MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2015

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Unitholder Returns

	Nine Months Ended September 30, 2015 (Per unit)	Year Ended December 31, 2014 (Per unit)
Opening price	$0.47	$1.07
Closing price	$0.17	$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 Third Quarter Report

Results of Operations

Overview

LREIT completed the third quarter of 2015 with negative Funds from Operations (FFO) of $1.9 Million, compared to negative FFO of $0.6 Million during the same quarter in the prior year. The decrease in FFO mainly reflects a $1.8 Million decrease in net operating income primarily driven by the results of the Fort McMurray portfolio, partially offset by $0.5 Million decrease in interest expense.

After taking into account fair value adjustments, LREIT completed the third quarter of 2015 with a loss and comprehensive loss of $27.3 Million, compared to a loss and comprehensive loss of $0.8 Million during the same quarter in the prior year.

Net Operating Income

During the third quarter of 2015, net operating income (NOI) decreased by $1.8 Million or 30%, compared to the third quarter of 2014. The decrease in NOI is mainly attributable to the portfolio of investment properties in Fort McMurray and is comprised of a $2.4 Million decrease in rental revenues, partially offset by a $0.5 Million decrease in operating costs.

The Fort McMurray property portfolio has continued to encounter increasingly challenging rental market conditions due to the economic downturn in the region which resulted from the decline in the price of oil during the fourth quarter of 2014 and which has continued to remain at depressed levels during the first nine months of 2015. The slowdown in oil sands development activity has led to reduced activity in the Fort McMurray region. As a result, the average occupancy level for the Fort McMurray portfolio decreased by 23%, from 90% during the third quarter of 2014 to 67% during the third quarter of 2015. During the third quarter of 2015, the average monthly rental rate for the Fort McMurray portfolio experienced a 9% decrease, compared to the same period in the prior year.

Fair Value Adjustments

During the third quarter of 2015, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $25.4 Million, compared to a loss related to fair value adjustments of $0.2 Million, during the third quarter of 2014.

The decrease in the fair value of investment properties is primarily due to a further reduction in the occupancy and rental rates of the Fort McMurray portfolio and an increased level of uncertainty in regard to the timing and extent of recovery of the Fort McMurray rental market.

Cash Flow Results

During the third quarter of 2015, the cash used in operating activities, excluding working capital adjustments, amounted to $1.6 Million, compared to cash provided by operating activities of $1.1 Million during the same period in 2014. Including working capital adjustments, LREIT completed the third quarter of 2015 with cash used in operating activities of $2.8 Million, compared to cash provided by operating activities of $0.5 Million during the same period in 2014.

Key Events

Third Quarter of 2015

- Renewal of Revolving Loan: Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18.0 Million.

- Mortgage Refinancing Terms: On August 10, 2015, LREIT agreed to amended refinancing terms on two first mortgage loans and one second mortgage loan. The refinancing terms required principal repayments of $1.0 Million in the second quarter of 2015 and $6.9 Million in the third quarter of 2015, which were funded by cash advances from Shelter Canadian Properties Limited.

- Upward Refinancing of Westhaven Manor: On August 31, 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3.3 Million. The net proceeds from the upward refinancing of approximately $1.6 Million, after transaction costs, were used for general working capital purposes.

Subsequent to September 30, 2015

- Sale of Property: On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70.3 Million. The net proceeds of approximately $28.1 Million, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by repaying operating loans and advances. The sale of Colony Square resulted in a capital gain of approximately $29.8 Million. In order to reduce its taxable income for 2015 tax year to nil, LREIT intends to declare a special non-cash distribution. Management has provided additional information regarding the special distribution and its tax implications in the "Analysis of Cash Flows - Distributions" and "Taxation" sections of this MD&A.

- Mortgage Renewal: Subsequent to September 30, 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8.2 Million. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3.0 Million on October 29, 2015. The principal payment was funded by additional advances from Shelter Canadian Properties Limited.

Outlook

The economic downturn in the Fort McMurray region has resulted in increasingly difficult rental market conditions; however, management believes that the long-term prospects of the Fort McMurray rental market remain viable. The completion of the sale of Colony Square, as part of the continued divestiture program, has served to reduce higher-cost debt and improve the working capital position of the Trust. Management will continue to actively pursue additional divestiture activities during this challenging period in order to reduce the debt burden of the Trust and sustain operations into the foreseeable future.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 9, 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 nine months ended September 30, 2015 with reference to the Annual Report for 2014 and the First and Second Quarter reports for 2015.

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 September 30, 2015 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of September 30, 2015 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the nine months ended September 30, 2015 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the nine months ended September 30, 2015 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	September 30	December 31	
	2015	2014	2013
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 377,394,196	$ 442,773,600	$ 468,072,319
Total long-term financial liabilities (1)	$ 316,837,982	$ 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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 7,568,402	$ 9,924,262	$ 24,257,892	$ 28,808,159
Net operating income	$ 4,266,094	$ 6,103,953	$ 13,576,020	$ 16,532,671
Loss before discontinued operations	$ (27,333,719)	$ (820,772)	$ (66,244,169)	$ (4,235,089)
Loss and comprehensive loss	$ (27,276,615)	$ (795,468)	$ (65,909,270)	$ (3,942,149)
Funds from Operations (FFO) *	$ (1,904,147)	$ (637,581)	$ (5,384,305)	$ (3,170,905)
Cash Flows				
Cash provided by (used in) operating activities	$ (2,830,238)	$ 462,910	$ (2,611,304)	$ 920,884
Adjusted Funds from Operations (AFFO) *	$ (2,135,701)	$ (1,219,479)	$ (5,528,671)	$ (4,287,138)
Per Unit				
Net operating income *				
- basic	$ 0.202	$ 0.290	$ 0.642	$ 0.792
- diluted	$ 0.202	$ 0.213	$ 0.642	$ 0.569
Loss before discontinued operations *				
- basic and diluted	$ (1.292)	$ (0.039)	$ (3.132)	$ (0.203)
Loss and comprehensive loss				
- basic and diluted	$ (1.290)	$ (0.038)	$ (3.116)	$ (0.189)
Funds from Operations (FFO) *				
- basic and diluted	$ (0.090)	$ (0.030)	$ (0.255)	$ (0.152)
Cash provided by (used in) operating activities				
- basic	$ (0.134)	$ 0.022	$ (0.123)	$ 0.044
- diluted	$ (0.134)	$ 0.016	$ (0.123)	$ 0.032
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.101)	$ (0.058)	$ (0.261)	$ (0.205)

(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 September 30, 2015, LREIT owns a portfolio of income-producing real estate properties comprised of 18 investment properties, one investment property 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

Current divestiture activities focus on the sale of the two seniors' housing complexes and the sale of other properties as opportunities arise and with consideration of the overall cash needs of the Trust, as well as the completion of the condominium sales program for Lakewood Townhomes. The timing and terms of property sales is uncertain.

During the period from 2009 to September 30, 2015, LREIT sold 24 properties and 17 condominium units under its divestiture program at a combined gross selling price of $264.8 Million.

During the first nine months of 2015, LREIT sold one investment property (156/204 East Lake Boulevard) which resulted in net proceeds of $2.4 Million, after sales expenses and the assumption of the mortgage loan debt by the purchaser. Proceeds from the sale were used to pay down the revolving loan and for general working capital purposes.

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70.3 Million. The net proceeds of approximately $28.1 Million, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13.5 Million. Additional information is provided in the "Analysis of Cash Flows - Investing Activities" section of this report.

Highlights of 2015 Q3 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 analysis which are contained throughout this report do not include the two seniors' housing complexes, except where noted.

1. Background Information (continued)

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 Operating Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net operating income				
Fort McMurray properties	$ 2,865,890	$ 4,690,968	$ 9,280,071	$ 12,575,549
Other investment properties	746,778	728,736	2,152,204	1,988,132
Sub-total	3,612,668	5,419,704	11,432,275	14,563,681
Held for sale and/or sold properties	653,426	684,249	2,143,745	1,968,990
Total net operating income	4,266,094	6,103,953	13,576,020	16,532,671
Interest income	21,648	27,770	68,811	619,767
Interest expense	(5,736,630)	(6,240,075)	(18,001,130)	(18,940,300)
Trust expense	(512,363)	(554,533)	(1,362,905)	(1,774,482)
Income recovery on Parsons Landing	-	-	-	98,499
Loss before the following	(1,961,251)	(662,885)	(5,719,204)	(3,463,845)
Gain (loss) on sale of investment property	-	-	(201,215)	71,235
Fair value adjustments - Investment properties	(25,372,468)	(157,887)	(60,323,750)	(842,479)
Loss before discontinued operations	(27,333,719)	(820,772)	(66,244,169)	(4,235,089)
Income from discontinued operations	57,104	25,304	334,899	292,940
Loss and comprehensive Loss	$ (27,276,615)	$ (795,468)	$ (65,909,270)	$ (3,942,149)

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 third quarter of 2015, the loss of LREIT before fair value adjustments and discontinued operations increased by $1.3 Million, compared to the third quarter of 2014. The increase in the loss is mainly due to a decrease in operating income of $1.8 Million, partially offset by a decrease in interest expense of $0.5 Million.

After accounting for the fair value adjustments and the income from discontinued operations, LREIT completed the third quarter of 2015 with a comprehensive loss of $27.3 Million, compared to comprehensive loss of $0.8 Million during the third quarter of 2014, representing a variance of $26.5 Million. In addition to the variables noted in the preceding paragraph, the increase in loss reflects an increase in loss from fair value adjustments of $25.2 Million.

During the first nine months of 2015, the loss of LREIT, before gain/loss on sale of investment property, fair value adjustments and discontinued operations, increased by $2.3 Million, compared to the first nine months of 2014. The increase in the loss is mainly due to a decrease in operating income of $3.0 Million and a decrease in interest income of $0.6 Million, partially offset by a decrease in interest expense of $0.9 Million and a decrease in trust expense of $0.4 Million.

After accounting for the gain/loss on sale of investment property, fair value adjustments, and the income from discontinued operations, LREIT completed the first nine months of 2015 with a comprehensive loss of $65.9 Million, compared to comprehensive loss of $3.9 Million during the first nine months of 2014, representing a variance of $62.0 Million. In addition to the variables noted in the preceding paragraph, the increase in the loss reflects an increase in loss from fair value adjustments of $59.5 Million and an unfavourable variance on the sale of investment property of $0.3 Million.

