LANESBOROUGH REIT

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

SEPTEMBER 30, 2018

TABLE OF CONTENTS

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS

MD&A OVERVIEW AND ADVISORIES

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

Financial Statements

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

Forward-Looking Information

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

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

Purchase Price Information

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

UNIT TRADING PRICE

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

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

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2018

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

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

Real Estate Portfolio as of September 30, 2018

Property Segments	Number of Properties	Purchase Price	Number of Suites	Average Occupancy
Fort McMurray	12	$ 260,587,720	973	69 %
Other	3	12,250,000	197	67 %
Held for Sale	1	36,449,486	103	54 %
Total - Investment Properties	16	**309,287,206**	**1,273**	68 %
Discontinued Operations	1	**7,600,000**	**93**	69 %
Total Real Estate Portfolio	17	**$ 316,887,206**	**1,366**	68 %

During the third quarter of 2018, LREIT sold one condominium unit in Woodland Park with a purchase price of $353,879, reducing the number of suites in the Held for Sale segment from 104 to 103.

During the third quarter of 2018, LREIT sold one condominium unit in Lakewood Townhomes with a purchase price of $396,442, reducing the number of suites in the Fort McMurray segment from 974 to 973.

ANALYSIS OF OPERATING RESULTS

Analysis of Loss

	Three Months Ended September 30				Nine Months Ended September 30	
			Increase (Decrease) in Income			
	2018	2017	Amount	%	2018	2017
Rentals from investment properties	$ 4,339,380	$ 4,832,286	$ (492,906)	(10)%	$ 13,256,357	$ 14,357,394
Property operating costs	(2,752,790)	(2,502,925)	(249,865)	(10)%	(8,399,853)	(7,321,776)
Net operating income	1,586,590	2,329,361	(742,771)	(32)%	4,856,504	7,035,618
Interest income	50,533	47,409	3,124	7 %	151,117	137,633
Interest expense	(3,832,627)	(3,121,665)	(710,962)	(23)%	(11,228,450)	(10,521,673)
Trust expense	(299,655)	(358,399)	58,744	16 %	(1,003,102)	(1,131,367)
Loss before the following	(2,495,159)	(1,103,294)	(1,391,865)	(126)%	(7,223,931)	(4,479,789)
Gain (loss) on sale of investment property	(53,042)	-	(53,042)	n/a	(136,001)	58,377
Fair value adjustments	(10,120,070)	(5,755,545)	(4,364,525)	(76)%	(33,625,457)	(16,028,631)
Loss before discontinued operations	(12,668,271)	(6,858,839)	(5,809,432)	(85)%	(40,985,389)	(20,450,043)
Income (loss) from discontinued operations	(160,051)	16,374	(176,425)	1,077 %	(338,513)	51,921
Loss and comprehensive loss	$(12,828,322)	$(6,842,465)	$(5,985,857)	(87)%	$(41,323,902)	$(20,398,122)

Overall Results

LREIT completed the third quarter of 2018 with a loss and comprehensive loss of $12,828,322, compared to a loss and comprehensive loss of $6,842,465 during the third quarter of 2017. The increase in the loss mainly reflects unfavourable variances in the fair value adjustments of the investment properties and the investment property classified as held for sale of $4,364,525, as well as a decrease in net operating income of $742,771 and an increase in interest expense of $710,962.

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

The decrease in net operating income reflects a decrease in rental revenue of $492,906 and an increase in operating costs of $249,865. The decrease in rental revenue is mainly due to a decrease in occupancy and a decrease in the average rental rates experienced by the Trust's properties located in Fort McMurray, inclusive of Woodland Park, the property that is classified as held for sale. The increase in property operating costs is mainly due to an increase in utility costs and increase in insurance premiums; partially offset by a reduction in property taxes. Also contributing to the increase in property operating costs is an increase in the property operating costs for the held for sale and/or sold properties primarily as a result of certain fees paid to the condominium corporation established as part of the Woodland Park Condominium Sales Program.

The increase in interest expense mainly reflects an increase in revolving loan interest, due to an increase in the average outstanding balance of the revolving loan and the higher rate of interest that applies to revolving loan advances in excess of $30,000,000, as well as an increase in the amortization of transaction costs.

