LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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Unitholder Returns

	Six Months Ended June 30, 2013 (Per unit)	Year Ended December 31, 2012 (Per unit)
Opening price	$0.65	$0.42
Closing price	$0.71	$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 Second Quarter Report

Income Results

LREIT completed the second quarter of 2013 with a net income of $3.3 Million, compared to net income of $32.3 Million during the second quarter of 2012. The variance between the 2013 and 2012 second quarter results mainly reflects the comparatively high level of income which LREIT reported in the second quarter of 2012 due to transactions related to fair value gains and adjustments as follows:

- during the second quarter of 2012, LREIT recorded a $23.3 Million increase in the carrying value of Parsons Landing, resulting in a corresponding increase in income. The increase in the carrying value effectively represented the recovery of a portion of the $27.8 Million write-down of Parsons Landing which had been recorded in the first quarter of 2012, following the destruction of the property by fire.
- during the second quarter of 2012, fair value gains on investment properties amounted to $7.1 Million, compared to $1.3 Million in the second quarter of 2013.

During the second quarter of 2012, the income recovery for Parsons Landing of $1.5 Million was also substantially higher than "normal" due to the delayed recovery of income in regard to the rental loss in the first quarter of 2012.

In comparison to the first quarter of 2013, the net income of LREIT increased by $4.1 Million during the second quarter of 2013, mainly due to a $2.6 Million increase in fair value gains/adjustments and a $1.2 Million decrease in interest expense. The decrease in interest expense reflects a decrease in the weighted average interest rate of mortgage loan financing which took place in the first and second quarters of 2013 and a decrease in amortization of transaction costs.

Cash Flow Results

During the second quarter of 2013, the cash outflow from operating activities, excluding working capital adjustments amounted to $0.5 Million, compared to a cash outflow of $0.1 Million during the second quarter of 2012. Including working capital adjustments, LREIT completed the second quarter of 2013 with a cash outflow from operating activities of $0.2 Million, compared to a cash outflow of $4.6 Million during the second quarter of 2012.

Mortgage Refinancing

During the second quarter of 2013, LREIT obtained a total of $96 Million of new mortgage loan financing at a weighted average interest rate of 5.7%. The proceeds from the new financing, combined with the application of $2.7 Million of collateral deposits and working capital, were used to discharge $98.9 Million of existing mortgage loan financing with a weighted average interest rate of 8.5% and fund transaction costs. The refinancing eliminated a covenant breach.

Revolving Loan from 2668921 Manitoba Ltd.

During the second quarter of 2013, LREIT obtained $4.1 Million of net proceeds under the revolving loan commitment. The net proceeds were used for working capital purposes. As of June 30, 2013, the balance of the revolving loan is $12 Million. Effective July 1, 2013, the maximum amount of the revolving loan was increased to $15 Million.

Mortgage Loan Covenant Breaches

As of June 30, 2013, LREIT had $48.6 Million of mortgage loan debt with covenant breaches, comprised of three mortgage loans and one swap mortgage loan. The covenant breach for the swap mortgage loan is expected to be eliminated through modified loan terms. The swap loan has a balance of $17.5 Million and matures on May 1, 2018.

The covenant breach for two of the mortgage loans, with a combined balance of $26.5 Million, are over-holding past maturity with the consent of the lender. LREIT is in the process of arranging upward refinancing for the properties which are secured under the loans and the refinancing will eliminate the covenant breaches. Subsequent to June 30, 2013, the other mortgage loan was renewed and the breach was extinguished.

Parsons Landing Reconstruction

On June 1, 2013, 84 reconstructed suites at Parsons Landing were returned to LREIT and commenced active rental operations. The suites are currently in the lease-up stage and, as of August 13, 2013, 48 of the 84 suites have been leased. The reconstruction and turnover of the remaining suites to LREIT is expected to be completed by November 1, 2013 with an expected closing date of February 1, 2014.

Due to the vacancy loss which is typically experienced during a lease-up stage, the return of the suites to LREIT may result in a modest short-term decline in the income derived from Parsons Landing. During the period of reconstruction, the rental loss associated with the suites under reconstruction is fully funded from insurance proceeds.

Outlook

The continued sale of assets, combined with the refinancing of mortgage loan debt, including the two loans in breach of debt covenants, is expected to enable LREIT to reduce the amount and average interest rate of mortgage debt. The revolving loan commitment will continue to serve as a source of liquidity until the divestitures are completed next year.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 13, 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 six months ended June 30, 2013 and with reference to the First Quarter Report for 2013 and the Annual Report for 2012.

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

FINANCIAL SUMMARY

	June 30 2013	December 31 2012
STATEMENT OF FINANCIAL POSITION		
Total assets	$ 479,984,014	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 313,731,810	$ 323,026,417

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 10,026,210	$ 9,387,902	$ 19,795,098	$ 19,771,822
Net operating income *	$ 6,086,722	$ 5,820,776	$ 11,780,290	$ 11,779,490
Income before taxes and discontinued operations *	$ 2,979,923	$ 30,876,865	$ 1,935,601	$ 4,458,734
Income and comprehensive income	$ 3,335,654	$ 32,297,230	$ 2,523,426	$ 6,211,335
Cash Flows				
Cash provided by (used in) operating activities	$ (213,186)	$ (4,644,859)	$ (89,191)	$ (5,599,772)
Funds from Operations (FFO) *	$ (72,790)	$ (1,095,580)	$ (1,244,281)	$ (2,528,354)
Adjusted Funds from Operations (AFFO) *	$ (872,523)	$ (1,701,187)	$ (2,427,839)	$ (3,273,803)
Distributable income (loss)*	$ (1,562,692)	$ (843,529)	$ (1,547,625)	$ (332,878)
Per Unit				
Net operating income *				
- basic	$ 0.323	$ 0.314	$ 0.626	$ 0.635
- diluted	$ 0.319	$ 0.312	$ 0.619	$ 0.632
Income before taxes and discontinued operations*				
- basic	$ 0.158	$ 1.664	$ 0.103	$ 0.240
- diluted	$ 0.156	$ 1.655	$ 0.102	$ 0.239
Income and comprehensive income				
- basic	$ 0.177	$ 1.741	$ 0.134	$ 0.335
- diluted	$ 0.175	$ 1.731	$ 0.133	$ 0.333
Cash provided by (used in) operating activities				
- basic and diluted	$ (0.011)	$ (0.250)	$ (0.005)	$ (0.302)
Funds from Operations (FFO) *				
- basic and diluted	$ (0.004)	$ (0.059)	$ (0.066)	$ (0.136)
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.046)	$ (0.092)	$ (0.129)	$ (0.177)
Distributable income (loss) *				
- basic and diluted	$ (0.083)	$ (0.045)	$ (0.082)	$ (0.018)

(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 June 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 June 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.

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 Q2 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 six 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 June 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.

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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Average occupancy level				
Fort McMurray	95%	90%	94%	91%
Other investment properties	95%	97%	96%	98%
Properties sold *	n/a	n/a	n/a	n/a
Impaired property **	n/a	n/a	n/a	n/a
Total	95%	92%	95%	94%
Average rental rate				
Fort McMurray	$2,275	$2,191	$2,267	$2,155
Other investment properties	$1,114	$1,069	$1,111	$1,071
Properties sold *	n/a	n/a	n/a	n/a
Impaired property **	n/a	n/a	n/a	n/a
Total	$1,749	$1,684	$1,744	$1,693

* The operating results of properties sold are analysed separately as the properties do not contribute to net operating income, subsequent to the closing date of sale. For the six month period ended June 30, 2012, the operating results for "Properties sold" pertain solely to Siena Apartments.

** As a result of a fire at the property, Parsons Landing has been segregated from operating properties and analysed separately under the caption "Impaired Property".

