LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

MARCH 31, 2014

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2014	December 31 2013
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$420,866,100**	$421,040,369
Defeasance assets	**2,843,019**	2,879,978
Restricted cash	**4,603,524**	4,241,812
Total non-current assets	**428,312,643**	428,162,159
Current assets		
Cash	**992,760**	2,401,741
Rent and other receivables (Note 5)	**9,863,399**	10,129,493
Deposits and prepaids	**723,258**	893,063
	11,579,417	13,424,297
Assets classified as held for sale (Note 6)	**26,522,411**	26,485,863
Total current assets	**38,101,828**	39,910,160
TOTAL ASSETS	**$466,414,471**	$468,072,319
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 7)	**$168,811,331**	$154,124,845
Total non-current liabilities	**168,811,331**	154,124,845
Current liabilities		
Trade and other payables (Note 8)	**18,287,223**	47,306,909
Current portion of long-term debt (Note 7)	**147,853,073**	133,107,487
Deposits from tenants	**2,687,543**	2,518,165
	168,827,839	182,932,561
Liabilities classified as held for sale (Note 6)	**13,240,308**	13,562,900
Total current liabilities	**182,068,147**	196,495,461
Total liabilities	**350,879,478**	350,620,306
Total equity	**115,534,993**	117,452,013
TOTAL LIABILITIES AND EQUITY	**$466,414,471**	$468,072,319

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Rentals from investment properties	**$ 8,908,725**	$ 9,768,888
Property operating costs	**4,404,658**	4,075,320
Net operating income	**4,504,067**	5,693,568
Interest income	**385,218**	298,301
Interest expense (Note 9)	**(6,954,282)**	(7,841,878)
Trust expense	**(620,685)**	(531,297)
Gain on sale of investment property	**71,235**	-
Fair value gains (Note 4)	**-**	137,854
Fair value adjustment of Parsons Landing	**-**	300,000
Income recovery on Parsons Landing	**98,499**	899,130
Loss before discontinued operations	**(2,515,948)**	(1,044,322)
Income from discontinued operations (Note 6)	**111,935**	232,094
Loss and comprehensive loss	**$ (2,404,013)**	$ (812,228)
Loss per unit before discontinued operations:		
Basic and diluted	**$ (0.122)**	$ (0.056)
Income per unit from discontinued operations:		
Basic and diluted	**$ 0.006**	$ 0.013
Loss per unit:		
Basic and diluted	**$ (0.116)**	$ (0.043)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended March 31 2014	2013
Issued capital (Note 11)		
Balance, beginning of period	**$116,100,394**	$107,978,701
Units issued on exercise of:		
Options	**19,380**	2,380
Warrants	**567,138**	-
Balance, end of period	**116,686,912**	107,981,081
Contributed surplus		
Balance, beginning of period	**17,091,850**	17,211,070
Value of deferred units granted	**18,750**	18,750
Value of unit options granted	**-**	26,093
Warrants exercised	**(98,889)**	-
Warrants purchased under normal course issuer bid	**(19,386)**	-
Balance, end of period	**16,992,325**	17,255,913
Cumulative earnings		
Balance, beginning of period	**58,609,804**	43,090,218
Loss and comprehensive loss	**(2,404,013)**	(812,228)
Balance, end of period	**56,205,791**	42,277,990
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(74,350,035)**	(67,450,035)
Total equity	**$115,534,993**	$100,064,949

