LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2013 has a working capital deficit of $4,259,858 and is in breach of a debt covenant. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

Winnipeg, Manitoba
March 13, 2014

MNP LLP
Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2013	2012
ASSETS		
Non-current assets		
Investment properties (Note 5)	**$421,040,369**	$427,967,800
Loans and receivables (Note 6)	**-**	11,863,320
Defeasance assets (Note 7)	**2,879,978**	3,025,370
Restricted cash (Note 8)	**4,241,812**	7,801,248
Total non-current assets	**428,162,159**	450,657,738
Current assets		
Cash	**2,401,741**	1,254,278
Rent and other receivables (Note 9)	**10,129,493**	1,274,277
Deposits and prepaids (Note 10)	**893,063**	1,363,730
	13,424,297	3,892,285
Assets classified as held for sale (Note 11)	**26,485,863**	27,002,555
Total current assets	**39,910,160**	30,894,840
TOTAL ASSETS	**$468,072,319**	$481,552,578
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	**$153,444,803**	$ 86,760,933
Total non-current liabilities	**153,444,803**	86,760,933
Current liabilities		
Trade and other payables (Note 13)	**47,306,909**	54,040,678
Current portion of long-term debt (Note 12)	**133,787,529**	219,463,616
Deposits from tenants	**2,518,165**	2,428,393
	183,612,603	275,932,687
Liabilities classified as held for sale (Note 11)	**13,562,900**	18,029,004
Total current liabilities	**197,175,503**	293,961,691
Total liabilities	**350,620,306**	380,722,624
Total equity	**117,452,013**	100,829,954
TOTAL LIABILITIES AND EQUITY	**$468,072,319**	$481,552,578

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
	2013	**2012**
Rentals from investment properties	**$ 40,328,764**	$ 38,410,992
Property operating costs	**16,119,995**	15,981,763
Net operating income	**24,208,769**	22,429,229
Interest income	**1,272,740**	969,607
Forgiveness of debt	**-**	859,561
Interest expense (Note 14)	**(27,223,579)**	(33,261,469)
Trust expense	**(2,312,565)**	(2,323,979)
Profit on sale of investment properties	**221,642**	915,531
Fair value gains (Note 5)	**6,970,031**	10,308,723
Fair value adjustment of Parsons Landing (Note 5)	**8,929,707**	(3,500,000)
Income recovery on Parsons Landing (Note 5)	**2,622,629**	3,278,987
Insurance proceeds	**-**	925,355
Income before taxes and discontinued operations	**14,689,374**	601,545
Current income tax expense (Note 15)	**-**	49,763
Income before discontinued operations	**14,689,374**	551,782
Income from discontinued operations (Note 11)	**830,212**	19,546,526
Income and comprehensive income	**$ 15,519,586**	$ 20,098,308
Income per unit before discontinued operations:		
Basic	**$ 0.774**	$ 0.030
Diluted	**$ 0.634**	$ 0.029
Income per unit from discontinued operations:		
Basic	**$ 0.044**	$ 1.049
Diluted	**$ 0.036**	$ 1.044
Income per unit:		
Basic	**$ 0.818**	$ 1.079
Diluted	**$ 0.670**	$ 1.073

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31	
	2013	**2012**
Issued capital (Note 17)		
Balance, beginning of year	**$107,978,701**	$107,860,241
Units issued on:		
- Payment of distributions	**6,900,000**	
- Exercise of options	**2,380**	-
- Exercise of warrants	**1,219,313**	160,195
Units purchased under normal course issuer bid	**-**	(41,735)
Balance, end of year	**116,100,394**	107,978,701
Contributed surplus		
Balance, beginning of year	**17,211,070**	17,108,697
Value of deferred units granted	**75,000**	75,000
Value of unit options granted	**26,093**	56,318
Warrants exercised	**(220,313)**	(28,945)
Balance, end of year	**17,091,850**	17,211,070
Cumulative earnings		
Balance, beginning of year	**43,090,218**	22,991,910
Income and comprehensive income	**15,519,586**	20,098,308
Balance, end of year	**58,609,804**	43,090,218
Cumulative distributions to unitholders	**-**	-
Balance, beginning of year	**(67,450,035)**	(67,450,035)
Distributions declared	**(6,900,000)**	-
Balance, end of year	**(74,350,035)**	(67,450,035)
Total equity	**$117,452,013**	$100,829,954

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2013	2012
Operating activities		
Income and comprehensive income	**$ 15,519,586**	$ 20,098,308
Adjustments to reconcile income to cash flows		
Fair value gains	**(6,970,031)**	(10,308,723)
Fair value adjustment of Parsons Landing	**(8,929,707)**	3,500,000
Profit on sale of properties	**(221,642)**	(15,949,842)
Write down of note receivable	**205,000**	-
Forgiveness of debt	**-**	(859,561)
Accrued rental revenue	**82,342**	371,443
Gain on debenture repurchases	**(3,985)**	-
Unit-based compensation	**101,093**	131,318
Deferred income tax expense	**(285,734)**	(5,368,399)
Interest income	**(1,272,740)**	(969,607)
Interest received	**660,459**	617,668
Interest expense	**27,971,416**	37,786,525
Interest paid	**(24,825,831)**	(31,195,083)
Cash from operations	**2,030,226**	(2,145,953)
Decrease in rent and other receivables	**134,017**	669,456
Decrease in deposits and prepaids	**482,084**	396,039
Increase (decrease) in tenant deposits	**83,595**	(757,585)
Decrease in trade and other payables	**(1,104,445)**	(2,700,569)
	1,625,477	(4,538,612)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**166,500,000**	105,649,377
Repayment of mortgage loans on refinancing	**(167,263,300)**	(96,804,315)
Repayment of long-term debt	**(7,929,596)**	(8,574,301)
Prepayment of mortgage loans	**(2,998,500)**	(10,435,000)
Proceeds of revolving loan commitment	**13,880,000**	34,943,629
Repayment of revolving loan commitment	**(18,000,000)**	(41,918,629)
Proceeds of Shelter Canadian Properties Limited advances	**-**	16,169,000
Repayment of Shelter Canadian Properties Limited advances	**-**	(17,352,000)
Expenditures on transaction costs	**(2,452,158)**	(3,258,692)
Exercise of options	**2,380**	-
Exercise of warrants	**999,000**	131,250
Units purchased and cancelled under normal course issuer bid	**-**	(41,732)
Debentures purchased and cancelled under normal course issuer bid	**(83,215)**	(351,000)
	(17,345,389)	(21,842,413)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(3,275,839)**	(2,906,894)
Capital expenditures on property and equipment	**(255,686)**	(38,368)
Decrease in defeasance assets	**145,392**	142,823
Proceeds of mortgage loan receivable	**3,200,000**	-
Taxes paid on property sold	**(1,734,702)**	-
Proceeds of sale	**14,468,789**	21,927,121
Change in restricted cash	**3,555,578**	7,736,373
	16,103,532	26,861,055
Cash increase	**383,620**	480,030
Add (deduct) decrease (increase) in cash from discontinued operations (Note 11)	**763,844**	(396,371)
	1,147,464	83,659
Cash, beginning of year	**1,254,278**	1,170,619
Cash, end of year	**$ 2,401,742**	$ 1,254,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust, which was created under the laws of the Province of Manitoba by a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006, June 18, 2008 and December 9, 2009.

The registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of the Trust, which trade on the TSX and the related trading symbols:

Units	LRT.UN
Series G Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Trust unit purchase warrants expiring March 9, 2015	LRT.WT
Trust unit purchase warrants expiring December 23, 2015	LRT.WT.A

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

2 *Basis of presentation and continuing operations*

The consolidated financial statements of the Trust for the years ended December 31, 2013 and 2012 ("Financial Statements"), have been prepared in accordance with International Accounting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on March 13, 2014.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust generated cash from operating activities of $1,625,477 for the year ended December 31, 2013 (2012 - cash deficiency of $4,538,612). After deduction of capital expenditures and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $9,835,645 for the year ended December 31, 2013 (2012 - $16,058,175). In addition, the Trust has a working capital deficit of $4,259,858 as at December 31, 2013 (December 31, 2012 - deficit of $4,462,801) and the Trust was in breach of debt service and other covenant requirements on one swap mortgage loan (December 31, 2012 - four mortgage loans and one swap mortgage loan).

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $17,061,239 swap mortgage loan on a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis. The covenant breach may continue for the next 12 months and there can be no assurance that the covenant breach will be remedied.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or debentures of the Trust.

2 Basis of presentation and continuing operations (continued)

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt and the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 23 properties, including two properties during the year ended December 31, 2013, the Trust has successfully renewed mortgage loans at maturity, the Trust has extended the maturity date for the Series G debentures to 2015 and the Trust has successfully eliminated covenant breaches on eight mortgage loans through refinancing and/or improved operations.

If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities and reported revenues and expenses used in these Financial Statements.

Statement of compliance
The Financial Statements of the Trust have been prepared in accordance with International Financial Reporting Standards (IFRS). The Trust follows accounting policies under IFRS as disclosed in Note 3. The Financial Statements are based on IFRS standards issued and effective as at March 13, 2013.

3 Significant accounting policies

(a) Principles of consolidation

The Financial Statements comprise the Financial Statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The Financial Statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination and the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. When an acquisition represents the acquisition of a business, the acquisition is accounted for as a business combination.

3 Significant accounting policies (continued)

(b) Investment Properties

The Trust follows IAS 40 "Investment Properties" and has chosen the fair value method of presenting investment properties in the Financial Statements.

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the property to the condition necessary for it to be capable of operating and similar costs. The carrying amount also includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. An investment property is derecognized upon sale.

The fair value of investment properties is determined by the Trust using recognized valuation techniques.

Investment properties held for sale are classified as assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

(c) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses, in accordance with IAS 16 "Property and equipment".

The Trust provides for amortization of property and equipment in order to apply the cost of the assets over the estimated useful lives as follows.

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Amortization is not recorded for property and equipment held in discontinued operations.

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. Cash generating units are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

3 Significant accounting policies (continued)

(c) Property and Equipment (continued)

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying amount of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in net income (loss). Impairment losses for goodwill are not reversed.

(d) Receivables

(i) Rent and other receivables

Rent and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost using the effective interest rate method. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(ii) Loans and receivables

Loans and receivables are recognized at amortized cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the loans and receivables are recognized in income over the expected life of the loans and receivables. All loans and receivables with maturities greater than 12 months after the Financial Statements date are classified as non-current assets. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full.

(e) Cash

Cash comprises demand and short-term deposits at the bank with an original maturity of twelve months or less.

Cash deposits, which are not available for use by the Trust within a period of twelve months, are carried as restricted cash.

3 Significant accounting policies (continued)

(f) Assets classified as held for sale

Held for sale assets
Investment Property is transferred to assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:

- The Trustees must be committed to a plan to sell the property and an active program to locate a buyer and complete the plan must have been initiated
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification

Assets classified as held for sale are recorded as follows:

Investment Properties - fair value as stated in subparagraph (b) Investment Properties above
All other assets - lower of carrying value or fair value

Assets classified as held for sale are not depreciated or amortized.

Discontinued operations
A discontinued operation is a part of the business of the Trust that:

- Has been disposed of or has been classified as held for sale and that represents a major line of business or geographic area of operation;
- Is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- Is a subsidiary acquired exclusively with a view to resell.

The results of discontinued operations are presented separately on the Statement of Comprehensive Income and the assets and liabilities are presented separately on the Statement of Financial Position.

(g) Mortgages loans and mortgage bonds

All mortgages loans and mortgage bonds are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and bonds are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the loans and bonds are recognized in the Statement of Comprehensive Income over the expected life of the borrowings. Interest is recognized on an accrual basis. All mortgage loans and mortgage bonds with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and mortgage bonds with maturities greater than twelve months, but which are in breach of a debt covenant, and the debt becomes payable on demand as a result of said breach at the financial statement date, are classified as current liabilities.

3 Significant accounting policies (continued)

(h) Debentures

Debentures are separated into debt and equity components based on the respective fair values at the date of issue. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the debentures. The value assigned to the equity component of debentures represents the value of the conversion feature.

Subsequent to initial recognition, the liability component of a debenture is measured at amortized cost using the effective interest method. The equity component of a debenture is not measured subsequent to initial recognition.

(i) Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust, including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. At the end of each reporting period, the estimate of unit options expected to vest is revised and compensation expense in regard to options granted to officers, employees and trustees is recognized.

(j) Tenant deposits

Tenant deposits liabilities are initially recognized at fair value. Where the time value of money is material, tenant deposits are carried at amortized cost, using the effective interest rate method. Any difference between the initial fair value and the amortized cost is included as a component of rentals from investment properties and recognized on a straight-line basis over the lease term.

(k) Revenue recognition

Management has determined that all of the leases with tenants are operating leases.

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to deferred rent receivable. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred.

3 *Significant accounting policies (continued)*

(k) Revenue recognition (continued)

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancelable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognized in the income statement when they arise.

Meal and other revenue is recognized on the delivery of the meal or other service.

Interest income is recognized on an accrual basis using the effective interest method.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

(l) Income taxes

(i) The Trust

Effective January 1, 2013, the Trust qualifies as a mutual fund trust and real estate investment trust for income tax purposes. The Trust intends to pay or make payable in each year distributions to its unitholders in an amount that is required so that the Trust has no current tax expense for the year. As a result, the Trust does not account for income taxes for 2013.

For 2012, the Trust provided for current taxes and deferred taxes in the same manner as reported below for wholly owned subsidiaries. At December 31, 2012, the Trust adjusted the deferred tax balance to reflect the transition from a SIFT trust to a real estate investment trust for income tax purposes.

(ii) Wholly owned subsidiary companies

Current taxes
Current taxes for the current and prior periods are, to the extent unpaid, recognized as a liability. Current tax assets and liabilities for the current and prior periods are measured at amounts expected to be recovered from or paid to the taxation authorities, including interest. The tax rates and tax laws used to compute those amounts are the tax rates and tax laws which have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes
Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses and other short-term temporary differences.

Deferred tax assets are recognized to the extent that it is regarded as probable that the benefit from the deductible temporary differences can be realized. The recoverability of all tax assets is assessed at the end of each reporting period.

3 Significant accounting policies (continued)

(l) Income taxes (continued)

(ii) Wholly owned subsidiary companies (continued)

Deferred tax (continued)
Deferred tax is calculated at the tax rates that are expected to apply in the periods in which that asset or liability will be settled, based on tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

(m) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur; and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(n) Per unit calculations

Basic per unit information is calculated using the weighted average number of units outstanding for the period, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the period after considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential exercise of warrants to the extent that the warrants are dilutive. The diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

(o) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the designation of such instruments by the Trust. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial instruments classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until disposition of the financial asset.

Financial instruments are derecognized when the Trust no longer controls the contractual rights that comprises a financial asset or when the obligation under a financial liability has been discharged, concluded or expired.

3 Significant accounting policies (continued)

(o) Financial instruments (continued)

Based on the purpose for which assets and liabilities are acquired, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Loans and receivables	Loans and receivables	Amortized cost
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Mortgage bonds	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Swap mortgage loan	Fair value through profit and loss	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage guarantee fees	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

The Trust assesses impairment of all financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in income.

(p) Current and future changes to significant accounting policies

The following new standard was implemented with a January 1, 2013 effective date:

- IFRS 13 - Fair Value Measurement - The adoption of IFRS 13 did not require any change to the valuation techniques used by the Project to measure fair value and did not result in changes in the carrying value as at January 1, 2013.