Funds from Operations (FFO)

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

LREIT completed the third quarter of 2018 with negative FFO of $2,655,210, compared to negative FFO of $1,086,920 during the third quarter of 2017, representing a decrease in FFO of $1,568,290.

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

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

Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Loss and comprehensive loss	$ (12,828,322)	$ (6,842,465)	$ (41,323,902)	$ (20,398,122)
Add (deduct):				
Loss (gain) on sale of investment property	53,042	-	136,001	(58,377)
Fair value adjustments	10,120,070	5,755,545	33,625,457	16,028,631
Funds from operations (FFO) *	$ (2,655,210)	$ (1,086,920)	$ (7,562,444)	$ (4,427,868)

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

Revenues

Rental Revenues

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

Analysis of Rental Revenue

	Three Months Ended September 30				Nine Months Ended September 30	
			Increase (Decrease)			
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 3,578,356	$ 3,846,043	$ (267,687)	(7)%	$ 10,927,709	$ 11,217,079
Other investment properties	366,387	391,653	(25,266)	(6)%	1,154,212	1,165,871
Sub-total	3,944,743	4,237,696	(292,953)	(7)%	12,081,921	12,382,950
Held for sale and/or sold properties (1)	394,637	594,590	(199,953)	(34)%	1,174,436	1,974,444
Total	$ 4,339,380	$ 4,832,286	$ (492,906)	(10)%	$ 13,256,357	$ 14,357,394

Average Occupancy Level, by Quarter (2)

	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fort McMurray properties	68 %	71 %	73 %	72 %	69 %	72 %	71 %
Other investment properties	71 %	73 %	73 %	75 %	77 %	68 %	68 %
Total	68 %	72 %	73 %	72 %	70 %	71 %	70 %
Held for sale and/or sold properties (1)	79 %	79 %	69 %	61 %	46 %	51 %	53 %

Average Monthly Rents, by Quarter

	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fort McMurray properties	$1,684	$1,707	$1,711	$1,697	$1,685	$1,650	$1,618
Other investment properties	$909	$909	$903	$905	$907	$909	$909
Total	$1,554	$1,573	$1,575	$1,563	$1,554	$1,525	$1,499
Held for sale and/or sold properties (1)	$2,593	$2,611	$2,597	$2,549	$2,484	$2,258	$2,201

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

During the third quarter of 2018, total investment property revenue, excluding held for sale and/or sold properties, decreased by $292,953 or 7%, compared to the third quarter of 2017. The decrease mainly reflects a decrease in the average rental rate of the Fort McMurray property portfolio, due to the turnover of leases that had commenced shortly after the May 2016 wildfire when higher rental rates were achievable. The Fort McMurray property portfolio also experienced reduced occupancy as the average occupancy declined from 73% during the third quarter of 2017 to 71% during the third quarter of 2018.

During the third quarter of 2018, revenue from the held for sale and/or sold properties decreased by $199,953 or 34%, compared to the third quarter of 2017. The decrease in revenue from held for sale and/or sold properties was due to a decrease in the average occupancy level and the average rental rate of Woodland Park, the property classified as held for sale.

The decrease in the average occupancy level of Woodland Park is mainly due to the transfer of two corporate tenants to other LREIT properties that offered lower rental rates or were closer to urban amenities, and due to the departure of tenants that were awaiting the reconstruction of their homes following the May 2016 wildfire. The Woodland Park property had a relatively high proportion of tenants awaiting the reconstruction of their homes as a result of the property's townhome offering and proximity to an area of Fort McMurray where a substantial number of homes were damaged or destroyed by the wildfire.