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Operating activities		
Loss and comprehensive loss	**$ (2,404,013)**	$ (812,228)
Adjustments to reconcile income to cash flows		
Fair value gains	**-**	(137,854)
Fair value adjustment of Parsons Landing	**-**	(300,000)
Gain on sale of properties	**(71,235)**	-
Loss on warrant repurchases	**34,947**	-
Accrued rental revenue	**(88,571)**	(101,298)
Unit-based compensation	**18,750**	44,843
Deferred income tax expense	**-**	(285,734)
Interest income	**(385,218)**	(298,301)
Interest received	**214,803**	160,887
Interest expense	**7,111,939**	8,035,547
Interest paid	**(4,860,684)**	(5,922,444)
Cash from operations	**(429,282)**	383,418
Decrease (increase) in rent and other receivables	**29,723**	(52,807)
Decrease (increase) in deposits and prepaids	**133,578**	(6,401)
Increase (decrease) in tenant deposits	**177,090**	96,211
Increase (decrease) in trade and other payables	**807,532**	(296,426)
	718,641	123,995
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**40,000,000**	21,000,000
Repayment of mortgage loans on refinancing	**-**	(20,400,000)
Payment of acquisition payable of Parsons Landing	**(44,006,731)**	-
Redemption of mortgage bonds	**(10,000,000)**	-
Repayment of long-term debt	**(1,577,312)**	(2,087,476)
Prepayment of mortgage loans	**-**	(1,998,500)
Proceeds of revolving loan commitment	**14,745,000**	6,047,000
Repayment of revolving loan commitment	**(650,000)**	(3,200,000)
Expenditures on transaction costs	**(1,036,505)**	(269,705)
Exercise of options	**19,380**	2,380
Exercise of warrants	**468,249**	-
Warrants purchased and cancelled under normal course issuer bid	**(54,333)**	-
	(2,092,252)	(906,301)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(198,776)**	(354,362)
Capital expenditures on property and equipment	**(15,902)**	(13,989)
Decrease in defeasance assets	**36,959**	36,343
Proceeds of mortgage loan receivable	**500,000**	3,200,000
Taxes paid on property sold	**-**	(1,734,702)
Proceeds of sale	**(6,877)**	-
Change in restricted cash	**(365,476)**	(934,343)
	(50,072)	198,947
Cash decrease	**(1,423,683)**	(583,359)
Add decrease in cash from discontinued operations (Note 6)	**14,702**	205,353
	(1,408,981)	(378,006)
Cash, beginning of period	**2,401,741**	1,254,278
Cash, end of period	**$ 992,760**	$ 876,272

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 condensed consolidated financial statements of the Trust for the three months ended March 31, 2014 and 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 May 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 incurred a loss from investment properties of $2,515,948 for the three months ended March 31, 2014 (2013 - $1,044,322). The Trust generated cash from operating activities of $718,641 for the three months ended March 31, 2014 (2013 - $123,995). After deduction of capital expenditures and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $1,073,349 for the three months ended March 31, 2014 (2013 - $2,331,832). In addition, the Trust has a working capital deficit of $6,747,824 as at March 31, 2014 (December 31, 2013 - $4,259,858) and the Trust was in breach of a debt service coverage requirement on one mortgage loan and the related interest rate swap liability (December 31, 2013 - one mortgage loan and the related interest rate swap liability).

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,732,930 mortgage loan and the related $1,113,394 interest rate swap liability 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, the Trust has successfully eliminated covenant breaches on eight mortgage loans through refinancing and/or improved operations and the Trust has completed the acquisition of Parsons Landing.

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). The Trust follows accounting policies under IFRS as disclosed in the December 31, 2013 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at May 13, 2014.

Effective January 1, 2014, the Trust adopted IFRIC - Interpretation 21 Levies which provides guidance for IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The adoption of IFRIC Interpretation 21 did not require any change to the recognition or measurement of liabilities of the Trust.

The December 31, 2013 annual report is available on SEDAR at www.sedar.com.

3 Significant accounting judgments, estimates and assumptions

The preparation of the Trust's Financial Statements 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 reporting date. However, 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. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Trust's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Trust's Consolidated Financial Statements for the year ended December 31, 2013.

4 Investment properties

	Three Months Ended March 31 2014	2013
Balance, beginning of period	$421,040,369	$427,967,800
Additions - capital expenditures	198,776	354,362
Fair value gains	-	137,854
Dispositions (a)	(373,045)	-
Fair value adjustment of Parsons Landing	-	300,000
Balance, end of period	$420,866,100	$428,760,016

Investment properties have been valued using methods consistent with those used in the annual Financial Statements with the following weighted average capitalization and discount rates:

	Capitalization Rate		Discount Rate	
	Range	Weighted Average	Range	Weighted Average
March 31, 2014	4.75% - 8.00%	6.76 %	6.75% - 10.00%	8.76 %
December 31, 2013	4.75% - 8.00%	6.76 %	6.75% - 10.00%	8.76 %

(a) Dispositions

One condominium unit at Lakewood Townhomes was sold during the three months ended March 31, 2014 (2013 - nil)

(b) Parsons Landing

On March 6, 2014, the acquisition of Parsons Landing was completed.

