



MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2013

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Unitholder Returns

	<u>Three Months Ended</u> <u>March 31, 2013</u> (Per unit)	<u>Year Ended</u> <u>December 31, 2012</u> (Per unit)
Opening price	\$0.65	\$0.42
Closing price	\$0.77	\$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 First Quarter Report

Income from Operations

Total Operations

Overall, the comprehensive loss of LREIT decreased by \$25.3 Million during the first quarter of 2013, compared to the first quarter of 2012.

Investment Properties

LREIT completed the first quarter of 2013 with a loss before discontinued operations of \$1.0 Million, compared to a loss of \$26.4 Million in the first quarter of 2012, representing a reduction in the loss before discontinued operations of \$25.4 Million. The reduction in the loss before discontinued operations mainly reflects the following factors:

- Fair value adjustment/impairment losses on Parsons landing: during the first quarter of 2013, LREIT recorded a fair value gain of \$0.3 Million in regard to Parsons Landing, compared to an impairment loss of \$27.8 Million in the first quarter of 2012. The variance between the gain in the first quarter of 2013 and the loss in the first quarter of 2012 served to decrease the loss by \$28.1 Million in the first quarter of 2013. The variance was the main factor contributing to the decrease in loss in the first quarter of 2013.
- Fair value gains on other investment properties: valuation gains related to the fair market value of other investment properties, decreased by approximately \$1.7 Million during the first quarter of 2013, compared to the first quarter of 2012.
- Debt forgiveness in Q1 2012: during the first quarter of 2012, the income results of LREIT include debt forgiveness of \$0.9 Million. There was not any debt forgiveness in the first quarter of 2013.
- Interest expense: interest expense increased by \$0.7 Million during the first quarter of 2013, compared to the first quarter of 2012. The increase is mainly due to an increase in amortization of transaction costs and other "non-cash" interest expenses.
- Interest Income: interest income increased by \$0.2 Million during the first quarter of 2013, compared to the first quarter of 2012. The increase in interest income mainly reflects interest earned on mortgage loans receivable.

- Net operating income: during the first quarter of 2013, net operating income decreased by \$0.3 Million, compared to the first quarter of 2012. The decrease in net operating income mainly reflects an increase in operating income from the Fort McMurray property portfolio, offset by the impact of the reduction of operating income from the Siena Apartments (due to the sale of the property) and Parsons Landing (due to the fire).

Discontinued Operations

LREIT completed the first quarter of 2013 with income from discontinued operations of \$0.2 Million, representing a decrease in income from discontinued operations of \$0.1 Million, compared to the first quarter of 2012. The decrease in income is mainly due to the sale of two seniors' housing complexes in 2012, both of which occurred subsequent to March 31, 2012.

Cash Flow from Operating Activities

During the first quarter of 2013, the cash flow from operating activities, excluding working capital adjustments, amounted to \$0.4 Million compared to a cash flow of \$0.7 Million during the first quarter of 2012, representing a decrease in the cash flow of \$0.3 Million.

Including working capital adjustments, LREIT completed the first quarter of 2013 with a cash flow from operating activities of \$0.1 Million, compared to a cash outflow of \$1.0 Million during the first quarter of 2012.

Mortgage Financing

LREIT has been systematically restructuring its mortgage loan debt over the past two years in order to resolve debt covenant issues and reduce its cost of borrowing.

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 \$600,000.

Subsequent to March 31, 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 \$91.5 Million of existing mortgage loan financing with a weighted average interest rate of 8.2%. The remaining mortgage proceeds, combined with working capital, were used to repay a 12% second mortgage loan of \$7.5 Million.

Mortgage Loan Covenants

As of March 31, 2013, LREIT had four mortgage loans totaling \$96.5 Million with covenant breaches. The refinancing of one of the loans in April 2013 reduced the amount of debt with covenant breaches to \$44.0 Million. It is anticipated that the covenant breach for two of the remaining loans, with a combined balance of \$27.7 Million, both of which are over-holding past maturity with the consent of the lenders, will also be eliminated in 2013 as a result of the refinancing of the loans.

The covenant breach for the other mortgage loan is expected to be eliminated through modified loan terms. The other loan has a balance of \$16.3 Million and matures on May 1, 2018.

Divestiture Program

In 2009, LREIT initiated a multi-year asset divestiture program with the objective of funding operating losses and reducing debt levels.

During 2013, LREIT is focusing its divestiture efforts on the sale of the two remaining senior housing complexes and the continuation of the condominium unit sales program at Lakewood Townhomes. During the first quarter of 2013, the Trust did not sell any condominium units.

During the first quarter of 2013, LREIT received prepayment of a mortgage loan receivable of \$3.2 Million which originated on the sale of a property in 2012.

Parsons Landing

The reconstruction of Parsons Landing is expected to be completed during the fourth quarter of 2013. Following an estimated lease-up period of 90 days, the property will be reclassified as a revenue-generating investment property.

Outlook

For the remainder of 2013, LREIT will continue to focus on the improvement of its liquidity and debt position with the overall objective of increasing unit values.

The net proceeds from upward refinancing and property sales, combined with the draws on the revolving loan commitment from 2668921 Manitoba Ltd., as required, are expected to be sufficient to enable LREIT to meet all of its ongoing funding obligations for the remainder of the year.



ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 10, 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 three months ended March 31, 2013 and with reference to 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 March 31, 2013 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2013 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the three months ended March 31, 2013 will be referred to as the "Income Statement"; and, the condensed consolidated statements of cash flows for the three months ended March 31, 2013 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	March 31	December 31	
	2013	2012	2011
STATEMENT OF FINANCIAL POSITION			
Total assets	\$ 479,771,344	\$ 481,552,578	\$ 555,220,070
Total long-term financial liabilities (1)	\$ 319,550,877	\$ 323,026,417	\$ 399,176,274
	Three Months Ended March 31		
	2013	2012	2011
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	\$ 9,768,888	\$ 10,383,920	\$ 9,150,517
Net operating income *	\$ 5,693,568	\$ 5,958,714	\$ 5,123,007
Loss before taxes and discontinued operations *	\$ (1,044,322)	\$ (26,418,131)	\$ (4,587,848)
Loss and comprehensive loss	\$ (812,228)	\$ (26,085,895)	\$ (3,746,608)
Cash Flows			
Cash provided by (used in) operating activities	\$ 123,995	\$ (954,913)	\$ 771,120
Funds from Operations (FFO) *	\$ (1,171,491)	\$ (1,432,774)	\$ (3,510,890)
Adjusted Funds from Operations (AFFO) *	\$ (1,555,316)	\$ (1,572,616)	\$ (3,446,350)
Distributable income (loss)*	\$ 15,067	\$ 510,651	\$ (1,621,753)
Per Unit			
Net operating income *			
- basic	\$ 0.303	\$ 0.321	\$ 0.279
- diluted	\$ 0.300	\$ 0.320	\$ 0.279
Loss before taxes and discontinued operations*			
- basic and diluted	\$ (0.056)	\$ (1.425)	\$ (0.250)
Loss and comprehensive loss			
- basic and diluted	\$ (0.043)	\$ (1.407)	\$ (0.204)
Cash provided by (used in) operating activities			
- basic and diluted	\$ 0.007	\$ (0.052)	\$ 0.042
Funds from Operations (FFO) *			
- basic and diluted	\$ (0.062)	\$ (0.077)	\$ (0.191)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	\$ (0.083)	\$ (0.085)	\$ (0.187)
Distributable income (loss) *			
- basic	\$ 0.001	\$ 0.028	\$ (0.088)
- diluted	\$ 0.001	\$ 0.027	\$ (0.088)

(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, debentures 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 March 31, 2013, 21 properties and 13 condominium units have been sold under the divestiture program for gross proceeds of \$236 Million. The property portfolio of LREIT, as of March 31, 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 will once again be in a position to 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 Q1 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 quarter 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. There were not any changes to the number of investment properties between January 1, 2013 and March 31, 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.

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 March 31	
	2013	2012
Average occupancy level		
Fort McMurray	93%	92%
Other investment properties	96%	98%
Properties sold *	n/a	100%
Impaired Property **	n/a	n/a
Total	94%	95%
Average rental rate		
Fort McMurray	\$2,259	\$2,124
Other investment properties	\$1,109	\$1,075
Properties sold *	n/a	\$3,100
Impaired Property **	n/a	n/a
Total	\$1,739	\$1,704

* 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 three month period ended March 31, 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 March 31		
	2013	2012	Increase (Decrease)
Net operating income			
Fort McMurray properties	\$ 3,889,521	\$ 3,412,550	\$ 476,971
Other investment properties	<u>1,804,047</u>	<u>1,852,163</u>	<u>(48,116)</u>
Sub-total	5,693,568	5,264,713	428,855
Properties sold	-	593,957	(593,957)
Impaired Property	<u>-</u>	<u>100,044</u>	<u>(100,044)</u>
Total net operating income	5,693,568	5,958,714	(265,146)
Interest income	298,301	74,567	223,734
Forgiveness of debt	-	859,561	(859,561)
Interest expense	(7,841,878)	(7,117,932)	(723,946)
Trust expense	(531,297)	(578,883)	47,586
Income recovery on Parsons Landing	<u>899,130</u>	<u>-</u>	<u>899,130</u>
Loss before the following	(1,482,176)	(803,973)	(678,203)
Profit on sale of investment properties	-	324,225	(324,225)
Fair value gains	137,854	1,861,617	(1,723,763)
Fair value adjustment of Parsons Landing	<u>300,000</u>	<u>(27,800,000)</u>	<u>28,100,000</u>
Loss before discontinued operations	(1,044,322)	(26,418,131)	25,373,809
Income from discontinued operations	<u>232,094</u>	<u>332,236</u>	<u>(100,142)</u>
Loss and comprehensive loss	<u>\$ (812,228)</u>	<u>\$ (26,085,895)</u>	<u>\$ 25,273,667</u>

	Three Months Ended March 31		
	2013	2012	Increase (Decrease)
Cash provided by (used in) operating activities	<u>\$ 123,995</u>	<u>\$ (954,913)</u>	<u>\$ 1,078,908</u>

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".