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

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30				Nine Months Ended September 30	
			Increase (Decrease)			
	2018	2017	Amount	%	2018	2017
Fort McMurray properties	$ 2,158,553	$ 2,022,164	$ 136,389	7 %	$ 6,511,676	$ 5,765,782
Other investment properties	253,324	292,522	(39,198)	(13)%	999,394	897,477
Sub-total	2,411,877	2,314,686	97,191	4 %	7,511,070	6,663,259
Held for sale and/or sold properties	340,913	188,239	152,674	81 %	888,783	658,517
Total	$ 2,752,790	$ 2,502,925	$ 249,865	10 %	$ 8,399,853	$ 7,321,776

During the third quarter of 2018, property operating costs, excluding the held for sale and/or sold properties, increased by $97,191 or 4%, compared to the third quarter of 2017. The increase is mainly due to an increase in utility costs, primarily due to an increase in the number of all inclusive leases and an increase in insurance premiums, partially offset by a reduction in property taxes as a result of a successful appeal of the assessed values of certain properties in LREIT's Fort McMurray portfolio.

After accounting for held for sale and/or sold properties, property operating costs increased by $249,865 or 10% during the third quarter of 2018, compared to the third quarter of 2017. The increase in operating costs of the held for sale and/or sold properties of $152,674 is primarily due to condominium fees paid by LREIT for its portion of ownership of Woodland Park, the property held for sale, inclusive of capital replacement reserve fees paid to address future capital expenditures that would have been capitalized when incurred prior to the establishment of the condominium sales program.

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			
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 1,419,803	$ 1,823,879	$ (404,076)	(22)%	89 %	78 %	40 %	47 %
Other investment properties	113,063	99,131	13,932	14 %	7 %	4 %	31 %	25 %
Sub-total	1,532,866	1,923,010	(390,144)	(20)%	96 %	82 %	39 %	45 %
Held for sale and/or sold properties	53,724	406,351	(352,627)	(87)%	3 %	17 %	14 %	68 %
Total	$ 1,586,590	$ 2,329,361	$ (742,771)	(32)%	100 %	100 %	37 %	48 %

Analysis of Net Operating Income

	Net Operating Income						Operating Margin *	
	Nine Months Ended September 30		Increase (Decrease)		Percent of Total			
	2018	2017	Amount	%	2018	2017	2018	2017
Fort McMurray properties	$ 4,416,033	$ 5,451,297	$ (1,035,264)	(19)%	91 %	77 %	40 %	49 %
Other investment properties	154,818	268,394	(113,576)	(42)%	3 %	4 %	13 %	23 %
Sub-total	4,570,851	5,719,691	(1,148,840)	(20)%	94 %	81 %	38 %	46 %
Held for sale and/or sold properties	285,653	1,315,927	(1,030,274)	(78)%	6 %	19 %	24 %	67 %
Total	$ 4,856,504	$ 7,035,618	$ (2,179,114)	(31)%	100 %	100 %	37 %	49 %

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

During the third quarter of 2018, the net operating income for the investment properties portfolio, excluding held for sale and/or sold properties, decreased by $390,144 or 20%, compared to the third quarter of 2017. The operating margin, excluding held for sale and/or sold properties, decreased from 45% during the third quarter of 2017 to 39% during the third quarter of 2018. The decreases in net operating income and operating margin, excluding held for sale and/or sold properties, are primarily due to the decrease in revenue and the increase in the property operating costs of the Fort McMurray property portfolio, as discussed in the preceding section of the report.

The decrease in net operating income from held for sale and/or sold properties of $352,627 or 87% is due to the decrease in revenue and the increase in operating costs of Woodland Park, as discussed in the preceding section of the report. After accounting for held for sale and/or sold properties, the total net operating income of LREIT decreased by $742,771 or 32% during the third quarter of 2018, compared to the third quarter of 2017.

Interest Expense

During the third quarter of 2018, interest expense increased by $710,962 or 23%, compared to the third quarter of 2017. The increase mainly reflects an increase in the cash component of interest expense of the revolving loan in the amount of $324,361 and an increase in the amortization of transaction costs in the amount of $388,248.

The increase in the cash component of interest expense of the revolving loan is due to the higher average outstanding balance under the revolving loan facility during the third quarter of 2018, compared to the third quarter of 2017 and the higher interest rate of 7% that applies to amounts advanced in excess of $30,000,000.

The increase in the amortization of transaction costs is mainly due to the fact that amortization expense was comparatively low during the third quarter of 2017 as a result of adjustments made during the quarter to reflect the reduction of forbearance fees related to the mortgage secured by the property classified as held for sale. The increase in the amortization of transaction costs is also due to the recognition and amortization of transaction costs related to refinancing and forbearance agreements obtained during the first nine months of 2018 with respect to seven mortgage loans secured by ten properties.

