LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

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Unitholder Returns

	Nine Months Ended September 30, 2013 (Per unit)	Year Ended December 31, 2012 (Per unit)
Opening price	$0.65	$0.42
Closing price	$0.66	$0.65

Lanesborough Real Estate Investment Trust ("LREIT") units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The 5 year 9% second mortgage bonds and two series of warrants are listed on the Toronto Stock Exchange under the symbols "LRT.NT.A", "LRT.WT" and "LRT.WT.A", respectively.

CHIEF EXECUTIVE OFFICER'S MESSAGE
2013 Third Quarter Report

Income/Loss Results

LREIT completed the third quarter of 2013 with a net income of $13.5 Million, compared to a net loss of $2.3 Million during the third quarter of 2012. The improvement in bottom-line results is mainly due to the following factors:

- increase in fair value gains of $7.6 Million: during the third quarter of 2013, fair value gains on investment properties amounted to $7.7 Million, compared to $0.04 Million in the third quarter of 2012.
- increase in fair value adjustment of Parsons Landing of $4.7 Million: during the third quarter of 2013, fair value adjustment of Parsons Landing amounted to $5.2 Million, compared to $0.5 Million in the third quarter of 2012.
- decrease in interest expense of $3.8 Million: the decrease in interest expense partially reflects the comparatively high level of interest expense which LREIT reported in the third quarter of 2012, as interest expense in the third quarter of 2012 included $2.75 Million of mortgage prepayment charges. Excluding the prepayment charges, interest expense decreased by $1.1 Million, during the third quarter of 2013.
- increase in net operating income of $1.0 Million: the increase in net operating income is almost entirely attributable to rental properties in Fort McMurray as a result of expanded activity in the oilsands industry and the continuation of rental rate increases and improving occupancy levels. The return of reconstructed suites at Parsons Landing to active operations also contributed to the increase in net operating income.

Factors which serve to limit the extent of the income increase in the third quarter of 2013 include a $0.5 Million decrease in income from discontinued operations due to the sale of Riverside Terrace in December 2012, a $0.2 Million decrease in the income recovery on Parsons Landing and a $0.4 Million decrease in insurance proceeds.

Cash Flow Results

During the third quarter of 2013, the cash inflow from operating activities, excluding working capital adjustments, amounted to $2.1 Million, compared to a cash inflow of $1.1 Million during the third quarter of 2012. Including working capital adjustments, LREIT completed the third quarter of 2013 with a cash inflow from operating activities of $3.3 Million, compared to a cash inflow of $0.5 Million during the third quarter of 2012.

Refinancing and Investing Activities

During the third quarter of 2013, the refinancing and investing activities of LREIT were relatively limited and consisted primarily of cash inflows of $1.9 Million in regard to additional net advances on the revolving loan, cash outflows related to capital expenditures of $1.3 Million and cash outflows in regard to mortgage loan debt payments of $3.1 Million. The debt repayments included a $1 Million lump sum pay-down of a first mortgage loan at renewal.

The capital expenditures mainly consisted of building exterior and in-suite improvements throughout the portfolio of investment properties as part of LREIT's ongoing program to enhance the income potential of select properties.

Overall, the weighted average interest rate of the total debt of LREIT was 6.2% as of September 30, 2013, compared to 7.4% at December 31, 2012.

Recent Mortgage Refinancings Completed

Subsequent to September 30, 2013, the mortgage loan debt of Nelson Ridge and the Lakewood Townhomes was refinanced. In total, the refinancing comprised mortgage loan debt of $49.5 Million at a weighted average interest rate of 6.4%. The proceeds from the new financing, combined with the release of collateral deposits, were used to discharge or repay $48.3 Million of existing mortgage loan debt with a weighted average interest rate of 6.8%, with the remaining balance used for working capital purposes. The covenant breaches for two mortgage loans were eliminated as a result of the refinancings.

During the third quarter of 2013, a covenant breach on a $4.6 Million mortgage loan was eliminated as a result of the renewal of the loan.

Mortgage Loan Covenants

The mortgage refinancings which were completed subsequent to September 30, 2013, served to eliminate all of the mortgage loan covenant breaches of LREIT, with the exception of one swap mortgage loan in the amount of $17.3 Million which is in breach of a "global" debt service coverage requirement. A request has recently been submitted to the lender to waive the global debt service coverage requirement.

Parsons Landing Closing

On October 3, 2013, the reconstruction of the remaining 76 suites at Parsons Landing was completed and the entire project returned to active operations. The suites are currently in the lease-up stage. As of November 8, 2013, 99 of the 160 suites have been leased.

Management expects to have $44 Million of first mortgage financing in place in order to complete the acquisition of Parsons Landing this year, prior to the scheduled closing date of January 2, 2014.

Divestiture Program

On October 1, 2013, LREIT completed the sale of the Purolator Building in Burlington, Ontario at a price of $1.6 Million with net sale proceeds of approximately $0.8 Million.

LREIT has also entered into a sale agreement for the Nova Court property, at a sale price of $21.7 Million. After accounting for selling costs, the assumption of the first mortgage loan by the Purchaser and the prepayment of $10 Million of the 9% mortgage bonds which are secured by the property, the net proceeds from sale are estimated at $3.6 Million. The sale is expected to close by December 31, 2013.

LREIT is pursuing the sale of other properties and it is anticipated that the remaining two seniors' housing complexes will be sold in 2014.

The proceeds from the sale of properties are being used for working capital purposes and to discharge interim debt, including the revolving loan from 2668921 Manitoba Ltd.

Outlook

The overall financial and risk position of LREIT has improved substantially due to improved operating results for the Fort McMurray property portfolio, the recent debt refinancings and the elimination of all covenant breaches in regard to property-specific debt service coverage requirements. The anticipated closing of Parsons Landing next month will enable LREIT to further benefit from the robust economic activity in the oilsands industry and achieve continued NOI growth from its property portfolio in Fort McMurray.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the nine months ended September 30, 2013 and with reference to the Annual Report for 2012 and the First and Second Quarter Reports for 2013.

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with breaches of covenants under financing agreements, risks associated with delayed acquisition of properties, debt financing, availability of cash for distributions, the taxation of trusts, public markets, real property ownership, liquidity, interest and financing risk, credit risk, concentration of portfolio in one market, future property acquisitions, dependence on natural resources industries, reliance on single or anchor tenants, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, multi-family residential sector risk, environmental risks, other tax-related risk factors, supply risk, utility and property tax risk, government regulation, nature of Units, dilution, competition, general economic conditions, current economic conditions, relationship with the property manager, reliance on key personnel, reliance on Shelter Canadian Properties Limited ("Shelter Canadian") or its parent company 2668921 Manitoba Ltd. for interim funding and additional risks associated with debentures. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

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

Purchase Price Information

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

Financial Statements

Throughout this report, the condensed consolidated financial statements as of September 30, 2013 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of September 30, 2013 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the nine months ended September 30, 2013 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the nine months ended September 30, 2013 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	September 30 2013	December 31 2012
STATEMENT OF FINANCIAL POSITION		
Total assets	$ 494,424,755	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 310,626,674	$ 323,026,417

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 10,417,760	$ 9,206,783	$ 30,212,858	$ 28,978,605
Net operating income *	$ 6,405,204	$ 5,355,272	$ 18,185,494	$ 17,134,762
Income (loss) before taxes and discontinued operations *	$ 13,422,853	$ (3,078,641)	$ 15,358,454	$ 1,380,093
Income (loss) and comprehensive income (loss)	$ 13,505,324	$ (2,298,800)	$ 16,028,750	$ 3,912,535
Cash Flows				
Cash provided by (used in) operating activities	$ 3,280,950	$ 488,083	$ 3,191,759	$ (5,111,689)
Funds from Operations (FFO) *	$ 700,219	$ (2,644,953)	$ (544,062)	$ (5,173,307)
Adjusted Funds from Operations (AFFO) *	$ (481,765)	$ (3,341,145)	$ (2,909,604)	$ (6,614,948)
Distributable income (loss)*	$ 714,151	$ 733,513	$ (833,474)	$ 400,635
Per Unit				
Net operating income *				
- basic	$ 0.339	$ 0.287	$ 0.965	$ 0.922
- diluted	$ 0.337	$ 0.285	$ 0.958	$ 0.917
Income (loss) before taxes and discontinued operations*				
- basic	$ 0.711	$ (0.165)	$ 0.815	$ 0.074
- diluted	$ 0.706	$ (0.165)	$ 0.809	$ 0.074
Income (loss) and comprehensive income (loss)				
- basic	$ 0.716	$ (0.123)	$ 0.851	$ 0.211
- diluted	$ 0.711	$ (0.123)	$ 0.845	$ 0.209
Cash provided by (used in) operating activities				
- basic	$ 0.174	$ 0.026	$ 0.169	$ (0.275)
- diluted	$ 0.173	$ 0.026	$ 0.168	$ (0.275)
Funds from Operations (FFO) *				
- basic and diluted	$ 0.037	$ (0.142)	$ (0.029)	$ (0.278)
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.026)	$ (0.179)	$ (0.154)	$ (0.356)
Distributable income (loss) *				
- basic	$ 0.038	$ 0.039	$ (0.044)	$ 0.022
- diluted	$ 0.038	$ 0.039	$ (0.044)	$ 0.021

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, a swap mortgage loan, debentures, defeased liability and mortgage bonds. The swap mortgage loan and mortgage bonds are included at face value.

(2) Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with International Financial Reporting Standards (IFRS) or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

LREIT was established in order to create a portfolio of income-producing real estate investments. The core business activities of LREIT include investment, development, management and divestiture activities which are focused on maximizing the return on the real estate portfolio.

Prior to 2009, the primary business strategy of LREIT was to achieve growth through the acquisition of new properties. As of December 31, 2008, the real estate portfolio of LREIT consisted of 45 properties with an acquisition cost of approximately $597 Million, including 14 properties located in Fort McMurray, Alberta.

In 2009, the slow down of economic activity in Fort McMurray resulted in a significant reduction in the operating income and operating cash flows of LREIT. Recessionary influences, combined with the reduced operating cash flows, negatively impacted the overall financing capabilities of LREIT. In response, LREIT initiated a divestiture strategy in 2009 with the objective of generating $250 Million of gross proceeds from property sales in order to create funds for the pay down of mortgage loan and convertible debenture debt and to restore working capital. In October 2011, the divestiture program was expanded to include a condominium sales program for the Lakewood Townhomes property in Fort McMurray, Alberta.

As of September 30, 2013, 21 properties and 15 condominium units have been sold under the divestiture program for gross proceeds of $237 Million. The property portfolio of LREIT, as of September 30, 2013 consists of the remaining 24 properties, comprised of 22 investment properties (including the unsold condominium units at Lakewood Townhomes) and two seniors' housing complexes. The operating results for the two seniors' housing complexes are classified under discontinued operations. Subsequent to September 30, 2013, the Purolator Building was sold. On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court. The closing of the proposed sale is scheduled to occur by December 31, 2013.

A more detailed description of the operations and business strategy of LREIT is provided in the section of the MD&A titled, "Overview of Operations and Investment Strategy".

Qualification for REIT Exception

Management believes that LREIT will qualify for the REIT Exception for income tax purposes for 2013. As a result, LREIT may reduce its taxable income from capital gains or otherwise through the payment of cash or "special" distributions. The reduction of taxable income will have a beneficial impact on the cash position of LREIT.

It will be necessary for LREIT to meet certain "tests" or conditions on an ongoing basis to retain its status as a Qualifying REIT.

Highlights of 2013 Q3 Results and Key Issues/Events

1. Background Information

The revenues and expenses for the seniors' housing complexes are disclosed under one line item titled "Income from Discontinued Operations" in the Income Statement. The following analysis of revenues and expenses does not include the revenues and expenses of the seniors' housing complexes, or the gain on the sale of the seniors' housing complexes. The portfolio of seniors' housing complexes consisted of two properties throughout the first nine months of 2013. In 2012, LREIT sold two seniors' housing complexes.

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties. Aside from the sale of two condominium units at the Lakewood Townhomes, there were not any changes to the number of investment properties between January 1, 2013 and September 30, 2013. During 2012, LREIT sold one of the investment properties (Siena Apartments) and 13 condominium units at the Lakewood Townhomes. Siena Apartments is disclosed as "Properties Sold" in the analyses throughout this report. The fire at Parsons Landing also resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012. Parsons Landing is disclosed as an "Impaired Property" in the analyses throughout this report. On June 1, 2013, the reconstruction of 84 suites at Parsons Landing was completed and the suites were returned to rental operations.

Subsequent to September 30, 2013, LREIT sold the Purolator Building. On October 3, 2013, Parsons Landing was fully reconstructed, resulting in the return of the remaining 76 suites to active rental operations.

On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court. The closing of the proposed sale is scheduled to occur by December 31, 2013.

Cash flow from operating activities includes net operating income, less interest and trust expenses incurred, on a cash basis, from the investment properties and the seniors' housing complexes in discontinued operations.

2. Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Average occupancy level				
Fort McMurray	92%	87%	93%	90%
Other investment properties	94%	97%	95%	97%
Total	93%	91%	94%	93%
Average rental rate				
Fort McMurray	$2,318	$2,251	$2,284	$2,187
Other investment properties	$1,133	$1,048	$1,118	$1,064
Total	$1,780	$1,704	$1,756	$1,697

3. Income and Cash Flow

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net operating income				
Fort McMurray properties	$ 4,107,718	$ 3,564,420	$ 12,086,552	$ 10,735,486
Other investment properties	1,889,092	1,790,852	5,632,386	5,601,880
Sub-total	5,996,810	5,355,272	17,718,938	16,337,366
Properties sold	-	-	-	697,352
Impaired property	408,394	-	466,556	100,044
Total net operating income	6,405,204	5,355,272	18,185,494	17,134,762
Interest income	303,792	281,209	932,039	614,962
Forgiveness of debt	-	-	-	859,561
Interest expense	(6,281,557)	(10,116,020)	(20,733,401)	(24,474,974)
Trust expense	(440,395)	(407,263)	(1,762,327)	(1,572,022)
Income recovery on Parsons Landing	630,704	869,547	2,272,334	2,393,658
Insurance proceeds	-	400,000	-	400,000
Income (loss) before the following	617,748	(3,617,255)	(1,105,861)	(4,644,053)
Profit on sale of investment properties	-	-	164,928	1,045,307
Fair value gains	7,652,786	38,614	9,077,308	8,978,839
Fair value adjustment of Parsons Landing	5,152,319	500,000	7,222,079	(4,000,000)
Income (loss) before discontinued operations	13,422,853	(2,897,302)	15,358,454	1,380,093
Income from discontinued operations	82,471	598,502	670,296	2,532,442
Income (loss) and comprehensive income (loss)	$ 13,505,324	$ (2,298,800)	$ 16,028,750	$ 3,912,535

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	$ 3,280,950	$ 488,083	$ 3,191,759	$ (5,111,689)

A summary of the key financial performance indicators of LREIT is provided in the "Financial Summary" section of the MD&A which precedes this "Executive Summary".