The following new or amended standards have been issued by the International Accounting Standards Board (IASB):

- IFRS 9 - replaces IAS 39 - Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The effective date for the standard has been delayed indefinitely.

- IAS 40 - Investment Property: Clarifies that an entity applies judgment to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets, or a business combination within the scope of IFRS 3. This judgement is based on the guidance in IFRS 3. Effective for annual periods beginning on or after July 1, 2014.

- IFRIC 21 - Levies: Clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. Effective for year beginning on or after January 1, 2014.

The Trust is currently evaluating the impact of these standards on its Financial Statements.

4 *Significant accounting judgments, estimates and assumptions*

The preparation of the Financial Statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the Financial Statements date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

(a) Judgments other than estimates

In the process of applying the accounting policies of the Trust, management has made the following judgments, which have the most significant effect on the amounts recognized in the Financial Statements:

Business combinations
The Trust acquires subsidiaries that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The extent of the land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, meal services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

Operating lease contracts
The Trust has entered into leases with tenants. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and accounts for the leases as operating leases.

Income taxes
For income tax purposes, the Trust was a specified investment flow-through trust (SIFT trust) for 2011 and 2012 and is a real estate investment trust for 2013. In order for the Trust to qualify as a real estate investment trust for a year, the property and revenue of the Trust must meet certain conditions. Management has assessed the property and revenue of the Trust against those conditions, and while uncertainties arise in the interpretation and application of any income tax law, management is satisfied that the Trust has met such conditions and that the Trust qualifies as a real estate investment trust for 2013.

4. *Significant accounting judgments, estimates and assumptions* (continued)

(a) Judgments other than estimates (continued)

Income taxes (continued)
Management expects that the Trust will continue to qualify as a real estate investment trust for 2014 and beyond. If the Trust were to fail to qualify as a real estate investment trust for any year for income tax purposes, the Trust would become a SIFT trust for that year and consequently would be unable to reduce its taxable income by issuing distributions to Unitholders. As a result, the Trust would be subject to a rate of income tax on its taxable income for the year which is substantially equivalent to the rate of income tax that is generally applicable to corporations. In addition, the Trust would be required to account for income taxes arising from all of its activities, and material adjustments to the consolidated financial statements could be required.

(b) Estimates

Valuations of property
Investment property is stated at fair value as at the financial statement date. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. The valuations are prepared using recognized valuation techniques to determine the fair value of investment properties. The techniques comprise both the capitalized net operating income method and the discounted cash flow method. In certain cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

The determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, anticipated capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. The estimates are based on local market conditions existing at the financial statement date.

Management uses their market knowledge and professional judgment as well as historic transactional comparables or external appraisals obtained. In these circumstances, a greater degree of certainty exists in estimating the market value of investment property than in a more active market in estimating the market values of investment property.

5 Investment properties

	Year Ended December 31 2013	2012
Balance, beginning of year	$427,967,800	$451,857,370
Additions - capital expenditures	3,275,839	2,906,894
Fair value gains	6,970,031	10,308,723
Dispositions (a)	(24,389,739)	(33,605,187)
Fair value adjustment of Parsons Landing (b)	8,929,707	(3,500,000)
Purchase price adjustment of Parsons Landing (b)	(1,713,269)	-
Balance, end of year	$421,040,369	$427,967,800

Investment properties have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

The table below provides details of the range of capitalization rates used for valuing the investment properties of the Trust:

	December 31 2013		December 31 2012	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	7.50 %	7.00 %	7.50 %
Yellowknife	6.75 %	6.75 %	7.50 %	8.75 %
Major Canadian cities	4.75 %	4.75 %	4.75 %	4.75 %
Impaired property	7.00 %	7.00 %	7.00 %	7.00 %
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	6.50 %	7.25 %	7.00 %	7.50 %

5 *Investment properties (continued)*

(ii) *The discounted cash flow method*. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity. The key assumptions are the normalized first year cash flows, the inflation rates applied to the first year cash flows, and the discount rate applied over the useful life of the investment property.

The table below provides details of the range of discount rates used for valuing the investment properties of the Trust:

	December 31 2013		December 31 2012	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.00 %	9.50 %	9.00 %	9.50 %
Yellowknife	8.75 %	8.75 %	9.50 %	10.75 %
Major Canadian cities	6.75 %	6.75 %	6.75 %	6.75 %
Impaired property	9.00 %	9.00 %	9.00 %	9.00 %
Other	8.25 %	10.00 %	8.25 %	10.00 %
Commercial properties	8.50 %	9.25 %	9.00 %	9.50 %

(iii) *Direct comparison*. For properties with condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value. The key assumption is the cost of the condominium conversion and sales program. Direct comparison valuation analyses are prepared for Colony Square, Laird's Landing, Lakewood Apartments, Lakewood Townhomes, Millennium Village and Woodland Park.

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Carrying Value at December 31, 2013	Valuation Update Timetable
Greater than $10 Million	9	$ 367,258,874	Three years
Less than $10 Million	11	53,781,495	Five years
	20	$ 421,040,369	

The Trust utilizes capitalization and discount rates within the ranges provided in market reports by knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount rate ranges change from one reporting period to the next, or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

5 Investment properties (continued)

(iv) *External appraisals and reports.* (continued)

To assist in the determination of fair value at December 31, 2013, external appraisals were obtained in 2013 for 8 properties having an aggregate fair value of $292.7 Million representing 69.5% of the total carrying value of investment properties. Appraisals were obtained in 2012 for 10 properties having an aggregate fair value of $118.4 Million representing 28.1% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 1 property having a fair value of $7.1 Million representing 1.7% of the total carrying value of investment properties. Appraisals were obtained in 2010 for 1 property having a fair value of $2.8 Million representing 0.7% of the total carrying value of investment properties.

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions and also considers anticipated capital expenditures.

The capitalized net operating income method and discounted cash flow method, as noted above, would be categorized as level 3 valuation method in the fair value hierarchy. The most significant inputs or variables to the valuation process, all of which are unobservable, are the normalized income, capitalization rate, discount rate and growth rate. An increase in the normalized income, or a decrease in the capitalization rate, the discount rate or the growth rate will result in an increase in the estimated fair value of investment properties. The fair value estimate is sensitive to all four assumptions, however, changes in the capitalization rate have the greatest impact on the fair value estimate. There are interrelationships between the capitalization rate, the discount rate and the growth rate.

The inputs used in the valuation at December 31, 2013 were:

Description	Input
Normalized net operating income (year 1)	$27,963,550
Weighted average capitalization rate	6.76%
Growth rate	2.00%
Weighted average discount rate	8.76%

The direct comparison method as noted above is a level 2 valuation method.

(a) Property dispositions

On October 1, 2013, the Trust sold the Purolator Building for gross proceeds of $1,600,000. On December 31, 2013, the Trust sold Nova Court for gross proceeds of $21,680,000. Revenue and expenses of the Purolator Building and Nova Court are carried in the "Properties Sold" operating segment in the December 31, 2013 Financial Statements and, prior to December 31, 2013, were carried in the "Other Investment Properties" operating segment.

5 Investment properties (continued)

(a) Property dispositions (continued)

The following table reflects the results of the sale of condominium units at Lakewood Townhomes:

	Year Ended December 31	
	2013	2012
Units sold	3	9
Gross proceeds	$ 1,444,700	$ 4,396,400
Gain on sale	$ 247,011	$ 568,761

(b) Fair value adjustment of Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

The permanent mortgage financing for the purchase of Parsons Landing was uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012, $3 Million on January 3, 2014 and $650,000 on January 31, 2014. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the purchase is completed on the closing date, as extended. On closing, the builder also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. In June 2012, an agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses.