5 Rent and other receivables

	March 31 2014	December 31 2013
Rent receivable	$ 145,758	$ 223,314
Less: allowance for uncollectible accounts	(11,674)	(32,751)
	134,084	190,563
Loans receivable (a)	8,991,015	9,320,600
Other receivables	380,227	348,828
Deferred rent receivable	358,073	269,502
	$ 9,863,399	$ 10,129,493

5 Rent and other receivables (continued)

(a) Loans receivable

Loans receivable are comprised of the following:

	March 31 2014	December 31 2013
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	$ 8,716,015	$ 8,545,600
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
Second mortgage loan due October 1, 2014	-	500,000
	$ 8,991,015	$ 9,320,600

Collection processes have commenced in respect to the loans receivable which matured on May 8, 2014.

6 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:

	March 31 2014	December 31 2013
ASSETS		
Assets in discontinued operations		
Property and equipment	$ 26,386,702	$ 26,370,800
Cash	5,901	20,603
Restricted cash	47,750	43,986
Rent and other receivables	4,273	8,916
Deposits, prepaids and other	77,785	41,558
Assets classified as held for sale	$ 26,522,411	$ 26,485,863
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 12,702,574	$ 13,042,918
Trade and other payables	271,439	261,399
Deposits from tenants	266,295	258,583
Liabilities classified as held for sale	$ 13,240,308	$ 13,562,900

6 *Assets and liabilities of properties held for sale (continued)*

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

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Rental income	$ 1,286,961	$ 1,394,482
Property operating expenses	1,017,369	890,128
Net operating income	269,592	504,354
Interest expense	157,657	193,669
Current tax expense	-	364,325
Deferred tax recovery	-	(285,734)
Income from discontinued operations	$ 111,935	$ 232,094

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Cash inflow from operating activities	$ 98,103	$ 128,935
Cash inflow (outflow) from financing activities	(93,138)	1,414,735
Cash outflow from investing activities	(19,667)	(1,749,023)
Decrease in cash from discontinued operations	$ (14,702)	$ (205,353)

7 Long-term debt

	March 31 2014	December 31 2013 (Note 20)
Secured debt		
Mortgage loans (a)	$ 282,913,001	$ 244,586,398
Interest rate swap liability (b)	1,113,394	1,188,106
Mortgage bonds (c)	5,639,599	14,913,008
Debentures (d)	24,873,800	24,873,800
Defeased liability	2,629,889	2,644,615
Total secured debt	317,169,683	288,205,927
Mortgage guarantee fees	-	91,362
Total debt	317,169,683	288,297,289
Accrued interest payable	2,578,486	1,975,830
Unamortized transaction costs		
Mortgage loans	(2,528,234)	(1,909,636)
Mortgage bonds	(252,621)	(754,795)
Debentures	(281,538)	(352,422)
Defeased liability	(21,372)	(23,934)
Total unamortized transaction costs	(3,083,765)	(3,040,787)
	316,664,404	287,232,332
Less current portion		
Mortgage loans	(121,231,298)	(122,180,991)
Interest rate swap liability	(1,113,394)	(1,188,106)
Mortgage bonds	-	(9,319,958)
Debentures	(24,873,000)	-
Defeased liability	(60,999)	(60,167)
Mortgage guarantee fees	-	(44,587)
Accrued interest payable	(2,578,486)	(1,975,830)
Transaction costs	2,004,104	1,662,152
Total current portion	(147,853,073)	(133,107,487)
	$ 168,811,331	$ 154,124,845
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,576,819	$ 1,023,567
Mortgage bonds	135,259	329,655
Debentures	281,538	298,539
Defeased liability	10,488	10,391
	$ 2,004,104	$ 1,662,152

7 *Long-term debt (continued)*

(a) Mortgage loans

	Weighted average interest rates		Amount	
	March 31 2014	December 31 2013	March 31 2014	December 31 2013
First mortgage loans				
Fixed rate	4.5%	4.6%	$ 175,118,524	$ 176,340,766
Variable rate	6.9%	6.1%	89,788,190	50,239,345
Total first mortgage loans	5.3%	4.9%	264,906,714	226,580,111
Second mortgage loans				
Fixed rate	11.8%	11.8%	4,500,000	4,500,000
Variable rate	11.1%	11.1%	13,506,287	13,506,287
Total second mortgage loans	11.3%	11.3%	18,006,287	18,006,287
Total	5.7%	5.4%	$ 282,913,001	$ 244,586,398

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 March 31, 2014, the Trust is not in compliance with a debt service coverage requirement for one mortgage loan. In accordance with IFRS the balance of $15,732,930 is included in current portion of long-term debt.