The weighted average interest rate on mortgage loan debt was 5.8% as at September 30, 2018, compared to 5.5% as at December 31, 2017 and 6.0% as at September 30, 2017.

Fair Value Adjustments

Investment Properties

During the third quarter of 2018, LREIT recorded a loss related to fair value adjustments on its investment properties and investment properties held for sale of $10,120,070, compared to a loss related to fair value adjustments of $5,755,545 during the third quarter of 2017, representing a variance of $4,364,525.

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

After accounting for fair value adjustments, dispositions, and capital expenditures, the carrying value of investment properties and investment properties held for sale decreased by $28,152,969 and $6,621,585, respectively, during the first nine months of 2018.

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Three Months Ended September 30				Nine Months Ended September 30	
			Increase (Decrease) in Income			
	2018	2017	Amount	%	2018	2017
Rental income	$ 408,584	$ 384,870	$ 23,714	6 %	$ 1,142,078	$ 1,240,247
Property operating costs	(518,180)	(325,421)	(192,759)	(59)%	(1,325,397)	(1,052,953)
Net operating income (loss)	(109,596)	59,449	(169,045)	(284)%	(183,319)	187,294
Interest expense	(46,649)	(43,075)	(3,574)	(8)%	(151,388)	(135,373)
Fair value adjustments	(3,806)	-	(3,806)	n/a	(3,806)	-
Income (loss) from discontinued operations	$ (160,051)	$ 16,374	$ (176,425)	1,077 %	$ (338,513)	$ 51,921

During the third quarter of 2018, the loss from discontinued operations was $160,051, compared to income from discontinued operations of $16,374 during the third quarter of 2017, representing a decrease in income of $176,425. The decrease mainly reflects an increase in property operating costs, due to an increase in wages and professional fees. During 2018 a review of the operations of the seniors' housing complex was conducted together with an external consultant, which resulted in a change to the management and strategy of the property. In order to increase the revenue potential of the property and its attractiveness to prospective buyers, a coordinated effort is underway to expand the facility's intermediate care offerings and to enhance the level of care and services provided.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Analysis

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

Cash Used in Operating Activities

During the third quarter of 2018, the net cash used in operating activities, before working capital adjustments, increased by $802,482, compared to the third quarter of 2017. The unfavourable variance mainly reflects a decrease in the net operating income on a cash basis, including discontinued operations, of $964,837, primarily as a result of factors described in the "Net Operating Income and Operating Margin" section of this report and partially offset by the decrease in interest paid of $99,064, primarily as a result of the full deferral of interest payments on the revolving loan facility during the third quarter of 2018.

Cash Used in Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a net cash inflow of $1,098,096 during the third quarter of 2018. The net cash inflow primarily reflects the proceeds of the revolving loan facility, partially offset by the repayment of the unsecured loan advances from Shelter, the repayment of long-term debt, and the repayment of mortgage loans on refinancing.

Revolving Loan and Advances from Shelter

During the third quarter of 2018, advances under the revolving loan facility amounted to $18,900,000 and were used to repay the unsecured loan advances from Shelter in the full amount of $15,100,000 and to fund the cash used in operating activities, the cash used in investing activities and the financing activity outflows discussed in this section.

Repayment of Long-term Debt

During the third quarter of 2018, the repayment of long-term debt for both investment properties and discontinued operations amounted to $2,101,275, compared to $873,390 during the third quarter of 2017. Included in repayment of long-term debt during the third quarter of 2018 were lump-sum payments in the total amount of $1,083,000, which were required under the terms of five mortgage loans with an aggregate principal balance of $65,181,440 as at September 30, 2018.

Repayment of Mortgage Loan on Refinancing

During the third quarter of 2018, a lump sum principal repayment in the amount of $500,000 was made upon the renewal of one mortgage loan, reducing the principal amount of the mortgage loan to $2,102,721 as at September 30, 2018.