During the third quarter of 2013, the income of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations increased by $4.2 Million compared to the third quarter of 2012. The increase in income is mainly due to a decrease in interest expense of $3.8 Million and an increase in the combined total of net operating income and income recovery on Parsons Landing of $0.8 Million, partially offset by a decrease in insurance proceeds of $0.4 Million.

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, the loss for the first nine months of 2013 decreased by $3.5 Million compared to the first nine months of 2012. The variance in the nine month comparatives is mainly due to the same factors that affected the third quarter comparatives. The nine month results for 2013 also reflect a decrease in the forgiveness of debt of $0.9 Million and an increase in interest income of $0.3 Million.

The forgiveness of debt occurred in conjunction with the refinancing of one of the mortgage loans in the first quarter of 2012.

An analysis of interest expense is provided below.

4. Interest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Interest expense				
Investment properties	$ 6,281,557	$ 10,116,020	$ 20,733,401	$ 24,474,974
Discontinued operations	193,359	207,911	583,473	4,434,237
Total interest expense	$ 6,474,916	$ 10,323,931	$ 21,316,874	$ 28,909,211

Key Variables

	September 30 2013	December 31 2012
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.4 %	7.3 %
Seniors' housing complexes	5.0 %	5.0 %
Combined operations	5.4 %	7.2 %

Key Events Affecting Interest Expense

Total interest expense for investment properties decreased by $3.8 Million or 37.9% during the third quarter of 2013, compared to the third quarter of 2012. The decrease is mainly due to a decrease in mortgage prepayment charges of $2.8 Million, a decrease in mortgage loan interest of $1.2 Million, and a decrease in amortization of transaction costs of $0.3 Million, partially offset by a reduction in the gain related to the change in value of interest rate swaps of $0.5 Million.

For the nine month period ended September 30, 2013, total interest expense for investment properties decreased by $3.7 Million or 15%, compared to the same period in 2012. The decrease is mainly due to a decrease in mortgage prepayment charges of $2.8 Million, a decrease in mortgage loan interest of $1.6 Million and a decrease in swap mortgage loan interest of $0.5 Million, partially offset by an increase in amortization of transaction costs of $0.3 Million and a reduction in the gain related to the change in value of interest rate swaps of $0.7 Million.

Excluding prepayment penalties, interest expense for investment properties decreased by $1.0 Million during the nine month period ended September 30, 2013.

After including interest expense for discontinued operations, total interest expense for the nine month period ended September 30, 2013 decreased by $7.6 Million or 26%, compared to the same period in 2012. The decrease is mainly due to a decrease in mortgage prepayment charges of $4.1 Million, a decrease in mortgage loan interest of $3.6 Million and a decrease in swap mortgage loan interest of $0.5 Million, partially offset by a reduction in the gain related to the change in value of interest rate swaps of $0.7 Million.

5. Financing

Mortgage Refinancing

During the first six months of 2013, LREIT obtained $117.0 Million of new mortgage loan financing at a weighted average interest rate of 5.58%. The proceeds from the new financing, combined with the application of $2.7 Million of collateral deposits, were used to discharge $119.3 Million of existing mortgage loan financing with a weighted average interest rate of 9.07% and to fund a capital expenditure reserve account of $0.6 Million

After accounting for mortgage loan prepayments of $2.0 Million, regular payments of principal of $3.7 Million and mortgage loan debt eliminated on the sale of properties of $0.9 Million, the total mortgage loan debt of LREIT decreased by $9.0 Million during the first six months of 2013.

5. Financing (continued)

During the third quarter of 2013, the total mortgage loan debt decreased by an additional $2.9 Million due to regular payments of principal of $1.9 Million and a lump-sum paydown of $1 Million.

Debt Maturities

Except for one mortgage loan in the amount of $26.8 Million, all mortgages which have matured prior to November 8, 2013 have been renewed or refinanced. Management expects that the loan will be renewed by December 31, 2013.

Debt Covenants

As of September 30, 2013, LREIT was in breach of property specific debt service covenant requirements on two mortgage loans, with an aggregate balance of $26.1 Million and one swap mortgage loan with a balance of $17.3 Million. Subsequent to September 30, 2013, the covenant breaches on the two mortgage loans were eliminated as a result of the refinancing of the loans.

The covenant breach on the swap mortgage loan is expected to be eliminated through modified loan terms.

During the third quarter of 2013, a covenant breach on a $4.6 Million mortgage loan was eliminated as a result of the renewal of the loan.

6. Liquidity

	September 30 2013	December 31 2012
Unrestricted cash	$ 1,423,701	$ 1,254,278
Restricted cash	$ 6,224,005	$ 7,801,248
Working capital deficit	$ 14,352,731	$ 4,462,801

Key events affecting liquidity during the first nine months of 2013

- Ongoing funding requirements - the net cash outflow from operating activities, regular repayments of principal on long-term debt and capital expenditures was $5.7 Million.
- Sale of property transactions - a $3.2 Million mortgage loan receivable pertaining to the sale of Riverside Terrace in December 2012 was collected and $1.7 Million of taxes on the sale were paid for a net amount of $1.5 Million.
- Mortgage refinancing - the net outflow from mortgage loan financing activities, excluding regular principal payments and including the net decrease in collateral deposits and transaction costs, was $1.8 Million.
- Revolving loan - net proceeds of the revolving loan amounted to $8.9 Million, resulting in a loan balance of $13.9 Million as of September 30, 2013.

7. Subsequent Events

Subsequent to September 30, 2013, the mortgage loan debt of Nelson Ridge and the Lakewood Townhomes was refinanced. In total, the refinancing comprised mortgage loan debt of $49.5 Million at a weighted average interest rate of 6.4%. The proceeds from the new financing, combined with the release of collateral deposits, were used to discharge or repay $48.3 Million of existing mortgage loan debt with a weighted average interest rate of 6.8%, with the remaining balance used for working capital purposes. The covenant breaches for two mortgage loans were eliminated as a result of the refinancings.

On October 1, 2013, LREIT sold the Purolator Building for $1.6 Million. After accounting for selling costs and the assumption of the first mortgage loan, the net proceeds were approximately $0.8 Million. The net proceeds were used for general working capital purposes.

8. Risks and Uncertainties

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

- the working capital deficiency of the Trust;
- the concentration of properties in Fort McMurray;
- ability of LREIT to complete additional property sales;
- ability of LREIT to complete additional renewal and/or upward refinancing of mortgage debt; and
- reliance on Shelter Canadian and its parent 2668921 Manitoba Ltd. for interim funding.

As a result of the improvement in the occupancy level of the Fort McMurray portfolio; the renewal or refinancing of mortgage loans; and the successful completion of property sales over the past three years, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

A more detailed description of key risks is provided in the "Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

CONTINUING OPERATIONS

The Financial Statements have been prepared using the going concern assumption.

The "going concern" basis of accounting is appropriate due to management's expectation of maintaining adequate liquidity, renewing maturing mortgage debt, meeting all mortgage principal and interest payment obligations, obtaining modified loan terms from lenders, the continued financial support of Shelter Canadian and its parent company 2668921 Manitoba Ltd., completing upward financing, reducing high interest debt and generating additional capital through the completion of property divestitures.

CAPITAL REQUIREMENTS - GENERAL

As of September 30, 2013, the unrestricted cash balance of LREIT was $1,423,701 and the working capital deficit was $14,352,731, representing an increase of approximately $2.8 Million compared to the working capital deficit as of June 30, 2013. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $13,905,000 is included in the calculation of the working capital deficit.

LREIT requires ongoing sources of cash to fund regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures, net of the net cash inflow or outflow from operating activities. In addition, LREIT requires additional capital on a periodic basis to fund lump-sum debenture and mortgage bond repayments. Additional capital is also periodically required to fund the repayment of mortgage loans on refinancing to the extent that there is a variance between the repayment amount and the amount of new mortgage loan proceeds. As cash distributions on units were suspended in March 2009, the current funding requirements of LREIT do not encompass the funding of cash distributions.

The net cash inflow from the upward refinancing of properties and the revolving loan facility from 2668921 Manitoba Ltd., represent the primary funding sources for the cash outflow from operating activities, regular mortgage loan principal payments, transaction costs and capital expenditures. The net proceeds from property sales will be used to repay advances from 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and the cash inflow from operating activities, LREIT completed the third quarter of 2013 with a cash shortfall of $0.2 Million. The cash shortfall was funded by advances on the revolving loan.

Detailed information regarding the funding sources and funding commitments of LREIT are provided in the "Capital Resources and Liquidity" section of this report.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

LREIT is an unincorporated closed-end real estate trust which was established on April 23, 2002 under the laws of the Province of Manitoba. LREIT became a publicly traded entity on August 30, 2002. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The second mortgage bonds and two series of warrants are listed on the Toronto Stock Exchange under the symbols "LRT.NT.A", "LRT.WT" and "LRT.WT.A", respectively.

The core business activities of LREIT include acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada with a focus on multi-unit residential properties. Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter Canadian provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter Canadian is also responsible for the property management function for the investment properties of LREIT, pursuant to the terms of a Property Management Agreement.

Investment in Properties

As of September 30, 2013, the real estate portfolio of LREIT consists of 19 multi-family residential properties, two commercial properties and one mixed residential/commercial property (the "investment properties"), as well as two seniors' housing complexes (the "discontinued operations") under "assets held for sale".

The Financial Statements of LREIT provide segmented results for investment properties, with "Fort McMurray", "Other Investment Properties", "Properties Sold" and "Impaired Property" representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information.

Operations

LREIT seeks to maximize the operating income of its property portfolio through the implementation of financial management practices, operating procedures, responsive management services and proactive leasing strategies.

LREIT also has a continuous capital improvement program with respect to its properties. The program is designed to extend the useful life of the properties and improve the quality of tenants' physical surroundings. The capital improvement program encompasses major renovation or expansion projects at selected properties, as deemed appropriate. LREIT capitalizes all expenditures related to the improvement of its properties if the expenditures are incurred with the objective of enhancing net operating income in the future.

During 2011 and 2012, extensive improvements, consisting primarily of in-suite upgrades, were completed for the six downtown properties in Fort McMurray at a total two-year cost of approximately $2.6 Million. Improvements to the properties are continuing in 2013, including exterior renovations and upgrades to additional suites, as suites become available. During the nine months ended September 30, 2013, improvements to the downtown properties in Fort McMurray amounted to $626,000.

During the first nine months of 2013, LREIT also undertook improvements to Elgin Lodge at a total cost of approximately $129,000. The improvements mainly consisted of the reconfiguration and renovation of a number of units in order to improve the overall marketability of the property.

Financing

The purchase price of the LREIT properties was primarily funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes the upward refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of capital. As an interim source of funds, LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of September 30, 2013, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During the first nine months of 2013, the mortgage loan debt service coverage ratio was 1.04, compared to 1.07 during the first nine months of 2012 and 0.95 for the entire year in 2012. The mortgage loan debt service coverage ratio excludes net operating income and debt service costs for Parsons Landing which was under reconstruction as at September 30, 2013.

Divestiture Program

General

LREIT initiated a divestiture program in 2009 targeting the sale of assets, with estimated gross proceeds in excess of $250 Million. The objective of the divestiture program is to reduce total debt, including debenture debt and higher cost mortgage loan financing, and to enable LREIT to improve its working capital position. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

Since the inception of the divestiture program to September 30, 2013, LREIT has sold 21 properties and 15 condominium units at a combined gross selling price of $237.0 Million.

	Properties Sold					
	2009	2010	2011	2012	2013	Total
Number of properties sold	13	5	-	3	-	21
Number of condominium units sold	-	-	4	9	2	15
Gross proceeds	$ 90,392,000	$ 40,835,000	$ 1,927,100	$102,896,400	$ 959,800	$ 237,010,300
Net proceeds at closing	$ 29,631,650	$ 17,563,501	$ 52,120	$ 21,927,121	$ (1,913)	$ 69,172,479
Vendor take-back financing received	6,300,000	3,790,650	-	-	3,200,000	13,290,650
Total proceeds	$ 35,931,650	$ 21,354,151	$ 52,120	$ 21,927,121	$ 3,198,087	$ 82,463,129

LREIT is currently pursuing the sale of the remaining seniors' housing complexes and/or other properties and continuing with the condominium sales program at Lakewood Townhomes.

On October 1, 2013, LREIT sold the Purolator Building for gross proceeds of $1.6 Million and net proceeds of $0.8 Million. On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court for gross proceeds of $21,680,000. Details regarding the sales are provided in the "Real Estate Portfolio" section of this report.

Lakewood Townhomes Condominium Sales

In October, 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. After funding sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, net sales proceeds will be applied to reduce the first mortgage loan until such time that the first mortgage loan is repaid in full. The condominium sales program is expected to be substantially completed in 2015. The condominium sales program encompasses services and renovations fees payable to Shelter Canadian. Additional information regarding the fees payable to Shelter Canadian is provided in the section of this report titled "Related Party Transactions".

As of September 30, 2013, 15 condominium units have been sold at a combined gross selling price of $7.3 Million.

Distributions

LREIT suspended cash distributions in 2009.

TAXATION OVERVIEW

LREIT qualifies as a closed-end mutual fund trust for income tax purposes.

On January 1, 2011, LREIT became a specified investment flow-through trust ("SIFT") and was subject to the SIFT Rules. Under the SIFT Rules, certain distributions of income from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception").

The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year and there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception. Notwithstanding the uncertainties, management believes that LREIT will qualify for the REIT Exception in 2013 and will qualify in subsequent years.

If LREIT qualifies for the REIT Exception in a taxation year, LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, it is the policy of LREIT to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Additional details regarding the taxation of LREIT and the taxation of the Unitholders is provided in the "Taxation" section of this report.

PARSONS LANDING

Possession of Property and Closing/Financing Agreement

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000. 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 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 to January 2, 2014. As of September 30, 2013, interest in excess of $300,000 per month amounted to $25,280,460.

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.

Destruction of Property by Fire and Reconstruction

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.

Project Turnover

On June 1, 2013, occupancy permits were obtained for 84 of the 160 units. As a result, LREIT assumed control over the 84 units and active rental operations for the units commenced on June 1, 2013.

On October 3, 2013, the reconstruction of the remaining 76 units was completed and, as a result, the entire project has been returned to active rental operations. Management expects to have $44 Million of first mortgage financing in place in order to complete the acquisition of Parsons Landing this year, prior to the scheduled closing date of January 2, 2014.

From June 1, 2013 to September 30, 2013, the insurance recovery for Parsons Landing was reduced on a proportionate basis in recognition of the 84 units which were returned to rental operations. Although the insurance recovery period for the remaining 76 units effectively ended on October 3, 2013, the final amount of the insurance recovery remains subject to adjustment.