2. Comparative Operating Results (continued)

Occupancy/Rental Rate Comparison	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Average occupancy level				
Fort McMurray properties	67%	90%	72%	86%
Other investment properties	92%	94%	92%	91%
Total	71%	86%	75%	87%
Held for sale and/or sold properties	91%	93%	92%	92%
Average rental rate				
Fort McMurray properties	$2,139	$2,351	$2,186	$2,375
Other investment properties	$1,172	$1,117	$1,156	$1,127
Total	$1,876	$2,016	$1,906	$2,035
Held for sale and/or sold properties *	$757	$732	$751	$737

* Represents the residential portion of Colony Square.

3. Comparative Cash Flow Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Cash provided by (used in)				
Operating activities before working capital adjustments	$ (1,555,224)	$ 1,146,287	$ (2,108,856)	$ 876,669
Working capital adjustments	(1,275,014)	(683,377)	(502,448)	44,215
Operating activities	$ (2,830,238)	$ 462,910	$ (2,611,304)	$ 920,884

During the third quarter of 2015, the net cash used in operating activities, excluding working capital adjustments, was $1.6 Million, compared to net cash provided by operating activities of $1.1 Million during the third quarter of 2014, representing a variance of $2.7 Million. The variance reflects a decrease in the cash component of net operating income of $1.5 Million and an increase in interest paid of $1.1 Million.

During the first nine months of 2015, the net cash used in operating activities, excluding working capital adjustments, was $2.1 Million, compared to net cash provided by operating activities of $0.9 Million during the first nine months of 2014, representing a variance of $3.0 Million. The variance mainly reflects a decrease in the cash component of net operating income of $2.1 Million, an increase in interest paid of $0.7 Million, and a decrease in interest received of $0.4 Million.

4. Interest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Interest expense				
Investment properties	$ 5,736,630	$ 6,240,075	$ 18,001,130	$ 18,940,300
Discontinued operations	230,423	313,442	777,079	726,515
Total interest expense	$ 5,967,053	$ 6,553,517	$ 18,778,209	$ 19,666,815

Key Variables	As at September 30 2015	2014
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.6 %	5.7 %
Seniors' housing complexes	6.5 %	6.6 %
Combined operations	5.7 %	5.7 %

4. Interest Expense (continued)

Total interest expense for investment properties decreased by $0.5 Million or 8% during the third quarter of 2015, compared to the third quarter of 2014. The decrease mainly reflects a decrease in mortgage loans and acquisition payable interest of $0.3 Million and a decrease in mortgage bond interest of $0.2 Million.

Total interest expense for investment properties decreased by $0.9 Million or 5% during the first nine months of 2015, compared to the first nine months of 2014. The decrease mainly reflects a decrease in mortgage bond interest of $1.3 Million, partially offset by an increase in mortgage loans and acquisition payable interest of $0.4 Million.

5. Key Financing and Investing Events in 2015

2015 Q1

Upward Refinancing of Beck Court and Repayment of Mortgage Bonds - 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 to increase working capital.

2015 Q2

Refinancing of Millennium Village and Elimination of Debt Covenant Breach - On April 7, 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 certain assets of 2668921 Manitoba Ltd., the parent company of Shelter. 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. The refinancing of Millennium Village described above eliminated a debt service covenant breach.

Sale of Property - On April 1, 2015, the sale of 156/204 East Lake Blvd. was completed and resulted in net proceeds of $2.4 Million, after sales expenses and the assumption of the mortgage loan debt by the purchaser. Proceeds from the sale were used to pay down the revolving loan and for general working capital purposes.

2015 Q3

Renewal of Revolving Loan - Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18.0 Million.

Mortgage Refinancing Terms - On August 10, 2015, LREIT agreed to amended refinancing terms on two first mortgage loans and one second mortgage loan. The refinancing terms required principal repayments of $1.0 Million in the second quarter of 2015 and $6.9 Million in the third quarter of 2015, which were funded by cash advances from Shelter.

Upward Refinancing of Westhaven Manor - On August 31, 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3.3 Million. The net proceeds from the upward refinancing of approximately $1.6 Million, after transaction costs, were used for general working capital purposes.

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

Subsequent to September 30, 2015

Sale of Property - On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70.3 Million. The net proceeds of approximately $28.1 Million, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13.5 Million. The sale of Colony Square resulted in a capital gain of approximately $29.8 Million. In order to reduce its taxable income for 2015 tax year to nil, LREIT intends to declare a special non-cash distribution.

A more detailed description of the special distribution and its tax implications is provided in the sections of the MD&A titled "Analysis of Cash Flows - Distributions" and "Taxation", respectively.

Mortgage Renewal - Subsequent to September 30, 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8.2 Million. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3.0 Million on October 29, 2015. The principal payment was funded by additional advances from Shelter Canadian Properties Limited.

6. Liquidity and Capital Resources

	September 30 2015	December 31 2014
Unrestricted cash	$ 590,689	$ 1,963,735
Amount available on revolving loan *	-	500,000
Total available liquidity	$ 590,689	$ 2,463,735
Working capital deficit	$ 27,014,263	$ 12,715,808

* Effective July 1, 2015, the revolving loan facility was renewed for up to three years at an interest rate of 12% with a maximum balance of $18,000,000. As of the date of this report, there was $13,500,000 available on the revolving loan.

LREIT requires liquidity and working capital for use in the day-to-day operations of the properties, as well as in order to fund the regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures. Declines in rental market conditions in Fort McMurray have negatively affected the operating cash flow of LREIT to the extent that LREIT requires additional sources of cash to fund the cash losses from operating activities, as well as monthly principal repayment obligations and capital expenditure requirements.

The increase in the working capital deficit reflects interest free advances from Shelter Canadian Properties Limited of $8.9 Million, a $3.5 Million increase in the revolving loan balance, a $1.1 Million decrease in accounts receivable and a $1.4 Million reduction in cash. The increase in the working capital deficiency resulted in funds that were used as disclosed in the "Analysis of Cash Flows" section of this report.

As previously disclosed, the sale of Colony Square subsequent to September 30, 2015 resulted in net cash proceeds of approximately $28.1 Million which were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13.5 Million.

Continuing Operations

Despite the unfavourable rental market conditions in Fort McMurray, management believes that LREIT has the financial capacity to continue to operate as a going concern for the next twelve months as a result of the successful completion of property sales over the past six years, including the sale of the property classified as held for sale on November 1, 2015, 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, and the continued credit support from Shelter and/or its parent company 2668921 Manitoba Ltd.

Additional information is provided in the "Liquidity and Capital Resources" section and the "Operating Risks and Uncertainties" section of this report.

7. Risks and Uncertainties

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

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

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.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Brief History and Overview

LREIT is an unincorporated closed-end real estate investment 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 Properties

As of September 30, 2015, the real estate portfolio of LREIT consisted of 18 multi-family residential properties (the "investment properties"), one mixed residential/commercial property (the "investment properties held for sale") and 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.

Strategy and 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 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 continues to utilize the refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. In addition, as an interim source of funds, LREIT utilizes a revolving loan facility from 2668921 Manitoba Ltd. and other periodic credit support from Shelter.

Pursuant to the terms of the Declaration of Trust, LREIT is not permitted to incur mortgage indebtedness if such indebtedness would result in the total mortgage loan indebtedness of LREIT exceeding 75% of the Appraised Value (as defined in the Declaration of Trust) of LREIT's total property portfolio.

Divestiture Program

In order to address the reduction in operating cash flow and the constraints on working capital which started with the economic downturn in 2008/2009, LREIT instituted a divestiture program in 2009, with the objective of generating gross proceeds of $250 Million from the sale of selected properties. Since the inception of the divestiture program to September 30, 2015, LREIT has sold 24 properties and 17 condominium units at a combined gross selling price of $264.8 Million. Notwithstanding the achievement of generating gross proceeds in excess of the targeted amount, the divestiture program continues to remain in effect as part of LREIT's strategy to address the current operating cash flow and working capital constraints which have resulted from the decline in the rental market conditions of Fort McMurray that began in the fourth quarter of 2014. The purpose of the divestiture program is to reduce total debt, including higher cost mortgage loan and interim financing, and to generate sufficient cash flow in order to enable LREIT to meet its ongoing funding obligations as well as to restore working capital.

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
2015	1	-	4,000,000	2,441,375	-	2,441,375
Total	24	17	$ 264,800,100	$ 86,077,679	$ 22,781,666	$ 108,859,345

Subsequent September 30, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70.3 Million. The net proceeds of approximately $28.1 Million, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13.5 Million. Additional information is provided in the "Analysis of Cash Flows - Investing Activities" section of this report.

LREIT is currently pursuing the sale of the remaining seniors' housing complexes and other properties as opportunities arise and continuing with the condominium sales program at Lakewood Townhomes as described below.

Lakewood Townhomes Condominium Sales Program

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 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 September 30, 2015, 17 condominium units have been sold at a combined gross selling price of $8.2 Million.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2015

As of September 30, 2015, the property portfolio of LREIT consists of 21 rental properties, 18 of which are classified as "Investment properties", including all of the unsold condominium units at Lakewood Townhomes, and one of which is 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 21 properties has a total purchase price of approximately $394.5 Million and encompasses 2,125 suites and 83,190 square feet of leasable commercial area.

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 nine months of 2015, changes in the property portfolio reflect a change in classification of Colony Square from investment properties to "Assets held for sale" and the sale of 156/204 East Lake Blvd. As previously disclosed, LREIT sold 156/204 East Lake Blvd. on April 1, 2015 and sold Colony Square subsequent to the end of the third quarter, on November 1, 2015.