Cash Used in Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $291,224 during the third quarter of 2018, compared to a net cash outflow of $39,921 during the third quarter of 2017. The net cash outflow during the third quarter of 2018 primarily reflects the cost of capital expenditures.

During the third quarter of 2018, capital expenditures on investment properties, including investment properties held for sale and capital expenditures on property and equipment related to the seniors' housing complex, remained focused on sustaining capital expenditures and amounted to $303,214, as compared to $326,073 during the third quarter of 2017.

During the third quarter of 2018, the Trust sold two condominium units, one unit at Woodland Park and one unit at Lakewood Townhomes, for aggregate gross proceeds of $607,500. The combined sales resulted in a net cash shortfall of $9,812 after accounting for selling costs of $59,232 and mortgage loan repayments of $558,080 relating to such sales.

Cash Shortfall

After accounting for the cash used in operating activities, regular payments of debt, transaction costs for debt financing, and capital expenditures, LREIT completed the third quarter of 2018 with a cash shortfall of $3,844,991, compared to a cash shortfall of $1,635,938 during the third quarter of 2017. LREIT is expected to incur an additional cash shortfall during the remainder of 2018.

Working Capital

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

As of September 30, 2018, the working capital deficit was $1,474,902, compared to a working capital deficit of $402,631 as at December 31, 2017, representing an increase in the working capital deficit of $1,072,271.

The increase in the working capital deficit mainly reflects a $1,194,525 decrease in cash and a $1,096,745 increase in the current portion of accrued interest and fees, partially offset by a $904,146 decrease in trade and other payables, mainly attributable to the reclassification of mortgage loan servicing fees from accounts payable to long-term debt and current portion of long-term debt.

Debt Service

Debt Service Coverage

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

Interest Coverage Ratio

The ratio of net operating income to the cash component of interest on mortgage loans assesses LREIT's ability to pay mortgage loan interest out of net operating income, including discontinued operations. During the third quarter of 2018, the interest coverage ratio decreased to 0.57, compared to 0.92 during the third quarter of 2017. After accounting for the cash component of interest on the revolving loan facility, Shelter advances, and debentures, the interest coverage ratio was 0.41 during the third quarter of 2018, compared to 0.73 during the third quarter of 2017.

The decreases in the debt service coverage ratio and interest coverage ratio during the third quarter of 2018, compared to the third quarter of 2017, are mainly due to a decrease in net operating income. The decrease in the interest coverage ratio during the third quarter of 2018, inclusive of the cash component of interest on the revolving loan facility, Shelter advances and debentures, was also impacted by the increase in the cash component of interest on the revolving loan facility.

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

Loan Defaults

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

As of September 30, 2018, the Trust was in default of a mortgage loan with a principal balance of $27,637,122 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan remains in default. The estimated maximum service fee related to this mortgage is $394,448 and is reflected in the current portion of long-term debt as part of the current portion of accrued interest and fees on the Statement of Financial Position. LREIT continues to meet the debt service obligations of the mortgage loan in default and the lender has taken no action to demand repayment or enforce its security under the loan.

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

Composition of Debt

	September 30 2018	%	December 31 2017	%
Debt (1)				
Mortgage loans	$ 179,050,323	69.5 %	$ 187,206,443	76.4 %
Revolving loan from 2668921 Manitoba Ltd.	48,900,000	19.0 %	30,000,000	12.3 %
Debentures	24,810,800	9.6 %	24,810,800	10.1 %
Total debt	252,761,123	98.1 %	242,017,243	98.8 %
Accrued interest and fees payable (2)	6,300,816	2.4 %	3,846,114	1.6 %
Unamortized transaction costs	(1,337,580)	(0.5)%	(970,862)	(0.4)%
Total debt (1)	$ 257,724,359	100.0 %	$ 244,892,495	100.0 %

(1) Excludes debt of discontinued operations.