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing and discontinued operations, the loss for the first quarter of 2013 increased by \$0.7 Million compared to the first quarter of 2012. The increase in the loss is mainly due to a decrease in the forgiveness of debt of \$0.9 Million and a \$0.7 Million increase in interest expense, partially offset by a \$0.2 Million increase in interest income and a \$0.6 Million increase in the combined total of net operating income and income recovery on Parsons Landing.

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 the increase in interest expense is provided below.

4. Interest Expense - Investment Properties

	Three Months Ended March 31		
	2013	2012	Increase (Decrease)
Interest expense	\$ 7,841,878	\$ 7,117,932	\$ 723,946
Key Variables		March 31 2013	December 31 2012
Weighted average interest rate of total mortgage loan debt			
Investment properties		<u>6.7 %</u>	<u>7.3 %</u>
Seniors' housing complexes		<u>5.0 %</u>	<u>5.0 %</u>
Combined operations		<u>6.6 %</u>	<u>7.2 %</u>

Key Events Affecting Interest Expense

Total interest expense for investment properties increased by \$0.7 Million or 10.2% during the first quarter of 2013, compared to the first quarter of 2012. The increase is mainly due to an increase in amortization of transaction costs of \$0.9 Million and an increase in the change in value of interest rate swaps of \$0.1 Million, partially offset by a \$0.3 Million decrease in swap mortgage loan interest.

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 \$600,000.

Subsequent to March 31, 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 \$91.5 Million of existing mortgage loan financing with a weighted average interest rate of 8.2%. The remaining mortgage proceeds, combined with working capital, were used to repay a 12% second mortgage loan of \$7.5 Million.

Debt Maturities

Except for four mortgage loans in the amount of \$61,394,320, all mortgages which have matured prior to May 10, 2013 have been renewed or refinanced.

Debt Covenants

As of March 31, 2013, three matured loans and one swap mortgage loan with a maturity date of May 1, 2018 were in breach of debt service coverage requirements. The loans have a total principal balance of \$96.5 Million as of March 31, 2013 and are secured by five investment properties in Fort McMurray. A forbearance extension to March 31, 2013, has been received for two of the mortgage loans. Subsequent to March 31, 2013, one of the mortgage loans was refinanced and the covenant breach was eliminated. The other two loans are expected to be refinanced in 2013.

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

6. Liquidity

	March 31 2013	December 31 2012
Unrestricted cash	<u>\$ 876,272</u>	<u>\$ 1,254,278</u>
Restricted cash	<u>\$ 8,735,259</u>	<u>\$ 7,801,248</u>
Working capital deficit	<u>\$ 7,045,016</u>	<u>\$ 4,462,801</u>

Key events affecting liquidity during the first quarter of 2013

- The net cash outflow from operating activities, regular repayments of principal on long-term debt and capital expenditures was \$2.3 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 inflow of mortgage loan financing activities was \$0.6 Million.
- Revolving loan - net proceeds of the revolving loan amounted to \$2.8 Million, resulting in a loan balance of \$7.9 Million as of March 31, 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

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 flow from operating activities, LREIT completed the first quarter of 2013 with a cash shortfall of \$2.6 Million. The cash shortfall was funded by the collection of a mortgage loan receivable and 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 March 31, 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.

An in-suite upgrade program for the six properties which are located in the downtown area of Fort McMurray was substantially completed in the third quarter of 2012. The total cost of the two year program was approximately \$2.6 Million. Additional upgrades are planned for 2013.

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 have also periodically served 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 March 31, 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 quarter of 2013, the mortgage loan debt service coverage ratio was 0.95, compared to 0.87 during the first quarter of 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 13 condominium units at a combined gross selling price of \$236.1 Million.

	Properties Sold					Total
	2009	2010	2011	2012	2013	
Number of properties sold	13	5	-	3	-	21
Number of condominium units sold	-	-	4	9	-	13
Gross proceeds	\$ 90,392,000	\$ 40,835,000	\$ 1,927,100	\$102,896,400	\$ -	\$ 236,050,500
Net proceeds at closing	\$ 29,631,650	\$ 17,563,501	\$ 52,120	\$ 21,927,121	\$ -	\$ 69,174,392
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	\$ 3,200,000	\$ 82,465,042

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 March 31, 2013, 13 condominium units have been sold at a combined gross selling price of \$6.3 Million.

Subsequent to March 31, 2013, one condominium unit was sold for gross proceeds of \$474,900.

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").

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 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 March 31, 2013, interest in excess of \$300,000 per month amounted to \$22,051,560.

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 is expected to be fully covered under the insurance policy. Reconstruction is expected to be completed this year.

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. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. During the period of reconstruction, the \$300,000 monthly interest payment is expected to be funded from the insurance proceeds. In the event that insurance proceeds for revenue losses are less than the monthly interest payment, the shortfall shall be forgiven.

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 March 31, 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 for the estimated time period of reconstruction and re-leasing. 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 March 31, 2013, the estimated fair value is \$44.6 Million reflecting an additional increase of \$0.3 Million during the first quarter of 2013.

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. Subsequent to the fire, to March 31, 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 each quarter, from the second quarter of 2012 to the first 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.

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 quarter of 2013, and throughout 2012, the Financial Statements reflect the \$300,000 monthly interest payment.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2013

As of March 31, 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 \$413.9 Million and encompasses 2,244 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. 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 quarter of 2013, there were no changes in the property portfolio.