Impact on Financial Statements

The circumstances at Parsons Landing have impacted the Financial Statements of LREIT, as follows:

Payable on acquisition of Parsons Landing

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

Fair value adjustment of Parsons Landing

Parsons Landing is classified as an investment property and is carried at fair value. The Financial Statements reflect the fair value adjustments throughout the reconstruction of the property.

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47.8 Million at December 31, 2011 to $20.0 Million at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire. The write-down of $27.8 Million was reflected as a loss in the Financial Statements for the first quarter of 2012 under the line title, "Impairment of investment property".

During reconstruction of the property and recovery of construction costs from the insurer, the estimated fair value of the property has been adjusted on a quarterly basis, as necessary, to reflect the estimated fair value at the date of completion of reconstruction, discounted to the estimated closing date.

Net operating income and income recovery

During 2012, the Financial Statements reflect the "normal" operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012. From the date of the fire to June 1, 2013 the Financial Statements do not reflect any operating revenues or expenses for Parsons Landing, aside from certain continuing operating costs, including property taxes and insurance, which are paid to the builder through an "occupancy fee". From June 1, 2013 to September 30, 2013, the Financial Statements also reflect revenues and costs related to the operation of the 84 turned-over units.

For each quarter, from the second quarter of 2012 to the third quarter of 2013, the Financial Statements reflect a quarterly income recovery in regard to insurance proceeds from revenue losses. The income recovery relating to the period from February 6, 2012 to March 31, 2012 was recorded in the second quarter of 2012 as the agreement with the builder in regard to insurance losses was not finalized until June 2012. For the period from June 1, 2013 to September 30, 2013 the income recovery was comparatively lower due to the turn-over of the 84 units.

The income recovery is recorded as a separate line item, "Income recovery on Parsons Landing" in the Income Statement. The income recovery is net of the occupancy fee.

Interest expense

In the first nine months of 2013, and throughout 2012, the Financial Statements reflect the $300,000 monthly interest payment.

Prior to June 1, 2013, the $300,000 monthly interest charge was funded from insurance proceeds. Effective June 1, 2013, upon turnover of the 84 reconstructed suites to LREIT, the funding of the $300,000 monthly interest charge from insurance proceeds was reduced on a proportionate basis.

Mortgage financing

Although an unconditional financing commitment has not been obtained as of the date of this report, management expects that mortgage financing for Parsons Landing will be secured prior to the scheduled closing date of January 2, 2014.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2013

As of September 30, 2013, the property portfolio of LREIT consists of 24 rental properties, 22 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust, including all of the unsold condominium units at Lakewood Townhomes. The remaining two properties consist of two seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 24 properties has a total purchase price of approximately $413.1 Million and encompasses 2,236 suites and 139,243 square feet of leasable commercial area.

Quarterly Changes in Property Portfolio

There were not any changes to the number of properties in the property portfolio between January 1, 2012 and March 31, 2012, however, the fire at Parsons Landing resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012. From June 1, 2013 to September 30, 2013, rental operations recommenced for 84 units at Parsons Landing and on October 1, 2013 rental operations recommenced for all of the remaining units. During the second quarter of 2012, LREIT sold one of the investment properties (Siena Apartments) and one of the seniors' housing complexes (Clarington Seniors' Residence). In the fourth quarter of 2012, a second seniors' housing complex (Riverside Terrace) was sold. In addition, nine condominium units were sold at the Lakewood Townhomes in 2012.

During the first nine months of 2013, there were no changes in the property portfolio, aside from the sale of two condominium units at Lakewood Townhomes in the second quarter of 2013.

After accounting for property and condominium sales, the number of "revenue generating" suites in the investment property portfolio (including all of the unsold condominium units at Lakewood Townhomes and the 84 units at Parsons Landing which were reconstructed and returned to rental operations) increased by 81 suites or 4.3% as of September 30, 2013, compared to September 30, 2012, while the number of "revenue generating" suites in discontinued operations decreased by 181 suites or 45.5%

The sale of properties and the fire at Parsons Landing have affected the comparability of quarterly results.

During the second quarter of 2013, the number of suites at Elgin Lodge decreased from 124 suites to 118 as a result of the renovation and conversion of a number of studio suites to one bedroom suites. The Elgin Lodge renovations are expected to improve occupancy levels and enhance the revenue generating capacity of the property. Accordingly, the Elgin Lodge renovations are considered to be a reconfiguration of space and the change in available suites is not included in the decrease in "revenue generating" suites for discontinued operations, as disclosed above.

A list of all of the properties in the LREIT real estate portfolio is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 22 properties which are classified as investment properties consist of two commercial properties located in Burlington, Ontario and Airdrie, Alberta; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 13 multi-family residential properties, including Parsons Landing, in Fort McMurray, Alberta; two multi-family properties in Yellowknife, Northwest Territories; and four multi-family properties located in Thompson, Manitoba, Brandon, Manitoba, Edson, Alberta and Peace River, Alberta.

As noted above, the properties in "discontinued operations" consist of the two seniors' housing complexes.

Sales Subsequent to September 30, 2013

On October 1, 2013, the Purolator Building was sold for $1.6 Million. After accounting for selling costs and the assumption of the first mortgage loan, the net proceeds were approximately $0.8 Million. The net proceeds were used for general working capital purposes.

On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court for gross proceeds of $21,680,000. At September 30, 2013, a refundable deposit of $1 Million had been received in regard to the proposed sale. As a result of the sale commitment, the deposit is non refundable. After accounting for selling costs, the discharge of the first mortgage loan and the prepayment of $10 Million of the 9% mortgage bonds which are secured by the property, the net proceeds, including the deposit, are expected to be approximately $3.6 Million. The net proceeds will be used for general working capital purposes. The property will be sold to another publicly traded entity that has a Director/Trustee and Chief Executive Officer in common. The purchase price was supported by an independent third party appraisal. The sale was approved by the independent Trustees. The closing of the proposed sale is scheduled to occur by December 31, 2013.

Properties Held for Sale/Discontinued Operations

Discontinued operations is a segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which was acquired for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the two seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Assets or liabilities classified as held for sale".

Income from properties in discontinued operations is disclosed separately on the Income Statement.

The cash inflows and outflows from properties in discontinued operations are included with the cash inflows and outflows from investment properties in the Statement of Cash Flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the Statement of Cash Flows.

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to units sold, are included with investment properties.

Loans and Receivables

As of September 30, 2013, "Loans and receivables" consist of a 12.5% second mortgage loan of $8.3 Million and an interest free mortgage loan of $275,000, due May 8, 2014 both of which pertain to the sale of Clarington Seniors' Residence on May 9, 2012, a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a $60,000 secured note receivable from a previous tenant which is due on demand. The secured note receivable was written down by $190,000 during the second quarter of 2013.

During the first quarter of 2013, the loan receivable of $3.2 Million pertaining to the sale of Riverside Terrace was prepaid in full.

FAIR VALUE MEASUREMENT

General

The fair value of the investment property portfolio of LREIT is determined quarterly based on the same valuation techniques that are used by independent valuation professionals. The direct capitalization and discounted cash flow methods are typically emphasized although the direct comparison method may occasionally be used when appropriate market comparables are available. In addition, periodic external appraisals and market reports serve to substantiate and guide the internal valuation process of LREIT, particularly with respect to key assumptions, including capitalization rates and discount rates.

Fair value estimates are also sensitive to changes in forecasted net operating income and temporary fluctuations have the potential to skew fair value estimates. As a result, actual operating results are normalized to reflect stabilized future expectations regarding capital expenditures, vacancy rates, inflation, operating costs and rental market conditions. Normalization adjustments are based on appraisals, market reports, historic performance and management projections.

Parsons Landing

Throughout the reconstruction period, the fair value of Parsons Landing was determined based on historical results and normalized operating performance at comparable properties. A discount was also applied to reflect the timing difference between the date of the valuation and the future re-occupation of the property.

Effective June 1, 2013, 84 suites were returned to active rental operations, providing more meaningful valuation inputs as well as evidence of improved operating performance. As a result, during the third quarter of 2013, the fair value of Parsons Landing increased by $6,076,624, compared to the second quarter of 2013. The increase is comprised of a $5.2 Million valuation adjustment as a result of the improvement in revenue and vacancy expectations based on actual leasing operations for the 84 units and a reduction in the present value discount attributable to the passage of time and $0.9 Million of capital expenditures.

Other Investment Properties

During the third quarter of 2013, the fair value gain on the portfolio of investment properties, excluding Parsons Landing, amounted to $7,652,786, compared to $38,614 during the third quarter of 2012. For the nine month period ended September 30, 2013, fair value gains amounted to $9,077,308, compared to $8,978,839 during the nine month period ended September 30, 2012.

Summary of Quarterly Results

Quarterly Analysis

	2013			2012
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 10,417,760	$ 10,026,210	$ 9,768,888	$ 9,432,387
Net operating income	$ 6,405,204	$ 6,086,722	$ 5,693,568	$ 5,294,467
Income (loss) for the period before taxes and discontinued operations	$ 13,422,853	$ 2,979,923	$ (1,044,322)	$ (778,548)
Income (loss) and comprehensive income (loss)	$ 13,505,324	$ 3,335,654	$ (812,228)	$ 16,185,773
PER UNIT				
Net operating income				
- basic	$ 0.339	$ 0.323	$ 0.303	$ 0.282
- diluted	$ 0.337	$ 0.319	$ 0.300	$ 0.280
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.711	$ 0.158	$ (0.056)	$ (0.041)
- diluted	$ 0.706	$ 0.156	$ (0.056)	$ (0.041)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.716	$ 0.177	$ (0.043)	$ 0.862
- diluted	$ 0.711	$ 0.175	$ (0.043)	$ 0.857

Quarterly Analysis

	2012			2011
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 9,206,783	$ 9,387,902	$ 10,383,920	$ 11,196,590
Net operating income	$ 5,355,272	$ 5,820,776	$ 5,958,714	$ 7,182,799
Income (loss) for the period before taxes and discontinued operations	$ (3,078,641)	$ 30,876,865	$ (26,418,131)	$ 1,272,013
Income (loss) and comprehensive income (loss)	$ (2,298,800)	$ 32,297,230	$ (26,085,895)	$ 1,605,280
PER UNIT				
Net operating income				
- basic	$ 0.287	$ 0.314	$ 0.321	$ 0.388
- diluted	$ 0.285	$ 0.312	$ 0.320	$ 0.387
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.165)	$ 1.664	$ (1.425)	$ 0.069
- diluted	$ (0.165)	$ 1.655	$ (1.425)	$ 0.069
Income (loss) and comprehensive income (loss)				
- basic	$ (0.123)	$ 1.741	$ (1.407)	$ 0.087
- diluted	$ (0.123)	$ 1.731	$ (1.407)	$ 0.087

Revenue and Operating Income

The quarterly rental revenue and operating income results for 2012 were primarily affected by a decrease in the number of revenue-generating properties due to the fire at Parsons Landing on February 5, 2012, the sale of the Siena Apartments on May 1, 2012 and the sale of condominium units at Lakewood Townhomes. A major renovation program at the downtown Fort McMurray properties also resulted in the removal of a number of units from the revenue stream during 2012.

The improvement of rental market conditions in Fort McMurray due to increased activity in the oil sands industry is the main factor affecting revenue and operating income growth during 2013.

Net Income (Loss) before Taxes and Discontinued Operations

After accounting for operating income, quarterly variances in interest expense represent the main "ongoing" factor affecting quarterly variances in income from investment properties, particularly in regard to total interest expense on mortgage loans. Interest expense on mortgage loans includes interest on mortgage loans, mortgage bonds and the revolving loan commitment. The main variables affecting decreases in interest expense on mortgage loans have been the discharge of mortgage loan debt on the sale of properties and periodic lump-sum paydowns or prepayments of mortgage loan debt. The main variables affecting increases in interest expense have been the upward refinancing of mortgage loan debt. In certain quarters, prepayment penalties have also served to increase interest expense.

Quarterly changes in the weighted average interest rate of mortgage loan debt and changes in the interest rate on the revolving loan, as well as changes in the amount withdrawn on the revolving loan, are also contributing factors in regard to quarterly variances in interest expense.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly variances in fair value gains on investment properties. Periods in which fair value gains have been most significant include the second quarter of 2012 when fair value gains served to increase income by approximately $7.1 Million and the third quarter of 2013 when fair value gains served to increase income by $7.7 Million.

Changes in the fair market value of Parsons Landing, which are recorded separately as "Fair value adjustments", have also contributed to substantial variations in income from investment properties since the first quarter of 2012. The write-down of the carrying value of Parsons Landing in the first quarter of 2012 due to the fire and subsequent increases in the carrying value of the property, particularly in the second quarter of 2012 and the third quarter of 2013, had the largest impact on income from investment properties. Other transactions related to the fire at Parsons Landing have also contributed to variations in quarterly income, including rental losses, income recoveries and insurance proceeds.

Net Income (Loss)

The operations of the seniors' housing complexes of LREIT as reflected in income from discontinued operations have also contributed to substantial variations in net income. The primary factors affecting income from discontinued operations were the sale of the Clarington Seniors' Residence and the discharge of mortgage loan debt on Riverside Terrace during the second quarter of 2012, as well as the sale of Riverside Terrace in the fourth quarter of 2012.

ANALYSIS OF INCOME (LOSS)

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Rentals from investment properties	$ 10,417,760	$ 9,206,783	$ 30,212,858	$ 28,978,605
Property operating costs	4,012,556	3,851,511	12,027,364	11,843,843
Net operating income	6,405,204	5,355,272	18,185,494	17,134,762
Interest income	303,792	281,209	932,039	614,962
Forgiveness of debt	-	-	-	859,561
Interest expense	(6,281,557)	(10,116,020)	(20,733,401)	(24,474,974)
Trust expense	(440,395)	(407,263)	(1,762,327)	(1,572,022)
Income recovery on Parsons Landing	630,704	869,547	2,272,334	2,393,658
Insurance proceeds	-	400,000	-	400,000
Income (loss) before the following	617,748	(3,617,255)	(1,105,861)	(4,644,053)
Profit on sale of investment properties	-	-	164,928	1,045,307
Fair value gains	7,652,786	38,614	9,077,308	8,978,839
Fair value adjustment of Parsons Landing	5,152,319	500,000	7,222,079	(4,000,000)
Income (loss) before taxes and discontinued operations	13,422,853	(3,078,641)	15,358,454	1,380,093
Deferred income tax recovery	-	(181,339)	-	-
Income (loss) before discontinued operations	13,422,853	(2,897,302)	15,358,454	1,380,093
Income from discontinued operations	82,471	598,502	670,296	2,532,442
Income (loss) and comprehensive income (loss)	$ 13,505,324	$ (2,298,800)	$ 16,028,750	$ 3,912,535

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30		Change	
	2013	2012		
Income and comprehensive income				
- basic	$ 0.851	$ 0.211	$ 0.640	303 %
- diluted	$ 0.845	$ 0.209	$ 0.636	304 %
Income for the period before taxes and discontinued operations				
- basic	$ 0.815	$ 0.074	$ 0.741	1,001%
- diluted	$ 0.809	$ 0.074	$ 0.735	993%

Overall Results

Third Quarter Comparatives

During the third quarter of 2013, the income of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations increased by $4,235,003 compared to the third quarter of 2012. The increase in income is mainly due to a decrease in interest expense of $3,834,463 and an increase in the combined total of net operating income and income recovery on Parsons Landing of $811,089, partially offset by a decrease in insurance proceeds of $400,000.