The reconstruction and the return of 84 suites to the Trust, was completed effective June 1, 2013 and the reconstruction and the return of the remaining 76 suites to the Trust was completed effective October 3, 2013. The cost of the reconstruction was fully funded from insurance proceeds.

Subsequent to December 31, 2013, the acquisition was completed, the furniture credit was applied and interest in excess of the $300,000 per month payment in an aggregate amount of $27,866,454 was forgiven.

5 Investment properties (continued)

(b) Fair value adjustment of Parsons Landing (continued)

Impact on Financial Statements
The Financial Statements reflect the following:

Investment properties
Parsons Landing is classified as an investment property and is carried at fair value. Adjustments to fair value in 2012 and 2013 reflect the destruction of the property and the subsequent reconstruction and re-leasing of the property.

Payable on acquisition of Parsons Landing
For the period from possession to the closing of the sale, the balance owing in regard to the acquisition of Parsons Landing was estimated and reflected in Trade and other payables. Payments to the builder served to reduce the amount payable on acquisition. At December 31, 2013, the amount payable estimate was reduced by $1,713,269 to reflect the $1,440,000 furniture credit and adjustments to GST. The reduction in the amount payable is reflected as a purchase price adjustment of Parsons Landing in Investment properties.

Net operating income and income recovery
The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012.

For the period from February 5, 2012 to May 31, 2013, the Financial Statements reflect revenue in regard to recovery of insurance proceeds for revenue losses. The revenue is reflected as "Income recovery on Parsons Landing" in the income of the Trust.

For the period from June 1, 2013 to December 31, 2013, the Financial Statements reflect rental revenues and property operating costs for occupied suites and recovery of insurance proceeds for unoccupied suites.

Interest expense
The Financial Statements reflect the monthly interest of $300,000.

6 *Loans and receivables*

	December 31 2013	2012
Second mortgage loan due May 8, 2014, bearing interest at 12.5%, of which 5% shall be payable monthly and 7.5% shall be capitalized and added to the original principal balance of $7,500,000	$ 8,545,600	$ 7,888,320
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	500,000	500,000
Second mortgage loan	-	3,200,000
Interest free mortgage loan due on the earlier of the sale date of a condominium unit or the maturity date of May 8, 2014	275,000	275,000
Note receivable from a previous tenant	-	250,000
	9,320,600	12,113,320
Current portion of loans and receivables	(9,320,600)	(250,000)
	$ -	$ 11,863,320

7 *Defeasance assets and defeased liability*

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Defeased Liability is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.83% (December 31, 2012 - 3.79%) and have been placed in escrow. The Defeasance Assets and the Defeased Liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

The following table reflects the effect of the Defeasance Assets and the Defeased Liability on income.

	Recorded as	Year Ended December 31 2013	2012
Interest income on Defeasance Assets	Interest income	$ 60,905	$ 63,475
Interest expense on Defeased Liability	Interest expense	(149,136)	(152,234)
Amortization of transaction costs	Interest expense	(10,011)	(9,647)
		$ (98,242)	$ (98,406)

8 *Restricted cash*

	December 31 2013	December 31 2012
Tenant security deposits	$ 2,484,188	$ 2,393,985
Reserves required by mortgage loan agreements	1,757,624	5,407,263
	$ 4,241,812	$ 7,801,248

9 *Rent and other receivables*

	December 31 2013	December 31 2012
Rent receivable	$ 223,314	$ 247,733
Less: allowance for uncollectible accounts	(32,751)	(20,051)
	190,563	227,682
Other receivables	348,828	444,751
Deferred rent receivable	269,502	351,844
	808,893	1,024,277
Current portion of loans and receivables	9,320,600	250,000
	$ 10,129,493	$ 1,274,277

10 *Deposits and prepaids*

	December 31 2013	December 31 2012
Deposits		
Property tax deposits	$ 368,647	$ 502,158
Other	10,630	11,380
Deposit with Canada Revenue Agency	-	153,709
	379,277	667,247
Prepaid expenses	513,786	696,483
	$ 893,063	$ 1,363,730

11 Assets and liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations.

Assets and liabilities classified as "held for sale" are as follows:

	December 31 2013	December 31 2012
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 26,370,800	$ 26,115,114
Cash	20,603	784,447
Restricted cash	43,986	40,128
Rent and other receivables	8,916	9,891
Deposits, prepaids and other	41,558	52,975
Assets classified as held for sale	$ 26,485,863	$ 27,002,555
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	$ 13,042,918	$ 15,278,462
Deferred tax (c)	-	285,734
Trade and other payables	261,399	2,200,048
Deposits from tenants	258,583	264,760
Liabilities classified as held for sale	$ 13,562,900	$ 18,029,004

Income and cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2013	Year Ended December 31 2012
Rental income	$ 5,152,227	$ 12,948,869
Property operating expenses	3,682,675	7,319,163
Net operating income	1,469,552	5,629,706
Interest expense (d)	747,837	4,525,056
Profit on sale	-	15,034,311
Current tax expense	177,237	1,960,834
Deferred tax recovery	(285,734)	(5,368,399)
Income from discontinued operations	$ 830,212	$ 19,546,526

11 Non-current assets and non-current liabilities of properties held for sale (continued)

	Year Ended December 31 2013	2012
Cash inflow from operating activities	$ 388,915	$ 2,230,109
Cash inflow (outflow) from financing activities	841,487	(55,016,150)
Cash inflow (outflow) from investing activities	(1,994,246)	53,182,412
Increase (decrease) in cash from discontinued operations	$ (763,844)	$ 396,371

(a) Property and equipment

Clarington Seniors' Residence was sold on May 9, 2012 and Riverside Terrace was sold on December 6, 2012.

December 31, 2013	Cost, Beginning of Year	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 4,132,100	$ -	$ -	$ 4,132,100
Buildings and improvements	22,966,242	232,028	(3,050,825)	20,147,445
Furniture, equipment and appliances	457,402	23,658	(280,546)	200,514
	27,555,744	255,686	(3,331,371)	24,480,059
Valuation adjustment	1,890,741	-	-	1,890,741
	$ 29,446,485	$ 255,686	$ (3,331,371)	$ 26,370,800

December 31, 2012	Cost, Beginning of Year	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ (1,966,090)	$ -	$ 4,132,100
Buildings and improvements	71,782,003	(48,815,761)	(3,050,825)	19,915,417
Furniture, equipment and appliances	1,570,198	(1,112,796)	(280,546)	176,856
	79,450,391	(51,894,647)	(3,331,371)	24,224,373
Valuation adjustment	2,264,851	(374,110)	-	1,890,741
	$ 81,715,242	$ (52,268,757)	$ (3,331,371)	$ 26,115,114

11 Non-current assets and non-current liabilities of properties held for sale (continued)

(a) Property and equipment (continued)

The carrying value in property and equipment is comprised of the following:

	Year Ended December 31 2013	2012
Balance, beginning of year	$ 26,115,114	$ 78,383,871
Additions - capital expenditures	255,686	38,368
Disposals	-	(52,307,125)
Balance, end of year	$ 26,370,800	$ 26,115,114

(b) Long term debt

	December 31 2013	2012
Secured debt		
Mortgage loans	$ 13,042,918	$ 15,295,629
Unamortized transaction costs	-	(17,167)
Total long term debt	$ 13,042,918	$ 15,278,462

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of December 31, 2013, the Trust was in compliance with all mortgage covenants on properties held for sale.