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

Contractual Obligations

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

Summary of Contractual Obligations

Payments Due by Period	Total	Remainder of 2018	2019/2020	2021/2022	2023 and beyond
Mortgage loans (1)	$ 179,050,323	$ 31,442,481	$ 122,730,280	$ 13,762,715	$ 11,114,847
Revolving loan (2)	48,900,000	48,900,000	-	-	-
Debentures (3)	24,810,800	-	-	24,810,800	-
Total debt	252,761,123	80,342,481	122,730,280	38,573,515	11,114,847
Liabilities held for sale Discontinued operations	3,381,065	3,381,065	-	-	-
Total contractual obligations	$ 256,142,188	$ 83,723,546	$ 122,730,280	$ 38,573,515	$ 11,114,847

(1) As at September 30, 2018, four loan agreements and a forbearance agreement had been negotiated with the lenders of five mortgage loans affecting five properties in Fort McMurray such that the monthly debt service payments will be less than the interest expense for the balance of the mortgage term. The mortgages mature at various dates up to December 1, 2020. Over the period from October 1, 2018 to maturity, $4,021,318 of accrued interest and fees is expected to be incurred and added to the outstanding mortgage principal.

(2) The revolving loan matured on June 30, 2018 and was amended to extend the maturity date to December 31, 2019. The renewal encompassed an increase in the interest rate from 5% to 7% on any additional advances above $30,000,000 and increased the limit on the maximum that may be advanced under the facility to $100,000,000.

(3) The Series G debentures bear interest at 5.0% and mature on June 30, 2022. The cumulative accrued interest on the Series G debentures is $3,969,728 and is due at maturity.

The investment property mortgage loan payments presented as due during the remainder of 2018 in the above chart, in the aggregate principal amount of $31,442,481, are comprised of three mortgage loans which mature during 2018 in the aggregate principal amount of $29,729,896, and regular principal payments of $1,712,585.

If the mortgage loan with a principal balance of $27,637,122, which is classified as being in default as of the date of this report was to be called by the lender in 2018, total long-term debt due in the table above would increase to $111,160,873 in 2018, $95,292,953 in 2019/2020, and remain the same in 2021 and beyond.

The Trust has renewed, refinanced, or obtained forbearance agreements for all mortgage loan debt as of September 30, 2018, except for one mortgage loan with a principal balance of $3,381,065, which is secured by the property classified as discontinued operations and is overholding past its maturity date pending completion of the annual credit review.

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

Capital Resources

The revolving loan facility from 2668921 Manitoba Ltd. represents the primary funding source for any cash shortfall from the operating, investing, and financing activities of LREIT. The net proceeds from property sales must be applied to prepay the principal amount of the Series G Debentures after the repayment of mortgage loan indebtedness, any amounts owing to 2668921 Manitoba Ltd. under the revolving loan facility, and any other amounts owing to 2668921 Manitoba Ltd. or its affiliates, including Shelter. Repayments to 2668921 Manitoba Ltd. from the net proceeds of the sale of properties, in effect, serve to facilitate the advancing of additional funds. All funds advanced under the revolving loan facility are made at the discretion of 2668921 Manitoba Ltd. and are subject to the ability and willingness of 2668921 Manitoba Ltd. to provide further advances.

Revolving Loan Facility from 2668921 Manitoba Ltd.

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

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

At September 30, 2018, the maximum available principal balance on the revolving loan facility was $51,100,000.

Subsequent to September 30, 2018, an additional $1,500,000 was advanced under the revolving loan facility from 2668921 Manitoba Ltd. and was used to fund operations.

Advances from Shelter

During the nine months ended September 30, 2018, Shelter provided unsecured loan advances in the total amount of $9,100,000, the terms of which provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility.

During the third quarter of 2018, the unsecured loan, in the amount of $15,100,000, was paid in full using the proceeds of additional advances under the revolving loan facility.

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

Proceeds from the Sale of Select Properties

Current divestiture activities are focused on the sale of the remaining seniors' housing complex, Chateau St. Michael's; condominium units as part of the Lakewood Townhomes condominium sales program; and the property classified as held for sale, Woodland Park, inclusive of the condominium sales program for the remaining 27 townhouses that comprise part of the property. The sale of other properties will also be considered as opportunities are identified and with consideration of the overall cash needs and debt reduction requirements of the Trust. The timing and terms of property sales is uncertain.