After accounting for fair value gains, profit on property sales and fair value adjustment of Parsons Landing, the income of LREIT before discontinued operations and taxes increased by $16,501,494 during the third quarter of 2013 compared to the third quarter of 2012.

After accounting for discontinued operations and income taxes, LREIT completed the third quarter of 2013 with comprehensive income of $13,505,324 compared to a comprehensive loss of $2,298,800 during the third quarter of 2012.

Nine Month Comparatives

During the first nine months of 2013, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations decreased by $3,538,192 compared to the first nine months of 2012. The variance in the nine month comparatives is mainly due to the same factors that affected the third quarter comparatives. The nine month results for 2013 also reflect a decrease in the forgiveness of debt of $859,561 and an increase in interest income of $317,077.

After accounting for fair value gains, profit on property sales and fair value adjustment of Parsons Landing, the income of LREIT before discontinued operations and taxes increased by $13,978,361 during the first nine months of 2013, compared to the the first nine months of 2012. The increase mainly reflects an increase in fair value gains/adjustments, partially offset by a decrease in profit on sale of investment properties.

After accounting for discontinued operations and income taxes, LREIT completed the first nine months of 2013 with comprehensive income of $16,028,750 compared to comprehensive income of $3,912,535 during the first nine months of 2012.

Per Unit Results

On a per unit basis, income before taxes and discontinued operations amounted to $0.711 per unit during the third quarter of 2013, compared to a loss of $0.165 per unit during the third quarter of 2012, representing an increase in income of $0.876 per unit.

For the nine months ended September 30, 2013, income before taxes and discontinued operations amounted to $0.815 per unit, compared to income of $0.074 per unit during the first nine months of 2012, representing an increase in income of $0.741 per unit.

As the weighted average number of units has not changed significantly, increasing by only 2% since December 31, 2011, the increase in income per unit mainly reflects the increase in the overall income of the Trust before discontinued operations.

Net Operating Income

Net operating income consists of rental revenue less property operating costs.

Rental Revenue

All of the rental revenue of LREIT is derived from the leasing of residential units or commercial space. Rental revenue includes revenue from all investment properties, including a portion of the rental revenue which is attributable to any investment properties which are sold during the year, including condominium units at Lakewood Townhomes.

Investment Properties

The investment properties of LREIT are separated into four categories, as noted below.

Fort McMurray (Twelve properties)

Accounting for approximately 46% of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio, excluding Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

Other Investment Properties (Nine Properties)

The nine other investment properties consist of one mixed use residential/commercial property, two commercial properties, and six multi-family residential rental properties located in Alberta, Manitoba, the Northwest Territories and Ontario.

An analysis of the average monthly rents and occupancy level for the Fort McMurray and Other investment properties is provided in the following sections of this report.

Properties Sold (Siena Apartments)

The operating results of properties sold are analysed separately as the properties do not contribute to the net operating income of the Trust, subsequent to the closing date of sale. The operating results for properties sold as disclosed in the analysis of net operating income pertain solely to the Siena Apartments.

Impaired Property (Parsons Landing)

As a result of the fire at Parsons Landing, the revenue generating capacity of the property has been impaired. As a result, and in accordance with IFRS, Parsons Landing has been segregated from operating properties and analysed separately under the caption "Impaired Property". Parsons Landing is expected to be reclassified as an investment property on January 1, 2015.

Prior to the reconstruction of the entire property, the income of the property consisted of accrued revenue in regard to the recovery of insurance proceeds for revenue losses and, commencing on June 1, 2013, the net income or loss from the 84 suites that were reconstructed and turned over to LREIT.

In accordance with IFRS, the insurance recoveries are recorded as a separate line item, titled, "Income recovery on Parsons Landing" and are not included in the calculation of net operating income. As a result there is not any revenue or operating income disclosed for the "Impaired Property" segment for the first nine months of 2013 or the first nine months of 2012, aside from amounts which are attributable to the period before the fire occurred on February 5, 2012 and amounts related to the 84 units which were reconstructed and returned to LREIT on June 1, 2013.

In several instances throughout this report, the income recovery on Parsons Landing is combined with net operating income in order to derive an income amount for comparative purposes which includes all the income associated with Parsons Landing.

Discontinued Operations

At September 30, 2013, the property portfolio includes two seniors' housing complexes which are classified under discontinued operations. The following analysis excludes the revenue and operating costs of the seniors' housing complexes.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 6,228,415	$ 5,686,706	$ 541,709	$ 18,668,698	$ 17,093,994	$ 1,574,704
Other investment properties	3,590,891	3,520,077	70,814	10,814,958	10,693,323	121,635
Sub-total	9,819,306	9,206,783	612,523	29,483,656	27,787,317	1,696,339
Properties sold (1)	-	-	-	-	796,861	(796,861)
Impaired property (2)	598,454	-	598,454	729,202	394,427	334,775
Total	$ 10,417,760	$ 9,206,783	$ 1,210,977	$ 30,212,858	$ 28,978,605	$ 1,234,253

(1) Represents revenue from the Siena Apartments.
(2) The 2013 results represent revenue from Parsons Landing for 84 suites which were reconstructed and returned to rental operations on June 1, 2013. The 2012 results represent revenue from Parsons Landing for January 1, 2012 to February 5, 2012.

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, increased by $612,523 during the third quarter of 2013, compared to the third quarter of 2012. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of $541,709 and an increase in revenue from the Other investment properties of $70,814.

The increase in revenue from the Fort McMurray property portfolio reflects an increase in the average occupancy level, as well as an increase in the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio increased from 87% during the third quarter of 2012, to 92% in the third quarter of 2013, while the average monthly rental rate increased by $67 or 3.0%.
During the nine month period ended September 30, 2013, the total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, increased by $1,696,339, compared to the first nine months of 2013. The nine month comparative results also reflect an improvement in the occupancy level and rental rate.

Occupancy Level, by Quarter

	2013			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	93 %	95 %	92 %	93 %
Other investment properties	96 %	95 %	94 %	95 %
Properties sold	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a
Total	94 %	95 %	93 %	94 %

	2012					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	92 %	90 %	87 %	90 %	88 %	90 %
Other investment properties	98 %	97 %	97 %	97 %	98 %	97 %
Properties sold	100 %	n/a	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a	n/a
Total	95 %	92 %	91 %	93 %	92 %	92 %

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

Average Monthly Rents, by Quarter

	2013 Q1	2013 Q2	2013 Q3	2013 9 Month Average
Fort McMurray	$2,259	$2,275	$2,318	$2,284
Other investment properties	$1,109	$1,114	$1,133	$1,118
Properties sold	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a
Total	$1,739	$1,749	$1,780	$1,756

	2012 Q1	2012 Q2	2012 Q3	2012 9 Month Average	2012 Q4	2012 12 Month Average
Fort McMurray	$2,124	$2,191	$2,251	$2,187	$2,293	$2,218
Other investment properties	$1,075	$1,069	$1,048	$1,064	$1,076	$1,067
Properties sold	$3,100	n/a	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a	n/a
Total	$1,704	$1,684	$1,704	$1,697	$1,739	$1,709

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 2,120,697	$ 2,122,286	$ (1,589)	$ 6,582,146	$ 6,358,508	$ 223,638
Other investment properties	1,701,799	1,729,225	(27,426)	5,182,572	5,091,443	91,129
Sub-total	3,822,496	3,851,511	(29,015)	11,764,718	11,449,951	314,767
Properties sold	-	-	-	-	99,509	(99,509)
Impaired property	190,060	-	190,060	262,646	294,383	(31,737)
Total	$ 4,012,556	$ 3,851,511	$ 161,045	$ 12,027,364	$11,843,843	$ 183,521

During the third quarter of 2013, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, decreased by $29,015 or 1%, compared to the third quarter of 2012. The decrease is mainly due to a decrease of $27,426 in the operating costs of the Other investment properties portfolio.

During the nine months ended September 30, 2013, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $314,767 or 3%, compared to the first nine months of 2012. The increase is comprised of an increase of $223,638 in the operating costs of the Fort McMurray portfolio and a $91,129 increase in the Other investment properties portfolio.

The increase in operating costs for the Fort McMurray property portfolio for the nine month comparatives is mainly due to an increase in property tax and utilities expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 4,107,718	$ 3,564,420	$ 543,298	$12,086,552	$ 10,735,486	$ 1,351,066
Other investment properties	1,889,092	1,790,852	98,240	5,632,386	5,601,880	30,506
Sub-total	5,996,810	5,355,272	641,538	17,718,938	16,337,366	1,381,572
Properties sold	-	-	-	-	697,352	(697,352)
Impaired property	408,394	-	408,394	466,556	100,044	366,512
Total	$ 6,405,204	$ 5,355,272	$ 1,049,932	$18,185,494	$ 17,134,762	$ 1,050,732

After considering the increase in rental revenue and the decrease in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $641,538 or 12% during the third quarter of 2013, compared to the third quarter of 2012.

The increase in net operating income is comprised of a $543,298 increase in net operating income from the Fort McMurray properties and a $98,240 increase in net operating income from the Other investment properties.

For the nine month period ended September 30, 2013, the net operating income from investment properties, excluding properties sold and the impaired property, increased by $1,381,572 or 8.5% compared to the same period in 2013.

After accounting for the decrease in net operating income related to properties sold and the net operating income attributable to the impaired property, net operating income increased by $1,049,932 during the third quarter of 2013, compared to the third quarter of 2012. For the nine month period ended September 30, 2013, net operating income, including net operating income from properties sold and the impaired property, increased by $1,050,732 compared to the first nine months of 2012.

After accounting for the income recovery on Parsons Landing, the combined total of net operating income from Parsons Landing and income recovery on Parsons Landing increased by $245,188 during the first nine months of 2013, compared to the first nine months of 2012.

During the first nine months of 2013, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $2,738,890, compared to $2,493,702 during the first nine months of 2012. The income recovery consists of the amount recovered under the insurance policy for revenue losses, less certain continuing operating costs such as property taxes and insurance which are deducted from the gross insurance recovery through an "occupancy fee". In comparison, net operating income consists of total actual revenues less total actual operating costs.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Fort McMurray	66 %	63 %	65 %	63 %
Other investment properties	53 %	51 %	52 %	52 %
Sub-total	61 %	58 %	60 %	59 %
Properties sold	n/a	n/a	n/a	88 %
Impaired property	68 %	n/a	64 %	25 %
Total	61 %	58 %	60 %	59 %

Overall, the operating margin for the property portfolio, excluding properties sold and the impaired property, increased from 58% during the third quarter of 2012, to 61% during the third quarter of 2013. The increase in the overall operating margin reflects an increase in the operating margin for both the Fort McMurray property portfolio and the Other property portfolio. For the nine month period ended September 30, 2013, the portfolio of investment properties achieved a profit margin of 60% compared to 59% for the nine month period ended September 30, 2012.

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

Interest Income

Interest income is comprised almost exclusively of interest income on mortgage loans receivable, defeasance assets and cash.

During the third quarter of 2013 interest income amounted to $303,792 compared to $281,209 during the third quarter of 2012. During the first nine months of 2013, interest income was $932,039, compared to $614,962 during the first nine months of 2012. The increase in interest income mainly reflects an increase in interest income related to mortgage loans receivable.

Forgiveness of Debt

The refinancing of the first mortgage loan for the Lakewood Apartments in January 2012 encompassed the forgiveness of debt in the amount of $859,561. In accordance with IFRS, the entire amount of the debt forgiveness was recognized as income in the first quarter of 2012.

Interest Expense

General

Interest expense includes interest expense for investment properties and discontinued operations. On the Income Statement, interest expense for investment properties is disclosed as a separate line item, while interest expense for discontinued operations is included in the line item "Income from discontinued operations". On the Statement of Cash Flows, "interest expense" and "interest paid" includes the total amount of interest for both investment properties and discontinued operations.

Third Quarter Comparatives

As disclosed in the following chart, total interest expense amounted to $6,474,916 during the third quarter of 2013, of which $6,281,557 pertains to investment properties and $193,359 pertains to discontinued operations.

Total interest expense for investment properties decreased by $3,834,463 or 37.9% during the third quarter of 2013, compared to the third quarter of 2012. The decrease is mainly due to a decrease in mortgage prepayment charges of $2,751,548, a decrease in mortgage loan interest of $1,211,901, and a decrease in amortization of transaction costs of $336,721, partially offset by a reduction in the gain related to the change in value of interest rate swaps of $470,854.