3. Income and Cash Flow

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net operating income				
Fort McMurray properties	$ 4,089,313	$ 3,758,516	$ 7,978,834	$ 7,171,066
Other investment properties	1,939,247	1,958,865	3,743,294	3,811,028
Sub-total	6,028,560	5,717,381	11,722,128	10,982,094
Properties sold	-	103,395	-	697,352
Impaired property	58,162	-	58,162	100,044
Total net operating income	6,086,722	5,820,776	11,780,290	11,779,490
Interest income	329,946	259,186	628,247	333,753
Forgiveness of debt	-	-	-	859,561
Interest expense	(6,609,966)	(7,241,022)	(14,451,844)	(14,358,954)
Trust expense	(790,635)	(585,876)	(1,321,932)	(1,164,759)
Income recovery on Parsons Landing	742,500	1,524,111	1,641,630	1,524,111
Loss before the following	(241,433)	(222,825)	(1,723,609)	(1,026,798)
Profit on sale of investment properties	164,928	721,082	164,928	1,045,307
Fair value gains	1,286,668	7,078,608	1,424,522	8,940,225
Fair value adjustment of Parsons Landing	1,769,760	23,300,000	2,069,760	(4,500,000)
Income before discontinued operations	2,979,923	30,695,526	1,935,601	4,277,395
Income from discontinued operations	355,731	1,601,704	587,825	1,933,940
Income and comprehensive income	$ 3,335,654	$ 32,297,230	$ 2,523,426	$ 6,211,335

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	$ (213,186)	$ (4,644,859)	$ (89,191)	$ (5,599,772)

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 second quarter 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 increased by $18,608, compared to the second quarter of 2012. The increase in the loss is mainly due to a decrease in the income recovery on Parsons Landing of $0.8 Million and an increase in trust expense of $0.2 Million, almost entirely offset by a decrease in interest expense of $0.6 Million and an increase in net operating income of $0.3 Million. The income recovery on Parsons Landing was comparatively high in the second quarter of 2012, due to the delayed recovery of the rental loss for the first quarter of 2012. The return of 84 reconstructed suites at Parsons Landing to LREIT on June 1, 2013 also served to reduce the amount of income recovery for the second quarter of 2013.

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 six months of 2013 increased by $0.7 Million compared to the first six months of 2012. The increase in the loss is mainly due to a decrease in forgiveness of debt of $0.9 Million, an increase in trust expense of $0.2 Million and an increase in interest expense of $0.1 Million , partially offset by an increase in interest income of $0.3 Million and an increase in income recovery on Parsons Landing of $0.1 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 - Investment Properties

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest expense	$ 6,609,966	$ 7,241,022	$ 14,451,844	$ 14,358,954

Key Variables

	June 30 2013	December 31 2012
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.5 %	7.3 %
Seniors' housing complexes	5.0 %	5.0 %
Combined operations	5.5 %	7.2 %

Key Events Affecting Interest Expense

Total interest expense for investment properties decreased by $0.6 Million or 8.7% during the second quarter of 2013, compared to the second quarter of 2012. The decrease is mainly due to a decrease in mortgage loan interest of $0.4 Million, a decrease in swap mortgage loan interest of $0.2 Million, a decrease in amortization of transaction costs of $0.2 Million, partially offset by an increase in the change in value of interest rate swaps of $0.1 Million.

For the six months ended June 30, 2013, interest expense for investment properties increased by $0.1 Million or 0.7% compared to the six months ended June 30, 2012. The increase in interest expense is mainly due to an increase in amortization of transaction costs and, to a lesser extent, a decrease in the gain related to the change in value of interest rate swaps, almost entirely offset by a decrease in mortgage loan and swap mortgage loan interest. Amortization of transaction costs were comparatively high during the first quarter of 2013, as $0.6 Million of transaction costs related to the refinancing of the first mortgage loan of the downtown Fort McMurray properties were fully expensed in the quarter. The decrease in mortgage loan interest reflects a decrease in the weighted average interest rate of mortgage loan debt.

5. Financing

Mortgage Refinancing

During the first quarter of 2013, LREIT obtained $21 Million of new first mortgage loan financing at an interest rate of 4.99%. The proceeds from the new financing were used to repay $20.4 Million of interim financing with a weighted average interest rate of 12% and to fund a capital expenditure reserve account of $0.6 Million.

During the second quarter of 2013, LREIT obtained $96 Million of new mortgage loan financing at a weighted average interest rate of 5.7%. The proceeds from the new financing, combined with the application of $2.7 Million of collateral deposits, were used to discharge $98.9 Million of existing mortgage loan financing with a weighted average interest rate of 8.5%.

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

Debt Maturities

Except for three mortgage loans in the amount of $53.5 Million, all mortgages which have matured prior to August 13, 2013 have been renewed or refinanced. Management expects that the loans will be refinanced by December 31, 2013.

5. Financing (continued)

Debt Covenants

As of June 30, 2013, the trust was in breach of debt service covenant requirements for three mortgage loans and one swap mortgage loan. The loans have a total principal balance of $48.6 Million as of June 30, 2013 and are secured by four investment properties in Fort McMurray and one seniors' housing complex in Moose Jaw, Saskatchewan. A forbearance extension to September 30, 2013, has been received for the two mortgage loans, which are expected to be refinanced in 2013. Subsequent to June 30, 2013, the mortgage loan for the property in Moose Jaw was renewed and the breach was extinguished.

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

6. Liquidity

	June 30 2013	December 31 2012
Unrestricted cash	$ 1,017,304	$ 1,254,278
Restricted cash	$ 6,021,090	$ 7,801,248
Working capital deficit	$ 11,585,027	$ 4,462,801

Key events affecting liquidity during the first six months of 2013

- The net cash outflow from operating activities, regular repayments of principal on long-term debt and capital expenditures was $5.6 Million.
- Sale of property transactions - a $3.2 Million vendor take-back mortgage loan receivable was collected and $1.7 Million of taxes on the sale were paid for net proceeds of $1.5 Million.
- Mortgage refinancing - the net outflow from mortgage loan financing activities, including transaction costs, was $1.8 Million.
- Revolving loan - net proceeds of the revolving loan amounted to $7.0 Million, resulting in a loan balance of $12 Million as of June 30, 2013.

7. Risks and Uncertainties

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

- as of the date of this report, the breach of covenants which remain on two mortgage loans and one swap mortgage loan encompasses $44.0 Million of mortgage loan debt;
- the working capital deficiency of the Trust;
- the concentration of properties in Fort McMurray;
- ability of the Trust to complete additional property sales;
- ability of the Trust 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 ongoing discussions with lenders for mortgages which have matured to the date of this report; 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 and reducing high interest debt and generating additional capital through the completion of property divestitures.

CAPITAL REQUIREMENTS - GENERAL

As of June 30, 2013, the unrestricted cash balance of LREIT was $1,017,304 and the working capital deficit was $11,585,027, representing an increase of approximately $4.5 Million compared to the working capital deficit as of March 31, 2013. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $12,000,000 is included in the calculation of the working capital deficit.

LREIT requires ongoing sources of cash to fund the cash outflow from operating activities, as well as regular mortgage loan principal payments, transaction costs for debt financing and capital expenditures. 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 outflow from operating activities, LREIT completed the second quarter of 2013 with a cash shortfall of $4.3 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 June 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 investment 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.

The first phase of an in-suite upgrade program for the six properties which are located in the downtown area of Fort McMurray was completed in 2012. The total cost of the two year program was approximately $2.6 Million. The second phase of the upgrade program in 2013 is expected to comprise additional in-suite upgrades, as suites are available, of $900,000 and exterior upgrades of $900,000.

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. Interest-free advances from Shelter Canadian also periodically serve as an interim funding source.

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 June 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 six months of 2013, the mortgage loan debt service coverage ratio was 1.01, compared to 0.96 during the first six 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 is under reconstruction.

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 fund operating losses in Fort McMurray, 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.

During the period from 2009 to 2012, LREIT 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

In 2013, LREIT is pursuing the sale of the two remaining seniors' housing complexes and/or other properties and continuing with the condominium sales program at Lakewood Townhomes.

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. See "Related Party Transactions".

As of June 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, LREIT intends 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. As of June 30, 2013, interest in excess of $300,000 per month amounted to $23,652,264.

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

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

The purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is received for the last residential units to be reconstructed. Under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust.

Project Turnover

On June 1, 2013, occupancy permits were obtained for 84 of the 160 suites. As a result, LREIT assumed control over the 84 units, active rental operations commenced and the amount of the insurance recovery was reduced on a proportionate basis.

Reconstruction of the remaining units is expected to be completed by November 1, 2013 and the closing date is expected to be February 1, 2014.

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 June 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 carrying value of the property at December 31, 2011 was $47,800,000.

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 February 1, 2014, the estimated closing date. As of December 31, 2012, the estimated fair value was $44.3 Million representing an increase of $24.3 Million compared to the value as of March 31, 2012. As of June 30, 2013, the estimated fair value is $47.0 Million reflecting an additional increase of $2.7 Million during the first six months of 2013, comprised of an increase of $0.3 Million in the first quarter of 2013 and an increase of $2.4 Million in the second quarter of 2013. The increase in value is reflected in the income of the Trust.

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". For the month of June 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 second 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.

As a result, the income recovery in the second quarter of 2012 was comparatively high. The income recovery for the second quarter of 2013 was also comparatively lower due to the turn over of 84 units to LREIT on June 1, 2013.

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 six 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

Management expects that the permanent mortgage financing for Parsons Landing will be secured by the anticipated closing date of February 1, 2014.

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2013

As of June 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. Effective June 1, 2013, rental operations recommenced for 84 units at Parsons Landing. 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 six 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 June 30, 2013, compared to June 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.