(c) Deferred tax

Deferred tax liabilities consist of the following:

	December 31 2013	2012
Temporary differences between the accounting and tax bases of capital gains reserves	-	285,734

11 Assets and liabilities of properties held for sale (continued)

(c) Deferred tax (continued)

The Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:

	December 31 2013	2012
Property and equipment	$ 538,145	$ 517,576
Transaction costs	$ 62,939	$ 48,832

Unused tax losses expiring in:

	2013	2012
2026	$ -	$ 102,771
2027	43,366	402,868
2028	549,398	549,398
2029	447,270	572,355
2030	-	179,698
2031	73,375	104,821
2032	269,519	271,451
	$ 1,382,928	$ 2,183,362

(d) Interest expense

	Year Ended December 31 2013	2012
Mortgage loan interest	$ 705,670	$ 2,658,578
Mortgage prepayment penalty	-	1,289,083
Amortization of transaction costs	42,167	577,395
	$ 747,837	$ 4,525,056

12 Long-term debt

	December 31 2013	December 31 2012
Secured debt		
Mortgage loans (a)	$ 228,713,265	$ 247,654,245
Swap mortgage loan (b)	17,061,239	17,888,836
Mortgage bonds (c)	14,913,008	14,458,831
Debentures (d)	24,873,800	24,961,000
Defeased liability	2,644,615	2,701,511
Total secured debt	288,205,927	307,664,423
Mortgage guarantee fees	91,362	133,864
Total debt	288,297,289	307,798,287
Accrued interest payable	1,975,830	1,746,367
Unamortized transaction costs		
Mortgage loans	(1,819,051)	(1,531,326)
Swap mortgage loan	(90,585)	(108,024)
Mortgage bonds	(754,795)	(1,033,704)
Debentures	(352,422)	(613,105)
Defeased liability	(23,934)	(33,946)
Total unamortized transaction costs	(3,040,787)	(3,320,105)
	287,232,332	306,224,549
Less current portion		
Mortgage loans	(106,307,858)	(201,725,598)
Mortgage bonds	(10,000,000)	-
Swap mortgage loan	(17,061,239)	(17,888,836)
Defeased liability	(60,167)	(56,896)
Mortgage guarantee fees	(44,587)	(42,502)
Accrued interest payable	(1,975,830)	(1,746,367)
Transaction costs	1,662,152	1,996,583
Total current portion	(133,787,529)	(219,463,616)
	$ 153,444,803	$ 86,760,933
Current portion of unamortized transaction costs		
Mortgage loans	$ 932,982	$ 1,340,398
Swap mortgage loan	90,585	108,024
Mortgage bonds	329,655	278,909
Debentures	298,539	259,240
Defeased liability	10,391	10,012
	$ 1,662,152	$ 1,996,583

12 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At December 31, 2013, the contractual weighted average interest rate for variable rate long-term debt was 7.2% and for fixed rate long-term debt was 4.7% (December 31, 2012 - variable - 9.0%, fixed - 4.8%).

Normal principal installments and principal maturities at face value are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Debentures and Mortgage Bonds	Swap Mortgage Loan
2014	$ 3,757,920	$102,549,938	$ 10,000,000	$17,061,239
2015	2,883,996	4,380,521	30,873,800	-
2016	2,828,670	7,540,967	-	-
2017	2,794,525	18,008,989	-	-
2018	1,228,287	55,302,118	-	-
Thereafter	-	27,437,334	-	-
	$ 13,493,398	$215,219,867	$ 40,873,800	$17,061,239

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Total Long-term Debt	Weighted average interest rate of long-term debt
2014	$ 60,167	$ 44,587	$133,473,851	6.1%
2015	63,602	46,775	38,248,694	8.5%
2016	2,520,846	-	12,890,483	7.5%
2017	-	-	20,803,514	5.6%
2018	-	-	56,530,405	4.1%
Thereafter	-	-	27,437,334	5.0%
	$ 2,644,615	$ 91,362	$289,384,281	6.0%

In accordance with IFRS, the $15,873,133 face value of the swap mortgage loan and the $1,188,106 fair value of the interest rate swap are reflected as current liabilities as the property is not in compliance with a loan covenant. In accordance with IFRS, a $4,478,175 term loan maturing on August 1, 2015 is reflected as a current liability as the loan document is a demand promissory note.

The Trust intends to renew or refinance all mortgage debt and debentures at market rates on maturity.

12 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates December 31 2013	2012	Amount December 31 2013	2012
First mortgage loans				
Fixed rate	4.5%	4.8%	$ 160,467,633	$ 97,891,938
Variable rate	6.1%	8.9%	50,239,345	107,325,680
Total first mortgage loans	4.9%	7.0%	210,706,978	205,217,618
Second mortgage loans				
Fixed rate	11.8%	n/a	4,500,000	-
Variable rate	11.1%	9.1%	13,506,287	42,436,627
Total second mortgage loans	11.3%	9.1%	18,006,287	42,436,627
Total	5.4%	7.3%	$ 228,713,265	$ 247,654,245

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. As of December 31, 2013, the Trust was in compliance with all mortgage loan covenants.

All mortgages which have matured prior to March 13, 2014 have been renewed or refinanced.

Mortgage loans are secured by mortgage charges registered against specific investment properties and are secured by assignments of book debts and rents and by repayment guarantees.

(b) Swap mortgage loan

The Trust has entered into an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan, in the amount of $17,061,239, has a fixed rate of 5.82% and matures in 2018.

The swap arrangement is used to hedge the exposure to the variable interest rate payment on a variable rate mortgage loan. The loan and interest rate swap have the same contractual terms. The aggregate fair value of the swap mortgage loan is as follows:

	December 31 2013	2012
Face value of mortgage loan, subject to swap	$ 15,873,133	$ 16,414,032
Fair value of interest rate swap	1,188,106	1,474,804
	$ 17,061,239	$ 17,888,836

The Trust is not in compliance with a debt service coverage requirement for the swap mortgage loan. In accordance with IFRS the total balance of $17,061,239 is included in current portion of long-term debt.

12 Long-term debt (continued)

(b) Swap mortgage loan

The interest rate swap is a financial instrument classified at fair value through profit and loss. The financial statements therefore reflect a liability related to the swap at the net present value of future mortgage payments based on current interest rates with a corresponding charge to interest expense. At December 31, 2013 current interest rates were 2.52% (2012 - 2.53%). The fair value of the swap mortgage loan has been determined using Level 2 of the fair value hierarchy.

(c) Mortgage bonds

The face value of the 9% mortgage bonds due December 24, 2015 is $16,000,000 (December 31, 2012 - $16,000,000).

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 16,000,000 trust unit purchase warrants for gross proceeds of $16,000,000. Each trust unit purchase warrant entitles the holder to purchase one unit at a price of $0.75 until December 24, 2015. The mortgage bonds are secured by second mortgage charges registered against four investment properties with a fair value of $38,192,000 (December 31, 2012 - five investment properties with a fair value of $54,717,000).

The carrying value of the mortgage bonds is summarized as follows:

	Year Ended December 31	
	2013	2012
Balance, beginning of year	$ 14,458,831	$ 14,058,307
Accretion	454,177	400,524
Balance, end of year	$ 14,913,008	$ 14,458,831

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $470,623 was identified, and the residual value of $1,346,282 was assigned to the warrants.

Subsequent to December 31, 2013, mortgage bonds with a face value of $10,000,000 were repaid.

12 Long-term debt (continued)

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due February 28, 2015 is $24,873,800 (December 31, 2012 - $24,961,000).

Effective October 27, 2011, the Series G convertible debentures were extended as Series G debentures. The Series G debentures are redeemable, subject to notice requirements, and the Trust is required to redeem debentures from the net proceeds of property sales, after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

On June 17, 2013, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,493,000 of Series G debentures. The normal course issuer bid expires on June 16, 2014.

During the period from June 17, 2013 to December 31, 2013, the Trust purchased and cancelled Series G debentures with a face value of $87,200 at an average price of $95.43 per $100.00.

The Trust is not required to purchase any debentures under the normal course issuer bid.