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) decreased by 235 suites or 11.2% as of March 31, 2013, compared to March 31, 2012, while the number of "revenue generating" suites in discontinued operations decreased by 293 suites or 57.5%

The sale of properties and the temporary removal of 160 suites due to the fire at Parsons Landing have affected the comparability of quarterly results.

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 March 31, 2013, "Loans and receivables" consist of a 12.5% second mortgage loan of \$8.0 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% \$250,000 secured note receivable from a previous tenant which is due on demand.

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		2012	
	Q1	Q4	Q3	Q2
Rentals from investment properties	\$ 9,768,888	\$ 9,432,387	\$ 9,206,783	\$ 9,387,902
Net operating income	\$ 5,693,568	\$ 5,294,467	\$ 5,355,272	\$ 5,820,776
Income (loss) for the period before taxes and discontinued operations	\$ (1,044,322)	\$ (778,548)	\$ (3,078,641)	\$ 30,876,865
Income (loss) and comprehensive income (loss)	\$ (812,228)	\$ 16,185,773	\$ (2,298,800)	\$ 32,297,230

PER UNIT

Net operating income				
- basic	\$ 0.303	\$ 0.282	\$ 0.287	\$ 0.314
- diluted	\$ 0.300	\$ 0.280	\$ 0.285	\$ 0.312
Income (loss) for the period before taxes and discontinued operations				
- basic	\$ (0.056)	\$ (0.041)	\$ (0.165)	\$ 1.664
- diluted	\$ (0.056)	\$ (0.041)	\$ (0.165)	\$ 1.655
Income (loss) and comprehensive income (loss)				
- basic	\$ (0.043)	\$ 0.862	\$ (0.123)	\$ 1.741
- diluted	\$ (0.043)	\$ 0.857	\$ (0.123)	\$ 1.731

Quarterly Analysis

	2012		2011	
	Q1	Q4	Q3	Q2
Rentals from investment properties	\$ 10,383,920	\$ 11,196,590	\$ 11,142,567	\$ 10,363,052
Net operating income	\$ 5,958,714	\$ 7,182,799	\$ 7,103,623	\$ 6,319,962
Income (loss) for the period before taxes and discontinued operations	\$(26,418,131)	\$ 1,272,013	\$ 1,594,954	\$ 4,103,543
Income (loss) and comprehensive income (loss)	\$(26,085,895)	\$ 1,605,280	\$ 2,275,638	\$ 4,900,921

PER UNIT

Net operating income				
- basic	\$ 0.321	\$ 0.388	\$ 0.384	\$ 0.343
- diluted	\$ 0.320	\$ 0.387	\$ 0.384	\$ 0.343
Income (loss) for the period before taxes and discontinued operations				
- basic	\$ (1.425)	\$ 0.069	\$ 0.086	\$ 0.223
- diluted	\$ (1.425)	\$ 0.069	\$ 0.086	\$ 0.223
Income (loss) and comprehensive income (loss)				
- basic	\$ (1.407)	\$ 0.087	\$ 0.123	\$ 0.266
- diluted	\$ (1.407)	\$ 0.087	\$ 0.123	\$ 0.266

Revenue and Operating Income

The quarterly rental revenue and operating income results for 2012 and the first quarter 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 nine condominium units at Lakewood Townhomes in 2012. 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 ongoing recovery of rental market conditions in Fort McMurray due to increased activity in the oil sands industry was the main factor affecting revenue and operating income growth in 2011.

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 continuing operations, 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 upwardly impacted in certain quarters by prepayment penalties.

Transactions related to the fire at Parsons Landing have contributed to substantial variations in income from continuing operations 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 continuing operations, although the effect of income recoveries and insurance proceeds was also significant.

As the investment properties of LREIT are carried at market value, net income from continuing operations is also affected by quarterly variances in the gain (or 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 operation 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		Increase (Decrease)	
	March 31		Amount	%
	2013	2012		
Rentals from investment properties	\$ 9,768,888	\$ 10,383,920	\$ (615,032)	(5.9)%
Property operating costs	4,075,320	4,425,206	349,886	7.9 %
Net operating income	5,693,568	5,958,714	(265,146)	(4.4)%
Interest income	298,301	74,567	223,734	300.0 %
Forgiveness of debt	-	859,561	(859,561)	- %
Interest expense	(7,841,878)	(7,117,932)	(723,946)	10.2 %
Trust expense	(531,297)	(578,883)	47,586	(8.2)%
Income recovery on Parsons Landing	899,130	-	899,130	- %
Loss before the following	(1,482,176)	(803,973)	(678,203)	(84.4)%
Profit on sale of investment properties	-	324,225	(324,225)	(100.0)%
Fair value gains	137,854	1,861,617	(1,723,763)	92.6 %
Fair value adjustment of Parsons Landing	300,000	(27,800,000)	28,100,000	- %
Loss before discontinued operations	(1,044,322)	(26,418,131)	25,373,809	96.0 %
Income from discontinued operations	232,094	332,236	(100,142)	(30.1)%
Loss and comprehensive loss	\$ (812,228)	\$ (26,085,895)	\$ 25,273,667	96.9 %

