cost of buildings and properties under development.

During the first quarter of 2015, the fees payable to Shelter for investment properties included service fees of $318,235 and property management fees of $349,862.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

During the first quarter of 2015, LREIT incurred service fees in regard to the condominium sales program of nil and renovation fees of nil.

Revolving Loan

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter. As of March 31, 2015, the revolving loan commitment was secured by mortgage charges against the title to four investment properties and two seniors' housing complexes.

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

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

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense and categorized under "mortgage loan interest". Renewal and extension fees are included in transaction costs.

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

During the first quarter of 2015, interest on the loan commitment amounted to $405,523, compared to $377,186 during the first quarter of 2014.

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. For a summary of certain additional key risks relating to LREIT, see the Annual Information Form, which is available at www.sedar.com.

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors which are considered in assessing whether LREIT has the ability to continue to operate, including: (i) multiple years of sustaining a cash deficiency from operations, (ii) the significant concentration of properties in Fort McMurray, (iii) the impact of rental market conditions in Fort McMurray on rental rates and occupancy levels and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit, (v) the reliance on Shelter and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the successful completion of additional property sales under the divestiture program, and (vii) the ability to complete upward refinancings to generate additional funds.

The financial capacity of LREIT to continue operations is dependent on improving cash flows from operations and, in particular, the net operating income cash flow contribution from the Fort McMurray portfolio; the completion of property sales and/or upward refinancings; the continued ability of the Trust to repay, renew or refinance debt at maturity; the renewal of the revolving loan commitment from 2668921 Manitoba Ltd.; and/or the continued availability of interim funding from Shelter. In the event that cash flows from operations do not improve and the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter and its parent company 2668921 Manitoba Ltd., LREIT may not have the ability to fund all of its debt obligations.

The decline in oil prices that began in the fourth quarter of 2014 has created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity. The delay or slowdown of development activity in the oil sands industry could adversely affect the net operating income results and values for the Fort McMurray property portfolio.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has sold 24 properties under its divestiture program, including one property which was sold subsequent to March 31, 2015, renewed or refinanced all mortgage loans which have matured as of the date of this report, except one mortgage loan with a balance of $40,000,000 that matured subsequent to March 31, 2015 and is in renewal discussions, repaid all outstanding mortgage bonds, obtained approval from the debenture holders for the extension of the maturity date for the Series G debentures to June 30, 2018 and eliminated all covenant breaches on mortgage loan debt.

Real Property Ownership

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors.

The properties of LREIT generate income through rent payments made by the tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. Leasing results are affected by a number of factors, including location of the property and, in particular, the level of supply and demand in the local rental market.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand or the perceived desirability of such investments. Such illiquidity may tend to limit LREIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If LREIT were to be required to liquidate its real property investments, the proceeds to LREIT might be significantly less than the aggregate carrying value of its properties.

Certain significant expenditures, including property taxes, utility payments, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If LREIT were unable to meet mortgage payments on any property, losses could be sustained as a result of the lender's exercise of foreclosure rights or sale.

Revolving Loan Commitment From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan commitment from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary depending on the timing of property sales or upward refinancings.

Credit Support from Shelter

Shelter has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees.

The continuation of interim funding from Shelter may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from property sales or upward refinancings to the extent required to restore working capital.

Public Market Risk

It is not possible to predict the price at which units or other publicly traded securities of LREIT will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units and other publicly traded securities of LREIT may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Completion of Divestiture Program

In 2009, LREIT initiated a divestiture program targeting the sale of assets, with a value in excess of $250 Million. The objective of the divestiture program is to reduce total debt, including debenture debt, and in particular higher cost interim mortgage loan financing. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

From January 1, 2009 to March 31, 2015, LREIT sold 23 properties and 17 condominium units at Lakewood Townhomes for a combined gross selling price of $260,800,100.

Subsequent to March 31, 2015, LREIT sold 156/204 East Lake Blvd. located in Airdrie, Alberta for gross proceeds of $4.0 Million and net cash proceeds of approximately $2.4 Million after sales expenses and the assumption of the mortgage loan debt by the purchaser.