A list of all of the properties in the LREIT real estate portfolio as at September 30, 2015 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 September 30, 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 property which is classified as assets held for sale on the Statement of Financial Position consists of 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 the Trust intends to dispose of 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.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended September 30		Increase (Decrease) in Income
	2015	2014	Amount
Rentals from investment properties	$ 7,568,402	$ 9,924,262	$ (2,355,860)
Property operating costs	3,302,308	3,820,309	518,001
Net operating income	4,266,094	6,103,953	(1,837,859)
Interest income	21,648	27,770	(6,122)
Interest expense	(5,736,630)	(6,240,075)	503,445
Trust expense	(512,363)	(554,533)	42,170
Loss before the following	(1,961,251)	(662,885)	(1,298,366)
Fair value adjustments - Investment properties	(25,372,468)	(157,887)	(25,214,581)
Loss before discontinued operations	(27,333,719)	(820,772)	(26,512,947)
Income from discontinued operations	57,104	25,304	31,800
Loss and comprehensive loss	$ (27,276,615)	$ (795,468)	$ (26,481,147)

Analysis of Loss

	Nine Months Ended September 30		Increase (Decrease) in Income
	2015	2014	Amount
Rentals from investment properties	$ 24,257,892	$ 28,808,159	$ (4,550,267)
Property operating costs	10,681,872	12,275,488	1,593,616
Net operating income	13,576,020	16,532,671	(2,956,651)
Interest income	68,811	619,767	(550,956)
Interest expense	(18,001,130)	(18,940,300)	939,170
Trust expense	(1,362,905)	(1,774,482)	411,577
Income recovery on Parsons Landing	-	98,499	(98,499)
Loss before the following	(5,719,204)	(3,463,845)	(2,255,359)
Gain (loss) on sale of investment property	(201,215)	71,235	(272,450)
Fair value adjustments - Investment properties	(60,323,750)	(842,479)	(59,481,271)
Loss before discontinued operations	(66,244,169)	(4,235,089)	(62,009,080)
Income from discontinued operations	334,899	292,940	41,959
Loss and comprehensive loss	$ (65,909,270)	$ (3,942,149)	$ (61,967,121)

Analysis of Loss per Unit

	Three Months Ended September 30		
	2015	2014	Change
Loss before discontinued operations - basic and diluted	$ (1.292)	$ (0.039)	$ (1.253)
Loss and comprehensive loss - basic and diluted	$ (1.290)	$ (0.038)	$ (1.252)

Analysis of Loss per Unit

	Nine Months Ended September 30		
	2015	2014	Change
Loss before discontinued operations - basic and diluted	$ (3.132)	$ (0.203)	$ (2.929)
Loss and comprehensive loss - basic and diluted	$ (3.116)	$ (0.189)	$ (2.927)

Overall Results

Third Quarter Comparatives

During the third quarter of 2015, the loss of LREIT before fair value adjustments and discontinued operations increased by $1,298,366, compared to the third quarter of 2014. The increase in the loss is mainly due to a decrease in operating income of $1,837,859, partially offset by a decrease in interest expense of $503,445.

After accounting for the fair value adjustments, LREIT completed the third quarter of 2015 with a loss before discontinued operations of $27,333,719, compared to a loss of $820,772 during the third quarter of 2014, representing a variance of $26,512,947. In addition to the variables noted in the preceding paragraph, the increase in loss reflects an increase in loss from fair value adjustments of $25,214,581 during the third quarter of 2015, compared to the third quarter of 2014. Additional information regarding the fair value adjustments is provided in the "Fair Value Adjustments" section of this report.

After accounting for the income from discontinued operations, LREIT completed the third quarter of 2015 with a comprehensive loss of $27,276,615, compared to a comprehensive loss of $795,468 during the third quarter of 2014, representing a variance of $26,481,147.

Nine Month Comparatives

During the first nine months of 2015, the loss of LREIT, before gain/loss on sale of investment property, fair value adjustments and discontinued operations, increased by $2,255,359, compared to the first nine months of 2014. The increase in the loss is mainly due to a decrease in operating income of $2,956,651 and a decrease in interest income of $550,956, partially offset by a decrease in interest expense of $939,170 and a decrease in trust expense of $411,577.

After accounting for the gain/loss on sale of investment property and fair value adjustments, LREIT completed the first nine months of 2015 with a loss before discontinued operations of $66,244,169, compared to a loss of $4,235,089 during the first nine months of 2014, representing a variance of $62,009,080. In addition to the variables noted in the preceding paragraph, the increase in the loss reflects an increase in loss from fair value adjustments of $59,481,271 and an unfavourable variance on the sale of investment property of $272,450 during the first nine months of 2015, compared to the first nine months of 2014. Additional information regarding the fair value adjustments is provided in the "Fair Value Adjustments" section of this report.

After accounting for the income from discontinued operations, LREIT completed the first nine months of 2015 with a comprehensive loss of $65,909,270, compared to comprehensive loss of $3,942,149 during the first nine months of 2014, representing a variance of $61,967,121.

Per Unit Results

On a per unit basis, the loss before discontinued operations amounted to $1.292 per unit during the third quarter of 2015, compared to a loss of $0.039 per unit during the third quarter of 2014, representing an increase in the loss of $1.253 per unit.

During the first nine months of 2015, the loss before discontinued operations amounted to $3.132 per unit, compared to a loss of $0.203 per unit during the first nine months of 2014, representing an increase in the loss of $2.929 per unit.

The increase in loss per unit reflects an increase in the overall loss of the Trust before discontinued operations.

Discontinued Operations

At September 30, 2015, the property portfolio includes two seniors' housing complexes which are classified under discontinued operations. The analysis that follows excludes the revenue and operating costs of the seniors' housing complexes.

Funds from Operations (FFO)

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

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

Funds from Operations *	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Loss and comprehensive loss	$ (27,276,615)	$ (795,468)	$ (65,909,270)	$ (3,942,149)
Add (deduct):				
Loss (gain) on sale of properties	-	-	201,215	(71,235)
Fair value adjustments - Investment properties	25,372,468	157,887	60,323,750	842,479
Funds from operations (FFO) *	$ (1,904,147)	$ (637,581)	$ (5,384,305)	$ (3,170,905)
FFO per unit *				
- basic and diluted	$ (0.090)	$ (0.030)	$ (0.255)	$ (0.152)

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

LREIT completed the three and nine months ended September 30, 2015 with negative FFO of $1,904,147 and $5,384,305, respectively, representing a decrease of $1,266,566 and $2,213,400, respectively, compared to the same periods in 2014. On a basic per unit basis, FFO decreased by $0.060 during the three months ended September 30, 2015, compared to the same period in 2014, from negative $0.030 to negative $0.090. The decrease in FFO was primarily driven by the results of the Fort McMurray portfolio and mainly reflects a significant decrease in occupancy levels, partially offset by decreases in property operating costs and interest expense.

Segmented Results

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 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, and account for 21% of the residential suites in the portfolio of investment properties.

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, sold subsequent to September 30, 2015, and 156/204 East Lake Blvd., sold April 1, 2015. As of September 30, 2015, the Colony Square property comprises 22% of the residential suites in the investment properties portfolio and 100% of the commercial space.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Fort McMurray properties	$ 4,909,882	$ 7,174,069	$ (2,264,187)	$ 16,013,877	$ 20,696,031	$ (4,682,154)
Other investment properties	1,318,619	1,299,992	18,627	3,943,707	3,813,171	130,536
Sub-total	6,228,501	8,474,061	(2,245,560)	19,957,584	24,509,202	(4,551,618)
Held for sale and/or sold properties (1)	1,339,901	1,450,201	(110,300)	4,300,308	4,298,957	1,351
Total	$ 7,568,402	$ 9,924,262	$ (2,355,860)	$ 24,257,892	$ 28,808,159	$ (4,550,267)

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

The rental revenue of LREIT is primarily 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.

During the three and nine months ended September 30, 2015, total revenue from LREIT investment properties, excluding held for sale and/or sold properties, decreased by $2,245,560 or 26% and $4,551,618 or 19%, respectively, as compared to the same periods in the prior year. The decrease in revenue is due to the unfavourable variance in revenue results for the Fort McMurray portfolio.

The revenue results for the Fort McMurray property portfolio reflect increasingly competitive rental market conditions due to the economic downturn in the region which resulted from the decline in the price of oil that began in the fourth quarter of 2014, and continued into the first nine months of 2015. The slowdown in oil sands development activity has led to reduced activity in the Fort McMurray region. As a result, the average occupancy level for the Fort McMurray portfolio decreased from 90% during the third quarter of 2014 to 67% during the third quarter of 2015, while the average monthly rental rate has decreased by $212 per suite or 9%.

Occupancy Level, by Quarter

	2015			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	76 %	72 %	67 %	72 %
Other investment properties	92 %	94 %	92 %	92 %
Total	79 %	75 %	71 %	75 %
Held for sale and/or sold properties	94 %	90 %	91 %	92 %

	2014					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray properties	78 %	90 %	90 %	86 %	85 %	86 %
Other investment properties	88 %	91 %	94 %	91 %	93 %	92 %
Total	79 %	90 %	86 %	87 %	86 %	87 %
Held for sale and/or sold properties	90 %	93 %	93 %	92 %	93 %	92 %

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

Average Monthly Rents, by Quarter

	2015			
	Q1	Q2	Q3	9 Month Average
Fort McMurray properties	$2,228	$2,192	$2,139	$2,186
Other investment properties	$1,138	$1,158	$1,172	$1,156
Total	$1,932	$1,910	$1,876	$1,906
Held for sale and/or sold properties *	$760	$736	$757	$751

	2014					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray properties	$2,397	$2,373	$2,351	$2,375	$2,291	$2,354
Other investment properties	$1,137	$1,126	$1,117	$1,127	$1,123	$1,126
Total	$2,055	$2,034	$2,016	$2,035	$1,976	$2,020
Held for sale and/or sold properties *	$741	$739	$732	$737	$754	$741

* Represents the residential portion of Colony Square.

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Fort McMurray properties	$ 2,043,992	$ 2,483,101	$ (439,109)	$ 6,733,806	$ 8,120,482	$ (1,386,676)
Other investment properties	571,841	571,256	585	1,791,503	1,825,039	(33,536)
Sub-total	2,615,833	3,054,357	(438,524)	8,525,309	9,945,521	(1,420,212)
Held for sale and/or sold properties	686,475	765,952	(79,477)	2,156,563	2,329,967	(173,404)
Total	$ 3,302,308	$ 3,820,309	$ (518,001)	$ 10,681,872	$12,275,488	$ (1,593,616)

Property operating costs decreased by $518,001 or 14% and $1,593,616 or 13% for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The decreases are mainly due to decreases in maintenance, utilities, management fees, property taxes and administration costs associated with the Fort McMurray portfolio. The decrease in maintenance costs for the nine months ended September 30, 2015 was due to a decrease in repair costs related to water damage, net of insurance recoveries, a decrease in mechanical repairs, and the elimination of the Parsons Landing occupancy fee paid to the developer prior to the completion of the purchase of the property on March 6, 2014.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Three Months Ended September 30		Increase (Decrease)		Percent of Total			
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	$ 2,865,890	$ 4,690,968	$ (1,825,078)	(39)%	67 %	77 %	58 %	65 %
Other investment properties	746,778	728,736	18,042	2 %	18 %	12 %	57 %	56 %
Sub-total	3,612,668	5,419,704	(1,807,036)	(33)%	85 %	89 %	58 %	64 %
Held for sale and/or sold properties	653,426	684,249	(30,823)	(5)%	15 %	11 %	49 %	47 %
Total	$ 4,266,094	$ 6,103,953	$ (1,837,859)	(30)%	100 %	100 %	56 %	62 %

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Nine Months Ended September 30		Increase (Decrease)		Percent of Total			
	2015	2014	Amount	%	2015	2014	2015	2014
Fort McMurray properties	$ 9,280,071	$ 12,575,549	$ (3,295,478)	(26)%	68 %	76 %	58 %	61 %
Other investment properties	2,152,204	1,988,132	164,072	8 %	16 %	12 %	55 %	52 %
Sub-total	11,432,275	14,563,681	(3,131,406)	(22)%	84 %	88 %	57 %	59 %
Held for sale and/or sold properties	2,143,745	1,968,990	174,755	9 %	16 %	12 %	50 %	46 %
Total	$ 13,576,020	$ 16,532,671	$ (2,956,651)	(18)%	100 %	100 %	56 %	57 %

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

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 investment properties portfolio, excluding held for sale and/or sold properties, decreased by $1,807,036 or 33% and $3,131,406 or 22%, during the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in the prior year. As previously noted, the decreases in net operating income primarily reflect unfavourable variances in the revenue results of the Fort McMurray property portfolio, partially offset by decreases in operating costs.