Analysis of Income (Loss) per Unit

	Three Months Ended		Change	
	March 31		2013	2012
	2013	2012		
Loss and comprehensive loss				
- basic	\$ (0.043)	\$ (1.407)	\$ 1.364	(97)%
- diluted	\$ (0.043)	\$ (1.407)	\$ 1.364	(97)%
Loss for the period before discontinued operations				
- basic	\$ (0.056)	\$ (1.425)	\$ 1.369	(96)%
- diluted	\$ (0.056)	\$ (1.425)	\$ 1.369	(96)%

Overall Results

During the first quarter of 2013, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing and discontinued operations increased by \$678,203 compared to the first quarter of 2012. The increase in the loss is mainly due to a decrease in forgiveness of debt of \$859,561 and a \$723,946 increase in interest expense, partially offset by a \$223,734 increase in interest income and a \$633,984 increase in the combined total of net operating income and income recovery on Parsons Landing.

After accounting for fair value gains, profit on property sales and fair value adjustment of Parsons Landing, the loss of LREIT before discontinued operations decreased by \$25,373,809, almost entirely due to the \$27,800,000 impairment of Parsons Landing during the first quarter of 2012.

After accounting for fair value gains, profit on property sales, fair value adjustment of Parsons Landing, and discontinued operations, LREIT completed the first quarter of 2013 with a comprehensive loss of \$812,228 compared to a comprehensive loss of \$26,085,895 during the first quarter of 2012.

Per Unit Results

On a per unit basis, loss before discontinued operations amounted to \$0.056 per unit during the first quarter of 2013, compared to \$1.425 per unit during the first quarter of 2012, representing a decrease in loss of \$1.369 per unit.

As the weighted average number of units has not changed significantly, increasing by only 1% since December 31, 2011, the decrease in loss per unit mainly reflects the decrease in the overall loss 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 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". Parsons Landing will continue to be classified as an Impaired Property for segmented reporting purposes until the completion of reconstruction and re-leasing of the building.

Pending the reconstruction of the property, the income of the property consists of accrued revenue in regard to the recovery of insurance proceeds for revenue losses.

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 quarter of 2013 or the first quarter of 2012, aside from amounts which are attributable to the period before the fire occurred on February 5, 2012.

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 March 31, 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 March 31					
			Increase (Decrease)		% of Total	
	2013	2012	Amount	%	2013	2012
Fort McMurray	\$ 6,154,755	\$ 5,691,533	\$ 463,222	8 %	63 %	55 %
Other investment properties	3,614,133	3,627,356	(13,223)	- %	37 %	35 %
Sub-total	9,768,888	9,318,889	449,999	5 %	100 %	90 %
Properties sold (1)	-	670,604	(670,604)	(100)%	- %	6 %
Impaired property (2)	-	394,427	(394,427)	(100)%	- %	4 %
Total	<u>\$ 9,768,888</u>	<u>\$ 10,383,920</u>	<u>\$ (615,032)</u>	<u>(6)%</u>	<u>100 %</u>	<u>100 %</u>

(1) Represents revenue from the Siena Apartments.

(2) 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 \$449,999 during the first quarter of 2013, compared to the first quarter of 2012. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of \$463,222, partially offset by a decrease in revenue from the Other investment properties of \$13,223.

Occupancy Level, by Quarter

	2012					2013
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	92 %	90 %	87 %	88 %	88 %	93 %
Other investment properties	98 %	97 %	97 %	98 %	98 %	96 %
Properties sold	100 %	n/a	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a	n/a
Total	95 %	92 %	91 %	92 %	92 %	94 %

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

Average Monthly Rents, by Quarter

	2012					2013
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	\$2,124	\$2,191	\$2,251	\$2,293	\$2,218	\$2,259
Other investment properties	\$1,075	\$1,069	\$1,048	\$1,076	\$1,067	\$1,109
Properties sold	\$3,100	n/a	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a	n/a
Total	\$1,704	\$1,684	\$1,704	\$1,739	\$1,709	\$1,739

Property Operating Costs**Analysis of Property Operating Costs**

	Three Months Ended		Increase (Decrease)	
	March 31		Amount	
	2013	2012		%
Fort McMurray	\$ 2,265,234	\$ 2,278,983	\$ (13,749)	(1)%
Other investment properties	1,810,086	1,775,193	34,893	2 %
Sub-total	4,075,320	4,054,176	21,144	1 %
Properties sold	-	76,647	(76,647)	(100)%
Impaired property	-	294,383	(294,383)	(100)%
Total	\$ 4,075,320	\$ 4,425,206	\$ (349,886)	(8)%

During the first quarter of 2013, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by \$21,144 or 1%, compared to the first quarter of 2012. The increase is comprised of an increase of \$34,893 in the operating costs of the Other investment properties portfolio, partially offset by a \$13,749 decrease in the Fort McMurray portfolio.