No condominium units were sold at Lakewood Townhomes during the first quarter of 2015.

The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of Colony Square and its two seniors' housing complexes, and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust.

There can be no assurance that LREIT will complete the divestiture program under the time frame or to the extent which is contemplated by management.

Concentration of the Portfolio of LREIT in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. The sale of properties which are located outside of Fort McMurray will also serve to increase the exposure of LREIT's portfolio to the Fort McMurray market.

At March 31, 2015, there were 22 properties in the real estate portfolio of LREIT comprised of 20 properties in the investment property portfolio, including two properties held for sale, and two seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of one commercial property, 18 residential properties and one mixed residential/commercial property, comprising a total of 1,917 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, including Parsons Landing. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 57% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $292,648,898, which represents approximately 72% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 66% of investment property revenue and 67% of the net operating income during the first quarter of 2015.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio. As a result, fluctuations in the activity of the oil sands industry can have a significant impact on rental market conditions including the average rental rate and the overall occupancy level of the Fort McMurray portfolio. Although management expects that there will be continued development activity and production growth in the oil sands industry into the foreseeable future, there can be no assurance that this will be the case. The recent decline in oil prices has also created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity.

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a more restrictive capital market, a change in legislation and numerous other factors beyond the control of LREIT.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties.

The decline in oil prices resulted in a tightening of mortgage lending conditions for properties in Fort McMurray; however, management does not anticipate that this will affect LREIT's ability to renew or refinance mortgage loan debt. It is possible that the upward refinancing potential of LREIT's mortgage loan portfolio could be reduced if oil prices continue to affect lending conditions in Fort McMurray.

Mortgage Maturities

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

Debt Covenants

As previously disclosed in this report, at March 31, 2015, LREIT was in breach of a debt service covenant on one mortgage loan and a related swap liability in the aggregate amount of $16,850,253. Subsequent to March 31, 2015, the mortgage loan was refinanced, the swap liability was settled, and the covenant breach was eliminated.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to pay distributions is dependent upon a number of factors, including the level of operating cash flows, the amount of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. The Trust does not currently pay cash distributions. To the extent that it does make cash distributions in the future, such cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

LREIT currently qualifies as a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of Trust, the distributions of LREIT are established at the discretion of the Trustees. If circumstances permit and subject to the application of the SIFT Rules discussed below, it is the intent of the Trust to distribute an amount which is not less than all of its taxable income to its Unitholders. The Declaration of Trust provides that if the Trustees determine that available cash is not sufficient to satisfy payment of distributions, the Trustees may declare that the distribution be satisfied through the issuance of additional units, followed by an immediate consolidation of units such that, subject to the Declaration of Trust, unitholders own the same number of units on a post-consolidation basis.

Due to the decline in operating cash flow since 2009, LREIT suspended cash distributions.

Tax Treatment of LREIT

The annual determination of LREIT's status in regard to qualifying for the REIT Exception has a significant impact on the tax treatment of the Trust. The determination as to whether LREIT qualifies for the REIT Exception is subject to uncertainty and, as such, there is a risk that the tax treatment of the Trust may be less favourable than anticipated. Details regarding the REIT Exception are provided in the "Taxation" section of this report.

Legal Claims

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 accrue management's best estimate of the cost to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

Relationship with Shelter

The financial performance of LREIT will depend in part on the performance of Shelter, and its key personnel, in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Conflicts of Interest

There are potential conflicts of interest to which Trustees and officers of LREIT are, or may become, subject to in connection with the operations of LREIT. Arni Thorsteinson, a Trustee and Chief Executive Officer of LREIT, is also a director and officer of Shelter and the director and the President of 2668921 Manitoba Ltd., the parent company of Shelter. Shelter provides Asset and Property Management services to LREIT and is also engaged in a wide range of real estate and other business activities, including the development and management of real estate. Gary Benjaminson, the Chief Financial Officer and Secretary of LREIT, is also an employee of Shelter. Mr. Benjaminson was appointed to the position on August 26, 2014.