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 June 30, 2013, "Loans and receivables" consist of a 12.5% second mortgage loan of $8.2 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 12% $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.

Summary of Quarterly Results

Quarterly Analysis

	2013 Q2	2013 Q1	2012 Q4	2012 Q3
Rentals from investment properties	$ 10,026,210	$ 9,768,888	$ 9,432,387	$ 9,206,783
Net operating income	$ 6,086,722	$ 5,693,568	$ 5,294,467	$ 5,355,272
Income (loss) for the period before taxes and discontinued operations	$ 2,979,923	$ (1,044,322)	$ (778,548)	$ (3,078,641)
Income (loss) and comprehensive income (loss)	$ 3,335,654	$ (812,228)	$ 16,185,773	$ (2,298,800)
PER UNIT				
Net operating income				
- basic	$ 0.323	$ 0.303	$ 0.282	$ 0.287
- diluted	$ 0.319	$ 0.300	$ 0.280	$ 0.285
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.158	$ 0.158	$ (0.041)	$ (0.165)
- diluted	$ 0.156	$ 0.156	$ (0.041)	$ (0.165)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.177	$ (0.043)	$ 0.862	$ (0.123)
- diluted	$ 0.175	$ (0.043)	$ 0.857	$ (0.123)

Quarterly Analysis

	2012 Q2	2012 Q1	2011 Q4	2011 Q3
Rentals from investment properties	$ 9,387,902	$ 10,383,920	$ 11,196,590	$ 11,142,567
Net operating income	$ 5,820,776	$ 5,958,714	$ 7,182,799	$ 7,103,623
Income (loss) for the period before taxes and discontinued operations	$ 30,876,865	$ (26,418,131)	$ 1,272,013	$ 1,594,954
Income (loss) and comprehensive income (loss)	$ 32,297,230	$ (26,085,895)	$ 1,605,280	$ 2,275,638
PER UNIT				
Net operating income				
- basic	$ 0.314	$ 0.321	$ 0.388	$ 0.384
- diluted	$ 0.312	$ 0.320	$ 0.387	$ 0.384
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 1.664	$ (1.425)	$ 0.069	$ 0.086
- diluted	$ 1.655	$ (1.425)	$ 0.069	$ 0.086
Income (loss) and comprehensive income (loss)				
- basic	$ 1.741	$ (1.407)	$ 0.087	$ 0.123
- diluted	$ 1.731	$ (1.407)	$ 0.087	$ 0.123

Revenue and Operating Income

The quarterly rental revenue and operating income results for 2012 and the first six months of 2013 have been 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. Total interest expense on mortgage loans has been downwardly impacted by the discharge of mortgage loan debt on the sale of properties and by the reduction in the weighted average interest rate on the mortgage portfolio and upwardly impacted in certain quarters by prepayment penalties.

Transactions related to the fire at Parsons Landing have contributed to substantial variations in income from investment properties since the first quarter of 2012. The writedown of the carrying value of Parsons Landing in the first quarter of 2012 and subsequent increases in the carrying value of the property had the largest impact on income from investment properties, although the effect of income recoveries and insurance proceeds was also significant.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly variances in the gain (loss) in the fair value of the investment properties.

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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Rentals from investment properties	$ 10,026,210	$ 9,387,902	$ 19,795,098	$ 19,771,822
Property operating costs	3,939,488	3,567,126	8,014,808	7,992,332
Net operating income	6,086,722	5,820,776	11,780,290	11,779,490
Interest income	329,946	259,186	628,247	333,753
Forgiveness of debt	-	-	-	859,561
Interest expense	(6,609,966)	(7,241,022)	(14,451,844)	(14,358,954)
Trust expense	(790,635)	(585,876)	(1,321,932)	(1,164,759)
Income recovery on Parsons Landing	742,500	1,524,111	1,641,630	1,524,111
Loss before the following	(241,433)	(222,825)	(1,723,609)	(1,026,798)
Profit on sale of investment properties	164,928	721,082	164,928	1,045,307
Fair value gains	1,286,668	7,078,608	1,424,522	8,940,225
Fair value adjustment of Parsons Landing	1,769,760	23,300,000	2,069,760	(4,500,000)
Income before taxes and discontinued operations	2,979,923	30,876,865	1,935,601	4,458,734
Deferred income tax expense	-	181,339	-	181,339
Income before discontinued operations	2,979,923	30,695,526	1,935,601	4,277,395
Income from discontinued operations	355,731	1,601,704	587,825	1,933,940
Income and comprehensive income	$ 3,335,654	$ 32,297,230	$ 2,523,426	$ 6,211,335

Analysis of Income (Loss) per Unit

	Six Months Ended June 30			
	2013	2012	Change	
Income and comprehensive income				
- basic	$ 0.134	$ 0.335	$ (0.201)	(60)%
- diluted	$ 0.133	$ 0.333	$ (0.200)	(60)%
Income for the period before taxes and discontinued operations				
- basic	$ 0.103	$ 0.240	$ (0.137)	(57)%
- diluted	$ 0.102	$ 0.239	$ (0.137)	(57)%

Overall Results

Second Quarter Comparatives

During the second quarter 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 increased by $18,608 compared to the second quarter of 2012. The increase in the loss is mainly due a decrease in the income recovery on Parsons Landing of $781,611 and an increase in trust expense of $204,759, partially offset by a decrease in interest expense of $631,056 and an increase in net operating income of $265,946. As previously disclosed, the income recovery on Parsons Landing was comparatively high in the second quarter of 2012, due to the delayed recovery of the rental loss for the first quarter of 2012. The turnover of 84 suites to LREIT on June 1, 2013 also served to reduce the amount of the income recovery for the second quarter of 2013.

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 decreased by $27,896,942 during the second quarter of 2013 compared to the second quarter of 2012. The decrease mainly reflects the comparatively high level of fair value gains/adjustments which were recorded during the second quarter of 2012. The 2012 second quarter results included a fair value increase on Parsons Landing of $23,300,000 and a fair value gain of $7,078,608 in regard to investment properties.

After accounting for discontinued operations and income taxes, LREIT completed the second quarter of 2013 with comprehensive income of $3,335,654 compared to comprehensive income of $32,297,230 during the second quarter of 2012.

Six Month Comparatives

During the first six 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 increased by $696,811 compared to the first six months of 2012. The increase in the loss is mainly due to a decrease in forgiveness of debt of $859,561, partially offset by an increase in interest income of $294,494.

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 decreased by $2,523,133 during the the first six months of 2013, compared to the the first six months of 2012. The decrease is largely attributable to a $7,515,703 decrease in fair value gains, partially offset by a $6,569,760 increase in fair value adjustment of Parsons Landing.

After accounting for discontinued operations and income taxes, LREIT completed the first six months of 2013 with comprehensive income of $2,523,426 compared to a comprehensive income of $6,211,335 during the first six months of 2012.

Per Unit Results

On a per unit basis, income before taxes and discontinued operations amounted to $0.158 per unit during the second quarter of 2013, compared to income of $1.664 per unit during the second quarter of 2012, representing a decrease in income of $1.506 per unit.

For the six months ended June 30, 2013, income before taxes and discontinued operations amounted to $0.103 per unit, compared to income of $0.240 per unit during the first six months of 2012, representing a decrease in income of $0.137 per unit.

As the weighted average number of units has not changed significantly, increasing by only 2% since December 31, 2011, the decrease in income per unit mainly reflects the decrease 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 in 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)

Pending the full reconstruction of Parsons Landing, the revenue generating capacity of the property is 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".

Pending the reconstruction of the entire property, the income of the property consists of accrued revenue in regard to the recovery of insurance proceeds for revenue losses and the net income or loss from the suites that have been 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 six months of 2013 or the first six 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 June 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 June 30			Six Months Ended June 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 6,285,528	$ 5,715,755	$ 569,773	$ 12,440,283	$ 11,407,288	$ 1,032,995
Other investment properties	3,609,934	3,545,890	64,044	7,224,067	7,173,246	50,821
Sub-total	9,895,462	9,261,645	633,817	19,664,350	18,580,534	1,083,816
Properties sold (1)	-	126,257	(126,257)	-	796,861	(796,861)
Impaired property (2)	130,748	-	130,748	130,748	394,427	(263,679)
Total	$ 10,026,210	$ 9,387,902	$ 638,308	$ 19,795,098	$ 19,771,822	$ 23,276

(1) Represents revenue from the Siena Apartments.
(2) Represents revenue from Parsons Landing for 84 suites which were reconstructed and returned to rental operations on June 1, 2013. Comparatively, represents 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 $633,817 during the second quarter of 2013, compared to the second quarter of 2012. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of $569,773 and an increase in revenue from the Other investment properties of $64,044.