All mortgages which have matured prior to May 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) Interest rate swap liability

The Trust has an interest rate swap arrangement whereby the interest rate on a variable rate mortgage loan, in the amount of $15,732,930, was fixed at a 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 interest rate swap liability of $1,113,394 and the mortgage loan of $15,732,930, have the same contractual terms.

The Trust is not in compliance with a debt service coverage requirement for the mortgage loan. In accordance with IFRS the mortgage loan and interest rate swap liability are included in current portion of long-term debt.

The change in the fair value of interest rate swap liability of $74,712 for the three months ended March 31, 2014 (2013 - $68,460) was recorded in interest expense.

7 Long-term debt (continued)

(c) Mortgage bonds

	March 31 2014	December 31 2013
Balance, beginning of period	$ 14,913,008	$ 14,458,831
Accretion	726,591	454,177
Redemption	(10,000,000)	-
Balance, end of period	$ 5,639,599	$ 14,913,008

The face value of the 9% mortgage bonds due December 24, 2015 is $6,000,000 (December 31, 2013 - $16,000,000).

(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, 2013 - $24,873,800).

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 January 1, 2014 to May 13, 2014, the Trust has not purchased any debentures.

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

8 Trade and other payables

	March 31 2014	December 31 2013
Accounts payable - vendor invoices	$ 1,598,316	$ 982,173
Accrued payables	915,674	658,892
Prepaid rent	773,233	754,113
Revolving loan from 2668921 Manitoba Ltd.	15,000,000	905,000
Payable on acquisition of Parsons Landing	-	44,006,731
	$ 18,287,223	$ 47,306,909

9 Interest expense

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Mortgage loan interest	$ 3,895,983	$ 4,703,487
Change in fair value of interest rate swap	(74,712)	(68,460)
Mortgage bond interest	176,918	360,000
Accretion of mortgage bonds	726,591	109,441
Debenture interest	582,660	592,824
Amortization of transaction costs	993,527	1,244,586
Interest on acquisition payable	653,315	900,000
	$ 6,954,282	$ 7,841,878

10 Per unit calculations

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Loss before discontinued operations	$ (2,515,948)	$ (1,044,322)
Income from discontinued operations	111,935	232,094
Loss	$ (2,404,013)	$ (812,228)

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Weighted average number of units:		
Units	19,882,320	18,087,433
Deferred units	824,091	725,484
Total basic and diluted	20,706,411	18,812,917

11 Units

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Units	Amount	Units	Amount
Outstanding, beginning of period	19,423,011	$116,100,394	18,084,011	$107,978,701
Units issued on:				
Exercise of options	57,000	19,380	7,000	2,380
Exercise of warrants	597,875	567,138	1,332,000	1,219,313
Payment of distribution	-	-	6,448,598	6,900,000
Consolidation of units	-	-	(6,448,598)	-
Outstanding, end of period	20,077,886	$116,686,912	19,423,011	$116,100,394

12 Warrants

On March 9, 2010, the Trust issued 6,780,000 trust unit purchase warrants ("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 ("Warrants"). Each warrant entitles the purchaser to purchase one unit at a price of $0.75 until December 24, 2015.

Warrants expiring March 9, 2015:

	March 31 2014	December 31 2013
Balance, beginning of period	6,780,000	6,780,000
Warrants exercised	(79,375)	-
Purchased and cancelled under normal course issuer bid	(32,200)	-
Balance, end of period	6,668,425	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.

Warrants expiring December 24, 2015:

	March 31 2014	December 31 2013
Balance, beginning of period	14,493,000	15,825,000
Warrants exercised	(518,500)	(1,332,000)
Purchased and cancelled under normal course issuer bid	(83,500)	-
Balance, end of period	13,891,000	14,493,000

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.

13 *Unit option plan*

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	333,000	$ 0.41	891,000	$ 1.69
Exercised, February 14, 2014	(30,000)	0.34	-	-
Exercised, March 25, 2014	(27,000)	0.34	-	-
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
Outstanding, end of period	276,000	$ 0.43	333,000	$ 0.41
Vested, end of period	276,000		333,000	

At March 31, 2014 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	186,000	186,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
	276,000	276,000	

Subsequent to March 31, 2014, 10,000 unit options were exercised.

14 *Deferred unit plan*

Deferred units granted to Trustees totaled 15,244 for the three months ended March 31, 2014 (2013 - 26,408). Aggregate deferred units outstanding and fully vested at March 31, 2014 were 839,334 (2013 - 751,893).

