LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2013	December 31 2012
ASSETS		
Non-current assets		
Investment properties (Note 3)	**$432,030,750**	$427,967,800
Loans and receivables (Note 4)	**8,952,657**	11,863,320
Defeasance assets	**2,952,733**	3,025,370
Restricted cash	**6,021,090**	7,801,248
Total non-current assets	**449,957,230**	450,657,738
Current assets		
Cash	**1,017,304**	1,254,278
Rent and other receivables	**1,019,204**	1,274,277
Deposits and prepaids	**1,650,267**	1,363,730
	3,686,775	3,892,285
Assets classified as held for sale (Note 5)	**26,340,009**	27,002,555
Total current assets	**30,026,784**	30,894,840
TOTAL ASSETS	**$479,984,014**	$481,552,578
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 6)	**$139,075,595**	$ 86,760,933
Total non-current liabilities	**139,075,595**	86,760,933
Current liabilities		
Trade and other payables (Note 7)	**60,958,791**	54,040,678
Current portion of long-term debt (Note 6)	**158,561,768**	219,463,616
Deposits from tenants	**2,690,557**	2,428,393
	222,211,116	275,932,687
Liabilities classified as held for sale (Note 5)	**15,277,950**	18,029,004
Total current liabilities	**237,489,066**	293,961,691
Total liabilities	**376,564,661**	380,722,624
Total equity	**103,419,353**	100,829,954
TOTAL LIABILITIES AND EQUITY	**$479,984,014**	$481,552,578

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Rentals from investment properties	**$ 10,026,210**	$ 9,387,902	**$ 19,795,098**	$ 19,771,822
Property operating costs	**3,939,488**	3,567,126	**8,014,808**	7,992,332
Net operating income	**6,086,722**	5,820,776	**11,780,290**	11,779,490
Interest income	**329,946**	259,186	**628,247**	333,753
Forgiveness of debt	**-**	-	**-**	859,561
Interest expense (Note 8)	**(6,609,966)**	(7,241,022)	**(14,451,844)**	(14,358,954)
Trust expense	**(790,635)**	(585,876)	**(1,321,932)**	(1,164,759)
Profit on sale of investment properties	**164,928**	721,082	**164,928**	1,045,307
Fair value gains (Note 3)	**1,286,668**	7,078,608	**1,424,522**	8,940,225
Fair value adjustment of Parsons Landing (Note 3)	**1,769,760**	23,300,000	**2,069,760**	(4,500,000)
Income recovery on Parsons Landing (Note 3)	**742,500**	1,524,111	**1,641,630**	1,524,111
Income before taxes and discontinued operations	**2,979,923**	30,876,865	**1,935,601**	4,458,734
Deferred income tax expense	**-**	181,339	**-**	181,339
Income before discontinued operations	**2,979,923**	30,695,526	**1,935,601**	4,277,395
Income from discontinued operations (Note 5)	**355,731**	1,601,704	**587,825**	1,933,940
Income and comprehensive income	**$ 3,335,654**	$ 32,297,230	**$ 2,523,426**	$ 6,211,335
Income per unit before discontinued operations:				
Basic	**$ 0.158**	$ 1.655	**$ 0.103**	$ 0.231
Diluted	**$ 0.156**	$ 1.645	**$ 0.102**	$ 0.229
Income per unit from discontinued operations:				
Basic and diluted	**$ 0.019**	$ 0.086	**$ 0.031**	$ 0.104
Income per unit:				
Basic	**$ 0.177**	$ 1.741	**$ 0.134**	$ 0.335
Diluted	**$ 0.175**	$ 1.731	**$ 0.133**	$ 0.333