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 90% during the second quarter of 2012, to 95% in the second quarter of 2013, while the average monthly rental rate increased by $84 or 3.8%.

During the six month period ended June 30, 2013, the total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, increased by $1,083,816, compared to the first six months of 2012. The variance in the six month comparatives is due to the same factors that affected the second quarter comparatives.

Occupancy Level, by Quarter

	2013		
	Q1	Q2	6 Month Average
Fort McMurray	93 %	95 %	94 %
Other investment properties	96 %	95 %	96 %
Properties sold	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a
Total	94 %	95 %	95 %

	2012					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	92 %	90 %	91 %	87 %	88 %	90 %
Other investment properties	98 %	97 %	98 %	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 %	94 %	91 %	92 %	92 %

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

Average Monthly Rents, by Quarter

	2013		
	Q1	Q2	6 Month Average
Fort McMurray	$2,259	$2,275	$2,267
Other investment properties	$1,109	$1,114	$1,111
Properties sold	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a
Total	$1,739	$1,749	$1,744

	2012					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	$2,124	$2,191	$2,155	$2,251	$2,293	$2,218
Other investment properties	$1,075	$1,069	$1,071	$1,048	$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	$1,693	$1,704	$1,739	$1,709

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 2,196,215	$ 1,957,239	$ 238,976	$ 4,461,449	$ 4,236,222	$ 225,227
Other investment properties	1,670,687	1,587,025	83,662	3,480,773	3,362,218	118,555
Sub-total	3,866,902	3,544,264	322,638	7,942,222	7,598,440	343,782
Properties sold	-	22,862	(22,862)	-	99,509	(99,509)
Impaired property	72,586	-	72,586	72,586	294,383	(221,797)
Total	$ 3,939,488	$ 3,567,126	$ 372,362	$ 8,014,808	$ 7,992,332	$ 22,476

During the second quarter of 2013, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $322,638 or 9%, compared to the second quarter of 2012. The increase is comprised of a $238,976 increase in the Fort McMurray portfolio and an increase of $83,662 in the operating costs of the Other investment properties portfolio.

During the six months ended June 30, 2013, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $343,782 or 5%, compared to the first six months of 2012. The increase is comprised of an increase of $225,227 in the operating costs of the Fort McMurray portfolio and a $118,555 increase in the Other investment properties portfolio.

The increase in operating costs for the Fort McMurray property portfolio for both the second quarter and six month comparatives is mainly due to increased property tax and insurance expenses.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Fort McMurray	$ 4,089,313	$ 3,758,516	$ 330,797	$ 7,978,834	$ 7,171,066	$ 807,768
Other investment properties	1,939,247	1,958,865	(19,618)	3,743,294	3,811,028	(67,734)
Sub-total	6,028,560	5,717,381	311,179	11,722,128	10,982,094	740,034
Properties sold	-	103,395	(103,395)	-	697,352	(697,352)
Impaired property	58,162	-	58,162	58,162	100,044	(41,882)
Total	$ 6,086,722	$ 5,820,776	$ 265,946	$11,780,290	$ 11,779,490	$ 800

After considering the increase in rental revenue and the increase 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 $311,179 or 5% during the second quarter of 2013, compared to the second quarter of 2012.

The increase in net operating income is comprised of a $330,797 increase in net operating income from the Fort McMurray properties, partially offset by a $19,618 decrease in net operating income from the Other investment properties.

For the six month period ended June 30, 2013, the net operating income from investment properties, excluding properties sold and the impaired property, increased by $740,034 or 7% compared to the same period in 2012. The six month increase is comprised of an increase of $428,855 in the first quarter of 2013 and an increase of $311,179 in the second quarter of 2013.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Fort McMurray	65 %	66 %	64 %	63 %
Other investment properties	54 %	55 %	52 %	53 %
Total	61 %	62 %	60 %	60 %

Overall, the operating margin for the property portfolio, excluding properties sold and the impaired property, decreased from 62% during the second quarter of 2012, to 61% during the second quarter of 2013. The modest decrease in the overall operating margin mainly reflects a decrease in the operating margin for the Fort McMurray property portfolio. For the six month period ended June 30, 2013 and for the six month period ended June 30, 2012, the portfolio of investment properties achieved a profit margin of 60%.

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

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 $265,946 during the second quarter of 2013, compared to the second quarter of 2012. For the six month period ended June 30, 2013, net operating income, including net operating income from properties sold and the impaired property, increased by $800 compared to the first six 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 $75,637 during the first six months of 2013, compared to the first six months of 2012.

During the first six months of 2013, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $1,699,792, compared to $1,624,155 during the first six 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.

Interest Income

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

During the second quarter of 2013 interest income amounted to $329,946 compared to $259,186 during the second quarter of 2012. During the first six months of 2013, interest income was $628,247, compared to $333,753 during the first six 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.

Second Quarter Comparatives

As disclosed in the following chart, total interest expense amounted to $6,806,411 during the second quarter of 2013, of which $6,609,966 pertains to investment properties and $196,445 pertains to discontinued operations.

Total interest expense for investment properties decreased by $631,056 or 8.7% during the second quarter of 2013, compared to the second quarter of 2012. The decrease is mainly due to a decrease in mortgage loan interest of $429,161, a decrease in swap mortgage loan interest of $166,827 and a decrease in amortization of transaction costs of $193,326, partially offset by an increase in the change in value of interest rate swaps of $146,983.

Total interest expense for discontinued operations decreased by $2,523,230 or 93% during the second quarter of 2013, compared to the second quarter of 2012. The decrease is comprised of a $1,324,352 decrease in mortgage prepayment penalties, a $842,025 decrease in mortgage loan interest and a $356,853 decrease in amortization of transaction costs.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and the change in fair value of interest rate swaps. The $3,154,286 decrease in total interest expense during the second quarter of 2013, compared to the second quarter of 2012, is comprised of a $2,763,989 decrease in the cash component of interest expense and a $390,297 decrease in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Investment Properties						
Mortgage Loans						
Mortgage loan interest	$ 3,999,116	$ 4,428,277	$ (429,161)	$ 8,458,305	$ 8,868,119	$ (409,814)
Swap mortgage loan interest	225,107	391,934	(166,827)	469,405	968,879	(499,474)
Amortization of transaction costs	364,721	577,008	(212,287)	1,482,550	805,067	677,483
Change in value of interest rate swaps	(72,791)	(219,774)	146,983	(141,251)	(404,449)	263,198
Total - mortgage loans	4,516,153	5,177,445	(661,292)	10,269,009	10,237,616	31,393
Mortgage Bonds						
Mortgage bond interest	360,000	360,000	-	720,000	720,000	-
Accretion of debt component	109,004	96,104	12,900	218,445	192,689	25,756
Amortization of transaction costs	68,211	57,710	10,501	133,630	113,059	20,571
Total - mortgage bonds	537,215	513,814	23,401	1,072,075	1,025,748	46,327
Debentures						
Interest on debentures	592,824	594,448	(1,624)	1,185,648	1,185,648	-
Amortization of transaction costs	63,774	55,315	8,459	125,112	109,942	15,170
Total - debentures	656,598	649,763	6,835	1,310,760	1,295,590	15,170
Acquisition Payable						
Interest on acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Total - acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Total interest expense - investment properties	6,609,966	7,241,022	(631,056)	14,451,844	14,358,954	92,890
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	182,862	1,024,887	(842,025)	367,947	2,281,397	(1,913,450)
Mortgage prepayment charge	-	1,324,352	(1,324,352)	-	1,324,352	(1,324,352)
Amortization of transaction costs	13,583	370,436	(356,853)	22,167	620,577	(598,410)
Total interest expense - discontinued operations	196,445	2,719,675	(2,523,230)	390,114	4,226,326	(3,836,212)
Total - interest expense	$ 6,806,411	$ 9,960,697	$ (3,154,286)	$ 14,841,958	$ 18,585,280	$(3,743,322)

Cash and Non-cash Component						
Non-cash component						
Accretion	$ 109,004	$ 96,104	$ 12,900	$ 218,445	$ 192,689	$ 25,756
Amortization of transaction costs	510,289	1,060,469	(550,180)	1,763,459	1,648,645	114,814
Change in value of interest rate swaps	(72,791)	(219,774)	146,983	(141,251)	(404,449)	263,198
Total non-cash component	546,502	936,799	(390,297)	1,840,653	1,436,885	403,768
Cash component						
Interest	6,259,909	7,699,546	(1,439,637)	13,001,305	15,824,043	(2,822,738)
Total cash component	6,259,909	9,023,898	(2,763,989)	13,001,305	17,148,395	(4,147,090)
Total - interest expense	$ 6,806,411	$ 9,960,697	$ (3,154,286)	$ 14,841,958	$ 18,585,280	$(3,743,322)

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 second quarter of 2013, the total cash component of interest expense decreased by $2,763,989 or 31%, compared to the second quarter of 2012. The decrease reflects a decrease of $2,166,377 in the cash component of interest expense for discontinued operations as well as a decrease of $597,612 in the cash component of interest expense for investment properties.