13 Trade and other payables

	December 31	
	2013	2012
Accounts payable - vendor invoices	$ 982,173	$ 1,300,506
Accrued payables	658,892	1,230,798
Prepaid rent	754,113	764,374
Payable on acquisition of Parsons Landing	44,006,731	45,720,000
Revolving loan from 2668921 Manitoba Ltd.	905,000	5,025,000
	$ 47,306,909	$ 54,040,678

14 Interest expense

	Year Ended December 31 2013	2012
Mortgage loan interest	$ 15,897,769	$ 19,386,689
Swap mortgage loan interest	940,981	1,465,708
Mortgage prepayment penalties	-	2,751,548
Change in fair value of interest rate swaps	(286,699)	(1,027,800)
Mortgage bond interest	1,440,000	1,440,000
Accretion of mortgage bonds	454,177	400,524
Debenture interest	2,367,153	2,371,295
Amortization of transaction costs	2,706,476	2,873,505
Interest on acquisition payable	3,703,722	3,600,000
	$ 27,223,579	$ 33,261,469

15 Income taxes

The major components of income tax expense (recovery) are as follows:

	Year Ended December 31 2013	2012
Current tax expense	$ -	$ 186,591
Benefit from a previously unrecognized tax loss or temporary difference of a prior period used to reduce current tax expense	-	(136,828)
Current tax expense	-	49,763
Deferred tax expense relating to the origination and reversal of temporary differences or tax losses	-	1,228,380
Deferred tax expense arising from write-down of deferred tax assets	-	479,035
Deferred tax expense arising from the derecognition of deferred tax liabilities	-	(1,707,415)
Deferred tax expense	-	-
Income tax expense	$ -	$ 49,763

15 Income taxes (continued)

The income tax expense of the Trust can be reconciled to its income tax expense that would be calculated using the statutory income tax rate as follows:

	Year Ended December 31 2013	2012
Income before income taxes and discontinued operations	$ 14,689,374	$ 601,545
Combined federal and provincial statutory income tax rate	26%	26%
Income tax expense calculated using the combined federal and provincial statutory income tax rate	$ 3,819,237	$ 156,401
Non-deductible unit-based compensation	26,284	34,143
Non-deductible interest and penalties	186,548	21,320
Taxable dividends received from wholly owned subsidiary	234,780	2,314,715
Undistributed income taxed at rate of 46.4%	-	359,805
Dividend tax credits	-	(768,618)
Net interest revenue and fees received from wholly owned subsidiaries	-	739,103
Interest revenue received from wholly owned subsidiaries	(128,110)	(160,746)
Recognition of previously unrecognized deferred tax assets	-	(136,828)
Write-down of previously recognized deferred tax assets	-	479,035
Derecognition of previously recognized deferred tax liabilities	-	(1,707,415)
Deferred tax assets and liabilities not recognized during the year	(2,290,246)	(90,831)
Non-taxable/allowable portion of capital gains	(908,679)	(1,258,468)
Amounts paid or payable to unitholders	(1,006,821)	-
Other	67,007	68,147
Income tax expense	$ -	$ 49,763

There were no temporary differences between the accounting and tax bases of investment properties, transaction costs, debentures and mortgage bonds, and interest rate swaps. There were no unused tax losses.

The Trust's deferred tax expense (recovery) recognized in income (loss) from investment properties, in respect of each type of temporary difference or in respect of unused tax losses, is as follows:

	Year Ended December 31 2013	2012
Investment properties	$ -	$ (1,306,711)
Transaction costs	-	479,035
Debentures and mortgage bonds	-	(504,840)
Unused tax losses	-	1,111,956
Interest rate swaps	-	220,560
	$ -	$ -

15 *Income taxes (continued)*

The Trust has temporary differences related to investment properties for which no deferred tax asset or liability is recognized as follows:

	December 31 2013	December 31 2012
Deductible temporary differences:		
Interest rate swaps	$ 1,188,106	$ 1,474,804
Transaction costs	$ 4,362,508	$ 5,051,684
Taxable temporary differences:		
Investment properties	$ 16,871,342	$ 8,584,403
Mortgage bonds	$ 1,086,992	$ 1,541,169

16 *Per unit calculations*

Per unit calculations reflect the following:

	Year Ended December 31 2013	Year Ended December 31 2012
Income before discontinued operations	$ 14,689,374	$ 551,782
Income from discontinued operations	830,212	19,546,526
Income	$ 15,519,586	$ 20,098,308

	Year Ended December 31 2013	Year Ended December 31 2012
Weighted average number of units:		
Units	18,211,934	17,983,061
Deferred units	765,279	647,730
Total basic	18,977,213	18,630,791
Weighted average diluted number of units	23,172,093	18,736,723

The weighted average diluted number of units at December 31, 2013, includes the dilutive effective of the warrants to the extent that the market price of the units exceeded the exercise price of the warrants of $0.75, effective October 21, 2013.

17 Units

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Units	Amount	Units	Amount
Outstanding, beginning of year	18,084,011	$107,978,701	17,988,339	$107,860,241
Units issued on:				
- Exercise of unit options	7,000	2,380	-	-
- Exercise of warrants	1,332,000	1,219,313	175,000	160,195
- Payment of distribution	6,448,598	6,900,000	-	-
Consolidation of units	(6,448,598)	-	-	-
Purchased and cancelled under normal course issuer bid	-	-	(79,328)	(41,735)
Outstanding, end of year	19,423,011	$116,100,394	18,084,011	$107,978,701

Units issued on payment of distributions
As a result of realized capital gains, the Trust paid "special" distributions in the form of additional units on December 31, 2013. The distributions were followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distributions as were held prior to the distributions.

Units purchased and cancelled under normal course issuer bid
In January 2012, LREIT renewed its normal course issuer bid for Trust units under which the Trust is entitled to purchase up to 1,383,378 units. The normal course issuer bid commenced January 12, 2012, expired on January 11, 2013, and was not renewed.

Units purchased by the Trust under its normal course issuer bid are cancelled. During the year ended December 31, 2013 the Trust purchased and cancelled nil units under the normal course issuer bid at a weighted average price of nil per unit (2012 - 79,328 and $0.53, respectively).

18 Warrants

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants. Each warrant entitles the purchaser to purchase one unit at a price of $1.00 until March 9, 2015.

On December 23, 2010 and January 28, 2011, the Trust issued a total of 16,000,000 trust unit purchase warrants. Each warrant entitles the purchaser to purchase one unit at a price of $0.75 until December 24, 2015.

The following schedules reflect the warrant outstanding:

Warrants expiring March 9, 2015:

	Year Ended December 31	
	2013	2012
Balance, beginning and end of year	6,780,000	6,780,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 678,000 trust unit purchase warrants due March 9, 2015. The normal course issuer bid commenced on January 24, 2014 and will expire on January 23, 2015. Subsequent to January 24, 2014, 30,200 warrants were purchased and cancelled.

18. Warrants (continued)

Warrants expiring December 24, 2015:

	Year Ended December 31 2013	2012
Balance, beginning of year	15,825,000	16,000,000
Warrants exercised	(1,332,000)	(175,000)
Balance, end of year	14,493,000	15,825,000

On January 24, 2014, the Trust implemented a normal course issuer bid under which the Trust is entitled to purchase up to an aggregate of 1,404,150 warrants due December 23, 2015. The normal course issuer bid commenced on January 24, 2014 and will expire on January 23, 2015. Subsequent to January 24, 2014, 77,500 warrants were purchased and cancelled.

Subsequent to December 31, 2013, 518,500 warrants were exercised at a price of $0.75 and 79,375 warrants were exercised at a price of $1.00.

19 Unit option plan

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan and the deferred unit plan will be limited to 10% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the TSX on the date of grant. Options granted to Trustees vest immediately. With the exception of options granted on November 19, 2012 and January 15, 2013, which vested immediately, options granted to senior officers and consultants vest on a straight-line basis over five years. The options will have a maximum term of five years from the date of grant.