Total interest expense for discontinued operations decreased by $14,552 or 7% during the third quarter of 2013, compared to the third quarter of 2012. The decrease is comprised of a $23,528 decrease in mortgage loan interest, partially offset by a $8,976 increase in amortization of transaction costs.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and the gain or loss related to the change in fair value of interest rate swaps. The $3,849,015 decrease in total interest expense during the third quarter of 2013, compared to the third quarter of 2012, is comprised of a $4,005,955 decrease in the cash component of interest expense, partially offset by a $156,940 increase in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Investment Properties						
Mortgage Loans						
Mortgage loan interest	$ 3,722,648	$ 4,934,549	$ (1,211,901)	$ 12,180,953	$ 13,802,668	$ (1,621,715)
Swap mortgage loan interest	231,213	248,754	(17,541)	700,618	1,217,633	(517,015)
Mortgage prepayment charges	-	2,751,548	(2,751,548)	-	2,751,548	(2,751,548)
Amortization of transaction costs	289,021	647,082	(358,061)	1,771,571	1,452,149	319,422
Change in value of interest rate swaps	(72,391)	(543,245)	470,854	(213,642)	(947,694)	734,052
Total - mortgage loans	4,170,491	8,038,688	(3,868,197)	14,439,500	18,276,304	(3,836,804)
Mortgage Bonds						
Mortgage bond interest	360,000	360,000	-	1,080,000	1,080,000	-
Accretion of debt component	116,878	103,047	13,831	335,323	295,736	39,587
Amortization of transaction costs	71,122	60,174	10,948	204,752	173,233	31,519
Total - mortgage bonds	548,000	523,221	24,779	1,620,075	1,548,969	71,106
Debentures						
Interest on debentures	596,259	597,696	(1,437)	1,781,907	1,783,344	(1,437)
Amortization of transaction costs	66,807	56,415	10,392	191,919	166,357	25,562
Total - debentures	663,066	654,111	8,955	1,973,826	1,949,701	24,125
Acquisition Payable						
Interest on acquisition payable	900,000	900,000	-	2,700,000	2,700,000	-
Total - acquisition payable	900,000	900,000	-	2,700,000	2,700,000	-
Total interest expense - investment properties	6,281,557	10,116,020	(3,834,463)	20,733,401	24,474,974	(3,741,573)
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	173,359	196,887	(23,528)	541,306	2,478,284	(1,936,978)
Mortgage prepayment charge	-	-	-	-	1,324,352	(1,324,352)
Amortization of transaction costs	20,000	11,024	8,976	42,167	631,601	(589,434)
Total interest expense - discontinued operations	193,359	207,911	(14,552)	583,473	4,434,237	(3,850,764)
Total - interest expense	$ 6,474,916	$ 10,323,931	$ (3,849,015)	$ 21,316,874	$ 28,909,211	$ (7,592,337)

Cash and Non-cash Component						
Non-cash component						
Accretion	$ 116,878	$ 103,047	$ 13,831	$ 335,323	$ 295,736	$ 39,587
Amortization of transaction costs	446,950	774,695	(327,745)	2,210,409	2,423,340	(212,931)
Change in value of interest rate swaps	(72,391)	(543,245)	470,854	(213,642)	(947,694)	734,052
Total non-cash component	491,437	334,497	156,940	2,332,090	1,771,382	560,708
Cash component						
Interest	5,983,479	7,237,886	(1,254,407)	18,984,784	23,061,929	(4,077,145)
Mortgage prepayment charges	-	2,751,548	(2,751,548)	-	4,075,900	(4,075,900)
Total cash component	5,983,479	9,989,434	(4,005,955)	18,984,784	27,137,829	(8,153,045)
Total - interest expense	$ 6,474,916	$ 10,323,931	$ (3,849,015)	$ 21,316,874	$ 28,909,211	$ (7,592,337)

Cash Component of Interest Expense - General

The cash component of interest expense consists of mortgage loan interest, including mortgage loan interest in discontinued operations, swap mortgage loan interest, mortgage prepayment charges, debenture interest, mortgage bond interest and interest on the revolving loan.

During the third quarter of 2013, the total cash component of interest expense decreased by $4,005,955 or 40%, compared to the third quarter of 2012. The decrease reflects a decrease of $3,982,427 in the cash component of interest expense for investment properties as well as a decrease of $23,528 in the cash component of interest expense for discontinued operations.

As a percentage of net operating income for both investment properties and discontinued operations and after including the income recovery on Parsons Landing, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, decreased from 122% during the third quarter of 2012 to 69% during the third quarter of 2013. The decrease in the ratio is largely due to a decrease in mortgage prepayment charges, a decrease in the cash component of interest expense on mortgage loans and an increase in the combined total of net operating income from investment properties and the income recovery on Parsons Landing, partially offset by a decrease in net operating income from discontinued operations as a result of the sale of Riverside Terrace in December 2012.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 82% for the third quarter of 2013, compared to 135% for the third quarter of 2012. Excluding the prepayment charges which were incurred in the third quarter of 2012, the interest to net operating income ratio in the third quarter of 2012 is 98%.

Cash Component of Interest Expense - Investment Properties

Mortgage Loan Interest

Mortgage loan interest for investment properties decreased by $1,211,901 or 24.6% during the third quarter of 2013, compared to the third quarter of 2012, comprised of a decrease in interest expense on mortgage loan debt of $1,391,200, partially offset by an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $179,299. The decrease in interest expense on mortgage loan debt mainly reflects a decrease in the weighted average interest rate of mortgage loan debt.

Swap Mortgage Loan Interest

Swap mortgage loan interest decreased by $17,541 during the third quarter of 2013, compared to the third quarter of 2012 as a result of regular principal repayments.

The combined total of swap mortgage loan interest and mortgage loan interest decreased by $1,229,442 during the third quarter of 2013 compared to the same period in 2012.

Mortgage Bond Interest

Interest on the mortgage bonds was equal to $360,000 for the third quarter of 2013 and the third quarter of 2012.

Debenture Interest

During the third quarter of 2013, interest on debentures amounted to $596,259, compared to $597,696 during the third quarter of 2012.

Interest on Acquisition Payable

Interest expense associated with the balance owing on Parsons Landing is reflected in "interest on acquisition payable". Interest on acquisition payable was equal to $900,000 for the third quarter of 2013 and the third quarter of 2012 and reflects the assumption that interest in excess of this amount will be forgiven at closing.

Cash Component of Interest Expense - Discontinued Operations

The cash component of interest expense for discontinued operations consists of interest payments on mortgage loans and mortgage prepayment charges. Their were no mortgage prepayment charges for discontinued operations in the third quarter of 2012 or the third quarter of 2013. Mortgage loan interest payments for discontinued operations decreased by $23,528 or 12% during the third quarter of 2013, compared to the third quarter of 2012. The decrease is attributable to a reduction in mortgage loan debt due to regular repayments of principal.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense increased by $156,940 during the third quarter of 2013, compared to the third quarter of 2012. The increase is comprised of an increase in accretion of $13,831 and a $470,854 reduction in the gain related to the change in the fair value of interest rate swaps, partially offset by a decrease in amortization of transaction costs of $327,745.

Transaction costs related to mortgage loans, mortgage bonds and debentures are capitalized and expensed through amortization charges. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities.

The change in value of the swap mortgage loan provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time. As the decrease in value during the third quarter of 2013 was less than the decrease in value during the third quarter of 2012, the change in value of the interest rate swaps resulted in an increase in interest expense during the third quarter of 2013, compared to the third quarter of 2012.

Nine Month Comparatives for Interest Expense

For the nine month period ended September 30, 2013, total interest expense decreased by $7,592,337, compared to the same period in 2012. The decrease is comprised of a decrease in interest expense for investment properties of $3,741,573 and a decrease in interest expense for discontinued operations of $3,850,764.

Excluding prepayment penalties, total interest expense decreased by $3,516,437 during the nine month period ended September 30, 2013, compared to the nine month period ended September 30, 2012.

Trust Expense

During the third quarter of 2013, trust expense increased by $33,132, compared to the third quarter of 2012.

For the nine months ended September 30, 2013, trust expense increased by $190,305, compared to the nine months ended September 30, 2012. The increase is mainly due to a one-time charge of $190,000 associated with the write down of a loan receivable in the second quarter of 2013.

Profit on Sale of Investment Properties

The profit on sale of investment properties represents the extent to which the net proceeds from the sale of an investment property exceeds the carrying value of the property as determined at the end of the preceding year.

During the first nine months of 2013, two condominium units were sold generating a profit on sale of $164,928. During the first nine months of 2012, LREIT sold one investment property and eight condominium units resulting in a profit on sale of $1,045,307.

Fair Value Gains

During the third quarter of 2013, fair value gains on investment properties, excluding Parsons Landing, amounted to $7,652,786, representing an increase of $7,614,172 compared to the third quarter of 2012. For the nine months ended September 30, 2013, fair value gains on investment properties, excluding Parsons Landing, amounted to $9,077,308, representing an increase of $98,469 compared to the same period in 2012. The fair value gains are included in the income of the Trust.

For the nine months ended September 30, 2013, the carrying value of investment properties increased by $11,719,579, comprised of valuation gains of $9,077,308 and capital expenditures of $2,642,271.

The determination of the fair market value of investment properties is based on a comprehensive valuation process. Additional information regarding the fair market value of investment properties and the valuation process is provided in the "Fair Value Measurement" section of this report.

Fair Value Adjustment of Parsons Landing

During the third quarter of 2013, fair value adjustments of Parsons Landing amounted to $5,152,319, representing an increase of $4,652,319 compared to the third quarter of 2012. For the nine months ended September 30, 2013, fair value adjustments of Parsons Landing amounted to $7,222,079, representing an increase of $11,222,079 compared to the same period in 2012. The fair value adjustments are included in the income of the Trust.

The variance between the fair value adjustment of $5,152,319 in the third quarter of 2013, compared to the fair value adjustment of $500,000 in the third quarter of 2012, served to increase income by $4,652,319 during the third quarter of 2013, compared to the same period in 2012.

The variance between the net impairment loss of $4,000,000 in the first nine months of 2012 compared to the fair value increase of $7,222,079 in the first nine months of 2013 served to increase income by $11,222,079 during the first nine months of 2013, compared to the same period in 2012.

Insurance Proceeds

During the third quarter of 2012, LREIT received insurance proceeds of $400,000 in regard to furniture and equipment losses at Parsons Landing, which served to increase income. During the third quarter of 2013, LREIT did not receive any insurance proceeds.

Discontinued Operations

Income from discontinued operations includes the net operating income, interest expense and income tax for the seniors' housing complexes, as well as gains resulting from the sale of properties.

Analysis of Income from Discontinued Operations

	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Rental income	$ 1,249,773	$ 2,881,136	$ 3,919,991	$ 10,433,183
Property operating costs	973,943	1,700,923	2,774,719	5,668,639
Net operating income	275,830	1,180,213	1,145,272	4,764,544
Interest expense	193,359	207,911	583,473	4,434,237
Profit on sale	-	-	-	2,039,808
Tax expense (recovery)				
Current	-	274,737	177,237	(83,478)
Deferred	-	99,063	(285,734)	(78,849)
Income from discontinued operations	$ 82,471	$ 598,502	$ 670,296	$ 2,532,442

During the third quarter of 2013, LREIT generated income from discontinued operations of $82,471 compared to $598,502 during the third quarter of 2012, representing a decrease of $516,031. The decrease mainly reflects a decrease in net operating income due to the sale of Riverside Terrace in December 2012, partially offset by a decrease in tax expense.

For the nine month period ended September 30, 2013, income from discontinued operations decreased by $1,862,146, compared to the nine month period ended September 30, 2012. The decrease is mainly due to a decrease in net operating income of $3,619,272 and a decrease in profit on sale of $2,039,808, partially offset by a decrease in interest expense of $3,850,764. The decrease in net operating income, profit on sale and interest expense are primarily attributable to the sale of Riverside Terrace in December 2012 and the Clarington Seniors' Residence in May 2012. Interest expense was also comparatively high in the second quarter of 2012 due to the repayment of the first mortgage loan at Riverside Terrace, which resulted in a mortgage prepayment penalty of $1,324,352.

Notwithstanding the REIT Exception, operating income for discontinued properties is earned in subsidiary operating companies which are subject to income tax and deferred income tax. In the first quarter of 2013, the repayment of the $3.2 Million mortgage loan receivable which arose from the sale of Riverside Terrace in December 2012 resulted in an income tax expense and deferred tax recovery.

Comparison to Preceding Quarter

Analysis of Income (Loss)

	Three Months Ended September 30, 2013	Three Months Ended June 30, 2013	Increase (Decrease) Amount	Increase (Decrease) %
Rentals from investment properties	$ 10,417,760	$ 10,026,210	$ 391,550	3.9 %
Property operating costs	4,012,556	3,939,488	(73,068)	1.9 %
Net operating income	6,405,204	6,086,722	318,482	5.2 %
Interest income	303,792	329,946	(26,154)	(7.9)%
Interest expense	(6,281,557)	(6,609,966)	328,409	(5.0)%
Trust expense	(440,395)	(790,635)	350,240	(44.3)%
Income recovery on Parsons Landing	630,704	742,500	(111,796)	(15.1)%
(Income) loss before the following	617,748	(241,433)	859,181	355.9 %
Profit on sale of investment properties	-	164,928	(164,928)	(100.0)%
Fair value gains	7,652,786	1,286,668	6,366,118	494.8 %
Fair value adjustment of Parsons Landing	5,152,319	1,769,760	3,382,559	191.1 %
Income for the period before taxes and discontinued operations	13,422,853	2,979,923	10,442,930	350.4 %
Income from discontinued operations	82,471	355,731	(273,260)	(76.8)%
Comprehensive income	$ 13,505,324	$ 3,335,654	$ 10,169,670	304.9 %

During the third quarter of 2013, the income of LREIT, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, increased by $859,181 compared to the second quarter of 2013. The increase in the income mainly reflects a decrease in trust expense of $350,240, a decrease in interest expense of $328,409, and an increase in net operating income of $318,482, partially offset by a decrease in income recovery on Parsons Landing of $111,796. The decrease in trust expense is mainly attributable to the comparatively high level of trust expense in the second quarter of 2013 as a result of a one-time charge of $190,000 associated with the write down of a loan receivable. The decrease in interest expense is due to the reduction in the weighted average interest rate on mortgage loan debt, which decreased from 6.7% at the end of the first quarter of 2013 to 5.5% at the end of the second quarter of 2013. The increase in operating income is mainly due to the Fort McMurray property portfolio as a result of the return of 84 suites at Parsons Landing to active rental operations on June 1, 2013, as well as an improvement in occupancy levels and increased rental rates at other properties. The decrease in income recovery is mainly due to the return of 84 suites at Parsons Landing.

After accounting for the increase in fair value gains and fair value adjustment of Parsons Landing in the combined amount of $9,748,677 and a decrease in profit on sale of investment properties of $164,928, the income of LREIT before income taxes and discontinued operations increased by $10,442,930 during the third quarter of 2013, compared to the second quarter of 2013.

Income from discontinued operations decreased by $273,260 during the third quarter of 2013, compared to the second quarter of 2013. The decrease in income from discontinued operations mainly reflects a decrease in income tax recoveries and net operating income.

After accounting for discontinued operations and income tax expense, LREIT completed the third quarter of 2013 with comprehensive income of $13,505,324, compared to comprehensive income of $3,335,654 during the second quarter of 2013.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash Flow from Operating Activities

The net cash flow from operating activities is equal to the cash component of net operating income less net interest paid, the cash component of trust expense and the net increase or decrease in other working capital items (disclosed as "working capital adjustments") for both investment properties and the seniors' housing complexes classified as discontinued operations. The calculation of the cash component of net operating income excludes "accrued rent receivable", while the calculation of the cash component of trust expense excludes "unit based compensation" and "write down of note receivable". Net interest paid consists of interest paid, net of interest received.

"Interest paid" on the Statements of Cash Flows is based on the cash component of interest expense for both investment properties and discontinued operations, excluding any prepayment penalties, and after adjusting for the change in accrued interest during the period.

Due to the exclusion of prepayment penalties and non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of interest rate swaps, there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. Quarterly variances in accrued interest in regard to the Series G debentures and mortgage bonds also serve to reduce "interest paid" by approximately $950,000 in the first and third quarters of the year, compared to the second and fourth quarters of the year.