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 88% during the second quarter of 2012 to 74% during the second quarter of 2013. The decrease in the ratio is largely due to a decrease in mortgage prepayment penalties, a decrease in the cash component of interest expense on mortgage loans and discontinued mortgage loans, partially offset by a decrease in net operating income from discontinued operations as a result of the sale of two properties and a decrease in income recovery on Parsons Landing as the 2012 income recovery represents the recovery for five months.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 87% for the second quarter of 2013, compared to 98% for the second quarter of 2012.

Cash Component of Interest Expense - Investment Properties

Mortgage Loan Interest

Mortgage loan interest for investment properties decreased by $429,161 or 9.7% during the second quarter of 2013, compared to the second quarter of 2012, comprised of a decrease in interest expense on mortgage loan debt of $376,412 and a decrease in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $52,749. 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 $166,827 during the second quarter of 2013, compared to the second quarter of 2012 as a result of the sale of Siena Apartments in May 2012 and a lump sum prepayment of $4,287,000 on the Millennium Village swap mortgage loan in August of 2012.

The combined total of swap mortgage loan interest and mortgage loan interest decreased by $595,988 during the second 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 second quarter of 2013 and the second quarter of 2012.

Debenture Interest

During the second quarter of 2013, interest on debentures amounted to $592,824, compared to $594,448 during the second 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 second quarter of 2013 and the second 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. In the second quarter of 2012, mortgage loan interest for discontinued operations included a prepayment charge of $1,324,352 in regard to the retirement of the Riverside Terrace debt. Mortgage loan interest payments for discontinued operations decreased by $842,025 or 82% during the second quarter of 2013, compared to the second quarter of 2012. The decrease is mainly due to the elimination of the mortgage loan debt for the Clarington Seniors' Residence on the sale of the property in May 2012 and the retirement of the mortgage loan debt for Riverside Terrace in June 2012.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense decreased by $390,297 during the second quarter of 2013, compared to the second quarter of 2012. The decrease is comprised of a decrease in amortization of transaction costs of $550,180, a $146,983 increase in the loss on the change in fair value of interest rate swaps and an increase in accretion of $12,900.

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 second quarter of 2013 was less than the decrease in value during the second quarter of 2012, the change in value of the interest rate swaps resulted in an increase in interest expense during the second quarter of 2013, compared to the second quarter of 2012.

Six Month Comparatives for Interest Expense

For the six month period ended June 30, 2013, total interest expense decreased by $3,743,322, compared to the same period in 2012. The decrease is comprised of an increase in interest expense for investment properties of $92,890 and a decrease in interest expense for discontinued operations of $3,836,212.

Trust Expense

During the second quarter of 2013, trust expense increased by $204,759, compared to the second quarter of 2012.

For the six months ended June 30, 2013, trust expense increased by $157,173, compared to the six months ended June 30, 2012. The increase in both the quarterly and six month comparatives 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 six months of 2013, two condominium units were sold generating a profit on sale of $164,928. During the first six 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

The valuation gain of $1,286,668 for the second quarter of 2013 represents a net increase in the fair value of investment properties during the quarter. When capital expenditures of $947,639 are added to the valuation gain, the carrying value of investment properties increased by $2,234,307 during the second quarter of 2013.

For the six months ended June 30, 2013, the carrying value of investment properties increased by $2,726,523, comprised of a valuation gain of $1,424,522 and capital expenditures of $1,302,001.

The fair value of investment properties is based on a comprehensive valuation process. See "Valuation Process".

Fair Value Adjustment of Parsons Landing

As of June 30, 2013, the estimated fair value of Parsons Landing is $46,960,491, representing an increase of $2,660,491, compared to the estimated fair value at December 31, 2012. The increase is comprised of a valuation gain of $2,069,760 and capital expenditures of $590,731 as a result of purchasing furnishings for 43 of the 84 units that commenced active rental operations on June 1, 2013.

The variance between the fair value increase of $23,300,000 in the second quarter of 2012 compared to the fair value increase of $1,769,760 in the second quarter of 2013 served to decrease income by $21,530,240 during the second quarter of 2013, compared to the same period in 2012.

The variance between the net impairment loss of $4,500,000 in the first six months of 2012 compared to the fair value increase of $2,069,760 in the first six months of 2013 served to increase income by $6,569,760 during the first six months of 2013, compared to the same period in 2012.

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

During the second quarter of 2013, LREIT generated income from discontinued operations of $355,731 compared to $1,601,704 during the second quarter of 2012, representing a decrease of $1,245,973. The income results for the second quarter of 2012 include a $2,039,808 gain on the sale of the Clarington Seniors' Residence as well as a mortgage prepayment penalty of $1,324,352 in regard to the repayment of the first mortgage loan at Riverside Terrace. The prepayment penalty is included in interest expense.

Excluding the gain on sale and prepayment penalty, income from discontinued operations decreased by $530,517 during the second quarter of 2013. The decrease reflects a $1,481,832 decrease in net operating income, partially offset by a decrease in interest expense. The decrease in interest expense and net operating income reflects the sale of Clarington Seniors' Residence in May 2012 and the sale of Riverside Terrace in December 2012.

For the six month period ended June 30, 2013, income from discontinued operations decreased by $1,346,115, compared to the six month period ended June 30, 2012. The variance in the six month comparatives is mainly due to the same factors which affected the second quarter comparatives, although certain factors, such as the gain on the sale of property and the mortgage prepayment penalty, affected the second quarter comparatives to a greater extent.

Notwithstanding the REIT Exception, operating income for discontinued properties is earned in subsidiary 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		Increase (Decrease)	
	June 30, 2013	March 31, 2013	Amount	%
Rentals from investment properties	10,026,210	9,768,888	257,322	2.6 %
Property operating costs	3,939,488	4,075,320	135,832	(3.3)%
Net operating income	6,086,722	5,693,568	393,154	6.9 %
Interest income	329,946	298,301	31,645	10.6 %
Interest expense	(6,609,966)	(7,841,878)	1,231,912	(15.7)%
Trust expense	(790,635)	(531,297)	(259,338)	48.8 %
Income recovery on Parsons Landing	742,500	899,130	(156,630)	(17.4)%
Loss before the following	(241,433)	(1,482,176)	1,240,743	83.7 %
Profit on sale of investment properties	164,928	-	164,928	- %
Fair value gains	1,286,668	137,854	1,148,814	833.4 %
Fair value adjustment of Parsons Landing	1,769,760	300,000	1,469,760	489.9 %
Income (loss) for the period before taxes and discontinued operations	2,979,923	(1,044,322)	4,024,245	(385.3)%
Income from discontinued operations	355,731	232,094	123,637	53.3 %
Comprehensive income (loss)	$ 3,335,654	$ (812,228)	$ 4,147,882	(510.7)%

During the second quarter of 2013, the loss of LREIT, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, decreased by $1,240,743 compared to the first quarter of 2013. The decrease in the loss mainly reflects a decrease in interest expense of $1,231,912. The decrease in interest expense reflects a decrease in the weighted average interest rate of mortgage loan financing which took place in the first and second quarters of 2013 and a decrease in amortization of transaction costs. During the first quarter of 2013, amortization of transaction costs were comparatively high, compared to the second quarter of 2013, due to the write off of transaction costs upon upward refinancing which occurred in the first quarter.

Other notable variances in the second quarter of 2013 are the $393,154 increase in net operating income, the $259,338 increase in trust expense and the $156,630 decrease in income recovery on Parsons Landing. The increase in net operating income is mainly attributable to the Fort McMurray portfolio as a result of improved occupancy levels and an increase in the average rental rate. The increase in trust expense is mainly due to the one-time charge of $190,000 on the write down of a note receivable. The decrease in income recovery on Parsons Landing is due to the turnover of the 84 reconstructed units to LREIT.

During the second quarter of 2013, fair value gains in regard to the carrying value of investment properties amounted to $1,286,668, compared to $137,854 during the first quarter of 2013, representing an increase of $1,148,814. In the first quarter of 2013, the Trust did not sell any investment properties. During the second quarter of 2013, LREIT sold two condominium units at Lakewood Townhomes for a profit of $164,928. After accounting for fair value gains, fair value adjustment of Parsons Landing and profit on sale of investment properties, the income of LREIT before income taxes and discontinued operations increased by $4,024,245 during the second quarter of 2013, compared to the first quarter of 2013.