Unit-based compensation expense of $18,750 for the three months ended March 31, 2014 (2013 - $18,750) relating to deferred units granted was recorded to expense the fair value of unit-based compensation. Unit-based compensation is recorded in trust expense.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014

15 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 $377,633 for the three months ended March 31, 2014 (2013 - $407,110).

Included in trade and other payables at March 31, 2014 is a balance of $155,341 (December 31, 2013 - $7,160), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

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 $337,163 for the three months ended March 31, 2014 (2013 - $366,493).

Included in trade and other payables at March 31, 2014 is a balance of $224,348 (December 31, 2013 - nil) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

15 Related party transactions (continued)

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 $24,932 for the three months ended March 31, 2014 (2013 - nil). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the three months ended March 31, 2014 (2013 - nil).

Financing
On January 1, 2013, 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 effective July 1, 2013. The loan matures September 30, 2014 and bears interest at 12%, subject to a maximum interest and fee payment of $1,206,357 for the period from January 1, 2014 to September 30, 2014 (2013 - 12%% to June 30, 2013, 12% from July 1, 2013 to December 31, 2013 subject to maximum interest and fee payments of $404,916 and $897,637, respectively). The renewal at January 1, 2014 encompassed an extension fee of $25,000 (2013 - $25,000 and $25,000 at January 1, 2013 and July 1, 2013, respectively).

During the three months ended March 31, 2014, the Trust received advances of $14,745,000 (2013 - $6,047,000) and repaid advances of $650,000 (2013 - $3,200,000) against the revolving loan, resulting in a balance of $15,000,000 (December 31, 2013 - $905,000). The revolving loan balance is included in trade and other payables.

Interest on the revolving loan of $377,186 for the three months ended March 31, 2014 (2013 - $192,906) is included in interest expense.

Included in accrued interest payable at March 31, 2014 is a balance of $281,962 (December 31, 2013 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

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 $8,716,015.

The revolving loan commitment was considered and approved by the independent Trustees.

Guarantees
Obligations, including certain mortgage loans payable, have been guaranteed or indemnified 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.

16 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 March 31, 2014, the Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $15,732,930 mortgage loan and the associated $1,113,394 interest rate swap liability 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.

Liquidity risk - debt maturities
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available 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 March 31, 2014, the weighted average term to maturity of the fixed rate mortgages on investment properties is 3.3 years (December 31, 2013 - 3.4 years).

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

	Mortgage Loans			
March 31, 2014	Normal Principal Installments	Principal Maturities	Debentures and Mortgage Bonds	Defeased Liability
2014 Remainder of year (1)	$ 7,507,602	$104,580,040	$ -	$ 45,429
2015	2,883,996	52,800,473	30,873,800	63,602
2016	2,828,670	7,540,966	-	2,520,846
2017	2,794,525	18,008,996	-	-
2018	1,228,287	55,302,119	-	-
Thereafter	-	27,437,327	-	-
	$ 17,243,080	$265,669,921	$ 30,873,800	$ 2,629,877

16 Financial instruments and risk management (continued)

Liquidity risk - debt maturities (continued)

March 31, 2014	Other Payables	Total
2014 Remainder of year	$ 24,666,646	$136,799,717
2015	-	86,621,871
2016	-	12,890,482
2017	-	20,803,521
2018	-	56,530,406
Thereafter	-	27,437,327
	$ 24,666,646	$341,083,324

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

(1) Mortgage loan principal maturities includes mortgage loans which are not in compliance with loan covenants. In accordance with IFRS, the $15,732,930 face value of the swap mortgage loan is reflected as a current liability. In accordance with IFRS, a $4,434,378 term loan maturing on August 1, 2015 is reflected as a current liability as the loan document is a demand promissory note.

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 March 31, 2014 the percentage of fixed rate mortgage loans to total mortgage loans was 63% (December 31, 2013 - 72%).

The Trust has variable rate mortgage loans on investment properties totaling $103,294,477, or 37% of the total mortgage loans at March 31, 2014 (December 31, 2013 - 28%). Should interest rates change by 1%, interest expense would change by $1,032,945 per year.

As at March 31, 2014, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to March 31, 2017 of $51,706,393 representing 18% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $517,064 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.

16 Financial instruments and risk management (continued)

Credit risk (continued)
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:

	March 31 2014	December 31 2013
Rent receivable overdue:		
0 to 30 days	$ 122,819	$ 123,531
31 to 60 days	4,983	38,555
More than 60 days	17,956	61,228
	$ 145,758	$ 223,314

A reconciliation of allowance for doubtful accounts is as follows:

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
Balance, beginning of period	$ 32,751	$ 20,051
Amount charged to bad debt expense relating to impairment of rent receivable	2,247	6,321
Amounts written off as uncollectible	(23,324)	(514)
Balance, end of period	$ 11,674	$ 25,858
Amount charged to bad debts as a percent of rentals from investment properties	0.03%	0.06%

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.