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended June 30		Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Issued capital (Note 10)				
Balance, beginning of period	**$107,981,081**	$107,818,506	**$107,978,701**	$107,860,241
Issue of units on exercise of options	**-**	-	**2,380**	-
Issue of units on exercise of warrants	**-**	45,770	**-**	45,770
Units purchased under normal course issuer bid	**-**	-	**-**	(41,735)
Balance, end of period	**107,981,081**	107,864,276	**107,981,081**	107,864,276
Contributed surplus				
Balance, beginning of period	**17,255,913**	17,127,447	**17,211,070**	17,108,697
Value of deferred units granted	**18,750**	18,750	**37,500**	37,500
Value of unit options granted	**-**	-	**26,093**	-
Warrants exercised	**-**	(8,270)	**-**	(8,270)
Balance, end of period	**17,274,663**	17,137,927	**17,274,663**	17,137,927
Cumulative earnings				
Balance, beginning of period	**42,277,990**	(3,093,985)	**43,090,218**	22,991,910
Income and comprehensive income	**3,335,654**	32,297,230	**2,523,426**	6,211,335
Balance, end of period	**45,613,644**	29,203,245	**45,613,644**	29,203,245
Cumulative distributions to unitholders				
Balance, beginning and end of period	**(67,450,035)**	(67,450,035)	**(67,450,035)**	(67,450,035)
Total equity	**$103,419,353**	$ 86,755,413	**$103,419,353**	$ 86,755,413

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Operating activities				
Income and comprehensive income	**$ 3,335,654**	$ 32,297,230	**$ 2,523,426**	$ 6,211,335
Adjustments to reconcile income to cash flows				
Fair value gains	**(1,286,668)**	(7,078,608)	**(1,424,522)**	(8,940,225)
Profit on sale of properties	**(164,928)**	(2,760,890)	**(164,928)**	(3,085,115)
Fair value adjustment of Parsons Landing	**(1,769,760)**	(23,300,000)	**(2,069,760)**	4,500,000
Write down of note receivable	**190,000**	-	**190,000**	-
Forgiveness of debt	**-**	-	**-**	(859,561)
Accrued rental revenue	**16,279**	255,698	**(85,019)**	358,558
Unit-based compensation	**18,750**	18,750	**63,593**	37,500
Deferred income tax expense	**-**	3,427	**(285,734)**	3,427
Interest income	**(329,946)**	(259,186)	**(628,247)**	(333,753)
Interest received	**178,023**	121,504	**338,910**	244,725
Interest expense	**6,806,411**	9,960,697	**14,841,958**	18,585,280
Interest paid	**(7,495,532)**	(9,345,766)	**(13,417,976)**	(16,125,302)
Cash from operations	**(501,717)**	(87,144)	**(118,299)**	596,869
Decrease (increase) in rent and other receivables	**205,704**	(49,421)	**152,897**	(366,815)
Decrease (increase) in deposits and prepaids	**(251,768)**	(407,165)	**(258,169)**	(363,104)
Increase (decrease) in tenant deposits	**142,294**	(425,891)	**238,505**	(823,750)
Increase (decrease) in trade and other payables	**192,301**	(3,675,238)	**(104,125)**	(4,642,972)
	(213,186)	(4,644,859)	**(89,191)**	(5,599,772)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**96,000,000**	31,500,000	**117,000,000**	62,350,000
Repayment of mortgage loans on refinancing	**(98,944,952)**	(29,231,391)	**(119,344,952)**	(54,718,362)
Repayment of long-term debt	**(1,976,503)**	(3,270,530)	**(4,063,979)**	(5,426,967)
Prepayment of mortgage loans	**-**	-	**(1,998,500)**	-
Proceeds of revolving loan commitment	**4,628,000**	7,545,000	**10,675,000**	11,745,000
Repayment of revolving loan commitment	**(500,000)**	(14,320,000)	**(3,700,000)**	(20,320,000)
Proceeds of Shelter Canadian Properties Limited advances	**-**	-	**-**	5,594,000
Repayment of Shelter Canadian Properties Limited advances	**-**	-	**-**	(6,777,000)
Expenditures on transaction costs	**(1,085,579)**	(544,333)	**(1,355,284)**	(1,527,602)
Exercise of options	**-**	-	**2,380**	-
Exercise of warrants	**-**	37,500	**-**	37,500
Units purchased and cancelled under normal course issuer bid	**-**	-	**-**	(41,732)
Debentures purchased and cancelled under normal course issuer bid	**(8,000)**	-	**(8,000)**	(351,000)
	(1,887,034)	(8,283,754)	**(2,793,335)**	(9,436,163)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(947,639)**	(744,105)	**(1,302,001)**	(912,572)
Capital expenditures on property and equipment	**(113,336)**	(12,280)	**(127,325)**	(17,175)
Decrease in defeasance assets	**36,294**	35,722	**72,637**	71,319
Proceeds of mortgage loan receivable	**-**	-	**3,200,000**	-
Taxes paid on property sold	**-**	-	**(1,734,702)**	-
Proceeds of sale	**(1,913)**	13,205,597	**(1,913)**	13,167,279
Change in restricted cash	**2,713,783**	821,563	**1,779,440**	3,375,216
	1,687,189	13,306,497	**1,886,136**	15,684,067
Cash increase (decrease)	**(413,031)**	377,884	**(996,390)**	648,132
Add (deduct) decrease (increase) in cash from discontinued operations (Note 5)	**554,063**	296,698	**759,416**	(23,810)
	141,032	674,582	**(236,974)**	624,322
Cash, beginning of period	**876,272**	1,120,359	**1,254,278**	1,170,619
Cash, end of period	**$ 1,017,304**	$ 1,794,941	**$ 1,017,304**	$ 1,794,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 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 symbol:

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 condensed consolidated financial statements of the Trust for the three and six months ended June 30, 2013 ("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 August 13, 2013.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 36 Corporation, 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 income before discontinued operations of $2,979,923 for the three months ended June 30, 2013 (2012 - $30,695,526) and $1,935,601 for the six months ended June 30, 2013 (2012 - $4,277,395); the Trust incurred a cash deficiency from operating activities of $213,186 for the three months ended June 30, 2013 (2012 - $4,644,859) and $89,191 for the six months ended June 30, 2013 (2012 - $5,599,772). In addition, the Trust has a working capital deficit of $11,585,027 as at June 30, 2013 (December 31, 2012 - $4,462,801) and the Trust was in breach of debt service and other covenant requirements on three mortgage loans and one swap mortgage loan (December 31, 2012 - four mortgage loans and one swap mortgage loan).

The Trust is in breach of the 1.2 times debt service coverage requirement of a second mortgage loan in the amount of $16,398,260, on two properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $10,076,730 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The two mortgage loans in breach of debt coverage requirements, in the aggregate amount of $26,474,990 have matured. A forbearance extension to September 30, 2013 has been obtained for the two mortgage loans.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $17,481,061 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 breaches of the debt service coverage requirements on two mortgage loans and one swap mortgage loan, as noted above, are a result of lower residential rents. All or some of the covenant breaches may continue for the next 12 months and there can be no assurance that the covenant breaches will be remedied.

At June 30, 2013, the Trust was in breach of a 1.3 times debt service coverage requirement of a $4,614,534 first mortgage loan on a property in Moose Jaw, Saskatchewan. Subsequent to June 30, 2013, the loan was renewed and the breach was extinguished.

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

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 21 properties, including 3 properties during the year ended December 31, 2012, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has extended the maturity date for the Series G debentures to 2015 and the Trust has successfully eliminated covenant breaches on six 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 Accounting Standards ("IAS") 34 using the same presentation and accounting policies under International Financial Reporting Standards ("IFRS") as disclosed in the December 31, 2012 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at August 13, 2013.

Effective January 1, 2013, the Trust adopted IFRS 10 - Consolidated Financial Statements and IFRS 13 - Fair Value Measurement. The adoption of IFRS 10 did not result in any change to the consolidation status of any of its subsidiaries. The adoption of IFRS 13 did not require any changes to the valuation techniques used by the Trust to measure fair value and did not result in changes in the carrying values as at January 1, 2013.

The December 31, 2012 annual report is available on SEDAR at www.sedar.com.