Third Quarter Comparatives

Cash from Operating Activities

	Three Months Ended September 30		Increase
	2013	2012	(Decrease)
Net operating income			
Investment properties	$ 6,405,204	$ 5,355,272	$ 1,049,932
Discontinued operations	275,830	1,180,213	(904,383)
Total net operating income	6,681,034	6,535,485	145,549
Accrued rent receivable	97,017	96,672	345
Net operating income - cash basis	6,778,051	6,632,157	145,894
Income recovery on Parsons Landing	630,704	869,547	(238,843)
Insurance proceeds	-	400,000	(400,000)
Trust expense	(440,395)	(407,263)	(33,132)
Non-cash component of trust expense	18,750	18,750	-
Trust expense - cash basis	(421,645)	(388,513)	(33,132)
Interest paid			
Investment properties	(4,895,664)	(6,059,680)	1,164,016
Discontinued operations	(178,291)	(197,668)	19,377
Total interest paid	(5,073,955)	(6,257,348)	1,183,393
Interest received	143,234	123,823	19,411
Interest expense - cash basis	(4,930,721)	(6,133,525)	1,202,804
Income tax recovery (expense) - current	-	(274,737)	274,737
Cash provided by (used in) operating activities, before working capital adjustments	2,056,389	1,104,929	951,460
Working capital adjustments, net	1,224,561	(616,846)	1,841,407
Cash provided by (used in) operating activities	$ 3,280,950	$ 488,083	$ 2,792,867

During the third quarter of 2013, the cash flow from continuing and discontinued operations, excluding working capital adjustments, increased by $951,460 compared to the third quarter of 2012. The increase in the cash flow mainly reflects a decrease in interest paid of $1,183,393 and an increase in net operating income, on a cash basis, of $145,894, partially offset by a decrease in insurance proceeds of $400,000 and a decrease in the income recovery on Parsons Landing of $238,843. The decrease in net operating income reflects an increase in the net operating income from investment properties, largely offset by a decrease in net operating income from discontinued operations. The main factors which affected the increase (decrease) in these variables are disclosed in the preceding sections of this report.

Nine Month Comparatives

Cash from Operating Activities

	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012	Increase (Decrease)
Net operating income			
Investment properties	$ 18,185,494	$ 17,134,762	$ 1,050,732
Discontinued operations	1,145,272	4,764,544	(3,619,272)
Total net operating income	19,330,766	21,899,306	(2,568,540)
Accrued rent receivable	11,998	455,230	(443,232)
Net operating income - cash basis	19,342,764	22,354,536	(3,011,772)
Income recovery on Parsons Landing	2,272,334	2,393,658	(121,324)
Insurance proceeds	-	400,000	(400,000)
Trust expense	(1,762,327)	(1,572,022)	(190,305)
Non-cash component of trust expense	272,343	56,250	216,093
Trust expense - cash basis	(1,489,984)	(1,515,772)	25,788
Interest paid			
Investment properties	(17,940,797)	(19,730,826)	1,790,029
Discontinued operations	(551,134)	(2,651,824)	2,100,690
Total interest paid	(18,491,931)	(22,382,650)	3,890,719
Interest received	482,144	368,548	113,596
Interest expense - cash basis	(18,009,787)	(22,014,102)	4,004,315
Income tax recovery (expense) - current	(177,237)	83,478	(260,715)
Cash provided by (used in) operating activities, before working capital adjustments	1,938,090	1,701,798	236,292
Working capital adjustments, net	1,253,669	(6,813,487)	8,067,156
Cash provided by (used in) operating activities	$ 3,191,759	$ (5,111,689)	$ 8,303,448

During the first nine months of 2013, net cash flow from operating activities, excluding working capital adjustments, increased by $236,292 compared to the first nine months of 2012. The increase mainly reflects a decrease in interest paid of $3,890,719, largely offset by a decrease in net operating income, on a cash basis, of $3,011,772, a decrease in insurance proceeds of $400,000 and a decrease in the income recovery on Parsons Landing of $121,324. The decrease in net operating income reflects a decrease in net operating income from discontinued operations, partially offset by an increase in the net operating income from investment properties.

Funds from Operations ("FFO") & Adjusted Funds from Operations ("AFFO")

LREIT considers "Funds from Operations" ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance. FFO measures the cash generating abilities of LREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions.

During the first nine months of 2013, the FFO deficiency decreased by $4,629,245, compared to the first nine months of 2012, while the AFFO deficiency decreased by $3,705,344. On a basic per unit basis, the FFO deficiency decreased by $0.249 per unit, while the AFFO deficiency decreased by $0.202 per unit.

The cash increase or decrease from discontinued operations is included in the calculation of FFO and AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Comprehensive income	$ 13,505,324	$ (2,298,800)	$ 16,028,750	$ 3,912,535
Add (deduct):				
Deferred taxes	-	(82,276)	(285,734)	(78,849)
Profit on sale of properties	-	-	(164,928)	(3,085,115)
Taxes on sale of discontinued operations	-	274,737	177,237	(83,478)
Fair value gains	(7,652,786)	(38,614)	(9,077,308)	(8,978,839)
Fair value adjustment of Parsons Landing	(5,152,319)	(500,000)	(7,222,079)	4,000,000
Forgiveness of debt	-	-	-	(859,561)
Funds from operations (FFO) *	700,219	(2,644,953)	(544,062)	(5,173,307)
Add (deduct):				
Straight-line rent adjustment	97,017	96,672	11,998	455,230
Accretion of debt component of mortgage bonds	116,878	103,047	335,323	295,736
Write down of note receivable	-	-	190,000	-
Unit-based compensation	18,750	18,750	82,343	56,250
Change in fair value of interest rate swaps	(72,391)	(543,245)	(213,642)	(947,694)
Capital expenditures on investment properties	(1,340,270)	(361,386)	(2,642,271)	(1,273,958)
Capital expenditures on property and equipment	(1,968)	(10,030)	(129,293)	(27,205)
Adjusted funds from operations (AFFO) *	$ (481,765)	$ (3,341,145)	$ (2,909,604)	$ (6,614,948)
FFO per unit *				
- basic and diluted	$ 0.037	$ (0.142)	$ (0.029)	$ (0.278)
AFFO per unit *				
- basic and diluted	$ (0.026)	$ (0.179)	$ (0.154)	$ (0.356)

* FFO and AFFO are non-IFRS financial measures of operating performance widely used by the real estate industry. Accordingly, FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

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

AFFO is determined by taking the amounts reported as FFO and deducting what is commonly referred to as capital expenditures. Capital expenditures are referred to as expenditures that by standard accounting definitions are accounted for as capital in that the expenditure itself has a useful life in excess of the current financial year and also adds or maintains the value of the related asset.

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of LREIT is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements. Accordingly, a reconciliation between the net cash flow from operating activities and distributable income is provided in the chart below.

Reconciliation Between Cash from Operating Activities and Distributable Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	$ 3,280,950	$ 488,083	$ 3,191,759	$ (5,111,689)
Changes in non-cash operating items	(1,224,561)	616,846	(1,253,669)	6,813,487
	2,056,389	1,104,929	1,938,090	1,701,798
Add (deduct):				
Capital expenditures on investment properties	(1,340,270)	(361,386)	(2,642,271)	(1,273,958)
Capital expenditures on property and equipment	(1,968)	(10,030)	(129,293)	(27,205)
Distributable income (loss)	$ 714,151	$ 733,513	$ (833,474)	$ 400,635
Per unit				
- basic	$ 0.038	$ 0.039	$ (0.044)	$ 0.022
- diluted	$ 0.038	$ 0.039	$ (0.044)	$ 0.021

Distributable income is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures, from both investment properties and discontinued operations.

Working capital adjustments are excluded from LREIT's calculation of distributable income as working capital adjustments are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

After accounting for the increase in capital expenditures, and the decrease in cash flow, excluding working capital adjustments, as previously discussed, LREIT completed the first nine months of 2013, with a distributable loss of $833,474, representing an increase in the distributable loss of $1,234,109 compared to the first nine months of 2012.

Distributions

Cash distributions will be suspended for the foreseeable future, given the other funding priorities of LREIT.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $4,091,035 during the first nine months of 2013. Financing activities consist primarily of cash inflows and outflows related to the repayment and refinancing of mortgage loan debt, including transaction costs, as well as cash inflows and outflows related to the revolving loan commitment.

Details regarding transactions related to mortgage loan financing activities and the revolving loan are provided in other sections of this report.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $374,596 during the first nine months of 2013. Investing activities representing a cash inflow include proceeds from a mortgage loan receivable of $3,200,000, a decrease in restricted cash of $1,573,841 and a decrease in defeasance assets of $108,934. Investing activities representing a cash outflow include taxes paid on property sold of $1,734,702 and capital expenditures on investment properties and discontinued operations of $2,642,271 and $129,293, respectively.

The cash inflow in regard to restricted cash mainly reflects a decrease in term deposits due to the payout of blanket mortgages, partially offset by an increase in mortgage loan reserves stemming from the refinancings which were completed during the first nine months of 2013.

Cash Flow Summary

During the first nine months of 2013, the net cash inflow from operating, financing and investing activities was $169,423. After providing for the opening cash balance of $1,254,278, LREIT completed the first nine months of 2013 with a cash balance of $1,423,701.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2013

Working Capital/Existing Cash

As of September 30, 2013, the unrestricted cash balance of LREIT was $1,423,701 and the working capital deficit was $14,352,731, representing an increase in the working capital deficit of approximately $9.9 Million compared to the working capital deficit as of December 31, 2012. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $13,905,000 is included in the calculation of the working capital deficit. The refundable deposit on property disposal of $1 Million is also included in the calculation of the working capital deficit.

The increase in the working capital deficiency during the nine month period ended September 30, 2013 is mainly due to an increase in the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating the working capital deficit may differ from the method which is used by other issuers. Accordingly, the working capital deficit as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Cash Inflow from Operating Activities

The overall funding requirements of LREIT are affected by the level of cash inflows or outflows from operating activities. As previously disclosed, LREIT completed the nine months ended September 30, 2013 with a cash inflow from operating activities of $3,191,759, compared to a cash deficiency from operating activities of $5,111,689 for the nine months ended September 30, 2012. The cash component of interest expense in the second and fourth quarters is higher in comparison to the first and third quarters as a result of the timing of debenture and mortgage bond interest payments. This variance impacts the comparability of cash from operating activities from quarter to quarter.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian). Effective July 1, 2013, the revolving loan commitment was renewed for a six month term to December 31, 2013 at an interest rate of 12% with a maximum balance of $15 Million. As of the date of this report, $3,495,000 is available under the revolving loan commitment.

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

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

As previously disclosed, LREIT sold the Purolator Building on October 1, 2013, for net proceeds of $0.8 Million.

On October 28, 2013, LREIT entered into an unconditional sales agreement to dispose of Nova Court for gross proceeds of $21,680,000. In September 2013, LREIT received a refundable deposit of $1 Million in regard to the proposed sale. As a result of the sale commitment, the deposit is non refundable. After accounting for selling costs, the discharge of the first mortgage loan and the prepayment of $10 Million of the 9% mortgage bonds which are secured by the property, the net proceeds, including the deposit, are expected to be approximately $3.6 Million. The net proceeds will be used for general working capital purposes. The property will be sold to another publicly traded entity that has a Director/Trustee and Chief Executive Officer in common. The purchase price was supported by an independent third party appraisal. The sale was approved by the independent Trustees. The closing of the proposed sale is scheduled to occur by December 31, 2013.

The current expectations of management are that the two remaining seniors' housing complexes and/or other properties will be sold in 2014. The condominium sales program at the Lakewood Townhomes is expected to be substantially completed in 2015. The timing and extent of projected property sales cannot be reasonably predicted and there is no assurance that LREIT will sell properties proposed for sale on favourable terms or at all.

Mortgage Loans Receivable

As of September 30, 2013, LREIT has mortgage loans receivable of $9.1 Million, all of which are due in 2014.

Upward Refinancing of Mortgage Loans

The upward refinancing of mortgage loan debt represents a source of capital for LREIT. The opportunity to complete upward refinancings is limited, given the extent to which the existing property portfolio is leveraged and the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust.

Details regarding mortgage loan transactions for the first nine months of 2013 are disclosed in the "Mortgage Loans Payable" section of the MD&A.

Debt and/or Equity Offerings

LREIT may pursue additional offerings of debt and/or equity in the future as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

Uses of Funds - 2013

Parsons Landing

The funding commitments under the purchase agreement for Parsons Landing are comprised of a $3,000,000 payment on closing, as a final reduction of the amount payable, and payments of $300,000 per month as interest on the amount payable. Management expects to have $44 Million of first mortgage financing in place in order to complete the acquisition of Parsons Landing this year, prior to the scheduled closing date of January 2, 2014.

Long-term Debt Principal Payments

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for the remainder of 2013 and for the next five years, is provided in the following chart. The chart reflects mortgage payments in accordance with the payment terms specified by the applicable mortgage loan.

Summary of Contractual Obligations - Long-term Debt (1)

Payments Due by Period	Total	Remainder of 2013	2014/2015	2016/2017	2018 and beyond
Regular mortgage loans	$ 211,561,908	$ 34,599,925	$ 88,379,864	$ 32,845,956	$ 55,736,163
Mortgage loans payable on demand	26,109,433	26,109,433	-	-	-
Sub-total - Investment properties	237,671,341	60,709,358	88,379,864	32,845,956	55,736,163
Loans on properties held for sale	13,383,079	13,383,079	-	-	-
Total mortgage loan debt	251,054,420	74,092,437	88,379,864	32,845,956	55,736,163
Swap mortgage loan (2)	16,011,316	91,899	1,175,033	1,319,713	13,424,671
Debentures and mortgage bonds	40,901,800	-	40,901,800	-	-
Total	$ 307,967,536	$ 74,184,336	$ 130,456,697	$ 34,165,669	$ 69,160,834

(1) Swap mortgage loan, debentures and mortgage bonds are reflected at face value.

(2) The swap mortgage loan matures in 2018 and is in breach of a global debt service coverage requirement. Under IFRS, mortgages in breach of debt covenants are classified as a "current portion of long-term debt", regardless of the maturity date. If the above chart was adjusted to reflect the swap mortgage loan as a current liability, the total long-term debt due for the remainder of 2013 would increase to $90,103,753.

Summary of Mortgage Loan Debt Due in 2013

The amount due for regular mortgage loans of $34,599,925 mainly consists of three mortgage loans in the aggregate amount of $33,659,183. Subsequent to September 30, 2013, one of the mortgage loans was refinanced and one of the mortgage loans was assumed by the purchaser upon sale of the encumbered property in October 2013. Management expects that the other mortgage loan in the amount of $26,790,856 will be renewed by December 31, 2013.

The amount due for mortgage loans repayable on demand of $26,109,433 consists of the two mortgage loans which are in breach of debt service coverage requirements and were overholding past the maturity dates with the consent of the lender. Subsequent to September 30, 2013, the two mortgage loans were refinanced and the breaches were extinguished. An analysis of the mortgage loans is provided in the "Mortgage Loans Payable" section of the MD&A.