Capital Structure

Capital Structure

	September 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Long-term debt	$ 135,831,190	75.6 %	$ 58,585,292	28.1 %
Current portion of long-term debt	121,893,169	67.8 %	186,307,203	89.5 %
Deficit	(77,965,727)	(43.4)%	(36,641,825)	(2.0)%
Total capitalization	$ 179,758,632	100.0 %	$ 208,250,670	115.6 %

As previously reported, the Declaration of Trust no longer restricts the incurrence or assumption of additional mortgage indebtedness to a maximum indebtedness-to-appraised value ratio of 75%. As a result, the Trust was able to amend and renew the revolving loan facility with 2668921 Manitoba Ltd., which continues to be the primary source of funding for any cash shortfall in the Trust's operating, investing, and financing activities. Additional information regarding the terms of the revolving loan facility is provided in the "Capital Resources" section of the report.

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount Payable	Percentage of Total
Investment Properties			
Fixed rate debt			
2018	3.5 %	$ 24,605,023	13.5 %
2019	5.7 %	47,289,296	25.9 %
2020	6.0 %	2,102,721	1.2 %
2021	5.0 %	15,880,585	8.7 %
2025	4.4 %	12,247,607	6.7 %
Total fixed rate debt	4.9 %	102,125,232	56.0 %
Variable rate debt	6.9 %	76,925,091	42.2 %
Total	5.8 %	179,050,323	98.2 %
Discontinued Operations			
Variable rate debt	5.7 %	3,381,065	1.9 %
Total	5.7 %	$ 182,431,388	100.0 %

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

(2) As of September 30, 2018, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.8%, 5.7% and 5.7%, respectively, compared to 5.5%, 5.2% and 5.5%, respectively, at December 31, 2017.

Debt to Carrying Value

	2018 Q3	2017 Q3
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations (1)	103 %	87 %
Ratio of mortgage loans, 2668921 Manitoba Ltd. revolving loan and debentures (at face value) compared to carrying value of income-producing properties and discontinued operations (1)	144 %	112 %

(1) Excludes the Shelter unsecured loan included in trade and other payables prior to its repayment in full during the third quarter of 2018.

Outlook and Continuing Operations

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

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

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

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

Debt Restructuring - Mortgage Loans

During the third quarter of 2018, one mortgage loan with a principal balance of $2,102,721 as at September 30, 2018 matured and was renewed for a 24 month term at an interest rate of 6%, maturing on July 1, 2020. An initial principal repayment of $500,000 was paid concurrent with the execution of the renewal. Additional principal repayments of $500,000 are due every six months during the term of the mortgage loan, commencing with a payment on January 1, 2019.

The Trust has renewed, refinanced or obtained forbearance agreements for all mortgage loan debt as of September 30, 2018, except for one mortgage loan with a principal balance of $3,381,065 that is secured by the property classified as discontinued operations, and is overholding past its maturity date pending completion of an annual credit review.

Debt Restructuring - Debentures, Revolving Loan and Shelter Advances

Effective July 1, 2018, the revolving loan facility with 2668921 Manitoba Ltd. was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000. As was previously the case, all advances requested under the revolving loan facility are approved at the sole discretion of 2668921 Manitoba Ltd. and the principal balance outstanding on the facility remains due on demand.

During the third quarter of 2018, $18,900,000 was advanced under the revolving loan facility and was used to repay the $15,100,000 of unsecured loan advances from Shelter in full and to fund operations.

Subsequent to September 30, 2018, additional advances of $1,500,000 were provided under the revolving loan facility and were used to fund the cash used in operating activities, the cash used in investing activities and the financing activity outflows discussed in the "Cash Flow Analysis" section of the report.

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

Divestitures

During the third quarter of 2018, the Trust sold one condominium unit at Woodland Park for gross proceeds of $310,000. The sale resulted in net cash proceeds of $1,299, after accounting for selling costs of $30,121 and a mortgage loan repayment of $278,580. The condominium unit had a carrying value of $323,399 and the sale resulted in a loss on sale of investment properties of $43,520.

During the third quarter of 2018, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $297,500. The sale resulted in net cash shortfall of $11,111, after accounting for selling costs of $29,111 and a mortgage loan repayment of $279,500. The condominium unit had a carrying value of $277,911 and the sale resulted in a loss on sale of investment properties of $9,522.