3 *Investment properties*

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Balance, beginning of period	$428,760,016	$425,052,391	$427,967,800	$451,857,370
Additions - capital expenditures	947,639	744,105	1,302,001	912,572
Fair value gains	1,286,668	7,078,608	1,424,522	8,940,225
Dispositions (a)	(733,333)	(32,225,104)	(733,333)	(33,260,167)
Fair value adjustment of Parsons Landing (b)	1,769,760	23,300,000	2,069,760	(4,500,000)
Balance, end of period	$432,030,750	$423,950,000	$432,030,750	$423,950,000

The Trust values investment properties at fair value using recognized valuation techniques and, on a periodic basis, external property valuations.

To assist in the determination of fair value at June 30, 2013, external appraisals were obtained in 2013 for 5 properties having an aggregate fair value of $214.3 Million representing 50% of the total carrying value of investment properties. Appraisals were obtained in 2012 for 12 properties having an aggregate fair value of $163.6 Million representing 38% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 3 properties having an aggregate fair value of $46.7 Million representing 11% of the total carrying value of investment properties. Appraisals were obtained in 2010 for 2 properties having an aggregate fair value of $7.4 Million representing 1% of the total carrying value of investment properties

(a) Property dispositions

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Units sold	2	5	2	8
Gross proceeds	$959,800	$2,458,800	$959,800	$3,959,500
Gain on sale	$164,928	$374,312	$164,928	$698,537

(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 is 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 and $3 Million at closing. 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 acquisition is completed on the closing date, as extended. As of June 30, 2013, interest in excess of $300,000 per month amounted to $23,652,264.

3 Investment properties (continued)

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

On closing, the builder has agreed to provide a second mortgage, to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter. On closing, the builder has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. The Trust may also elect, at any time, to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1. In addition, 2668921 Manitoba Ltd. agreed to maintain the revolving loan commitment with the Trust, in the amount of $8,800,000, until closing.

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 cost of reconstruction is expected to be fully covered under the insurance policy.

In June 2012, agreements were finalized under which the builder agreed to complete the reconstruction of Parsons Landing and attend to the recovery of the insurance claim for property damage and revenue losses. The reconstruction of 84 suites and the return of the suites to LREIT, was completed effective June 1, 2013 and reconstruction of the remaining 76 suites is expected to be completed by November 1, 2013. The cost of the reconstruction has been fully funded from insurance proceeds. The builder also agreed to extend the closing date of the acquisition to a date which is 90 days after the final occupancy permit is obtained. The closing date is expected to be February 1, 2014.

As of June 30, 2013, the balance owing in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $45,720,000.

Impact on Financial Statements
The Financial Statements reflect the following:

Fair value adjustment of Parsons Landing
Parsons Landing is classified as an investment property and is carried at fair value. The carrying value of the property at June 30, 2013 is $46,960,491 (December 31, 2012 - $44,300,000), which represents the estimated fair value at closing, discounted at 9% for the estimated time period of reconstruction.

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 June 30, 2013, the Financial Statements reflect operating revenues and expenses for 84 units and recovery of insurance proceeds for the remaining 76 units.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013

4 Loans and receivables

	June 30 2013	December 31 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 outstanding principal amount	$ 8,177,657	$ 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
5% 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. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	60,000	250,000
	9,012,657	12,113,320
Current portion of loans and receivables	(60,000)	(250,000)
	$ 8,952,657	$ 11,863,320

5 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:

	June 30 2013	December 31 2012
ASSETS		
Assets in discontinued operations		
Property and equipment	$ 26,242,439	$ 26,115,114
Cash	25,031	784,447
Restricted cash	40,846	40,128
Rent and other receivables	7,086	9,891
Deposits, prepaids and other	24,607	52,975
Assets classified as held for sale	$ 26,340,009	$ 27,002,555
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (a)	$ 14,618,742	$ 15,278,462
Deferred tax	-	285,734
Trade and other payables	418,107	2,200,048
Deposits from tenants	241,101	264,760
Liabilities classified as held for sale	$ 15,277,950	$ 18,029,004