The mortgage loans on properties held for sale of $13,383,079 consists of the mortgage loan debt of two properties. As of September 30, 2013, the Trust was in compliance with all mortgage covenants on properties held for sale.

Principal Payments - Debentures and Mortgage Bonds

As of September 30, 2013, the total face value of the 9% Series G debentures is $24,901,800. The debentures mature on February 28, 2015. The terms of the debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness, if applicable, and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage loan and mortgage bond indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

During the second quarter of 2013, LREIT implemented a normal course issuer bid (NCIB) for the Series G debentures. The NCIB provides for the repurchase of debentures by LREIT to a maximum amount of $2,493,000 during the twelve month period ending June 16, 2014. As of September 30, 2013, debentures with a face value of $59,200 were purchased and cancelled.

The 9% second mortgage bonds of LREIT mature on December 24, 2015. As of September 30, 2013, the mortgage bonds have a total face value of $16,000,000.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders as additional security relating to breaches of debt service coverage requirements and/or to fund future capital repairs. As of September 30, 2013, cash deposits in regard to mortgage loans amount to $3,549,422, of which $1.7 Million pertains to a mortgage loan which is in breach of debt service coverage requirements.

Subsequent to September 30, 2013, two of the mortgage loans in breach of debt service coverage requirements were repaid and the cash deposits of $1.7 Million were applied to the principal balance.

It is anticipated that there will not be any additional cash deposits required for the remaining swap mortgage loan which is in breach of a debt service coverage requirement in 2013.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $450,000 for the remainder of 2013.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan commitment and periodic credit support from Shelter Canadian, as required, will be sufficient to fund the projected funding commitments of LREIT for the next 12 months. As of the date of this report, the amount available under the revolving loan is $3,495,000.

The net proceeds from property sales, after repayment of any related mortgage loan and mortgage bond indebtedness, will be used to repay advances from 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

CAPITAL STRUCTURE

Capital Structure - September 30, 2013

	September 30, 2013		December 31, 2012	
	Amount	%	Amount	%
Long-term debt	$ 141,595,221	34.2 %	$ 86,760,933	21.3 %
Current portion of long-term debt	155,476,066	37.6 %	219,463,616	53.9 %
Equity	116,943,427	28.2 %	100,829,954	24.8 %
Total capitalization	$ 414,014,714	100.0 %	$ 407,054,503	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, a swap mortgage loan, mortgage bonds, debenture debt, a defeased liability, mortgage guarantee fees payable and accrued interest payable, less unamortized transaction costs. On the Statement of Financial Position, the long-term debt of investment properties is separated into a current and non-current portion, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities classified as held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs. The amount payable in regard to the acquisition of Parsons Landing is included in trade and other payables.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of September 30, 2013 decreased by $11,048,645 or 3.4% compared to the total long-term debt as of December 31, 2012. The decrease mainly reflects a decrease in mortgage loan debt.

	September 30 2013	December 31 2012	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 237,671,341	$ 247,654,245	$ (9,982,904)
Swap mortgage loans	17,272,478	17,888,836	(616,358)
Mortgage bonds	14,794,154	14,458,831	335,323
Debentures	24,901,800	24,961,000	(59,200)
Defeased liability	2,659,138	2,701,511	(42,373)
Total secured long-term debt	297,298,911	307,664,423	(10,365,512)
Mortgage guarantee fees	102,179	133,864	(31,685)
Accrued interest payable	2,239,220	1,746,367	492,853
Unamortized transaction costs	(2,569,023)	(3,320,105)	751,082
Total long-term debt - Investment properties	297,071,287	306,224,549	(9,153,262)
Total long-term debt - Properties held for sale	13,383,079	15,278,462	(1,895,383)
Total long-term debt	$ 310,454,366	$ 321,503,011	$ (11,048,645)

Swap Mortgage Loan

As of September 30, 2013, the amount of swap mortgage loan debt outstanding, excluding unamortized transaction costs was $17,272,478, representing a decrease of $616,358 in comparison to the amount outstanding as of December 31, 2012. The decrease is comprised of $402,716 of debt principal repayments and a $213,642 decrease in the fair value of the interest rate swap.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of September 30, 2013, the mortgage loan debt of LREIT decreased by $11,895,454 compared to the amount payable as of December 31, 2012. As disclosed in the following chart, the decrease is attributable to regular repayments of principal, lump-sum principal prepayments and a net reduction of debt on refinancing.

	Nine Months Ended September 30, 2013		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 117,000,000	$ 117,000,000	$ -
Repayment of mortgage loans on refinancing	(119,344,952)	(119,344,952)	-
Net proceeds (repayment)	(2,344,952)	(2,344,952)	-
Regular repayment of principal on mortgage loans	(5,651,828)	(4,739,278)	(912,550)
Prepayment of mortgage loans	(2,998,500)	(1,998,500)	(1,000,000)
Reduction of mortgage loans on sale of properties	(900,174)	(900,174)	-
Decrease in mortgage loans	(11,895,454)	(9,982,904)	(1,912,550)
Total mortgage loans - December 31, 2012	262,949,874	247,654,245	15,295,629
Total mortgage loans - September 30, 2013	$ 251,054,420	$ 237,671,341	$ 13,383,079

The decrease in mortgage loan debt was largely offset by a $8.9 Million increase in the balance of the revolving loan.

Investment Properties

Net Proceeds (Repayment) of Mortgage Loan Financing

Proceeds of mortgage loan financing of $117,000,000, as disclosed in the preceding chart mainly reflect financing activities that occurred in January and April of 2013.

In January 2013, a 4.99%, $21 Million first mortgage loan was obtained for the six apartment properties in downtown Fort McMurray. After discharging the existing mortgage loan debt on the six apartment properties in downtown Fort McMurray of $20.4 Million, the net proceeds from refinancing were $600,000. The proceeds were used to fund a capital expenditure reserve account of $600,000.

In April 2013, a combined total of $96 Million of mortgage loan financing was obtained, comprised of a 3.7%, $42 Million first mortgage loan for Colony Square, a 6.00%, $39.7 Million first mortgage loan for Laird's Landing, and a 10.825%, $14.3 Million blanket second mortgage loan on Laird's Landing, Millennium Village and Willowdale Gardens. The proceeds from the financing, combined with the application of $2.7 Million in collateral deposits, were used to discharge $98.9 Million of existing mortgage loan financing, and fund a $250,000 replacement reserve account.

After accounting for the application of collateral deposits and transaction costs, the net outflow from mortgage financing activities was $1.8 Million during the nine months ended September 30, 2013.

Discontinued Operations (Seniors' Housing Complexes)

During the third quarter of 2013, the mortgage loan for Elgin Lodge was renewed for a one year term. The renewal encompassed a $1 Million lump-sum paydown of the loan.

The decrease in the mortgage loan debt for discontinued operations of approximately $1.9 Million, as disclosed in the preceding chart, reflects the $1 Million paydown, as well as regular principal payments.

Regular Repayments of Principal

During the nine months ended September 30, 2013, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $5,651,828, compared to $5,672,143 during the nine months ended September 30, 2012.

Revolving Loan

As previously disclosed, interest on the revolving loan commitment is included in mortgage loan interest. As of September 30, 2013, the amount withdrawn on the revolving loan was $13,905,000, compared to $5,025,000 as of December 31, 2012. During the first nine months of 2013, the interest rate on the revolving loan was 12%. The revolving loan is included in "Trade and Other Payables" on the Statement of Financial Position of LREIT.

Composition of Mortgage Loan Debt - September 30, 2013

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount September 30, 2013	Percentage of Total
Investment Properties			
Fixed rate			
2013	3.4 %	$ 33,659,183	13.4 %
2014	4.3 %	21,052,342	8.4 %
2015	5.0 %	9,219,353	3.7 %
2016	5.0 %	11,349,893	4.5 %
2017	5.7 %	19,816,287	7.9 %
2018	4.1 %	62,464,850	24.9 %
	4.3 %	157,561,908	62.8 %
Demand/variable rate	7.7 %	80,109,433	31.9 %
Principal amount		237,671,341	94.7 %
Discontinued Operations			
Demand/variable rate	5.0 %	13,383,079	5.3 %
Total		$ 251,054,420	100.0 %

(1) The year of maturity for the above noted schedule reflects the contractual obligation and does not reflect the requirement under IFRS to disclose loans with covenant breaches as payable on demand.

(2) As of September 30, 2013, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.4%, 5.0% and 5.4%, respectively, compared to 7.3%, 5.0% and 7.2% at December 31, 2012.

The weighted average interest rate for mortgage loan debt excludes the interest on the revolving loan and interest on the acquisition payable on Parsons Landing. The interest payments on the acquisition payable represent an effective interest rate of 8%.

Mortgage Loan Debt Summary *

	2013 Q 3	2013 Q 2	2013 Q 1	2012 Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.3%	4.5%	4.3%	4.8%
Variable rate mortgage loans	7.7%	7.7%	7.7%	9.0%
Investment properties and discontinued operations				
Mortgage loans, swap mortgage loan, mortgage bonds, debentures, defeased liability and revolving loan	6.2%	6.2%	7.0%	7.4%
Ratio of mortgage loans and swap mortgage loan, compared to carrying value of income-producing properties and discontinued operations *	64%	66%	67%	68%
Ratio of mortgage loans, swap mortgage loan, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	73%	76%	77%	78%

	2012 Q 3	2012 Q 2	2012 Q 1	2011 Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.9%	5.0%	5.5%	5.7%
Variable rate mortgage loans	9.0%	8.9%	8.9%	8.5%
Investment properties and discontinued operations				
Mortgage loans, swap mortgage loan, mortgage bonds, debentures, defeased liability and revolving loan	7.2%	6.8%	7.2%	7.2%
Ratio of mortgage loans and swap mortgage loan, compared to carrying value of income-producing properties and discontinued operations *	72%	73%	74%	74%
Ratio of mortgage loans, swap mortgage loan, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	81%	83%	82%	82%

* Excludes amount payable on the acquisition of Parsons Landing and property value for Parsons Landing.

Long-term Debt Maturities

As of September 30, 2013, all mortgage loans which have matured for investment properties have been renewed or refinanced with the exception of the first mortgage loan for Woodland Park which matured in the second quarter of 2013 and two mortgage loans with a combined balance of $26,109,433 which are in breach of debt service coverage requirements comprised of the first mortgage loan for Lakewood Townhomes and a second mortgage loan registered against Woodland Park and Nelson Ridge Estates.

Subsequent to the third quarter of 2013, LREIT obtained $14 Million of new financing for the remaining inventory of condominium units at the Lakewood Townhomes, comprised of a 6.5%, $11 Million first mortgage loan and a 12%, $3 Million second mortgage loan. The proceeds from the new financing, combined with the release of a collateral deposit, were used to discharge the balance of the existing 8.25% first mortgage loan of $9.8 Million and to pay down $3.8 Million of 10.825% interim financing. The refinancing eliminated the covenant breach in regard to the first mortgage loan of the Lakewood Townhomes.

Subsequent to the third quarter of 2013, LREIT also obtained $35.5 Million of new financing for Nelson Ridge Estates, comprised of a 5% first mortgage loan of $31 Million and a 11.75% interest-only second mortgage loan of $4.5 Million. The proceeds from the new financing, combined with the release of a collateral deposit, were used to discharge the existing first mortgage loan of Nelson Ridge and the existing second mortgage loan which was registered against Nelson Ridge and Woodland Park. The refinancing eliminated the covenant breach in regard to the Nelson Ridge/Woodland Park second mortgage loan.

The first mortgage loan for Woodland Park is expected to be renewed by December 31, 2013.

Debt Covenant Breaches

For investment properties, there were two mortgage loans in breach of property specific debt service coverage requirements and a swap mortgage loan in breach of a global debt service coverage requirement as of September 30, 2013. As disclosed above, the covenant breaches for the two mortgage loans were eliminated subsequent to September 30, 2013 as a result of the refinancing of the loans. The refinancing resulted in the release of collateral deposits in the total amount of $1.7 Million, representing the release of all remaining deposits for covenant-breached loans.

As of September 30, 2013, the principal balance of the swap mortgage loan is $17,272,478. The loan matures on May 1, 2018. The covenant breach is expected to be eliminated through modified loan terms.

A summary of the mortgage loan debt which matures during the remainder of 2013 is provided in the "Capital Resources and Liquidity" section of this report.

During the third quarter of 2013, a covenant breach on a $4.7 Million mortgage loan was eliminated as a result of the renewal of the loan.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2012	18,084,011
- September 30, 2013	18,091,011
- November 8, 2013	18,091,011

As of September 30, 2013, LREIT had 18,091,011 units outstanding, representing an increase of 7,000 units or 0.04%, compared to the number of units outstanding as of December 31, 2012.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan, the Deferred Unit Plan and the terms of the outstanding warrants of LREIT are provided in the Annual Information Form (AIF). The AIF is available on the SEDAR website at www.sedar.com.

OTHER LIABILITIES

Acquisition Payable

The amount payable on the acquisition of Parsons Landing is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on "acquisition payable" is included in interest expense.

As of September 30, 2013, the amount payable in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor in regard to the amount payable.

Interest charges for the period from January 1, 2010 to September 30, 2013, amounted to $33,751,560 of which $4,973,940 pertains to the first nine months of 2013. Based on the actual events which have occurred since the initial payment deadline date, management expects that the entire amount of the "excess interest" which has accrued since January 1, 2010 will be forgiven and, as such, the Financial Statements for the nine month period ended September 30, 2013 reflect the forgiveness of interest in the amount of $3,173,934. The recognition of the forgiveness of interest has resulted in the reduction of accrued interest payable by $25,280,460 for the 45 month period ended September 30, 2013. "Excess interest" represents the interest charges in excess of the $300,000 monthly interest payments which are required by the vendor. The interest of $300,000 per month represents an effective interest rate of 8%.

RELATED PARTY TRANSACTIONS

Shelter Canadian

Asset and Property Management

Shelter Canadian provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. The Services Agreement expires December 31, 2019.

Shelter Canadian is also the Property Manager for LREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter Canadian receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter Canadian 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 is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. The Property Management Agreement expires December 31, 2019.

Property management fees are included in property operating costs. Leasing commissions and tenant improvement and renovation fees are capitalized to investment properties. During the period of major in-suite renovations or development operating costs are capitalized to the cost of buildings and properties under development.

During the first nine months of 2013, the fees payable to Shelter Canadian for investment properties included service fees of $1,078,979 and property management fees of $1,264,039.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

LREIT has entered into an agreement with Shelter Canadian, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian will administer the sales program and completion of the in-suite renovations. LREIT pays a service fee equal to 5% of the gross sales proceeds. Shelter Canadian is responsible for the payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter Canadian increases by the amount of the increase in the fixed rate. LREIT also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During the first nine months of 2013, LREIT incurred service fees of $50,390 and renovation fees of nil.

The terms of the condominium sales program, including the service fee and renovation fee, were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the service fee and renovation fee.