On November 19, 2012, the Trust granted options to purchase 410,000 units at $0.60 per Trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $56,318 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 22.9% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.31%. The fair value of the options issued was charged to unit-based compensation.

On January 15, 2013, the Trust granted options to purchase 180,000 units at $0.65 per Trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $26,093 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 21.77% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.47%. The fair value of the options issued was charged to unit-based compensation.

19 *Unit option plan (continued)*

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

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	891,000	$ 1.69	571,000	$ 3.05
Cancelled, January 7, 2013	(231,000)	5.10	-	-
Issued, January 15, 2013	180,000	0.65	-	-
Exercised, February 15, 2013	(7,000)	0.34	-	-
Cancelled, July 15, 2013	(350,000)	0.60	-	-
Cancelled, July 15, 2013	(150,000)	0.65	-	-
Cancelled, June 8, 2012	-	-	(90,000)	5.30
Issued, November 19, 2012	-	-	410,000	0.60
Outstanding, end of period	333,000	$ 0.41	891,000	$ 1.69
Vested, end of period	333,000		891,000	

At December 31, 2013 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	243,000	243,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
	333,000	333,000	

Subsequent to December 31, 2013, 30,000 unit options were exercised.

20 *Deferred unit plan*

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid, in whole or in part, in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees, as applicable, to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

20 Deferred unit plan (continued)

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following termination other than for cause, retirement, or death. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 98,606 for the year ended December 31, 2013 (2012 - 127,948). Aggregate deferred units outstanding and fully vested at December 31, 2013 were 824,090 (2012 - 725,484).

Unit-based compensation expense of $75,000 for the year ended December 31, 2013 (2012 - $75,000) relating to deferred units granted was recorded to expense the fair value of unit-based compensation. Unit-based compensation is recorded in trust expense.

21 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

Management agreement
The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to investment properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,678,677 for the year ended December 31, 2013 (2012 - $1,547,632).

Included in trade and other payables at December 31, 2013 is a balance of $7,160 (December 31, 2012 - $29,337), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

21 Related party transactions (continued)

Services agreement
The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, fair value gains (losses) and defeasance assets. Service fees are included in trust expense.

The Trust incurred service fees of $1,435,351 for the year ended December 31, 2013 (2012 - $1,598,895).

Services fee and renovation fee for Lakewood Townhomes condominium sales program
The Trust has entered into an agreement with Shelter Canadian Properties Limited, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian Properties Limited will administer the sales program and the completion of the in-suite renovations. The Trust pays a service fee equal to 5% of the gross sales proceeds and Shelter Canadian Properties Limited 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 to the external real estate broker due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed rate. The Trust also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $75,847 for the year ended December 31, 2013 (2012 - $306,395). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the year ended December 31, 2013 (2012 - $3,534).

Financing
On January 1, 2012, the Trust had a $12 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $15 Million on April 1, 2012, reduced to $12 Million effective January 1, 2013 and increased to $15 Million effective July 1, 2013. The loan matured December 31, 2013 and bore interest at 12%, subject to a maximum interest and fee payment of $404,916 for the period from January 1, 2013 to June 30, 2013 and $897,637 for the period from July 1, 2013 to December 31, 2013 (2012 - 9.75% to March 31, 2012, 10% from April 1, 2012 to August 31, 2012 and 12% from September 1, 2012 to December 31, 2012 subject to maximum interest and fee payments of $162,594, $625,000 and $650,870, respectively). The renewals at January 1, 2013 and July 1, 2013, encompassed extension fees of $25,000 and $25,000, respectively (2012 - $75,000 and $150,000 at April 1, 2012 and September 1, 2012, respectively).

During the year ended December 31, 2013, the Trust received advances of $13,880,000 (2012 - $34,943,629) and repaid advances of $18,000,000 (2012 - $41,918,629) against the revolving loan, resulting in a balance of $905,000 (2012 - $5,025,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $1,170,123 for the year ended December 31, 2013 (2012 - $963,422) is included in interest expense.

21 Related party transactions (continued)

Effective January 1, 2014, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to September 30, 2014, subject to a maximum interest and fee payment of $1,206,357. The renewal encompassed a $25,000 extension fee. The loan is secured by mortgage charges against the title to five investment properties, two seniors' housing complexes and the assignment of a mortgage loan receivable in the amount of $8,545,600.

During the year ended December 31, 2012, Shelter Canadian Properties Limited advanced $16,169,000 on an interest-free basis as an interim funding measure. The Trust made repayments of $17,352,000, resulting in an outstanding balance of nil at December 31, 2012.

The revolving loan commitment and interest-free advances from Shelter Canadian Properties Limited were considered and approved by the independent Trustees.

Key management compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel, other than securities-based compensation under the unit option plan. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2013 was $564,000 (2012 - $564,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $11,456 (2012 - $48,076).

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited and/or its parent company, 2668921 Manitoba Ltd. No fees were charged to the Trust in regard to the guarantees.

22 Financial instruments and risk management

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk - debt covenant requirements
At December 31, 2013, the Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $17,061,239 swap mortgage loan on a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis. The covenant breach may continue for the next 12 months and there can be no assurance that the covenant breach will be remedied.

There is no assurance that the lenders will not accelerate payment of the mortgage loans.

The Bond Indenture which governs the mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series G debentures or any of the first mortgages on Beck Court, Norglen Terrace, Highland Tower or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments.

There are no others cross-default covenants with respect to other mortgage loans of the Trust.

22 *Financial instruments and risk management (continued)*

Liquidity risk - debt maturities (continued)
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to complete the acquisition of Parsons Landing on the agreed date and to refinance its debt as it matures.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years.

As at December 31, 2013, the weighted average term to maturity of the fixed rate mortgages on investment properties is 3.4 years (2012 - 1.8 years).

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

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Debentures and Mortgage Bonds	Swap Mortgage Loan
2014 (1)	$ 3,757,920	$102,549,938	$ 10,000,000	$17,061,239
2015	2,883,996	4,380,521	30,873,800	-
2016	2,828,670	7,540,967	-	-
2017	2,794,525	18,008,989	-	-
2018	1,228,287	55,302,118	-	-
Thereafter	-	27,437,334	-	-
	$ 13,493,398	$215,219,867	$ 40,873,800	$17,061,239

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Other Payables	Total
2014	$ 60,167	$ 44,587	$ 51,800,904	$185,274,755
2015	63,602	46,775	-	38,248,694
2016	2,520,846	-	-	12,890,483
2017	-	-	-	20,803,514
2018	-	-	-	56,530,405
Thereafter	-	-	-	27,437,334
	$ 2,644,615	$ 91,362	$ 51,800,904	$341,185,185

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

(1) Mortgage loans principal maturities and swap mortgage loan principal maturities include mortgage loans which are not in compliance with loan covenants. In accordance with IFRS, the $15,873,133 face value of the swap mortgage loan and the $1,188,106 fair value of the interest rate swap are reflected as current liabilities. In accordance with IFRS, a $4,478,175 term loan maturing on August 1, 2015 is reflected as a current liability as the loan document is a demand promissory note.

22 Financial instruments and risk management (continued)

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2013 the percentage of fixed rate mortgage loans to total mortgage loans was 72% (December 31, 2012 - 40%).

The Trust has variable rate mortgage loans on investment properties totaling $63,745,632, or 28% of the total mortgage loans at December 31, 2013 (December 31, 2012 - 60%). Should interest rates change by 1%, interest expense would change by $637,456 per year.

As at December 31, 2013, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to December 31, 2016 of $52,153,818 representing 23% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $521,538 per year.

With the exception of an interest rate swap arrangement, the Trust does not trade in financial instruments.