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

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

	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Rental income	$ 1,275,736	$ 3,546,796	$ 2,670,218	$ 7,552,047
Property operating expenses	910,648	1,699,876	1,800,776	3,967,716
Net operating income	365,088	1,846,920	869,442	3,584,331
Interest expense (b)	196,445	2,719,675	390,114	4,226,326
Profit on sale	-	2,039,808	-	2,039,808
Current tax expense (recovery)	(187,088)	(256,739)	177,237	(358,215)
Deferred tax expense (recovery)	-	(177,912)	(285,734)	(177,912)
Income from discontinued operations	$ 355,731	$ 1,601,704	$ 587,825	$ 1,933,940

	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Cash inflow (outflow) from operating activities	$ 155,602	$ (97,361)	$ 284,537	$ 308,266
Cash inflow (outflow) from financing activities	(595,943)	(9,456,292)	818,792	(9,536,118)
Cash inflow (outflow) from investing activities	(113,722)	9,256,955	(1,862,745)	9,251,662
Increase (decrease) in cash from discontinued operations	$ (554,063)	$ (296,698)	$ (759,416)	$ 23,810

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

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

(a) Long term debt

	June 30 2013	December 31 2012
Secured debt		
Mortgage loans	$ 14,618,742	$ 15,295,629
Unamortized transaction costs	-	(17,167)
Total long term debt	$ 14,618,742	$ 15,278,462

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of June 30, 2013, The Trust was in breach of a 1.3 times debt service coverage requirement of a $4,614,534 first mortgage loan on a property in Moose Jaw, Saskatchewan. Subsequent to June 30, 2013, the loan was renewed and the breach was extinguished.

(b) Interest expense

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Mortgage loan interest	$ 182,862	$ 1,024,887	$ 367,947	$ 2,281,397
Mortgage prepayment penalty	-	1,324,352	-	1,324,352
Amortization of transaction costs	13,583	370,436	22,167	620,577
	$ 196,445	$ 2,719,675	$ 390,114	$ 4,226,326

6 *Long-term debt*

	June 30 2013	December 31 2012
Secured debt		
Mortgage loans (a)	$ 239,339,100	$ 247,654,245
Swap mortgage loan (b)	17,481,061	17,888,836
Mortgage bonds (c)	14,677,276	14,458,831
Debentures (d)	24,953,000	24,961,000
Defeased liability	2,673,460	2,701,511
Total secured debt	299,123,897	307,664,423
Mortgage guarantee fees	112,867	133,864
Total debt	299,236,764	307,798,287
Accrued interest payable	1,329,696	1,746,367
Unamortized transaction costs		
Mortgage loans	(1,412,615)	(1,531,326)
Swap mortgage loan	(99,429)	(108,024)
Mortgage bonds	(900,074)	(1,033,704)
Debentures	(487,993)	(613,105)
Defeased liability	(28,986)	(33,946)
Total unamortized transaction costs	(2,929,097)	(3,320,105)
	297,637,363	306,224,549
Less current portion		
Mortgage loans	(141,278,233)	(201,725,598)
Swap mortgage loan	(17,481,061)	(17,888,836)
Defeased liability	(58,503)	(56,896)
Mortgage guarantee fees	(43,532)	(42,502)
Accrued interest payable	(1,329,696)	(1,746,367)
Transaction costs	1,629,257	1,996,583
Total current portion	(158,561,768)	(219,463,616)
	$ 139,075,595	$ 86,760,933
Current portion of unamortized transaction costs		
Mortgage loans	$ 937,077	$ 1,340,398
Swap mortgage loan	99,429	108,024
Mortgage bonds	303,222	278,909
Debentures	279,329	259,240
Defeased liability	10,200	10,012
	$ 1,629,257	$ 1,996,583