Loans

Revolving Loan

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment is secured by mortgage charges against the title to six investment properties, two seniors' housing complexes and the assignment of a mortgage loan in the amount of $8,338,215.

A summary of the terms for the revolving loan commitment from January 1, 2012 are provided in the following chart.

Revolving Loan Term				Maximum	Maximum Loan
From	To	Renewal Fees	Interest Rate	Interest Charge	Commitment
January 1, 2012	March 31, 2012	$ -	9.75%	$ 162,594	$ 12,000,000
April 1, 2012	August 31, 2012	75,000	10.00%	n/a	15,000,000
September 1, 2012	December 31, 2012	150,000	12.00%	500,870	15,000,000
January 1, 2013	June 30, 2013	25,000	12.00%	379,916	12,000,000
July 1, 2013	December 31, 2013	25,000	12.00%	872,637	15,000,000

Effective July 1, 2013, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed for a term expiring December 31, 2013, with a maximum loan amount of $15 Million at an interest rate of 12%, subject to a maximum interest and fee payment of $897,637 for the period from July 1 to December 31, 2013. A renewal commitment fee of $25,000 was charged at the renewal. 2668921 Manitoba Ltd. has agreed to maintain the revolving loan commitment with LREIT, in the amount of $8,800,000, until the closing date of the Parsons Landing acquisition.

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense and categorized under "mortgage loan interest". Renewal and extension fees are included in transaction costs.

The amount and interest rate on the revolving loan is subject to regulatory approval. During the first nine months of 2013, interest on the loan commitment amounted to $789,098, compared to $632,236 during the first nine months of 2012.

Approval

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

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. For a summary of certain additional key risks relating to LREIT, see the Annual Information Form, which is available at www.sedar.com.

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors which are considered in assessing whether LREIT has the ability to continue to operate, including: (i) the cash deficiency from operations sustained by LREIT in prior years, (ii) the breach of debt covenant requirements which, as of the date of this report, remains on one swap mortgage loan of $17,272,478, (iii) the impact of the timing of increased rental rates and the improvement in occupancy levels in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit of the Trust, as of September 30, 2013 in the amount of $14,352,731, (v) the reliance on Shelter Canadian and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) the successful completion of additional property sales under the divestiture program, and (viii) the ability to complete upward refinancings to generate additional funds.

The financial capacity of LREIT to continue operations is dependent on improving cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio, the completion of property sales and/or upward refinancings, the continued ability of the Trust to repay, renew or refinance debt at maturity, the renewal of the revolving loan commitment from 2668921 Manitoba Ltd., and/or the continued availability of interim funding from Shelter Canadian. In the event that the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter Canadian and its parent company 2668921 Manitoba Ltd., prior to completion of additional property sales, LREIT may not have the ability to fund all of its debt obligations.

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, and as the Trust has sold 22 properties under its divestiture program, to the date of this report. In addition, the Trust has renewed or refinanced mortgage loans at maturity and/or obtained forbearance arrangements. The Trust also obtained Unitholder approval for the extension of the maturity date for the Series G debentures and eliminated covenant breaches on seven mortgage loans in investment properties and one mortgage loan in discontinued operations through refinancing and/or improved operations.

Real Property Ownership

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors.

The properties of LREIT generate income through rent payments made by the tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. Leasing results are affected by a number of factors, including location of the property and, in particular, the level of supply and demand in the local rental market.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand or the perceived desirability of such investments. Such illiquidity may tend to limit LREIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If LREIT were to be required to liquidate its real property investments, the proceeds to LREIT might be significantly less than the aggregate carrying value of its properties.

Revolving Loan Commitment From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan commitment from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary in 2013 depending on the timing of upward refinancings or property sales.

Interest expense on the revolving loan from 2668921 Manitoba Ltd. is included in mortgage loan interest.

Credit Support from Shelter Canadian

Shelter Canadian has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees.

The continuation of interim funding from Shelter Canadian may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from upward refinancings or property sales to the extent required to restore working capital.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Completion of Divestiture Program

In 2009, LREIT initiated a divestiture program targeting the sale of assets, with a value in excess of $250 Million. The objective of the divestiture program is to reduce total debt, including debenture debt, and in particular higher cost interim mortgage loan financing. The sale of properties under the divestiture program is also required in order for LREIT to generate sufficient cash inflows to meet its ongoing funding obligations and restore working capital.

From January 1, 2009 to December 31, 2012 LREIT sold 21 properties and 13 condominium units at Lakewood Townhomes for a combined gross selling price of $236 Million.

During the first nine months of 2013, the Trust sold two condominium units at Lakewood Townhomes for a gross selling price of $959,800.

On October 1, 2013, the Purolator Building was sold for gross proceeds of $1.6 Million and net proceeds of approximately $0.8 Million after assumption of mortgage loan debt and sales expenses.

On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court for gross proceeds of $21,680,000. In September 2013, LREIT received a refundable deposit of $1 Million in regard to the proposed sale. As a result of the sale commitment, the deposit is non refundable. After accounting for selling costs, the discharge of the first mortgage loan and the prepayment of $10 Million of the 9% mortgage bonds which are secured by the property, the net proceeds, including the deposit, are expected to be approximately $3.6 Million. The net proceeds will be used for general working capital purposes. The property will be sold to another publicly traded entity that has a Director/Trustee and Chief Executive Officer in common. The purchase price was supported by an independent third party appraisal. The sale was approved by the independent Trustees. The closing of the proposed sale is scheduled to occur by December 31, 2013.

The current expectations of management are that the remaining seniors' housing complexes and/or other properties will be sold in 2014. In addition, the condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2015.

There can be no assurance that LREIT will complete the divestiture program under the time frame or to the extent which is contemplated by management.

Parsons Landing

There is a risk that financing arrangements for Parsons Landing will not be completed by the extended closing date of January 2, 2014 and the property may be listed for sale by the Vendor. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments made to the vendor. Interest charges in the amount of $25,280,460 as at September 30, 2013 which have been recorded as forgiven, may also become payable. Detailed information regarding the key events and issues surrounding Parsons Landing is provided in the "Parsons Landing" section of this report.

The income contribution of Parsons Landing for the fourth quarter of 2013 and 2014 is subject to the uncertainty surrounding a number of variables, including the rates at which suites will be leased and the time required for re-leasing.

Concentration of the Portfolio of LREIT in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. The sale of properties which are located outside of Fort McMurray will also serve to increase the exposure of LREIT's portfolio to the Fort McMurray market.

At September 30, 2013, there were 24 properties in the real estate portfolio of LREIT comprised of 22 properties in the investment property portfolio and 2 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of two commercial properties, 19 residential properties and one mixed residential/commercial property, comprising a total of 2,025 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, including Parsons Landing, which is undergoing lease-up. The 13 properties in Fort McMurray comprise a total of 1086 suites, or 54% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $318.1 Million, which represents approximately 71% of the total aggregate carrying value of the investment property portfolio.

The investment properties in Fort McMurray, excluding Parsons Landing, accounted for 62% of the total revenue of LREIT during the first nine months of 2013 and 66% of the net operating income. Parsons Landing did not return to full rental operations until October 1, 2013.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio.

Based on the growth in the level of production in the oil sands industry and the resulting increase in occupancy levels of the Fort McMurray properties, the residential property market in Fort McMurray has improved; however, there can be no assurance as to the extent of the improvement and there is the possibility that market conditions may decline. LREIT financial results for future periods are subject to numerous uncertainties arising from a marked slowdown in the oil sands industry and a weak general economy.

Certain significant expenditures, including property taxes, utility payments, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If LREIT were unable to meet mortgage payments on any property, losses could be sustained as a result of the lender's exercise of foreclosure rights or sale.

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a more restrictive capital market, a change in legislation and numerous other factors beyond the control of LREIT.

The adoption of more restrictive and conservative lending policies by mortgage lenders following the economic downturn in October 2008, combined with the decline in operating income of the Fort McMurray property portfolio, increased the level of risk for LREIT in regard to debt financing. As a result of an improvement in market conditions the level of risk has declined.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties.

Mortgage Maturities

As of September 30, 2013, all mortgage loans which have matured for investment properties have been renewed or refinanced with the exception of the two mortgage loans which are in breach of debt service coverage requirements (see "Covenant Breaches" below) and a mortgage loan that matured during the second quarter of 2013.

The mortgage which matured during the second quarter of 2013 has a balance of $26,790,856 and is expected to be renewed by December 31, 2013.

All mortgage loans for discontinued operations which have matured to the date of this report have been renewed or refinanced.

Covenant Breaches

As of September 30, 2013, LREIT had $43.4 Million of mortgage loan debt with covenant breaches, comprised of two mortgage loans and one swap mortgage loan. Subsequent to September 30, 2013, two of the mortgage loans in the aggregate amount of $26.1 Million were refinanced and the breaches were extinguished. Collateral deposits of $1.7 Million were also released at refinancing and applied to working capital.

The covenant breach for the swap mortgage loan is expected to be eliminated through modified loan terms. The swap mortgage loan has a carrying value of $17.3 Million and matures on May 1, 2018.

There is a risk that the lender for the swap mortgage loan, which remains in breach of a debt service covenant, could demand early repayment of the loan. Management does not anticipate that the lender will demand early repayment, provided that LREIT continues to be current with its scheduled payments and interest. Management expects LREIT to remain current with its scheduled payments of principal and interest.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to pay distributions is dependent upon a number of factors, including the level of operating cash flows, the amount of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. The Trust does not currently pay cash distributions. To the extent that it does make cash distributions in the future, such cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

LREIT currently qualifies as a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of Trust, the distributions of LREIT are established at the discretion of the Trustees. If circumstances permit and subject to the application of the SIFT Rules discussed below, it is the intent of the Trust to distribute an amount which is not less than all of its taxable income to its Unitholders. The Declaration of Trust provides that if the Trustees determine that available cash is not sufficient to satisfy payment of distributions, the Trustees may declare that the distribution be satisfied through the issuance of additional units, followed by an immediate consolidation of units such that, subject to the Declaration of Trust, unitholders own the same number of units on a post-consolidation basis.

Due to the decline in operating cash flow since 2009, LREIT suspended cash distributions.

Changes to Tax Treatment of Trusts

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the taxation of specified investment flow-through trusts and partnerships ("SIFTs"), LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

New legislation relating to the taxation of SIFTs was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2012, are referred to as the "SIFT Rules". LREIT became a SIFT and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

LREIT did not qualify for the REIT Exception, and therefore was subject to the SIFT Rules, in 2011 and 2012. The REIT Exception is applied on an annual basis and accordingly LREIT may be able to qualify for the REIT Exception in 2013 and subsequent years. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, LREIT intends to qualify for the REIT Exception in 2013 and subsequent years. If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2013 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2013 or any subsequent year.

Please refer to the Annual Information Form for a more detailed discussion of the SIFT Rules.

Legal Claims

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

Relationship with Shelter Canadian

The financial performance of LREIT will depend in part on the performance of Shelter Canadian, and its key personnel, in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Other

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

International Financial Reporting Standards

Except as noted below, 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 November 8, 2013.

Effective January 1, 2013, the Trust adopted IFRS 10 - 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 the subsidiaries of the Trust. The adoption of IFRS 13 did not result in any changes to the valuation techniques used by the Trust to measure fair value and did not result in changes in the carrying value as at January 1, 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of LREIT, in accordance with IFRS, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial Statement items which encompass estimates include the following:

- determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, capital expenditures anticipated within the year, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- determination of "fair value" of the swap mortgage loan: the fair value of the interest rate swap arrangement is based on the difference between the market rental rates for a fixed term mortgage loan with same maturity and the variable interest rate payable under the mortgage;

- the determination of the fair value of the mortgage bond; at inception, the fair value of the mortgage bond was based on market interest rates with the residual value used to value the trust unit purchase warrants;

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for the first nine months of 2013 is $4,802,130. Cumulative excess interest from January 1, 2010 to September 30, 2013 is $25,280,460;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method; and

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates.

TAXATION

Taxation of LREIT

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the federal income taxation of publicly listed or traded trusts, LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

New legislation relating to the taxation of SIFTs was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2012, are referred to as the "SIFT Rules". LREIT became a SIFT and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

LREIT did not qualify for the REIT Exception, and therefore was subject to the SIFT Rules, in 2011 and 2012. The REIT Exception is applied on an annual basis and accordingly LREIT may be able to qualify for the REIT Exception in 2013 and subsequent years. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, LREIT intends to qualify for the REIT Exception in 2013 and subsequent years. If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2013 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2013 or any subsequent year.

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. If LREIT qualifies for the REIT Exception in a taxation year, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year, if any. Distributions (if any) in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions (if any) not included in income.

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to September 30, 2013, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010.

If LREIT does not qualify for the REIT Exception, distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the first nine months of 2013 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2013 Third Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
November 8, 2013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
2013 THIRD QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of September 30, 2013

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2013
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	87 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	98 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	97 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	88 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	95 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	83 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	100 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	93 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	94 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	89 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	87 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	95 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	81 %
Lakewood Townhomes (3)	Fort McMurray	19,425,653	July 2007	49	41 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	94 %
Parsons Landing (4)	Fort McMurray	60,733,000	September 2008	160	90 %
Westhaven Manor	Edson	4,050,000	May 2007	48	85 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	81 %
Nova Court (5)	Yellowknife	15,000,000	March 2007	106	99 %
Total - Residential		**$ 376,615,072**	Total suites	**2,025**	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	$ 7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	- %
Purolator (6)	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 387,346,672**			

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2013
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	98 %
Ontario					
Elgin Lodge (7)	Port Elgin	18,122,000	June 2006	118	64 %
Total seniors' housing complexes		**$ 25,722,000**	Total suites	**211**	
Total real estate portfolio		**$ 413,068,672**			

Notes to the Property Portfolio:

(1) Includes the cost of major renovations and asset additions.

(2) Colony Square is comprised of one mixed residential/commercial property.

(3) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of September 30, 2013 reflects the sale of four condominium units in 2011, nine condominium units in 2012 and two condominium units in 2013. Six units are unoccupied and held as available for sale.

(4) LREIT obtained possession of Parsons Landing on September 1, 2008. 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. On June 1, 2013, 84 units were reconstructed and returned to rental operations. As of September 30, 2013, the occupancy for Parsons Landing reflects 76 of the 84 reconstructed units. On October 3, 2013, LREIT received the final occupancy permit for the reconstructed property. As per the agreement with the Vendor, the closing date for Parsons Landing is January 2, 2014, which is 90 days following the receipt of the final occupancy permit.

(5) Property includes 8,400 square feet of commercial space. On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court. The closing of the proposed sale is scheduled to occur by December 31, 2013.

(6) Sold on October 1, 2013.

(7) The number of suites at Elgin Lodge decreased from 124 suites to 118 as a result of the renovation and conversion of studio suites to one bedroom suites.