16 Financial instruments and risk management (continued)

Fair values

Except for the interest rate swap liability 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	
	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Financial assets				
Defeasance assets	2,843,019	2,879,978	-	-
Restricted cash	4,603,524	4,241,812	4,603,524	4,241,812
Cash	992,760	2,401,741	992,760	2,401,741
Rent and other receivables	9,863,399	10,129,493	9,863,399	10,129,493
Deposits	638,825	379,277	638,825	379,277
Financial liabilities				
Mortgages loans	282,913,001	244,586,398	284,810,219	245,530,710
Mortgage bonds	5,639,599	14,913,008	5,742,826	15,226,306
Debentures	24,873,800	24,873,800	24,898,259	24,647,812
Defeased liability	2,629,889	2,644,615	-	-
Mortgage guarantee fees	-	91,362	-	91,362
Trade and other payables	18,287,223	47,306,909	18,287,223	47,306,909
Deposits from tenants	2,687,543	2,518,165	2,687,543	2,518,165

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.
- Restricted cash is 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 expected 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.

16 *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 2.02% and 5.51%.
- 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.

The fair value of the swap mortgage loan has been determined using Level 2 of the fair value hierarchy whereby the Trust makes use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

17 *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"). An operating segment is also established for properties sold.

An operating segment was established for Parsons Landing in order to segregate the operations of the property as a result of a fire, which occurred in February 2012, and the subsequent reconstruction and re-leasing of the property.

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

Three months ended March 31, 2014:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	5,349,661	2,615,214	1,065	942,785	-	8,908,725
Property operating costs	2,535,933	1,363,243	82,098	423,384	-	4,404,658
Net operating income	2,813,728	1,251,971	(81,033)	519,401	-	4,504,067
Interest income	7,676	2,441	272	1,352	373,477	385,218
Interest expense	2,927,874	618,835	-	922,628	2,484,945	6,954,282
Income (loss) before discontinued operations	(35,234)	635,577	(80,761)	(303,376)	(2,732,154)	(2,515,948)
Cash from operating activities	597,927	576,564	(158,841)	(113,340)	(281,772)	620,538
Cash from financing activities	(1,055,529)	(641,521)	(39,345)	123,426	(386,145)	(1,999,114)
Cash from investing activities	(340,791)	(171,152)	-	(50,000)	531,538	(30,405)
Total assets excluding assets held for sale at March 31, 2014	266,414,027	107,377,465	73,022	53,573,252	12,454,294	439,892,060

17 Segmented financial information (continued)

Three months ended March 31, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Parsons Landing	Trust	Total
Rental revenue	6,154,755	2,733,753	880,380	-	-	9,768,888
Property operating costs	2,265,234	1,390,003	420,083	-	-	4,075,320
Net operating income	3,889,521	1,343,750	460,297	-	-	5,693,568
Interest income	7,154	1,942	9,253	32	279,920	298,301
Interest expense	3,427,564	1,183,894	123,691	900,000	2,206,729	7,841,878
Income (loss) before discontinued operations	764,306	4,456	345,859	299,162	(2,458,105)	(1,044,322)
Cash from operating activities	1,087,734	174,560	294,068	(213,506)	(1,347,796)	(4,940)
Cash from financing activities	(39,164)	(196,317)	(186,888)	194,988	(2,093,655)	(2,321,036)
Cash from investing activities	(1,101,628)	(91,016)	(84,830)	-	3,225,444	1,947,970
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

18 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 $8,003,247 on a property that was sold in 2013.

19 Subsequent events

Mortgage financing
Subsequent to March 31, 2014, the Trust renewed a $39,700,000 first mortgage loan and a $10,500,000 second mortgage loan to June 1, 2015 at the same terms.

Upward refinancing
Subsequent to March 31, 2014, the Trust obtained a new $10,000,000 two-year first mortgage loan maturing on June 1, 2016. The proceeds were used to repay an $8,100,000 first mortgage loan and for working capital.

Revolving loan
Subsequent to March 31, 2014, the Trust repaid $1,500,000 resulting in a balance of $13,500,000 as of the date of the Financial Statements.

20 Comparative figures

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