Income from discontinued operations increased by $123,637 during the second quarter of 2013, compared to the first quarter of 2013. The increase in income from discontinued operations mainly reflects an increase in income tax recoveries.

After accounting for discontinued operations and income tax expense, LREIT completed the second quarter of 2013 with comprehensive income of $3,335,654, compared to a comprehensive loss of $812,228 during the first 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 of $7,495,532 includes the cash component of interest expense of $6,806,411 for both investment properties and discontinued operations and the decrease in accrued interest between June 30, 2013 and March 31, 2013 of $689,121. In applicable periods "interest paid" also excludes the cash component of interest expense pertaining to mortgage prepayment charges. In the second quarter of 2012, "interest paid" excludes the mortgage prepayment charges of $1,324,352.

Due to the exclusion of non-cash items 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.

Second Quarter Comparatives

Cash from Operating Activities

	Three Months Ended June 30		Increase
	2013	2012	(Decrease)
Net operating income			
Investment properties	$ 6,086,722	$ 5,820,776	$ 265,946
Discontinued operations	365,088	1,846,920	(1,481,832)
Total net operating income	6,451,810	7,667,696	(1,215,886)
Accrued rent receivable	16,279	255,698	(239,419)
Net operating income - cash basis	6,468,089	7,923,394	(1,455,305)
Income recovery on Parsons Landing	742,500	1,524,111	(781,611)
Trust expense	(790,635)	(585,876)	(204,759)
Non-cash component of trust expense	208,750	18,750	190,000
Trust expense - cash basis	(581,885)	(567,126)	(14,759)
Interest paid			
Investment properties	(7,309,232)	(8,148,121)	838,889
Discontinued operations	(186,300)	(1,197,645)	1,011,345
Total interest paid	(7,495,532)	(9,345,766)	1,850,234
Interest received	178,023	121,504	56,519
Interest expense - cash basis	(7,317,509)	(9,224,262)	1,906,753
Income tax recovery (expense) - current	187,088	256,739	(69,651)
Cash provided by (used in) operating activities, before working capital adjustments	(501,717)	(87,144)	(414,573)
Working capital adjustments, net	288,531	(4,557,715)	4,846,246
Cash provided by (used in) operating activities	$ (213,186)	$ (4,644,859)	$ 4,431,673

During the second quarter of 2013, the net cash outflow from continuing and discontinued operations, excluding working capital adjustments, increased by $414,573 compared to the second quarter of 2012. The increase in the outflow mainly reflects a decrease in net operating income, on a cash basis, of $1,455,305, a decrease in the income recovery on Parsons Landing of $781,611, and a decrease in income tax recovery of $69,651, partially offset by a decrease in interest paid of $1,850,234.

The decrease in the net operating income is mainly due to the sale of two seniors' housing complexes (Clarington Seniors' Residence and Riverside Terrace). During the second quarter of 2012, the income recovery on Parsons Landing was comparatively high due to the delayed recovery of the first quarter rental loss.

The decrease in interest paid is mainly due to a reduction in mortgage loan debt as a result of property sales and a decrease in the weighted average interest rate of mortgage loan debt.

Six Month Comparatives

Cash from Operating Activities

	Six Months Ended June 30		Increase
	2013	2012	(Decrease)
Net operating income			
Investment properties	$ 11,780,290	$ 11,779,490	$ 800
Discontinued operations	869,442	3,584,331	(2,714,889)
Total net operating income	12,649,732	15,363,821	(2,714,089)
Accrued rent receivable	(85,019)	358,558	(443,577)
Net operating income - cash basis	12,564,713	15,722,379	(3,157,666)
Income recovery on Parsons Landing	1,641,630	1,524,111	117,519
Trust expense	(1,321,932)	(1,164,759)	(157,173)
Non-cash component of trust expense	253,593	37,500	216,093
Trust expense - cash basis	(1,068,339)	(1,127,259)	58,920
Interest paid			
Investment properties	(13,045,133)	(13,671,146)	626,013
Discontinued operations	(372,843)	(2,454,156)	2,081,313
Total interest paid	(13,417,976)	(16,125,302)	2,707,326
Interest received	338,910	244,725	94,185
Interest expense - cash basis	(13,079,066)	(15,880,577)	2,801,511
Income tax recovery (expense) - current	(177,237)	358,215	(535,452)
Cash provided by (used in) operating activities, before working capital adjustments	(118,299)	596,869	(715,168)
Working capital adjustments, net	29,108	(6,196,641)	6,225,749
Cash provided by (used in) operating activities	$ (89,191)	$ (5,599,772)	$ 5,510,581

During the first six months of 2013, net cash flow from operating activities, excluding working capital adjustments, decreased by $715,168 compared to the first six months of 2012. The decrease mainly reflects a decrease in net operating income, on a cash basis, of $3,157,666 and an increase in income tax expense of $535,452, partially offset a decrease in interest paid of $2,707,326.

With the exception of the income recovery on Parsons Landing, which had a positive and relatively limited effect on six month results, the variance in the six month comparatives is mainly due to the same factors that affected the second quarter comparatives.

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 six months of 2013, the FFO deficiency decreased by $1,284,073, compared to the first six months of 2012, while the AFFO deficiency decreased by $845,964. On a basic per unit basis, the FFO deficiency decreased by $0.070 per unit, while the AFFO deficiency decreased by $0.048 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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Comprehensive income	$ 3,335,654	$ 32,297,230	$ 2,523,426	$ 6,211,335
Add (deduct):				
Deferred taxes	-	3,427	(285,734)	3,427
Profit on sale of investment properties	(164,928)	(721,082)	(164,928)	(1,045,307)
Profit on sale of discontinued operations	-	(2,039,808)	-	(2,039,808)
Taxes on sale of discontinued operations	(187,088)	(256,739)	177,237	(358,215)
Fair value gains	(1,286,668)	(7,078,608)	(1,424,522)	(8,940,225)
Fair value adjustment of Parsons Landing	(1,769,760)	(23,300,000)	(2,069,760)	4,500,000
Forgiveness of debt	-	-	-	(859,561)
Funds from operations (FFO) *	(72,790)	(1,095,580)	(1,244,281)	(2,528,354)
Add (deduct):				
Straight-line rent adjustment	16,279	255,698	(85,019)	358,558
Accretion of debt component of debentures and mortgage bonds	109,004	96,104	218,445	192,689
Write down of note receivable	190,000	-	190,000	-
Unit-based compensation	18,750	18,750	63,593	37,500
Change in fair value of interest rate swaps	(72,791)	(219,774)	(141,251)	(404,449)
Capital expenditures on investment properties	(947,639)	(744,105)	(1,302,001)	(912,572)
Capital expenditures on property and equipment	(113,336)	(12,280)	(127,325)	(17,175)
Adjusted funds from operations (AFFO) *	$ (872,523)	$ (1,701,187)	$ (2,427,839)	$ (3,273,803)
FFO per unit *				
- basic and diluted	$ (0.004)	$ (0.059)	$ (0.066)	$ (0.136)
AFFO per unit *				
- basic and diluted	$ (0.046)	$ (0.092)	$ (0.129)	$ (0.177)

* 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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	$ (213,186)	$ (4,644,859)	$ (89,191)	$ (5,599,772)
Changes in non-cash operating items	(288,531)	4,557,715	(29,108)	6,196,641
	(501,717)	(87,144)	(118,299)	596,869
Add (deduct):				
Capital expenditures on investment properties	(947,639)	(744,105)	(1,302,001)	(912,572)
Capital expenditures on property and equipment	(113,336)	(12,280)	(127,325)	(17,175)
Distributable income (loss)	$ (1,562,692)	$ (843,529)	$ (1,547,625)	$ (332,878)
Per unit				
- basic and diluted	$ (0.083)	$ (0.045)	$ (0.082)	$ (0.018)

Distributable income is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures. Cash from operating activities and capital expenditures includes components 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.

During the first six months of 2013, the distributable loss of LREIT was $1,547,625, representing an increase in the distributable loss of $1,214,747 compared to the first six months of 2012. In addition to the change in cash flow as discussed earlier, the increase in the distributable loss also reflects an increase in capital expenditures of $499,579 in the first six months of 2013, compared to the first six 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 $2,793,335 during the first six 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 $1,886,136 during the first six 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 $1,779,440 and a decrease in defeasance assets of $72,637. 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 $1,302,001 and $127,325, 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 six months of 2013.

Cash Flow Summary

During the first six months of 2013, the net cash outflow from operating, financing and investing activities was $236,974. After providing for the opening cash balance of $1,254,278, LREIT completed the first six months of 2013 with a cash balance of $1,017,304.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2013

Working Capital/Existing Cash

As of June 30, 2013, the unrestricted cash balance of LREIT was $1,017,304 and the working capital deficit was $11,585,027, representing an increase of approximately $4.5 Million compared to the working capital deficit as of March 31, 2013. 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 $12,000,000 is included in the calculation of the working capital deficit.