6 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates June 30 2013	Weighted average interest rates December 31 2012	June 30 2013	December 31 2012
First mortgage loans				
Fixed rate	4.5%	4.8%	$ 158,864,110	$ 97,891,938
Variable rate	6.5%	8.9%	49,776,730	107,325,680
Total first mortgage loans	4.9%	7.0%	208,640,840	205,217,618
Second mortgage loans				
Variable rate	9.6%	9.1%	30,698,260	42,436,627
Total second mortgage loans	9.6%	9.1%	30,698,260	42,436,627
Total	5.5%	7.3%	$ 239,339,100	$ 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. At June 30, 2013, the Trust was not in compliance with one first mortgage loan and one second mortgage loan totaling $26,474,990, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $26,474,990 is included in current portion of long-term debt. A forbearance to September 30, 2013 was obtained for the two mortgage loans which have matured and are payable on demand.

Except for three mortgage loans in the amount of $53,527,373, all mortgages which have matured prior to August 13, 2013 have been renewed or refinanced. Management expects that the loans will be refinanced by December 31, 2013.

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

	June 30 2013	December 31 2012
Face value of mortgage loan, subject to swap	$ 16,147,508	$ 16,414,032
Fair value of interest rate swap	1,333,553	1,474,804
	$ 17,481,061	$ 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 $17,481,061 is included in current portion of long-term debt.

6 Long-term debt (continued)

(c) Mortgage bonds

	June 30 2013	December 31 2012
Balance, beginning of period	$ 14,458,831	$ 14,058,307
Accretion	218,445	400,524
Balance, end of period	$ 14,677,276	$ 14,458,831

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

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due February 28, 2015 is $24,953,000 (December 31, 2012 - $24,961,000).

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 June 30, 2013, the Trust purchased and cancelled Series G debentures with a face value of $8,000 at an average price of $95.50 per $100.00.
Subsequent to June 30, 2013, the Trust purchased and cancelled Series G debentures with a face value of $24,200 at an average price of $95.01 per $100.00.

7 Trade and other payables

	June 30 2013	December 31 2012
Accounts payable - vendor invoices	$ 1,045,888	$ 1,300,506
Accrued payables	1,372,204	1,230,798
Prepaid rent	820,699	764,374
Payable on acquisition of Parsons Landing	45,720,000	45,720,000
Revolving loan from 2668921 Manitoba Ltd.	12,000,000	5,025,000
	$ 60,958,791	$ 54,040,678

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8 Interest expense

	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Mortgage loan interest	$ 3,999,116	$ 4,428,277	$ 8,458,305	$ 8,868,119
Swap mortgage loan interest	225,107	391,934	469,405	968,879
Change in fair value of interest rate swaps	(72,791)	(219,774)	(141,251)	(404,449)
Mortgage bond interest	360,000	360,000	720,000	720,000
Accretion of mortgage bonds	109,004	96,104	218,445	192,689
Debenture interest	592,824	594,448	1,185,648	1,185,648
Amortization of transaction costs	496,706	690,033	1,741,292	1,028,068
Interest on acquisition payable	900,000	900,000	1,800,000	1,800,000
	$ 6,609,966	$ 7,241,022	$ 14,451,844	$ 14,358,954

9 Per unit calculations

	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Income before discontinued operations	$ 2,979,923	$ 30,695,526	$ 1,935,601	$ 4,277,395
Income and diluted income from discontinued operations	355,731	1,601,704	587,825	1,933,940
Income	$ 3,335,654	$ 32,297,230	$ 2,523,426	$ 6,211,335

	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Weighted average number of units:				
Units	18,091,011	17,924,945	18,089,232	17,934,160
Deferred units	751,893	631,019	738,761	614,278
Total basic	18,842,904	18,555,964	18,827,993	18,548,438
Weighted average diluted number of units	19,077,499	18,654,178	19,018,718	18,643,893

10 Units

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Units	Amount	Units	Amount
Outstanding, beginning of period	18,084,011	$107,978,701	17,988,339	$107,860,241
Units issued on exercise of unit options	7,000	2,380	-	-
Units issued on exercise of warrants	-	-	175,000	160,195
Purchased and cancelled under normal course issuer bid	-	-	(79,328)	(41,735)
Outstanding, end of period	18,091,011	$107,981,081	18,084,011	$107,978,701

11 Unit option plan

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.