Shelter and its affiliates and associates and its directors and officers, including Mr. Thorsteinson, may become involved in transactions in which their interests actually, or are perceived to, conflict with the interests of LREIT. Such conflicts will be subject to the procedures and remedies set out in the Canada Business Corporations Act.

Shelter has granted LREIT a right of first refusal to acquire interests in multi-family residential properties on the terms and conditions available to Shelter and/or its affiliates, subject to limited exceptions in the case of properties which are managed by Shelter and/or its affiliates outside of the LREIT portfolio.

Other

Other risks and uncertainties are more fully explained in other regulatory filings of LREIT, including the Annual Information Form.

Credit Risk

Credit risk for LREIT arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The maximum exposure to this credit risk is equal to the carrying value of the amounts receivable. LREIT strives to mitigate this risk of credit loss by reviewing tenants' covenants, by obtaining security deposits whenever permitted by legislation and by limiting its exposure to any one tenant. The failure of LREIT's tenants to pay LREIT amounts owing on a timely basis or at all would have an adverse effect on LREIT's financial condition.

In addition, credit risk arises for LREIT from the fact that LREIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties by LREIT. LREIT will remain liable until such debts are extinguished or the lenders agree to release LREIT's covenants. At March 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $53,070,953 (December 31, 2014 - $64,499,331) which expires between 2015 and 2022 (December 31, 2014 - expires between 2015 and 2022). There have been no defaults by the primary obligors for debts on which LREIT has provided its guarantees.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of LREIT, in accordance with IFRS, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial Statement items which encompass estimates include the following:

- determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- determination of the "fair value" of the interest rate swap liability: the fair value of the interest rate swap arrangement reflects the present value of the expected difference between fixed and variable interest payments on the underlying mortgage at each future payment date until maturity.

- the determination of the "fair value" of the mortgage bond: at inception, the fair value of the mortgage bond was based on market interest rates with the residual value used to value the trust unit purchase warrants;

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates; and

- determination of the status of the Trust for income tax purposes: qualification for the REIT Exception is subject to uncertainties in the interpretation and application of the SIFT Rules and can only be determined for a given year after the year has ended.

TAXATION

Taxation of LREIT

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the federal income taxation of publicly listed or traded trusts, LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2014, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

The REIT Exception is applied on an annual basis. Previously, LREIT did not qualify for the REIT Exception and therefore was subject to the SIFT Rules in 2011 and 2012. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, LREIT qualified for the REIT Exception in 2013 and 2014.

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2015 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2015 or any subsequent year.

If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Please refer to the Annual Information Form for a more detailed discussion of the SIFT Rules.

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. If LREIT qualifies for the REIT Exception in a taxation year, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year, if any. Distributions (if any) in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions (if any) not included in income.

The cash distributions paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes, at such time. As a result, all of the distributions paid by LREIT since inception, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009, December 2010 and December 2013.

If LREIT does not qualify for the REIT Exception, distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

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 2015 First Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 11, 2015

SCHEDULE I

Real Estate Portfolio as of March 31, 2015

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2015
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	76 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	79 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	83 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	62 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	65 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	76 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	67 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	71 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	55 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	70 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	57 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	70 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	96 %
Westhaven Manor	Edson	4,050,000	May 2007	48	85 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	82 %
Colony Square (3)	Winnipeg	29,907,700	October 2008	428	95 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	98 %
Total - Residential		**360,822,188**	Total suites	**1,917**	
COMMERCIAL					
Retail and Office					
Colony Square (3)	Winnipeg	7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd. (4)	Airdrie	1,600,000	June 2003	39,936	100 %
Total - Commercial		**9,531,600**	Total leasable area	**123,126**	
Total investment properties		**370,353,788**			
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	97 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	70 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 396,075,788**			

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of March 31, 2015 has been reduced to 47 to account for the sale of 17 condominium units. Seven units are unoccupied and held as available for sale and are not included in the occupancy statistic.

(2) Includes the cost of major renovations and asset additions.

(3) Colony Square is comprised of one mixed residential/commercial property.

(4) The property was sold on April 1, 2015.