For the first quarter of 2013, the property operating costs for the Fort McMurray and Other investment property portfolios are consistent with the first quarter of 2012.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2013	2012	Amount	%	2013	2012	2013	2012
Fort McMurray	\$ 3,889,521	\$ 3,412,550	\$ 476,971	14 %	68 %	57 %	63 %	60 %
Other investment properties	1,804,047	1,852,163	(48,116)	(3)%	32 %	31 %	50 %	51 %
Sub-total	5,693,568	5,264,713	428,855	8 %	100 %	88 %	58 %	56 %
Properties sold	-	593,957	(593,957)	(100)%	- %	10 %	n/a	n/a
Impaired property	-	100,044	(100,044)	(100)%	- %	2 %	n/a	n/a
Total	\$ 5,693,568	\$ 5,958,714	\$ (265,146)	(4)%	100 %	100 %	58 %	57 %

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 \$428,855 or 8% during the first quarter of 2013, compared to the first quarter of 2012.

The increase in net operating income is comprised of an increase in net operating income from the Fort McMurray properties, partially offset by a decrease in net operating income from the Other investment properties. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by \$476,971 during the first quarter of 2013, compared to the first quarter of 2012, while the net operating income of the Other investment properties portfolio decreased by \$48,116.

Overall, the operating margin for the property portfolio, excluding properties sold and the impaired property, increased from 56% during the first quarter of 2012, to 58% during the first quarter of 2013. The increase in the overall operating margin reflects an increase in the operating margin for the Fort McMurray property portfolio.

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 impaired property, net operating income decreased by \$265,146 during the first quarter of 2013, compared to the first quarter of 2012.

Subsequent to the first quarter of 2012, the income recovery on Parsons Landing served to fully or partially offset the decrease in net operating income from the property.

Interest Income

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

During the first quarter of 2013 interest income amounted to \$298,301 compared to \$74,567 during the first quarter 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

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.

As disclosed in the following chart, total interest expense amounted to \$8,035,547 during the first quarter of 2013, of which \$7,841,878 pertains to investment properties and \$193,669 pertains to discontinued operations.

Total interest expense for investment properties increased by \$723,946 or 10.2% during the first quarter of 2013, compared to the first quarter of 2012. The increase is mainly due to an increase in amortization of transaction costs of \$889,770 and an increase in the change in value of interest rate swaps of \$116,215, partially offset by a \$332,647 decrease in swap mortgage loan interest.

Total interest expense for discontinued operations decreased by \$1,312,982 or 87% during the first quarter of 2013, compared to the first quarter of 2012. The decrease is due to a \$1,071,425 decrease in interest expense related to mortgage loan interest and a decrease in the amortization of transaction costs of \$241,558.

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 \$589,036 decrease in total interest expense during the first quarter of 2013, compared to the first quarter of 2012, is comprised of a \$1,383,101 decrease in the cash component of interest expense and a \$794,065 increase in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
	2013	2012	Amount	%
Investment Properties				
Mortgage Loans				
Mortgage loan interest	\$ 4,459,189	\$ 4,439,842	\$ 19,347	- %
Swap mortgage loan interest	244,298	576,945	(332,647)	(58)%
Amortization of transaction costs	1,117,829	228,059	889,770	390 %
Change in value of interest rate swaps	(68,460)	(184,675)	116,215	63 %
Total - mortgage loans	<u>5,752,856</u>	<u>5,060,171</u>	<u>692,685</u>	<u>14 %</u>
Mortgage Bonds				
Mortgage bond interest	360,000	360,000	-	- %
Accretion of debt component	109,441	96,585	12,856	13 %
Amortization of transaction costs	65,419	55,349	10,070	18 %
Total - mortgage bonds	<u>534,860</u>	<u>511,934</u>	<u>22,926</u>	<u>4 %</u>
Debentures				
Interest on debentures	592,824	591,200	1,624	- %
Amortization of transaction costs	61,338	54,627	6,711	12 %
Total - debentures	<u>654,162</u>	<u>645,827</u>	<u>8,335</u>	<u>1 %</u>
Acquisition Payable				
Interest on acquisition payable	900,000	900,000	-	- %
Total - acquisition payable	<u>900,000</u>	<u>900,000</u>	<u>-</u>	<u>- %</u>
Total interest expense - investment properties	<u>7,841,878</u>	<u>7,117,932</u>	<u>723,946</u>	<u>10 %</u>
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	185,085	1,256,510	(1,071,425)	(85)%
Amortization of transaction costs	8,584	250,141	(241,557)	97 %
Total interest expense - discontinued operations	<u>193,669</u>	<u>1,506,651</u>	<u>(1,312,982)</u>	<u>(87)%</u>
Total - interest expense	<u>\$ 8,035,547</u>	<u>\$ 8,624,583</u>	<u>\$ (589,036)</u>	<u>(7)%</u>
Cash and Non-cash Component				
Non-cash component				
Accretion	\$ 109,441	\$ 96,585	\$ 12,856	13 %
Amortization of transaction costs	1,253,170	588,176	664,994	113 %
Change in value of interest rate swaps	(68,460)	(184,675)	116,215	63 %
Total non-cash component	<u>1,294,151</u>	<u>500,086</u>	<u>794,065</u>	<u>159 %</u>
Cash component				
Interest	6,741,396	8,124,497	(1,383,101)	(17)%
Total cash component	<u>6,741,396</u>	<u>8,124,497</u>	<u>(1,383,101)</u>	<u>(17)%</u>
Total - interest expense	<u>\$ 8,035,547</u>	<u>\$ 8,624,583</u>	<u>\$ (589,036)</u>	<u>(7)%</u>

Cash Component of Interest Expense

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 first quarter of 2013, the total cash component of interest expense decreased by \$1,383,101 or 17%, compared to the first quarter of 2012. The decrease reflects a decrease of \$1,071,425 in the cash component of interest expense for discontinued operations as well as a decrease of \$311,676 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 93% during the first quarter of 2012 to 82% during the first quarter of 2013. The decrease in the ratio is due to a decrease in mortgage loan interest and swap mortgage loan interest.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 95% for the first quarter of 2013, compared to 106% for the first quarter of 2012.