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

	Six Months Ended June 30, 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, June 8, 2012	-	-	(90,000)	5.30
Issued, November 19, 2012	-	-	410,000	0.60
Outstanding, end of period	833,000	$ 0.53	891,000	$ 1.69
Vested, end of period	833,000		891,000	

At June 30, 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	410,000	410,000	November 19, 2017
0.65	180,000	180,000	January 15, 2018
	833,000	833,000	

11 Unit option plan (continued)

Subsequent to June 30, 2013, the following unit options were cancelled:

Exercise price	Options cancelled
$ 0.60	350,000
0.65	150,000
	500,000

12 Deferred unit plan

Deferred units granted to Trustees totaled 25,685 for the three months ended June 30, 2013 (2012 - 35,377) and 52,093 for the six months ended June 30, 2013 (2012 - 68,859). Aggregate deferred units outstanding and fully vested at June 30, 2013 were 777,577 (2012 - 666,396).

Unit-based compensation expense of $18,750 for the three months ended June 30, 2013 (2012 - $18,750) and $37,500 for the six months ended June 30, 2013 (2012 - $37,500) relating to deferred units granted was recorded to expense the fair value of unit-based compensation. Unit-based compensation is recorded in trust expense.

13 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 $429,022 for the three months ended June 30, 2013 (2012 - $381,274) and $836,132 for the six months ended June 30, 2013 (2012 - $770,635).

Included in trade and other payables at June 30, 2013 is a balance of $64,062 (December 31, 2012 - $29,337), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

13 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 $353,225 for the three months ended June 30, 2013 (2012 - $399,271) and $719,718 for the six months ended June 30, 2013 (2012 - $822,713).

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 $50,390 for the three months ended June 30, 2013 (2012 - $204,470) and $50,390 for the six months ended June 30, 2013 (2012 - $281,883). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the three months ended June 30, 2013 (2012 - $3,108) and nil for the six months ended June 30, 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 and reduced to $12 Million effective January 1, 2013. The loan bears 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 (2012 - 9.75%, subject to a maximum interest payment of $162,594 to March 31, 2012, 10% from April 1, 2012 to August 31, 2012, and 12% from September 1, 2012, subject to a maximum interest and fee payment of $650,870 for the period from September 1 to December 31, 2012). The renewal at January 1, 2013, encompassed the payment of an extension fee of $25,000 (2012 - $75,000 at April 1, 2012 and $150,000 at August 31, 2012). The loan is secured by mortgage charges against the title to six investment properties, two seniors' housing complexes and the assignment of a mortgage loan receivable in the amount of $8,177,657. As of June 30, 2013, $12,000,000 has been drawn and is included in trade and other payables.

13 Related party transactions (continued)

Financing (continued)
Interest on the revolving loan of $187,010 for the three months ended June 30, 2013 (2012 - $239,759) and $379,916 for the six months ended June 30, 2013 (2012 - $402,353) is included in interest expense.

Effective July 1, 2013, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed and increased to $15 Million at an interest rate of 12% to December 31, 2013, subject to a maximum interest and fee payment of $897,637. The renewal encompassed the payment of a $25,000 extension fee.

The revolving loan commitment was approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the revolving loan commitment.

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.

14 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").

Commencing in the first quarter of 2012, an Impaired Property segment was established to disclose the operations of Parsons Landing and a Properties Sold segment was established to disclose the operations of the investment properties which have been sold under the divestiture program.