Risks and Uncertainties

Notwithstanding the effort and initiatives undertaken by management, the continuation of the Trust's ability to operate as a going concern into the foreseeable future will be contingent upon a combination of events and/or conditions that are subject to material uncertainty and include, but are not limited to:

(i) the willingness and ability of Shelter and its parent company, 2668921 Manitoba Ltd., to provide additional advances under the revolving loan facility, and/or provide other forms of financial support to the Trust;
(ii) the Trust's ability to renew or refinance debt as it matures;
(iii) the willingness and ability of the Trust's lenders to participate in the restructuring of the Trust's debt to the degree necessary and duration required to allow LREIT to stabilize its operations;
(iv) the timing and extent of a recovery of the Fort McMurray rental market, which is highly dependent on the timing and extent of a recovery in oil sands development activity;
(v) the improvement of cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; and,
(vi) the ability of LREIT to complete additional property sales at prices which exceed the indebtedness related to such properties.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

During the third quarter of 2018, fees payable to Shelter for investment properties included fees payable under the Property Management Agreement and the Services Agreement of $190,751 and $224,989, respectively, compared to $196,380 and $225,297, respectively, during the third quarter of 2017.

Loans

Revolving Loan

As described in the "Liquidity and Capital Resources" section of this report, LREIT receives advances under a revolving loan facility from 2668921 Manitoba Ltd., the parent company of Shelter. Effective July 1, 2018, the revolving loan facility was amended to increase the limit on the maximum amount that may be advanced under the facility from $30,000,000 to $100,000,000 and to extend the maturity date to December 31, 2019. The interest rate under the amended facility remains at 5% on amounts advanced up to $30,000,000 and is 7% for advances in excess of $30,000,000.

During the third quarter of 2018, interest on the loan facility amounted to $687,567, compared to $362,795 during the third quarter of 2017.

Interest accrued on the revolving loan facility is $687,567 as of September 30, 2018 (December 31, 2017 - nil) and is included in the current portion of long-term debt.

During the third quarter of 2018, the Trust received advances of $18,900,000 (2017 - $2,800,000) and made no repayments (2017 - nil) on the revolving loan. At September 30, 2018, the revolving loan balance was $48,900,000 (June 30, 2018 - $30,000,000).

Subsequent to September 30, 2018, additional advances of $1,500,000 were provided under the revolving loan facility and were used to fund operations.

Advances from Shelter

During the third quarter of 2018, the Trust received advances of nil (2017 - $2,200,000) and made repayments of $15,100,000 (2017 - nil) on the unsecured loan from Shelter, resulting in a balance of nil at September 30, 2018 (June 30, 2018 - $15,100,000). The terms of the unsecured loan from Shelter provide for a 5% interest charge, consistent with the interest rate on advances under the revolving loan facility prior to its renewal on July 1, 2018.

During the third quarter of 2018, interest on the Shelter advances amounted to nil, compared to $600 during the third quarter of 2017.

Nelson Ridge Second Mortgage Loan

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

As of September 30, 2018, the amount owing on the mortgage loan was $5,879,146 (June 30, 2018 - $5,747,770), inclusive of accrued interest.

Approval

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

OPERATING RISKS AND UNCERTAINTIES

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

The discussion below highlights material changes in key risks.

Financing

Loan Defaults

Failure to comply with debt service obligations and debt covenants are considered to be events of default that allow LREIT's lenders to accelerate payment of the mortgage loans and/or enforce their security in accordance with the underlying financing agreements.

As of September 30, 2018, the Trust was in default of a mortgage loan with a principal balance of $27,637,122 and a maturity date of March 1, 2019, as the lender of the mortgage loan indicated that there are service fees outstanding with respect to a previous default under the loan and that until such fees are paid the loan remains in default. LREIT continues to meet the debt service obligations of the mortgage loan and the lender has taken no action to demand repayment or enforce its security under the loan.

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

Revolving Loan Facility From 2668921 Manitoba Ltd.

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

CONTROLS AND PROCEDURES

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

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
November 20, 2018