Mortgage Loan Interest

Investment Properties

Mortgage loan interest for investment properties increased by \$19,347 or 0.4% during the first quarter of 2013, compared to the first quarter of 2012, comprised of an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of \$30,312, partially offset by a decrease in interest expense on mortgage loan debt of \$10,965.

Discontinued Operations

Mortgage loan interest for discontinued operations decreased by \$1,071,425 or 85% during the first quarter of 2013, compared to the first 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.

Swap Mortgage Loan Interest

Swap mortgage loan interest decreased by \$332,647 during the first quarter of 2013, compared to the first 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.

Mortgage Bond Interest

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

Debenture Interest

During the first quarter of 2013, interest on debentures amounted to \$592,824, compared to \$591,200 during the first 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 first quarter of 2013 and the first quarter of 2012 and reflects the assumption that interest in excess of this amount will be forgiven at closing.

Non-cash Component of Interest Expense***Summary***

As indicated in the preceding chart, the non-cash component of interest expense increased by \$794,065 during the first quarter of 2013, compared to the first quarter of 2012. The increase is comprised of an increase in amortization of transaction costs of \$664,994, a \$116,215 decrease in the amount by which the change in fair value of interest rate swaps reduces interest expense and an increase in accretion of \$12,856.

Accretion

Accretion on mortgage bonds was \$109,441 during the first quarter of 2013 and \$96,585 during the first quarter of 2012.

Amortization of Transaction Costs

Transaction costs related to mortgage loans, mortgage bonds and debentures are capitalized and expensed through amortization charges. During the first quarter of 2013, amortization of transaction costs increased by \$664,994, compared to the first quarter of 2012.

The increase in amortization of transaction costs is mainly attributable to a charge to income of approximately \$600,000 at the refinancing of the first mortgage loan for the six downtown Fort McMurray properties.

Amortization charges represent a "non-cash" expense and are excluded from the determination of cash flow from operating activities. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities.

Change in Value of Interest Rate Swap

During the first quarter of 2012, the fair value of the two swap agreements decreased by \$184,675, resulting in a corresponding decrease in interest expense. In the second quarter of 2012 one of the swap mortgage loans was eliminated on the sale of the Siena Apartments and the swap mortgage loan for Millennium Village was paid down by \$4,287,000.

During the first quarter of 2013, the fair value of the interest rate swap decreased by \$68,460.

As the decrease in value during the first quarter of 2013 was less than the decrease in value during the first quarter of 2012, the change in value of the interest rate swaps resulted in an increase in interest expense of \$116,215 during the first quarter of 2013, compared to the first quarter of 2012.

Although the change in the fair value of the interest rate swap agreement has served to decrease interest expense during the first quarter of 2013, the change in value is a non-cash transaction which is excluded from the determination of cash flow from operating activities of the Trust. As a result of fluctuations in market interest rates, the fair value of the remaining interest rate swap agreement may change significantly in the future, however, the change in value will not have any impact on cash outflows. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time.

Trust Expense

During the first quarter of 2013, trust expense decreased by \$47,586, compared to the first quarter of 2012. The decrease is mainly due to a decrease in service fees.

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 quarter of 2013, the Trust did not sell any properties. During the first quarter of 2012, three condominium units were sold, resulting in a profit on sale of \$324,225.

Fair Value Gains

During the first quarter of 2013, the carrying value of investment properties increased by \$492,216, comprised of a valuation gain of \$137,854 and capital expenditures of \$354,362.

Fair Value Adjustment of Parsons Landing

As of March 31, 2013, the estimated fair value of Parsons Landing is \$44,600,000 representing an increase of \$300,000, compared to the estimated fair value at December 31, 2012.

The variance between the impairment loss of \$27,800,000 in the first quarter of 2012 compared to the fair value increase of \$300,000 in the first quarter of 2013 served to increase the income by \$28,100,000 during the first quarter of 2013, compared to the first quarter of 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 March 31		Increase (Decrease)
	2013	2012	
Rental income	\$ 1,394,482	\$ 4,005,251	\$ (2,610,769)
Property operating costs	890,128	2,267,840	1,377,712
Net operating income	504,354	1,737,411	(1,233,057)
Interest expense	193,669	1,506,651	1,312,982
Tax expense (recovery)			
Current	364,325	(101,476)	(465,801)
Deferred	(285,734)	-	285,734
Income from discontinued operations	\$ 232,094	\$ 332,236	\$ (100,142)

During the first quarter of 2013, LREIT generated income from discontinued operations of \$232,094 compared to \$332,236 during the first quarter of 2012, representing a decrease of \$100,142.