The operating margin, excluding held for sale and/or sold properties, decreased from 64% during the third quarter of 2014 to 58% during the third quarter of 2015 and from 59% during the nine months ended September 20, 2014 to 57% during the nine months ended September 30, 2015. The decreases in the operating margin reflect unfavourable variances in the operating results for the Fort McMurray property portfolio.

Interest Income

During the third quarter of 2015, interest income amounted to $21,648, compared to $27,770 during the third quarter of 2014. During the first nine months of 2015, interest income amounted to $68,811, compared to $619,767 during the first nine months 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 is comprised of interest expense for investment properties, including investment properties held for sale, and interest expense for 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.

Total interest expense is comprised of a "non-cash" and "cash" component. 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. "Non-cash" interest expenses include amortization of transaction costs, accretion and interest charges related to the change in fair value of the interest rate swap liability.

A breakdown of total interest expense, including a summary of the cash and non-cash component of interest expense is included in the table below.

Analysis of Interest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Investment Properties						
Mortgage Loans and Acquisition Payable						
Mortgage loan interest	$ 4,536,527	$ 4,326,620	$ 209,907	$ 13,572,675	$ 12,616,854	$ 955,821
Acquisition payable interest	-	-	-	-	653,315	(653,315)
Amortization of transaction costs	553,389	607,577	(54,188)	1,839,499	1,586,343	253,156
Change in fair value of interest rate swap liability	-	440,729	(440,729)	159,295	283,303	(124,008)
Total - mortgage loans and acquisition payable	5,089,916	5,374,926	(285,010)	15,571,469	15,139,815	431,654
Mortgage Bonds						
Mortgage bond interest	-	135,000	(135,000)	123,616	446,918	(323,302)
Accretion of debt component	-	49,712	(49,712)	213,774	822,666	(608,892)
Amortization of transaction costs	-	33,079	(33,079)	153,325	566,979	(413,654)
Total - mortgage bonds	-	217,791	(217,791)	490,715	1,836,563	(1,345,848)
Debentures						
Interest on debentures	589,257	595,608	(6,351)	1,767,770	1,777,114	(9,344)
Amortization of transaction costs	57,457	51,750	5,707	171,176	186,808	(15,632)
Total - debentures	646,714	647,358	(644)	1,938,946	1,963,922	(24,976)
Total interest expense - investment properties	5,736,630	6,240,075	(503,445)	18,001,130	18,940,300	(939,170)
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	229,048	237,106	(8,058)	699,480	581,253	118,227
Amortization of transaction costs	1,375	76,336	(74,961)	77,599	145,262	(67,663)
Total interest expense - discontinued operations	230,423	313,442	(83,019)	777,079	726,515	50,564
Total - interest expense	$ 5,967,053	$ 6,553,517	$ (586,464)	$ 18,778,209	$ 19,666,815	$ (888,606)

Cash and Non-cash Component						
Total cash component	$ 5,354,832	$ 5,294,334	$ 60,498	$ 16,163,541	$ 16,075,454	$ 88,087
Non-cash component						
Accretion	-	49,712	(49,712)	213,774	822,666	(608,892)
Amortization of transaction costs	612,221	768,742	(156,521)	2,241,599	2,485,392	(243,793)
Change in fair value of interest rate swaps	-	440,729	(440,729)	159,295	283,303	(124,008)
Total non-cash component	612,221	1,259,183	(646,962)	2,614,668	3,591,361	(976,693)
Total - interest expense	$ 5,967,053	$ 6,553,517	$ (586,464)	$ 18,778,209	$ 19,666,815	$ (888,606)

Three Month Comparative for Interest Expense

For the three month period ended September 30, 2015, total interest expense decreased by $586,464 or 9%, compared to the same period in 2014. The decrease in total interest expense reflects a decrease in interest expense for investment properties of $503,445 and a decrease in interest expense for discontinued operations of $83,019.

The decrease in interest expense for investment properties of $503,445, is comprised of a decrease in mortgage loans and acquisition payable interest of $285,010 and a decrease in mortgage bond interest of $217,791. The decrease in mortgage loans and acquisition payable interest primarily reflects a decrease in the "change in fair value of interest rate swap liability", as a result of its settlement in the second quarter of 2015, partially offset by an increase in mortgage loan interest resulting primarily from an increase in the average balance outstanding on the revolving loan from 2668921 Manitoba Ltd. and increased interest as a result of the upward refinancing of Beck Court in the first quarter of 2015. The decrease in mortgage bond interest is due to the repayment of the remaining 9% mortgage bonds during the first quarter of 2015 in the aggregate principal amount of $6,000,000.

Nine Month Comparative for Interest Expense

For the nine month period ended September 30, 2015, total interest expense decreased by $888,606 or 5%, compared to the same period in 2014. The decrease in total interest expense reflects a decrease in interest expense for investment properties of $939,170, partially offset by an increase in interest expense for discontinued operations of $50,564.

The decrease in interest expense for investment properties of $939,170, is comprised of a decrease in mortgage bond interest of $1,345,848, partially offset by an increase in mortgage loans and acquisition payable interest of $431,654. The decrease in the mortgage bond interest is due to the redemption of $10,000,000 and $6,000,000 in mortgage bonds during the first quarter of 2014 and 2015, respectively. The increase in mortgage loans and acquisition payable interest is comprised of an increase in mortgage loan interest of $955,821 and an increase in the amortization of transaction cost of $253,156, partially offset by a decrease in acquisition payable interest of $653,315 and a decrease in the fair value of the interest rate swap liability of $124,008. The increase in mortgage loan interest of $955,821 is primarily due to the new mortgage loan obtained on the acquisition of Parsons Landing during the first quarter of 2014, the upward refinancing of the mortgage loan debt of Beck Court during the first quarter of 2015, and an increase in the average balance outstanding on the revolving loan from 2668921 Manitoba Ltd. The decrease in acquisition payable interest was due to elimination of the acquisition payable on completion of the Parsons Landing acquisition on March 6, 2014.

Trust Expense

Included within trust expense are asset management service fees, professional fees, unit-based compensation, gains/losses on debenture and warrant repurchases and other administrative costs not directly attributable to the investment properties.

Trust expense for the third quarter of 2015 decreased by $42,170, compared to the third quarter of 2014. The decrease is mainly due to a loss on warrant repurchases in the third quarter of 2014.

For the nine month period ended September 30, 2015, trust expense decreased by $411,577, compared to the first nine months of 2014. The decrease is mainly due to a recovery of a provision for financing fees previously considered unrecoverable in 2015, a decrease in expenses related to unit-based compensation, a loss on warrant repurchases in the third quarter of 2014 and a reduction in service fees.

Gain (Loss) on Sale of Investment Property

The gain (loss) on sale of investment property represents the extent to which the net proceeds from the sale of an investment property exceed (are less than) the carrying value of the property.

During the first nine months of 2015, the Trust recorded a loss on sale of investment property of $201,215 related to the sale of 156/204 East Lake Blvd. During the first nine months 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

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.

Gains/losses on fair value adjustments are included in the income of the Trust and are disclosed as positive or negative "adjustments".

Investment Properties

During the third quarter of 2015, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $25,372,468, compared to a loss related to fair value adjustments of $157,887 during the third quarter of 2014.

During the first nine months of 2015, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $60,323,750, compared to a loss related to fair value adjustments of $842,479 during the same period in 2014.

The decreases in the fair value of investment properties are primarily due to reductions in the carrying value of the Fort McMurray properties as revenue and occupancy expectations for the Fort McMurray portfolio were reduced to reflect the impact of a further decline in oil sands development activity and increased uncertainty with respect to the timing and extent of recovery of the Fort McMurray economy.

After accounting for fair value adjustments, capital expenditures and investment properties transferred to held for sale and/or sold properties, the carrying value of investment properties decreased by $131,285,120 during the first nine months of 2015.

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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Rental income	$ 1,304,498	$ 1,282,270	$ 4,026,081	$ 3,864,870
Property operating costs	1,016,971	943,524	2,914,103	2,845,415
Net operating income	287,527	338,746	1,111,978	1,019,455
Interest expense	(230,423)	(313,442)	(777,079)	(726,515)
Income from discontinued operations	$ 57,104	$ 25,304	$ 334,899	$ 292,940

During the third quarter of 2015, LREIT recorded income from discontinued operations of $57,104, compared to income of $25,304 during the third quarter of 2014, representing a variance of $31,800. The increase is mainly due to a decrease in interest expense as a result of lower amortization of transaction costs associated with the mortgage of Elgin Lodge, partially offset by a decrease in net operating income.