The increase in the working capital deficiency during the second quarter of 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.

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, $970,000 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".

Cash Flow from Operating Activities

The main components of cash flow from operating activities are net operating income on a cash basis, the income recovery on Parsons Landing, interest paid and working capital adjustments, from both investment properties and discontinued operations. Income tax expense may also have a significant impact on cash flow from operating activities. The Fort McMurray property portfolio is the main contributor to net operating income. Interest paid includes interest payments for mortgage loan debt, including the revolving loan from 2668921 Manitoba Ltd., mortgage bonds and debentures and the amount payable on acquisition of Parsons Landing.

In general terms and excluding working capital adjustments, LREIT is expected to achieve an improvement in its operating cash flow position during 2013, mainly due to a reduction in interest payments as a result of the refinancing of mortgage loan debt at lower interest rates.

During the six months ended June 30, 2013, the cash outflow from operating activities, excluding working capital adjustments, increased by $715,168, compared to the six months ended June 30, 2012.

Sale Proceeds

LREIT is pursuing property sales under its divestiture program. The current expectations of management are that the two remaining seniors' housing complexes and/or other properties will be sold by December 31, 2013. 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 June 30, 2013, LREIT has mortgage loans receivable of $9.0 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, the mortgage loans with covenant breaches 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 six 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.

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 receipt of insurance proceeds was reduced on a proportionate basis and, as a result, a portion of the interest payment will be funded from operating income generated for the rental of the 84 reconstructed suites.

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	$ 212,864,110	$ 50,839,161	(2)	$ 73,445,260	$ 32,845,959	$ 55,733,730
Mortgage loans payable on demand	26,474,990	26,474,990	(3)	-	-	-
Sub-total - Investment properties	239,339,100	77,314,151		73,445,260	32,845,959	55,733,730
Loans on properties held for sale	14,618,742	14,618,742	(4)	-	-	-
Total mortgage loan debt	253,957,842	91,932,893		73,445,260	32,845,959	55,733,730
Swap mortgage loan (5)	16,147,508	228,091		1,175,033	1,319,713	13,424,671
Debentures and mortgage bonds	40,953,000	-		40,953,000	-	-
Total	$ 311,058,350	$ 92,160,984		$ 115,573,293	$ 34,165,672	$ 69,158,401

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

(2) All of the loans mature subsequent to August 13, 2013 and are expected to be renewed or refinanced at similar or more favourable terms, aside from one loan in the amount of $27,052,383, which matured during the second quarter of 2013. The renewal/refinancing is expected to be completed by December 31, 2013.

(3) Consists of the two mortgage loans which are in breach of debt service coverage requirements and are overholding past the maturity date with the consent of the lender. An analysis of the mortgage loans is provided in the "Mortgage Loans Payable" section of the MD&A.

(4) As of June 30, 2013, one mortgage loan in the amount of $4,691,421 was in breach of debt service covenant requirements. Subsequent to June 30, 2013, the mortgage was renewed and the breach was extinguished.

(5) The swap mortgage loan matures in 2018. 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 $108,080,401.

Principal Payments - Debentures and Mortgage Bonds

As of June 30, 2013, the total face value of the 9% Series G debentures is $24,953,000. 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 June 30, 2013, debentures with a face value of $8,000 were purchased and cancelled.

The 9% second mortgage bonds of LREIT mature on December 24, 2015. As of June 30, 2013, the total face value of the mortgage bonds is $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 June 30, 2013, cash deposits in regard to mortgage loans amount to $3,363,544, of which $1,704,051 pertains to mortgage loans which are in breach of debt service coverage requirements.

It is anticipated that there will not be any additional cash deposits required for existing loans which are in breach of debt service coverage requirements in 2013. In the event that the existing loans which are in breach of debt service coverage requirements are refinanced, the cash deposits will serve to reduce the balance of the loans discharged.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $2.2 Million 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 remainder of 2013. As of the date of this report, the amount available under the revolving loan is $970,000.

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 - June 30, 2013

	June 30, 2013		December 31, 2012	
	Amount	%	Amount	%
Long-term debt	$ 139,075,595	34.7 %	$ 86,760,933	21.3 %
Current portion of long-term debt	158,561,768	39.5 %	219,463,616	53.9 %
Equity	103,419,353	25.8 %	100,829,954	24.8 %
Total capitalization	$ 401,056,716	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 June 30, 2013 decreased by $9,246,906 or 2.9% compared to the total long-term debt as of December 31, 2012. The decrease mainly reflects a decrease in mortgage loan debt.

	June 30 2013	December 31 2012	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 239,339,100	$ 247,654,245	$ (8,315,145)
Swap mortgage loans	17,481,061	17,888,836	(407,775)
Mortgage bonds	14,677,276	14,458,831	218,445
Debentures	24,953,000	24,961,000	(8,000)
Defeased liability	2,673,460	2,701,511	(28,051)
Total secured long-term debt	299,123,897	307,664,423	(8,540,526)
Mortgage guarantee fees	112,867	133,864	(20,997)
Accrued interest payable	1,329,696	1,746,367	(416,671)
Unamortized transaction costs	(2,929,097)	(3,320,105)	391,008
Total long-term debt - Investment properties	297,637,363	306,224,549	(8,587,186)
Total long-term debt - Properties held for sale	14,618,742	15,278,462	(659,720)
Total long-term debt	$ 312,256,105	$ 321,503,011	$ (9,246,906)

Swap Mortgage Loan

As of June 30, 2013, the amount of swap mortgage loan debt outstanding, excluding unamortized transaction costs was $17,481,061, representing a decrease of $407,775 in comparison to the amount outstanding as of December 31, 2012. The decrease is comprised of $266,524 of debt principal repayments and a $141,251 decrease in the fair value of the interest rate swap.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of June 30, 2013, the mortgage loan debt of LREIT decreased by $8,992,032 compared to the amount payable as of December 31, 2012. As disclosed in the following chart, the decrease is mainly attributable to the prepayment of mortgage loans and to the regular repayments of principal on mortgage loans.

	Six Months Ended June 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	(2,344,952)	(2,344,952)	-
Regular repayment of principal on mortgage loans	(3,748,406)	(3,071,519)	(676,887)
Prepayment of mortgage loans	(1,998,500)	(1,998,500)	-
Reduction of mortgage loans on sale of properties	(900,174)	(900,174)	-
Decrease in mortgage loans	(8,992,032)	(8,315,145)	(676,887)
Total mortgage loans - December 31, 2012	262,949,874	247,654,245	15,295,629
Total mortgage loans - June 30, 2013	$ 253,957,842	$ 239,339,100	$ 14,618,742

The decrease in mortgage loan debt was largely offset by a $7.0 Million increase in the balance of the revolving loan.

Investment Properties

Net Proceeds 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 six months ended June 30, 2013.

Discontinued Operations (Seniors' Housing Complexes)

The decrease in the mortgage loan debt for discontinued operations of approximately $0.7 Million, as disclosed in the preceding chart, is attributable to regular principal payments.

Regular Repayments of Principal

During the second quarter of 2013, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $3,748,406, compared to $4,861,109 during the second quarter of 2012.

Composition of Mortgage Loan Debt - June 30, 2013

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount June 30, 2013	Percentage of Total
Investment Properties			
Fixed rate			
2013	4.1 %	$ 49,536,374	19.5 %
2014	5.0 %	8,889,389	3.5 %
2015	4.8 %	6,280,421	2.5 %
2016	5.0 %	11,418,736	4.5 %
2017	5.7 %	19,916,967	7.8 %
2018	4.1 %	62,822,223	24.7 %
	4.5 %	158,864,110	62.5 %
Demand/variable rate	7.7 %	80,474,990	31.7 %
Principal amount		239,339,100	94.2 %
Discontinued Operations			
Demand/variable rate	5.0 %	14,618,742	5.8 %
Total		$ 253,957,842	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 June 30, 2013, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.5%, 5.0% and 5.5%, 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 acquisition payable on Parsons Landing. The interest payments on the acquisition payable represent an effective interest rate of 8%.

Mortgage Loan Debt Summary *

	2013		2012	
	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate - Investment properties				
Fixed rate mortgage loans	4.5%	4.5%	4.8%	4.9%
Variable rate mortgage loans	7.7%	7.7%	9.0%	9.0%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	66%	67%	68%	72%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	76%	77%	78%	81%
	2012		2011	
	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate - Investment properties				
Fixed rate mortgage loans	5.0%	5.5%	5.7%	5.7%
Variable rate mortgage loans	8.9%	8.9%	8.5%	8.5%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	73%	74%	74%	74%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	83%	82%	82%	83%

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

Long-term Debt Maturities

As of June 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 "Debt Covenant Breaches" below) and two mortgage loans which matured in the second quarter of 2013.