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

Three months ended June 30, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	6,285,528	3,609,934	-	130,748	-	10,026,210
Property operating costs	2,196,215	1,670,687	-	72,586	-	3,939,488
Net operating income	4,089,313	1,939,247	-	58,162	-	6,086,722
Interest income	48,295	11,264	-	246	270,141	329,946
Interest expense	2,523,132	1,330,652	-	900,000	1,856,182	6,609,966
Income (loss) before discontinued operations	2,512,930	1,170,632	-	1,670,668	(2,374,307)	2,979,923
Cash from operating activities	1,462,755	833,102	-	46,171	(2,710,816)	(368,788)
Cash from financing activities	(1,695,216)	(489,327)	-	807,473	85,979	(1,291,091)
Cash from investing activities	119,221	(341,259)	-	(739,831)	2,762,780	1,800,911

14 Segmented financial information (continued)

Three months ended June 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	5,715,755	3,545,890	126,257	-	-	9,387,902
Property operating costs	1,957,239	1,587,025	22,862	-	-	3,567,126
Net operating income	3,758,516	1,958,865	103,395	-	-	5,820,776
Interest income	9,723	1,383	70,052	520	177,508	259,186
Interest expense	2,835,168	1,065,965	38,620	900,000	2,401,269	7,241,022
Income (loss) before discontinued operations	8,877,063	494,109	481,597	23,833,268	(2,990,511)	30,695,526
Cash from operating activities	441,666	935,622	(308,352)	(1,946,597)	(3,669,837)	(4,547,498)
Cash from financing activities	(520,644)	(425,721)	(11,919,095)	2,220,000	11,817,998	1,172,538
Cash from investing activities	139,957	(515,181)	12,010,281	(91,364)	(7,494,151)	4,049,542

Six months ended June 30, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	12,440,283	7,224,067	-	130,748	-	19,795,098
Property operating costs	4,461,449	3,480,773	-	72,586	-	8,014,808
Net operating income	7,978,834	3,743,294	-	58,162	-	11,780,290
Interest income	55,449	22,459	-	278	550,061	628,247
Interest expense	5,950,696	2,638,237	-	1,800,000	4,062,911	14,451,844
Income (loss) before discontinued operations	3,277,236	1,520,947	-	1,969,830	(4,832,412)	1,935,601
Cash from operating activities	2,550,489	1,357,484	(55,754)	(167,335)	(4,058,612)	(373,728)
Cash from financing activities	(1,734,380)	(928,286)	55,754	1,002,461	(2,007,676)	(3,612,127)
Cash from investing activities	(982,407)	(517,105)	-	(739,831)	5,988,224	3,748,881
Total assets excluding assets held for sale at June 30, 2013	266,466,697	125,133,151	-	47,676,781	14,367,376	453,644,005

Six months ended June 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	11,407,288	7,173,246	796,861	394,427	-	19,771,822
Property operating costs	4,236,222	3,362,218	99,509	294,383	-	7,992,332
Net operating income	7,171,066	3,811,028	697,352	100,044	-	11,779,490
Interest income	17,280	5,568	70,193	1,317	239,395	333,753
Interest expense	5,920,357	2,132,320	227,472	1,800,011	4,278,794	14,358,954
Income (loss) before discontinued operations	11,066,323	2,171,323	1,186,843	(4,765,903)	(5,381,191)	4,277,395
Cash from operating activities	1,356,084	1,712,503	61,218	(2,471,757)	(6,566,086)	(5,908,038)
Cash from financing activities	(3,554,737)	(954,669)	(12,259,923)	2,400,000	14,469,284	99,955
Cash from investing activities	2,284,256	(614,863)	12,005,781	295,886	(7,538,655)	6,432,405
Total assets excluding assets held for sale at December 31, 2012	265,210,801	124,345,591	-	44,342,231	20,651,400	454,550,023

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

15 Subsequent events

Mortgage financing
Subsequent to June 30, 2013, a first mortgage loan of $10,004,208 was renewed with a June 30, 2014 maturity date after a $1,000,000 principal prepayment.

Revolving loan
Subsequent to June 30, 2013, the Trust received advances of $2,030,000, resulting in a balance of $14,030,000 as of the date of the Financial Statements.

16 Comparative figures

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