During the nine month period ended September 30, 2015, income from discontinued operations increased by $41,959, compared to the nine month period ended September 30, 2014. The increase is mainly due to an increase in net operating income of $92,523, partially offset by an increase in interest expense of $50,564 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	
	September 30, 2015	June 30, 2015	Amount	%
Rentals from investment properties	$ 7,568,402	$ 7,957,771	$ (389,369)	(5)%
Property operating costs	3,302,308	3,400,827	98,519	3 %
Net operating income	4,266,094	4,556,944	(290,850)	(6)%
Interest income	21,648	22,271	(623)	(3)%
Interest expense	(5,736,630)	(5,855,496)	118,866	2 %
Trust expense	(512,363)	(458,683)	(53,680)	(12)%
Loss before the following	(1,961,251)	(1,734,964)	(226,287)	(13)%
Gain (loss) on sale of investment property	-	(201,215)	201,215	100 %
Fair value adjustments	(25,372,468)	(33,054,460)	7,681,992	23 %
Loss for the period before discontinued operations	(27,333,719)	(34,990,639)	7,656,920	22 %
Income (loss) from discontinued operations	57,104	170,030	(112,926)	(66)%
Comprehensive loss	$ (27,276,615)	$ (34,820,609)	$ 7,543,994	22 %

During the third quarter of 2015, the loss of LREIT, before gain/loss on sale of investment property, fair value adjustments and discontinued operations, increased by $226,287, or 13%, in comparison to the second quarter of 2015. The increase in the loss mainly reflects a decrease in net operating income of $290,850 and an increase in trust expense of $53,680, partially offset by a decrease in interest expense of $118,866. The decrease in net operating income is mainly due to a decrease in revenue of the Fort McMurray portfolio.

After accounting for the variance in fair value adjustments in the amount of $7,681,992 and a decrease in loss on sale of investment property of $201,215, the loss before discontinued operations decreased by $7,656,920 during the third quarter of 2015, compared to the second quarter of 2015. Additional information regarding the fair value adjustments is provided in the "Fair Value Adjustments" section of this report.

After accounting for discontinued operations, LREIT completed the third quarter of 2015 with a comprehensive loss of $27,276,615, compared to a comprehensive loss of $34,820,609 during the second quarter of 2015.

SUMMARY OF QUARTERLY RESULTS

The summary of quarterly results is intended to provide readers with an overview of key trends and other factors affecting variations in the quarterly results of LREIT.

Quarterly Analysis	2015			2014
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 7,568,402	$ 7,957,771	$ 8,731,719	$ 9,483,539
Net operating income	$ 4,266,094	$ 4,556,944	$ 4,752,982	$ 5,242,793
Loss for the period before discontinued operations	$(27,333,719)	$(34,990,639)	$ (3,919,811)	$(16,643,003)
Loss and comprehensive loss	$(27,276,615)	$(34,820,609)	$ (3,812,046)	$(18,296,432)
Funds from Operations (FFO)	$ (1,904,147)	$ (1,564,934)	$ (1,915,224)	$ (877,026)
PER UNIT				
Net operating income				
- basic	$ 0.202	$ 0.215	$ 0.225	$ 0.248
- diluted	$ 0.202	$ 0.215	$ 0.225	$ 0.247
Loss for the period before discontinued operations				
- basic and diluted	$ (1.292)	$ (1.654)	$ (0.185)	$ (0.788)
Loss and comprehensive loss				
- basic and diluted	$ (1.290)	$ (1.646)	$ (0.180)	$ (0.866)
Funds from Operations (FFO)				
- basic and diluted	$ (0.090)	$ (0.074)	$ (0.091)	$ (0.042)

Quarterly Analysis

	2014			2013
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 9,924,262	$ 9,975,172	$ 8,908,725	$ 10,115,906
Net operating income	$ 6,103,953	$ 5,924,651	$ 4,504,067	$ 6,023,275
Loss for the period before discontinued operations	$ (820,772)	$ (898,369)	$ (2,515,948)	$ (669,080)
Loss and comprehensive loss	$ (795,468)	$ (742,668)	$ (2,404,013)	$ (509,164)
Funds from Operations (FFO)	$ (637,581)	$ (58,076)	$ (2,475,248)	$ (166,229)
PER UNIT				
Net operating income				
- basic	$ 0.290	$ 0.283	$ 0.218	$ 0.311
- diluted	$ 0.213	$ 0.201	$ 0.157	$ 0.237
Loss for the period before discontinued operations				
- basic and diluted	$ (0.039)	$ (0.043)	$ (0.122)	$ (0.035)
Loss and comprehensive loss				
- basic and diluted	$ (0.038)	$ (0.035)	$ (0.116)	$ (0.026)
Funds from Operations (FFO)				
- basic and diluted	$ (0.030)	$ (0.003)	$ (0.120)	$ (0.009)

Rental Revenue and Net Operating Income

Rental market conditions in Fort McMurray continue to exert downward pressure on the rental revenue and net operating income results of LREIT. The decline in oil prices experienced in the fourth quarter of 2014 and through the first nine months of 2015 has resulted in a decreased level of oil sands development activity, which in turn has resulted in increased vacancies and reduced rental rates in the Fort McMurray rental market.

The Fort McMurray 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.

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.

Loss before Discontinued Operations

The two main factors that can cause quarterly variations in net income/loss before discontinued operations are changes in the fair value of investment properties and changes in interest expense.

Losses from fair value adjustments were most pronounced in the second and third quarters of 2015 and the fourth quarter of 2014, in the amount of $33,054,460, $25,372,468 and $15,685,280, respectively, as revenue and occupancy expectations from the Fort McMurray portfolio were lowered to reflect a reduction in oil sands development activity and increased uncertainty with respect to the timing and extent of the recovery of the Fort McMurray economy.

Financing activities such as the acquisition, discharge, paydown and refinancing of the mortgage loan debt of investment properties, as well as changes in the balance of the revolving loan and mortgage bonds, affect quarterly variations in interest expense.

Loss and Comprehensive Loss

With the exception of fair value adjustments, the operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, do not contribute signficantly to variations in the quarterly financial results. Losses from fair value adjustments with respect to the seniors' housing complexes were most pronounced in the fourth quarter of 2014, in the amount of $1,734,126.

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. The most significant variance between accrued interest and interest paid arises in regard to the timing of the Series G debenture interest payments. In 2015, "interest paid" on debentures was $1,178,513 higher in the second quarter, compared to the first quarter, and is expected to be approximately $1,200,000 higher in the fourth quarter, compared to the third quarter. Also contributing to the quarterly variance between accrued interest and interest paid during 2015 was the deferral of revolving loan interest payments during the first and second quarters of the year and payment of the deferred balance of $829,952 in the third quarter of 2015.

Third Quarter Comparatives

Cash from Operating Activities

	Three Months Ended September 30		Increase
	2015	2014	(Decrease)
Net operating income			
Investment properties	$ 4,266,094	$ 6,103,953	$ (1,837,859)
Discontinued operations	287,527	338,746	(51,219)
Total net operating income	4,553,621	6,442,699	(1,889,078)
Accrued rent receivable	35,188	(311,872)	347,060
Net operating income - cash basis	4,588,809	6,130,827	(1,542,018)
Trust expense	(512,363)	(554,533)	42,170
Loss on warrant repurchases	-	42,400	(42,400)
Unit-based compensation	-	18,750	(18,750)
Trust expense - cash basis	(512,363)	(493,383)	(18,980)
Interest paid			
Investment properties	(5,423,239)	(4,284,172)	(1,139,067)
Discontinued operations	(230,760)	(237,273)	6,513
Total interest paid	(5,653,999)	(4,521,445)	(1,132,554)
Interest received	22,329	30,288	(7,959)
Interest expense - cash basis	(5,631,670)	(4,491,157)	(1,140,513)
Cash provided by (used in) operating activities, before working capital adjustments	(1,555,224)	1,146,287	(2,701,511)
Working capital adjustments, net	(1,275,014)	(683,377)	(591,637)
Cash provided by (used in) operating activities	$ (2,830,238)	$ 462,910	$ (3,293,148)

During the third quarter of 2015, the net cash used in operating activities, excluding working capital adjustments, was $1,555,224, compared to net cash provided by operating activities of $1,146,287 during the third quarter of 2014, representing a variance of $2,701,511. The variance reflects a decrease in the cash component of net operating income of $1,542,018 and an increase in interest paid of $1,132,554.

The decrease in net operating income on a cash basis reflects the same circumstances as reflected above, namely a decline in occupancy and rental rates achieved by the Fort McMurray Portfolio. The increase in interest paid mainly reflects payment of the deferred interest on the revolving loan from 2668921 Manitoba Ltd., and an increase in the average balance outstanding during the third quarter of 2015, as well as an increase in interest as a result of the upward refinancing of Beck Court in the first quarter of 2015.

After providing for working capital adjustments, the net cash used in operating activities was $2,830,238 during the third quarter of 2015, compared to net cash provided by operating activities of $462,910 during the third quarter of 2014, representing a variance of $3,293,148.

Nine Months Comparatives

Cash from Operating Activities

	Nine Months Ended September 30 2015	Nine Months Ended September 30 2014	Increase (Decrease)
Net operating income			
Investment properties	$ 13,576,020	$ 16,532,671	$ (2,956,651)
Discontinued operations	1,111,978	1,019,455	92,523
Total net operating income	14,687,998	17,552,126	(2,864,128)
Accrued rent receivable	291,054	(520,339)	811,393
Net operating income - cash basis	14,979,052	17,031,787	(2,052,735)
Income recovery on Parsons Landing	-	98,499	(98,499)
Trust expense	(1,362,905)	(1,774,482)	411,577
Gain on debenture repurchases	(11,654)	-	(11,654)
Loss on warrant repurchases	-	79,742	(79,742)
Unit-based compensation	-	116,406	(116,406)
Trust expense - cash basis	(1,374,559)	(1,578,334)	203,775
Interest paid			
Investment properties	(15,083,183)	(14,569,086)	(514,097)
Discontinued operations	(701,494)	(558,067)	(143,427)
Total interest paid	(15,784,677)	(15,127,153)	(657,524)
Interest received	71,328	451,870	(380,542)
Interest expense - cash basis	(15,713,349)	(14,675,283)	(1,038,066)
Cash provided by (used in) operating activities, before working capital adjustments	(2,108,856)	876,669	(2,985,525)
Working capital adjustments, net	(502,448)	44,215	(546,663)
Cash provided by (used in) operating activities	$ (2,611,304)	$ 920,884	$ (3,532,188)

During the first nine months of 2015, the net cash used in operating activities, excluding working capital adjustments, was $2,108,856, compared to net cash provided by operating activities of $876,669 during the first nine months of 2014, representing a variance of $2,985,525. The variance mainly reflects a decrease in the cash component of net operating income of $2,052,735, an increase in interest paid of $657,524 and a decrease in interest received of $380,542, partially offset by a decrease in the cash component of trust expense of $203,775.

The decrease in net operating income on a cash basis and the increase in interest paid during the first nine months of 2015, compared to the first nine months of 2014, is mainly due to the same factors affecting the quarterly variances as explained in the preceding section. The decrease in interest received reflects the full repayment of mortgage loans receivable in the second quarter of 2014.