The two mortgage loans which matured during the second quarter of 2013 have a combined balance of $33,311,195. The maturity date of one mortgage loan has been extended to November 1, 2013 and the other mortgage loan is expected to be refinanced by December 31, 2013.

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.

Debt Covenant Breaches

As noted in the following chart, the two mortgage loans and one swap mortgage loan in breach of debt service coverage requirements have a total principal balance of $48,570,585 as of June 30, 2013 and are secured by four investment properties in Fort McMurray and one property in Moose Jaw.

A forbearance extension to September 30, 2013, has been received for the mortgage loans. The covenant breach for the swap mortgage loan is expected to be eliminated through modified loan terms. Subsequent to June 30, 2013, the mortgage loan for the property in Moose Jaw was renewed and the breach was extinguished.

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance June 30, 2013	Maturity Date	
Investment Properties					
Mortgage Loans					
Fort McMurray					
Lakewood Townhomes	1.1	First	$ 10,076,730	July 18, 2010	(1)
Woodland Park, Nelson Ridge Estates	1.2	Second	16,398,260	October 31, 2010	(1)
Sub-total			26,474,990		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(2)	First	17,481,061	May 1, 2018	
Sub-total			43,956,051		
Discontinued Operations					
Moose Jaw					
Chateau St. Michael's	1.3	First	4,691,421	April 1, 2015	(3)
			$ 48,647,472		

(1) The loans are repayable on demand. A forbearance to September 30, 2013 has been provided by the lender.
(2) The covenant requirement is a 1.15 debt service coverage for all Trust operations.
(3) Subsequent to June 30, 2013, the mortgage loan was renewed and the breach was extinguished.

Management believes that the remaining covenant breaches will be satisfactorily resolved through extensions of the forbearance agreements, debt repayment, modified loan terms and/or refinancing.

The covenant breaches have not resulted in an acceleration of the repayment of the mortgage loans. Management does not anticipate that the lenders of the two mortgage loans and swap mortgage loan with covenant breaches will demand repayment of the mortgage loans, provided that scheduled monthly payments of principal and interest continue to be made. There can be no assurance, however, that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust other than mortgage loans on investment properties which secure the mortgage bonds.

As of June 30, 2013, the cash deposits on mortgage loans with covenant breaches amounted to $1,704,051.

Notwithstanding the fact that the Fort McMurray property portfolio achieved improved occupancy and operating income levels, the properties may not achieve income levels in 2013 which satisfy the existing covenant requirements.

During the first six months of 2013, the total fees related to covenant breaches and forbearance agreements amounted to $30,165. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first six months of 2013, interest expense included amortization charges related to fees on covenant breaches and forbearance agreements of $35,310, compared to $273,604 during the first six months of 2012.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2012	18,084,011
- June 30, 2013	18,091,011
- August 13, 2013	18,091,011

As of June 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 June 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 June 30, 2013, amounted to $33,751,560 of which $4,973,940 pertains to the first six 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 six month period ended June 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 $23,652,264 for the 42 month period ended June 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%.

Revolving Loan Commitment

The liabilities of LREIT include a revolving loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. As of June 30, 2013, the amount withdrawn on the revolving loan was $12,000,000, compared to $7,872,000 as of March 31, 2013 and $5,025,000 as of December 31, 2012. Effective July 1, 2013, the maximum amount of the loan was increased from $12 Million to $15 Million.

Notwithstanding that it was necessary to seek an increase in the loan balance to $15 Million, the general expectation of management is that there will be a net reduction in the balance of the revolving loan during 2013, provided that the projected upward refinancings and property sales occur by year end.

More detailed information regarding the revolving loan commitment is provided in the section of this report titled "Related Party Transactions".

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 six month of 2013, the fees payable to Shelter Canadian for investment properties included service fees of $719,718 and property management fees of $836,132.

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 six 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 complex and the assignment of a mortgage loan in the amount of $8,177,657.

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

Revolving Loan Term					
From	**To**	**Renewal Fees**	**Interest Rate**	**Maximum Interest Charge**	**Maximum Loan 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 the Trust, 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 six months of 2013, interest on the loan commitment amounted to $379,916, compared to $402,353 during the first six 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, remain on two mortgage loans and one swap mortgage loan, encompassing $44.0 Million of mortgage debt, (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 June 30, 2013 in the amount of $11,585,027, (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 21 properties under its divestiture program. 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 five 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 six months of 2013, the Trust sold two condominium units at Lakewood Townhomes for a gross selling price of $959,800.

The current expectations of management are that the two remaining seniors' housing complexes and/or other properties will be sold by December 31, 2013. 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

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

The builder has also agreed to accept interest payments of $300,000 per month in regard to the amount payable on closing. Prior to June 1, 2013, the monthly interest payment was fully funded from insurance proceeds for revenue losses. Subsequent to June 1, 2013, LREIT assumed responsibility for the operation of the 84 completed units and the amount of the insurance recovery was reduced on a proportionate basis.

There is a risk that financing arrangements for Parsons Landing will not be completed by the extended closing date and the property may be listed for sale. 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 $23,652,264 as at June 30, 2013 which have been recorded as forgiven, may also become payable. See "Parsons Landing".

Pending the reconstruction of Parsons Landing and the re-leasing of the property, the income contribution of Parsons Landing is subject to the uncertainty surrounding a number of variables, including the amount of the income recovery for revenue losses, the completion date for reconstruction and the time required for re-leasing.

Concentration of LREIT's Portfolio 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 June 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, one of which is an impaired property (Parsons Landing). The remaining 12 properties in Fort McMurray comprise a total of 926 suites, or 46% of the total residential suites in the investment property portfolio. The 12 properties have an aggregate carrying value of $263.1 Million, which represents approximately 61% of the total aggregate carrying value of the investment property portfolio.

The 12 properties in Fort McMurray accounted for 63% of the total revenue of LREIT during the first six months of 2013 and 68% of the net operating income.

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 mortgage's exercise of its rights of foreclosure 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. As disclosed in the following sections of this report, LREIT is in breach of mortgage loan covenants on two mortgage loans which have matured and, in the absence of renewal agreements or replacement financing, are considered to be repayable on demand.

Mortgage Maturities

As of June 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 two mortgage loans which matured in the second quarter of 2013.

The two mortgage loans which matured during the second quarter of 2013 have a combined balance of $33,311,195. The maturity date of one mortgage loan has been extended to November 1, 2013 and the other mortgage loan is expected to be refinanced 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 June 30, 2013, LREIT had $48.6 Million of mortgage loan debt with covenant breaches, comprised of three mortgage loans and one swap mortgage loan. It is anticipated that the covenant breach for the two mortgage loans, with a combined balance of $26.5 Million, will be eliminated in 2013 as a result of the refinancing of the loans. Subsequent to June 30, 2013, the other mortgage loan was renewed and the breach was extinguished.

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 $17.5 Million and matures on May 1, 2018.

There is a risk that the lenders of the loans which are in breach of covenant requirements could demand early repayment of the loans. Management does not anticipate that the lenders 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.

At June 30, 2013, $1,704,051 is on deposit with a mortgage lender in order to provide cash reserves for two of the mortgage loans which were in breach of debt service coverage requirements. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred. During the first six months of 2013, LREIT was not required to remit any additional deposits in regard to the mortgage loans with covenant breaches.

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 August 13, 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 six months of 2013 is $3,173,934. Cumulative excess interest from January 1, 2010 to June 30, 2013 is $23,652,264;

- 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 June 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 six months of 2013 that have materially affected, or are reasonable 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 Second 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
August 13, 2013

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

SCHEDULE I

Real Estate Portfolio as of June 30, 2013

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2013
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	84 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	97 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	93 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	93 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	88 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	83 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	91 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	84 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	96 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	99 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	97 %
Lakewood Townhomes (3)	Fort McMurray	19,425,653	July 2007	49	41 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	96 %
Parsons Landing (4)	Fort McMurray	60,733,000	September 2008	160	58 %
Westhaven Manor	Edson	4,050,000	May 2007	48	79 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	86 %
Nova Court (5)	Yellowknife	15,000,000	March 2007	106	100 %
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	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 June 30 2013
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	97 %
Ontario					
Elgin Lodge (6)	Port Elgin	18,122,000	June 2006	118	63 %
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 June 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. The closing date for Parsons Landing is expected to occur 90 days following the receipt of the final occupancy permit for the reconstructed property. On June 1, 2013, 84 units were reconstructed and returned to rental operations. The occupancy for Parsons Landing reflects 49 of the 84 reconstructed units.

(5) Property includes 8,400 square feet of commercial space.

(6) 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.