Credit risk
Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Trust has credit policies to address credit risk that include the analysis of financial position and credit history of a prospective tenant and by obtaining security deposits whenever permitted by legislation. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due but not impaired:

	December 31	
	2013	2012
Rent receivable overdue:		
0 to 30 days	$ 123,531	$ 149,415
31 to 60 days	38,555	44,760
More than 60 days	61,228	53,558
	$ 223,314	$ 247,733

22 Financial instruments and risk management (continued)

Credit risk (continued)

A reconciliation of allowance for doubtful accounts is as follows:

	Year Ended December 31 2013	2012
Balance, beginning of year	$ 20,051	$ 163,553
Amount charged to bad debt expense relating to impairment of rent receivable	48,664	85,622
Amounts written off as uncollectible	(35,964)	(229,124)
Balance, end of year	$ 32,751	$ 20,051
Amount charged to bad debts as a percent of rentals from investment properties	0.12%	0.22%

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The Trust does not have financial instruments that are affected by changes in market prices.

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust does not have any transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with the financial instruments of the Trust are not exposed to other price risk.

22 Financial instruments and risk management (continued)

Fair values

Except for the swap mortgage loan which is carried at fair value, a comparison of the carrying amounts and fair value of the financial instruments of the Trust is provided below.

	Carrying Value		Fair Value	
	December 31		December 31	
	2013	2012	2013	2012
Financial assets				
Loans and receivables	-	11,863,320	-	11,109,854
Defeasance assets	2,879,978	3,025,370	-	-
Restricted cash	4,241,812	7,801,248	4,241,812	7,801,248
Cash	2,401,741	1,254,278	2,401,741	1,254,278
Rent and other receivables	10,129,493	1,274,277	10,129,493	1,274,277
Deposits	379,277	667,247	379,277	667,247
Financial liabilities				
Mortgages loans	228,713,265	247,654,245	228,469,471	247,959,720
Mortgage bonds	14,913,008	14,458,831	15,226,306	14,898,857
Debentures	24,873,800	24,961,000	24,647,812	25,006,654
Defeased liability	2,644,615	2,701,511	-	-
Mortgage guarantee fees	91,362	133,864	91,362	133,864
Trade and other payables	47,306,909	54,040,678	47,306,909	54,040,678
Deposits from tenants	2,518,165	2,428,393	2,518,165	2,428,393

The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying amounts due to the short-term maturities of these instruments. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data.
- Loans and receivables and restricted cash are estimated by discounting expected future cash flows using current market interest rates. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data.
- The fair value of the defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data.
- In regard to mortgages loans, mortgage bonds, debentures and mortgage guarantee fees:
  - The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data.

22 Financial instruments and risk management (continued)

Fair values (continued)

- The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data. The current market interest rates used to calculate the fair value range between 2.09% and 5.60%.
- The fair value of debt component of debentures are based on quoted market prices. The valuation method is classified as level 2 of the fair value hierarchy as the inputs are directly or indirectly observable market data.

23 Management of capital

The capital structure of the Trust is comprised of the following:

	December 31	
	2013	2012
Mortgage loans	$226,894,214	$246,122,919
Swap mortgage loan	16,970,654	17,780,812
Mortgage bonds	14,158,213	13,425,127
Debentures	24,521,378	24,347,895
Equity	117,452,013	100,829,954
	$399,996,472	$402,506,707

The Trust manages capital in order to safeguard its ability to continue as a going concern and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units, debentures or other securities of the Trust.
- Mortgage debt financing is arranged to optimise the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including debenture debt.

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

23 Management of capital (continued)

In order to maintain or adjust the capital structure the Trust may (i) issue units, debentures or mortgage debt and other securities, such as trust unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units, debentures or trust unit purchase warrants; and/or (v) reduce debt.

Market requirements for attracting capital may vary in ways that the Trust may not be able to accurately predict.

24 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties"). Operating segments are also established for properties sold and properties acquired.

A Parsons Landing segment was established to disclose the operations of the impaired property as a result of a fire (Note 5).

Revenue is primarily derived from the operations of residential real estate comprised of multi family rental properties.

Year ended December 31, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	24,422,889	10,892,024	3,425,499	1,588,352	-	40,328,764
Property operating costs	8,707,915	5,277,117	1,593,323	541,640	-	16,119,995
Net operating income	15,714,974	5,614,907	1,832,176	1,046,712	-	24,208,769
Interest income	73,229	11,262	37,492	2,801	1,147,956	1,272,740
Interest expense	11,384,536	3,756,848	516,994	3,703,722	7,861,479	27,223,579
Income (loss) before discontinued operations	6,235,907	5,235,984	3,344,923	8,898,126	(9,025,566)	14,689,374
Cash from operating activities	5,728,756	2,015,236	1,388,337	300,516	(8,196,284)	1,236,561
Cash from financing activities	(3,620,136)	(884,323)	(15,602,893)	1,543,087	377,389	(18,186,876)
Cash from investing activities	(1,355,509)	(931,915)	14,399,089	(1,804,977)	7,791,090	18,097,778
Total assets excluding assets held for sale at December 31, 2013	267,258,190	107,485,081	366,541	53,557,016	12,919,628	441,586,456

24 *Segmented financial information (continued)*

Year ended December 31, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	22,965,656	10,939,943	4,110,966	394,427	-	38,410,992
Property operating costs	8,768,905	5,182,636	1,735,839	294,383	-	15,981,763
Net operating income	14,196,751	5,757,307	2,375,127	100,044	-	22,429,229
Interest income	30,232	11,033	133,136	1,719	793,487	969,607
Interest expense	12,738,240	6,060,475	871,264	3,600,011	9,991,479	33,261,469
Income (loss) before discontinued operations	9,561,586	3,913,215	1,533,000	(2,891,357)	(11,564,662)	551,782
Cash from operating activities	3,014,865	2,147,541	1,671,012	(1,547,736)	(12,054,403)	(6,768,721)
Cash from financing activities	(3,353,744)	(2,051,774)	(13,471,079)	1,281,000	50,769,334	33,173,737
Cash from investing activities	561,664	10,898	11,601,876	289,799	(38,785,594)	(26,321,357)
Total assets excluding assets held for sale at December 31, 2012	265,210,801	102,891,363	21,454,228	44,342,231	20,651,400	454,550,023

25 *Commitments*

Management Contracts
The Trust has retained the following third party managers to provide on-site management services to the seniors' housing complexes:

Property	Manager	Term Expiring
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2014
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016

26 *Contingencies*

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and an estimate of the costs to satisfy such claims is recorded. Although the outcome of legal and other claims are not reasonably determined, management believes that any such outcome will not be material.

The Trust has guaranteed a mortgage loan in the amount of $8,055,177 on a property that was sold in 2013.

27 *Subsequent events*

Mortgage bond repayment
Subsequent to December 31, 2013, mortgage bonds with a face value of $10,000,000 were repaid.

Mortgage financing
Subsequent to December 31, 2013, the Trust renewed an $8,800,000, 4.97% first mortgage loan to January 1, 2015, at 2.23%.

27 *Subsequent events (continued)*

Revolving loan
Subsequent to December 31, 2013, the Trust received advances of $14,745,000 and repaid $650,000, resulting in a balance of $15,000,000 as of the date of the Financial Statements.

Mortgage loans receivable
Subsequent to December 31, 2013, a mortgage loan receivable in the amount of $500,000 was received.

Parsons Landing
Subsequent to December 31, 2013, the amount payable on the acquisition of Parsons Landing was reduced to $40,356,731 as a result of payments made of $3,000,000 on January 3, 2014 and $650,000 on January 31, 2014.

Subsequent to December 31, 2013, the purchase of Parsons Landing was completed. The amount payable to the vendor on closing of $40,356,731 was funded by $39,290,000 of net proceeds from a 7.95%, $40,000,000 first mortgage loan maturing on April 30, 2015, an advance under the revolving loan, and the balance in cash.

28 *Comparative figures*

For comparative purposes, certain of the prior year figures have been reclassified.