After providing for working capital adjustments, the net cash used in operating activities was $2,611,304 during the first nine months of 2015, compared to net cash provided by operating activities of $920,884 during the first nine months of 2014, representing a variance of $3,532,188.

Comparison to Second Quarter of 2015

Cash from Operating Activities

	Three Months Ended September 30 2015	Three Months Ended June 30 2015	Increase (Decrease)
Net operating income			
Investment properties	$ 4,266,094	$ 4,556,944	$ (290,850)
Discontinued operations	287,527	408,962	(121,435)
Total net operating income	4,553,621	4,965,906	(412,285)
Accrued rent receivable	35,188	108,521	(73,333)
Net operating income - cash basis	4,588,809	5,074,427	(485,618)
Trust expense	(512,363)	(458,683)	(53,680)
Gain on debenture repurchases	-	(5,678)	5,678
Trust expense - cash basis	(512,363)	(464,361)	(48,002)
Interest paid			
Investment properties	(5,423,239)	(5,236,352)	(186,887)
Discontinued operations	(230,760)	(235,690)	4,930
Total interest paid	(5,653,999)	(5,472,042)	(181,957)
Interest received	22,329	21,907	422
Interest expense - cash basis	(5,631,670)	(5,450,135)	(181,535)
Cash used in operating activities, before working capital adjustments	(1,555,224)	(840,069)	(715,155)
Working capital adjustments, net	(1,275,014)	1,351,141	(2,626,155)
Cash provided by (used in) operating activities	$ (2,830,238)	$ 511,072	$ (3,341,310)

During the third quarter of 2015, the net cash used in operating activities, excluding working capital adjustments, increased by $715,155 compared to the second quarter of 2015. The variance mainly reflects a decrease in the cash component of net operating income of $485,618 and an increase in interest paid of $181,957. The increase in interest paid mainly reflects the payment of interest and accrued interest on the revolving loan facility of $1,393,624, partially offset by the timing of interest payments on the Series G debentures as noted above.

During the third quarter of 2015, the net cash used in operating activities, after providing for working capital adjustments, was $2,830,238, compared to cash provided by operating activities of $511,072 during the second quarter of 2015, representing a variance of $3,341,310.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $291,129 during the first nine months 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 facility, proceeds and repayments of Shelter Canadian Properties Limited advances, 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 inflow of $1,823,801 during the first nine months of 2015. Investing activities that resulted in a cash inflow during the period include proceeds of sale of $2,441,375, a decrease in defeasance assets of $113,577, and a decrease in restricted cash of $77,338. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties, investment properties held for sale, and discontinued operations of $517,274, $171,356, and $119,859, respectively.

Subsequent to September 30, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000. The net proceeds of approximately $28,100,000, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13,500,000. The sale of Colony Square resulted in a capital gain of approximately $29,800,000. In order to reduce its taxable income for 2015 tax year to nil, LREIT intends to declare a special non-cash distribution.

A more detailed description of the special distribution and its tax implications is provided in the sections of the MD&A titled "Analysis of Cash Flows - Distributions" and "Taxation", respectively.

As a condition of the sale, LREIT agreed to place $1,540,000 in escrow on closing of the sale to cover rent and recoveries for any commercial space that was vacant as of the date of the sale. The amount in escrow will be released monthly to the purchaser while the commercial space remains vacant for a period of up to two years from the date of the sale. If the vacant commercial space is leased in accordance with the terms of the agreement, any remaining funds in escrow will be returned to LREIT.

Cash Flow Summary

During the first nine months of 2015, the net cash outflow from operating, financing and investing activities was $1,373,046. After providing for the opening cash balance of $1,963,735, LREIT completed the first nine months of 2015 with a cash balance of $590,689.

Adjusted Funds from Operations (AFFO)

LREIT considers "Adjusted Funds from Operations" ("AFFO") to be a meaningful additional measure of operating performance. AFFO is a non-IFRS financial measure widely used by the real estate industry. However, AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

AFFO estimates the sustainable cash distribution capacity and cash flows of a real estate investment trust, after providing for capital reinvestment transactions and adjusting for certain non-cash items.

A reconciliation between FFO and AFFO is provided in the chart below.

Adjusted Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Funds from operations (FFO)	$ (1,904,147)	$ (637,581)	$ (5,384,305)	$ (3,170,905)
Add (deduct):				
Straight-line rent adjustment	35,188	(311,872)	291,054	(520,339)
Accretion of debt component of mortgage bonds	-	49,712	213,774	822,666
Unit-based compensation	-	18,750	-	116,406
Change in fair value of interest rate swaps	-	440,729	159,295	283,303
Capital expenditures on investment properties	(146,883)	(762,700)	(517,274)	(1,682,825)
Capital expenditures on investment properties held for sale	-	-	(171,356)	-
Capital expenditures on property and equipment	(119,859)	(16,517)	(119,859)	(135,444)
Adjusted funds from operations (AFFO) *	$ (2,135,701)	$ (1,219,479)	$ (5,528,671)	$ (4,287,138)
AFFO per unit * - basic and diluted	$ (0.101)	$ (0.058)	$ (0.261)	$ (0.205)

* 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.

* AFFO does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating AFFO may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of AFFO is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements.

As disclosed in the preceding chart, LREIT completed the first nine months of 2015 with AFFO deficiency of $5,528,671, compared to AFFO deficiency of $4,287,138 during the first nine months of 2014. On a basic per unit basis, the AFFO deficiency increased by $0.056 per unit during the first nine months of 2015, compared to the first nine months of 2014.

A reconciliation between cash provided by operating activities and AFFO is provided in the chart below.

Reconciliation Between Cash Provided by (Used in) Operating Activities and Adjusted Funds from Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Cash provided by (used in) operating activities	$ (2,830,238)	$ 462,910	$ (2,611,304)	$ 920,884
Add (deduct):				
Working capital adjustments	1,275,014	683,377	502,448	(44,215)
Loss on warrant repurchases	-	(42,400)	-	(79,742)
Gain on debenture repurchases	-	-	11,654	-
Amortization of transaction costs	(612,221)	(768,742)	(2,241,599)	(2,485,392)
Differences in interest accruals	298,486	(775,407)	(381,381)	(780,404)
Capital expenditures on investment properties	(146,883)	(762,700)	(517,274)	(1,682,825)
Capital expenditures on investment properties held for sale	-	-	(171,356)	-
Capital expenditures on property and equipment	(119,859)	(16,517)	(119,859)	(135,444)
Adjusted funds from operations (AFFO) *	(2,135,701)	(1,219,479)	$ (5,528,671)	$ (4,287,138)

Distributions

Regular cash distributions are suspended given the debt reduction priorities and financial position of LREIT.

Special Distribution

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000, which resulted in a capital gain of approximately $29,800,000. In order to reduce its taxable income under the Income Tax Act for the 2015 taxation year to nil, it will be necessary for LREIT to declare a special distribution equal to the approximate $29,800,000 capital gain reduced by the application of LREIT's operating losses for the 2015 taxation year and non-capital losses carried forward from the 2014 taxation year. There being no cash available for the payment of the special distribution, payment of the whole amount is expected to be made, in accordance with paragraph 9.3 of LREIT's Declaration of Trust, by the issuance of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units will be consolidated so that each Unitholder will hold exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution. The "non-cash" distribution will be declared payable on December 31, 2015 to the Unitholders of record on December 31, 2015.

A detailed description of the tax implications is provided in the "Taxation" section of this report.

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements - General

Reduced development activity in the oil sands industry and the associated decline in rental market conditions in Fort McMurray have affected operating cash flow to the extent that LREIT requires ongoing additional sources of cash to fund the cash outflow from operating activities, as well as regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures. In addition, LREIT will periodically require additional capital in order to fund debenture interest payments and 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 sales proceeds from the sale of select properties and periodic credit support from Shelter and/or its parent company, 2668921 Manitoba Ltd., continue to 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 Shelter and/or 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

Working Capital

LREIT requires working capital for use in the day-to-day operations of the properties. Working capital is also a commonly used financial measurement of an entity's liquidity and ability to fund its short term obligations. It is generally derived by deducting current liabilities from current assets. 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.

As of September 30, 2015, the unrestricted cash balance of LREIT was $590,689 and the working capital deficit was $27,014,263, representing an increase in the working capital deficit of $14,298,455 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. and interest free advances from Shelter Canadian Properties Limited, as of September 30, 2015, of $18,000,000 and $8,900,000, respectively, are included in the calculation of the working capital deficit.

The increase in the working capital deficit reflects interest free advances from Shelter Canadian Properties Limited of $8,900,000, a $3,500,000 increase in the revolving loan balance, a $1,078,638 decrease in accounts receivable and a $1,373,046 reduction in cash. The increase in the working capital deficiency resulted in funds that were used as disclosed in the "Analysis of Cash Flows" section of this report.

Excluding the amount due on the revolving loan and interest free advances from Shelter Canadian Properties Limited, LREIT has a working capital deficit of $114,263 as of September 30, 2015.

As previously noted, subsequent to September 30, 2015, the Trust sold Colony Square for net cash proceeds of approximately $28,100,000. The net cash proceeds were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13,500,000.

Debt Service

Debt Service Coverage

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 nine months of 2015, the mortgage loan debt service coverage ratio was 0.53, compared to 0.98 during the first nine months of 2014 and 1.00 during the entire year in 2014. Excluding one-time mortgage principal payments on refinancing of $8,400,000 paid during the first nine months of 2015, the mortgage loan debt service coverage ratio was 0.76.

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 during the first nine months of 2015 reflects an increase in debt service costs and a decrease in operating income, compared to the first nine months of 2014.

Net Operating Income to Cash Component of Interest

As a percentage of the cash component of interest on mortgage loans, net operating income for both investment properties and discontinued operations decreased from 141% during the third quarter of 2014 to 96% during the third quarter of 2015.

After including the cash component of interest on mortgage bonds and debentures, the net operating income-to-interest ratio decreased to 85% during the third quarter of 2015, compared to 122% during the third quarter of 2014.

Debt Covenants

The Trust is in compliance with the debt service coverage requirements on all mortgage loans at September 30, 2015. At December 31, 2014, the Trust was in breach of debt service coverage requirements on three mortgage loans and a related interest rate swap liability.

Principal Maturities

A summary of the mortgage loan debt which matures during 2015 is provided in the "Capital Requirements" section below.

Capital Resources (Source of Funds)

The net proceeds from the sale of select properties, the revolving loan facility from 2668921 Manitoba Ltd. and interest free advances from Shelter Canadian Properties Limited represent the primary funding sources for any cash outflow from the operating, investing and financing activities of LREIT.

Proceeds from the Sale of Select Properties

Current divestiture activities focus on the sale of the two seniors' housing complexes and the sale of other properties as opportunities arise and with consideration of the overall cash needs of the Trust, as well as the completion of the condominium sales program for Lakewood Townhomes. The timing and terms of property sales is uncertain.

On April 1, 2015, LREIT finalized the sale of 156/204 East Lake Blvd., which is located in Airdrie, Alberta, for net cash proceeds of $2,441,375, after sales expenses and the assumption of the mortgage loan debt by the purchaser. Proceeds from the sale were used to pay down the revolving loan and for general working capital purposes.

As previously noted, on November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000. The net proceeds of approximately $28,100,000, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13,500,000. Additional information is provided in the "Analysis of Cash Flows - Investing Activities" and "Analysis of Cash Flows - Distributions" sections of this report.

Upward Refinancing of Mortgage Loans

Upward refinancing of mortgage loan debt was a source of funds for LREIT during 2015; however, the opportunity to complete future 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.

In April 2015, the first mortgage loan of Millennium Village was refinanced and a new loan secured by assets of 2668921 Manitoba Ltd. was obtained, resulting in net proceeds of approximately $2,680,742 after transaction costs. The net proceeds were used to fund the majority of a $3,000,000 repayment of a mortgage loan with a second secured charge over Millennium Village in exchange for discharge of the security.

In August 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3,300,000. The net proceeds from the upward refinancing of $1,624,086, after transaction costs, were used for general working capital purposes.

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

Revolving Loan Facility from 2668921 Manitoba Ltd.

LREIT utilizes advances made by 2668921 Manitoba Ltd. (the parent company of Shelter) under a revolving loan facility. Effective October 1, 2014, the revolving loan facility 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.

Effective July 1, 2015, the revolving loan facility was renewed for a three-year term at an interest rate of 12% with a maximum balance of $18,000,000. As of the date of this report, $13,500,000 is available under the revolving loan facility.

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan facility is included in mortgage loan interest.

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

Equity Offerings

LREIT may pursue equity offerings 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 September 30, 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 nine months 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, given that the exercise price of the warrants exceeds the current market price of the trust units, management does not currently anticipate that any warrants will be exercised prior to their expiry.

Capital Requirements (Use of Funds)

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 nine months of 2015 with a cash outflow from operating activities of $2,611,304 compared to a cash inflow of $920,884 in the first nine months of 2014.

Cash Outflow from Financing Activities

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for the remainder of 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	$ 275,245,676	$ 44,045,350	$ 119,929,257	$ 85,330,600	$ 25,940,469
Discontinued operations	14,244,413	4,244,413	10,000,000	-	-
Total mortgage loans	289,490,089	48,289,763	129,929,257	85,330,600	25,940,469
Debentures	24,810,800	-	-	24,810,800	-
Total	$ 314,300,889	$ 48,289,763	$ 129,929,257	$ 110,141,400	$ 25,940,469

Summary of Mortgage Loan Debt Due in 2015

The amount due for the remainder of 2015 for mortgage loans on investment properties of $44,045,350 consists of five mortgage loans, with maturity dates in 2015, in the aggregate amount of $42,739,188 and regular principal payments of $1,306,162 for other mortgage loans.

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

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

Subsequent to September 30, 2015, LREIT agreed to a renewal on one first mortgage loan with principal balance outstanding as of September 30, 2015 of $8,166,666. The renewal terms on the first mortgage loan required the repayment of the second mortgage loan in the principal amount of $3,000,000 on October 29, 2015. The principal payment was funded by additional advances from Shelter Canadian Properties Limited. If the above chart was adjusted to reflect the renewal terms and the principal payment, the total long-term debt due in 2015 would decrease to $37,373,096 and the total long-term debt due in 2016/2017 would increase to $137,845,924.

Principal Payments - Debentures and Mortgage Bonds

As of September 30, 2015, the total face value of the 9% Series G debentures is $24,810,800. 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 Shelter and/or its parent company 2668921 Manitoba Ltd. from time to time. 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 amounts owing to Shelter and/or its parent company 2668921 Manitoba Ltd.

LREIT has a NCIB in place for the Series G debentures. The previous NCIB provided for the repurchase of debentures by LREIT to a maximum principal amount of $2,476,380 during the twelve month period ended June 22, 2015. On June 30, 2015, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,470,080 of Series G debentures. The normal course issuer bid expires on June 29, 2016. 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 $63,000 at an average price of $79.11 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 nine months of 2015, funds in the amount of $554,548 were released from escrow following the completion of capital improvements and $144,350 of new cash deposits were added to mortgage and capital improvement reserves. As of September 30, 2015, cash deposits in escrow for capital expenditures amount to $368,843.

Cash Outfow from Investing Activities - Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $300,000 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 nine months of 2015 with a cash shortfall of $11,643,892, compared to a shortfall of $7,893,608 during the first nine months of 2014. LREIT is expected to incur an additional cash shortfall for the remainder of 2015 and will continue to require other sources of cash to meet its ongoing funding commitments.

Management expects that the proceeds from the sale of properties and upward refinancings, supplemented by advances on the revolving loan facility and other 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, $13,500,000 is available under the revolving loan facility.

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

CAPITAL STRUCTURE

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 continues to utilize the refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. In addition, as an interim source of funds, LREIT has obtained advances under a revolving loan facility from 2668921 Manitoba Ltd. and other periodic credit support from Shelter, as required.

Capital Structure

	September 30, 2015		December 31, 2014	
	Amount	%	Amount	%
Long-term debt	$ 162,830,148	49.2 %	$ 101,953,013	25.0 %
Current portion of long-term debt	138,060,562	41.7 %	210,073,719	51.5 %
Equity	29,981,354	9.1 %	95,890,624	23.5 %
Total capitalization	$ 330,872,064	100.0 %	$ 407,917,356	100.0 %

Long-term Debt

Overview

The long-term debt of LREIT includes mortgage loans, 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.

Pursuant to the terms of the Declaration of Trust, LREIT is not permitted to incur mortgage indebtedness if such indebtedness would result in the total mortgage loan indebtedness of LREIT exceeding 75% of the Appraised Value (as defined in the Declaration of Trust) of LREIT's total property portfolio.

As disclosed in the following chart, the total long-term debt of LREIT as of September 30, 2015 decreased by $11,194,527 or 3% compared to the total long-term debt as of December 31, 2014. The decrease mainly reflects the repayment of the remaining mortgage bond debt and interest rate swap liability, a decrease in mortgage loan debt, and an increase in unamortized transaction costs.

Summary of Long-term Debt

	September 30 2015	December 31 2014	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 275,245,676	$ 278,704,067	$ (3,458,391)
Interest rate swap liability	-	1,441,705	(1,441,705)
Mortgage bonds	-	5,786,226	(5,786,226)
Debentures	24,810,800	24,873,800	(63,000)
Defeased liability	2,537,093	2,584,460	(47,367)
Total secured long-term debt	302,593,569	313,390,258	(10,796,689)
Accrued interest payable	1,855,110	1,478,261	376,849
Unamortized transaction costs	(3,557,969)	(2,841,787)	(716,182)
Total long-term debt - Investment properties	300,890,710	312,026,732	(11,136,022)
Long-term debt - Discontinued operations			
Mortgage loans	14,244,413	14,376,467	(132,054)
Unamortized transaction costs	(4,125)	(77,674)	73,549
Total long-term debt - Discontinued operations	14,240,288	14,298,793	(58,505)
Total long-term debt	$ 315,130,998	$ 326,325,525	$ (11,194,527)

Mortgage Loans

Change in Total Mortgage Loan Debt

As of September 30, 2015, the total mortgage loan debt of LREIT decreased by $3,590,445 compared to the amount payable as of December 31, 2014. As disclosed in the following chart, the decrease is mainly attributable to regular repayments of principal, prepayment of mortgage loans and reduction of mortgage loans on sale of properties, partially offset by an increase in mortgage loan financing for investment properties.

	Nine Months Ended September 30, 2015		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 39,800,000	$ 39,800,000	$ -
Repayment of mortgage loans on refinancing	(33,614,684)	(33,614,684)	-
Net proceeds	6,185,316	6,185,316	-
Regular repayment of principal on mortgage loans	(5,292,501)	(5,160,447)	(132,054)
Prepayment of mortgage loans	(3,000,000)	(3,000,000)	-
Reduction of mortgage loans on sale of properties	(1,483,260)	(1,483,260)	-
Increase (decrease) in mortgage loans	(3,590,445)	(3,458,391)	(132,054)
Total mortgage loans - December 31, 2014	293,080,534	278,704,067	14,376,467
Total mortgage loans - September 30, 2015	$ 289,490,089	$ 275,245,676	$ 14,244,413

Net Proceeds of Mortgage Loan Financing

During the first quarter of 2015, the Trust upward refinanced Beck Court. Net proceeds after transaction costs amounted to $7,438,194, which were used to fully 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.

During the second quarter of 2015, the first mortgage loan of Millennium Village was refinanced with a new first mortgage loan of $13,000,000 and a $7,500,000 interest-only second mortgage loan secured by assets of 2668921 Manitoba Ltd. The net proceeds of the two loans were used to discharge the existing first mortgage loan and an associated interest rate swap liability and to reduce the balance of a loan with a second secured charge over Millennium Village by $3,000,000 in exchange for discharge of the security.

During the third quarter of 2015, the first mortgage loan of Westhaven Manor was upward refinanced with a new first mortgage loan of $3,300,000. The net proceeds from the upward refinancing of $1,624,086, after transaction costs, were used for general working capital purposes.

The repayment of mortgage loans on refinancing of $33,614,684 includes lump-sum principal payments paid in the second and third quarters of 2015 in the aggregate amount of $8,400,000 for the mortgage refinancing of three investment properties.

Regular Repayments of Principal

During the first nine months of 2015, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $5,292,501, compared to $4,252,977 during the first nine months of 2014.

The increase in regular principal repayments primarily reflects an increase in regular mortgage principal repayments for one mortgage loan that was previously interest-only prior to its renewal in the fourth quarter of 2014.

The decrease in mortgage loans for discontinued operations of $132,054 is entirely attributable to regular repayments of principal.

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount September 30, 2015	Percentage of Total
Investment Properties			
Fixed rate			
2015	3.5 %	$ 27,406,674	9.5 %
2016	9.2 %	7,589,159	2.6 %
2017	5.8 %	17,491,645	6.0 %
2018	4.1 %	59,445,395	20.5 %
2019	5.0 %	29,851,783	10.3 %
2022	4.0 %	15,778,934	5.4 %
2025	4.4 %	12,929,595	4.5 %
	4.6 %	170,493,185	58.8 %
Demand/variable rate	7.3 %	104,752,491	36.2 %
Principal amount		275,245,676	95.0 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	3.5 %
Demand/variable rate	4.9 %	4,244,413	1.5 %
Principal amount		14,244,413	5.0 %
Total		$ 289,490,089	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 September 30, 2015, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.6%, 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 3	Q 2	Q 1	Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.6%	4.6%	4.7%	4.7%
Variable rate mortgage loans	7.3%	7.6%	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%	6.3%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	79%	75%	70%	68%
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 *	85%	82%	75%	75%

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

* Excludes the revolving loan and advances from Shelter.

Debt Covenants

The Trust is in compliance with the debt service coverage requirements on all mortgage loans at September 30, 2015. At December 31, 2014, the Trust was in breach of debt service coverage requirements on three mortgage loans and a related interest rate swap liability.

Mortgage Loan Maturities

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

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

Mortgage Bonds

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

Debentures

As of September 30, 2015, LREIT has Series G debentures outstanding with a face value of $24,810,800, due June 30, 2018.

Equity - Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2014	20,252,386
- September 30, 2015	20,252,386
- November 9, 2015	20,252,386

As of September 30, 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 nine months of 2015, the fees payable to Shelter for investment properties included service fees of $949,583 and property management fees of $975,031, compared to $1,005,458 and $1,212,373, respectively, during the first nine months of 2014.

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 nine months of 2015, LREIT incurred service fees in regard to the condominium sales program of nil and renovation fees of nil, compared to nil and $24,932, respectively, during the first nine months of 2014.

Loans

Revolving loan

LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. As of September 30, 2015, the revolving loan facility 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 facility from January 1, 2014 is 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
July 1, 2015	June 30, 2018	25,000	12.00%	6,480,000	18,000,000

Effective July 1, 2015, the revolving loan facility from 2668921 Manitoba Ltd. was renewed and increased to a maximum of $18,000,000 at an interest rate of 12% to June 30, 2018, subject to a maximum interest payment of $6,480,000, plus the renewal fee. The renewal encompassed the payment of a $25,000 extension fee.

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.

During the first nine months of 2015, interest on the loan facility amounted to $1,393,624, compared to $1,021,422 during the first nine months of 2014.

During the third quarter of 2015, the Trust received advances of $3,000,000 and repaid nil on the revolving loan, resulting in a balance of $18,000,000 at September 30, 2015. Subsequent to September 30, 2015, the Trust received advances of nil and repaid $13,500,000, resulting in a balance of $4,500,000 as of the date of this report.

Interest free advances

During the third quarter of 2015, Shelter provided $8,900,000 of unsecured interest-free advances as an interim funding measure. LREIT made repayments of $2,500,000 resulting in an outstanding balance of $8,900,000 at September 30, 2015. Subsequent to September 30, 2015, the Trust received advances of $4,215,000 and repaid advances of $13,115,000, resulting in a balance of nil as of the date of this report.

Approval

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.

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 as a going concern, 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; the continued ability of the Trust to repay, renew or refinance debt at maturity; the periodic renewal of the revolving loan facility from 2668921 Manitoba Ltd.; and/or the continued availability of other 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 extent of future oil sands development activity. A further delay of recovery or slowdown of development activity in the oil sands industry would continue to 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 25 properties under its divestiture program to the date of this report, has repaid, renewed or refinanced all mortgage loans which have matured as of the date of this report, 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 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 tenant 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 Facility From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan facility from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval and the willingness/ability of 2668921 Manitoba Ltd. to advance funds, as required. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary depending on the cash requirements of the Trust.

Credit Support from Shelter

Shelter has provided LREIT with interim funding on a periodic basis. 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 other sources and the cash requirements of the Trust.

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 order to address the reduction in operating cash flow and the constraints on working capital which resulted from the economic downturn in 2008/2009, LREIT initiated a divestiture program in 2009, with the objective of generating gross proceeds of $250 Million from the sale of selected properties. Since the inception of the divestiture program to September 30, 2015, LREIT has sold 24 properties and 17 condominium units at a combined gross selling price of $264,800,100. Notwithstanding the achievement of generating gross proceeds in excess of the targeted amount, the divestiture program continues to remain in effect as part of LREIT's strategy to address the current operating cash flow and working capital constraints which have resulted from the decline in the rental market conditions of Fort McMurray that began in the fourth quarter of 2014. The purpose of the divestiture program is to reduce total debt, including debenture debt and higher cost mortgage loan financing, and to generate sufficient cash flow in order to enable LREIT to meet its ongoing funding obligations as well as to restore working capital.

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

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000. The net proceeds of approximately $28,100,000, after the assumption of the mortgage loan by the purchaser, selling costs, amounts held in escrow and standard closing adjustments, were used to improve working capital by fully repaying operating advances from Shelter and reducing the revolving loan balance outstanding by $13,500,000. Additional information is provided in the "Analysis of Cash Flows - Investing Activities" section of this report.

Current divestiture activities focus on the sale of the two seniors' housing complexes and the sale of other properties as opportunities arise and with consideration of the overall cash needs of the Trust, as well as the completion of the condominium sales program for Lakewood Townhomes.

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 September 30, 2015, there were 21 properties in the real estate portfolio of LREIT comprised of 19 properties in the investment property portfolio, including one property held for sale and two seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of 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. 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 $230,978,507, which represents approximately 67% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 66% of investment property revenue and 68% of the net operating income during the first nine months 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 decline in oil prices that began in the fourth quarter of 2014 has resulted in a slowdown of oil sands development activity and created a higher level of uncertainty in regard to the timing and extent of future development in the oil sands industry.

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 has resulted in a tightening of mortgage lending conditions for properties located in Fort McMurray. Although management expects to be able to renew or refinance mortgage loan debt as it matures, the upward refinancing potential of LREIT's mortgage loan portfolio is limited by the extent to which the existing property portfolio is leveraged and by the 75% maximum mortgage loan debt-to-appraised value restriction, pursuant to the terms of the Declaration of Trust. Additional decreases in the appraised value of properties located in Fort McMurray and/or increased tightening of mortgage loan lending conditions in the region would further reduce the upward refinancing potential of LREIT's mortgage loan portfolio.

Mortgage Maturities

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

Debt Covenants

As previously disclosed in this report, the Trust is in compliance with the debt service coverage requirements on all mortgage loans at September 30, 2015. At December 31, 2014, the Trust was in breach of debt service coverage requirements on three mortgage loans and a related interest rate swap liability.

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.

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.

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 September 30, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to this credit risk, is $54,206,728 (December 31, 2014 - $64,874,902) 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.

Other

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

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 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.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements are based on IFRS standards issued and effective as of the date of this report.

Future Changes In Accounting Policies

The following new or amended standards have been issued by the International Accounting Standards Board. The new standards are not expected to have an impact on shareholders' equity or net income, but may have a presentation impact on the financial statements.

- IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted.

- IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts and IAS18 - Revenue, as well as various IFRIC and SIC interpretations; specifies the steps and timing for entities to recognize revenue from contracts, excluding lease contracts; enhances disclosure requirements; and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

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.

On November 1, 2015, LREIT sold Colony Square located in Winnipeg, Manitoba for gross proceeds of $70,250,000, which resulted in a capital gain of approximately $29,800,000. In order to reduce its taxable income under the Income Tax Act for the 2015 taxation year to nil, it will be necessary for LREIT to declare a special distribution equal to the approximate $29,800,000 capital gain reduced by the application of LREIT's operating losses for the 2015 taxation year and non-capital losses carried forward from the 2014 taxation year. There being no cash available for the payment of the special distribution, payment of the whole amount is expected to be made, in accordance with paragraph 9.3 of LREIT's Declaration of Trust, by the issuance of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units will be consolidated so that each Unitholder will hold exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution. The "non-cash" distribution will be declared payable on December 31, 2015 to the Unitholders of record on December 31, 2015.

A detailed description of the tax implications of the special distribution for Unitholders is provided in the section of this report titled "Taxation of Unitholders"

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.

As noted above, in order to prevent LREIT from having taxable income under the Income Tax Act for the 2015 taxation year with respect to the sale of Colony Square, it will be necessary for LREIT to declare a special distribution in the form of additional trust units based on the closing market price of the trust units on December 31, 2015. Immediately following the special distribution, the number of outstanding trust units will be consolidated so that each Unitholder will hold exactly the same number of trust units after the consolidation as each Unitholder held immediately prior to the special distribution. The "non-cash" distribution is expected to be declared payable on December 31, 2015 to the Unitholders of record on December 31, 2015.

LREIT recommends that Unitholders consult their own tax advisers regarding the income tax consequences of the special distribution. However, LREIT expects that a Unitholder of record on the record date of the special distribution which is a resident of Canada and holds trust units as capital property for Canadian income tax purposes shall be required to include in computing its income for Canadian income tax purposes for its taxation year that includes December 31, 2015, its proportionate share of LREIT's net taxable capital gains for 2015 (estimated on the date hereof to be approximately $14.8 Million or approximately $0.73078 per unit) reduced by the application of LREIT's operating losses for the 2015 taxation year and non-capital losses carried forward from the 2014 taxation year which are available to offset the taxable portion of the capital gain. Furthermore, LREIT expects that the adjusted cost base to such a Unitholder of those trust units for Canadian income tax purposes immediately after the special distribution shall be increased by the Unitholder's proportionate share of the special distribution. LREIT cautions that the foregoing comments are not intended and should not be construed to be legal or tax advice to any particular Unitholder.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the first nine months 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 Third 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
November 9, 2015

SCHEDULE I

Real Estate Portfolio as of September 30, 2015

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2015
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	56 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	63 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	58 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	52 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	62 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	62 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	61 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	66 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	30 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	50 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	49 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	73 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	96 %
Westhaven Manor	Edson	4,050,000	May 2007	48	81 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	77 %
Colony Square (3)	Winnipeg	29,907,700	October 2008	428	97 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	96 %
Total - Residential		**360,822,188**	Total suites	**1,917**	
COMMERCIAL					
Retail and Office					
Colony Square (3)	Winnipeg	7,931,600	October 2008	83,190	63 %
Total - Commercial		**7,931,600**	Total leasable area	**83,190**	
Total investment properties		**368,753,788**			
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	78 %
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		**$ 394,475,788**			

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of September 30, 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. The property was sold on November 1, 2015.