The decrease in income from discontinued operations during the first quarter of 2013 reflects a \$1,312,982 decrease in interest expense, partially offset by a \$1,233,057 decrease in net operating income. 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.

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)	
	March 31, 2013	December 31, 2012	Amount	%
Rentals from investment properties	9,768,888	9,432,387	336,501	3.6 %
Property operating costs	4,075,320	4,137,920	62,600	(1.5)%
Net operating income	5,693,568	5,294,467	399,101	7.5 %
Interest income	298,301	354,645	(56,344)	(15.9)%
Interest expense	(7,841,878)	(8,786,495)	944,617	(10.8)%
Trust expense	(531,297)	(751,957)	220,660	(29.3)%
Income recovery on Parsons Landing	899,130	885,329	13,801	1.6 %
Insurance proceeds	-	525,355	(525,355)	(100.0)%
Loss before the following	(1,482,176)	(2,478,656)	996,480	40.2 %
Loss on sale of investment properties	-	(129,776)	129,776	(100.0)%
Fair value gains	137,854	1,329,884	(1,192,030)	(89.6)%
Fair value adjustment of Parsons Landing	300,000	500,000	(200,000)	(40.0)%
Loss for the period before taxes and discontinued operations	(1,044,322)	(778,548)	(265,774)	34.1 %
Current income tax expense	-	49,763	(49,763)	100.0 %
Loss for the period before discontinued operations	(1,044,322)	(828,311)	(216,011)	(26.1)%
Income from discontinued operations	232,094	17,014,084	(16,781,990)	(98.6)%
Comprehensive income (loss)	\$ (812,228)	\$ 16,185,773	\$ (16,998,001)	(105.0)%

During the first 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 \$996,480 compared to the fourth quarter of 2012. The decrease in the loss mainly reflects a decrease in interest expense of \$944,617, an increase in net operating income of \$399,101 and a decrease in trust expense of \$220,660, partially offset by a decrease in insurance proceeds of \$525,355. The decrease in insurance proceeds is due to the settlement of the claim relating to furniture and equipment at Parsons Landing in the fourth quarter of 2012. The decrease in interest expense is mainly attributable to the repayment of debt on the sale of Riverside Terrace in December 2012. The increase in net operating income is mainly due to an increase in the net operating income of the Fort McMurray property portfolio due to an increase in the occupancy level of the property portfolio from 88% during the fourth quarter of 2012 to 93% in the first quarter of 2013. The decrease in Trust expense is mainly due to a decrease in service fees.

During the first quarter of 2013, fair value gains in regard to the carrying value of investment properties amounted to \$137,854, compared to \$1,329,884 during the fourth quarter of 2012, representing a decrease of \$1,192,030. During the fourth quarter of 2012, LREIT sold one condominium unit at Lakewood Townhomes. In the first quarter of 2013, the Trust did not sell any investment properties. After accounting for fair value gains, fair value adjustment of Parsons Landing and loss on sale of investment properties, the loss of LREIT before income taxes and discontinued operations increased by \$265,774 during the first quarter of 2013, compared to the fourth quarter of 2012.

Income from discontinued operations decreased by \$16,831,753 during the first quarter of 2013, compared to the fourth quarter of 2012. The decrease in income from discontinued operations mainly reflects the \$13.0 Million profit on the sale of Riverside Terrace and \$3.6 Million in net income tax recoveries relating to Riverside Terrace in the fourth quarter of 2012.

After accounting for discontinued operations and income tax expense, LREIT completed the first quarter of 2013 with a comprehensive loss of \$812,228, compared to comprehensive income of \$16,185,773 during the fourth quarter of 2012.

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". Net interest paid consists of interest paid, net of interest received.

"Interest paid" on the Statements of Cash Flows of \$5,922,444 includes the cash component of interest expense of \$6,741,396 for both investment properties and discontinued operations, after deducting the increase in accrued interest between March 31, 2013 and December 31, 2012 of \$818,952.

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.

Q1 2013 vs Q1 2012 Comparatives

Cash from Operating Activities

	Three Months Ended March 31			
	2013			2012
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	\$ 5,693,568	\$ 504,354	\$ 6,197,922	\$ 7,696,125
Accrued rent receivable	(101,298)	-	(101,298)	102,860
Net operating income - cash basis	<u>5,592,270</u>	<u>504,354</u>	<u>6,096,624</u>	<u>7,798,985</u>
Income recovery on Parsons Landing	899,130	-	899,130	-
Insurance proceeds	-	-	-	-
Trust expense	(531,297)	-	(531,297)	(578,883)
Non-cash component of trust expense	44,843	-	44,843	18,750
Trust expense - cash basis	<u>(486,454)</u>	<u>-</u>	<u>(486,454)</u>	<u>(560,133)</u>
Interest paid	(5,735,901)	(186,543)	(5,922,444)	(6,779,536)
Interest received	172,648	(11,761)	160,887	123,221
Interest expense - cash basis	<u>(5,563,253)</u>	<u>(198,304)</u>	<u>(5,761,557)</u>	<u>(6,656,315)</u>
Income tax recovery (expense) - current	-	(364,325)	(364,325)	101,476
Cash provided by (used in) operating activities, before working capital adjustments	441,693	(58,275)	383,418	684,013
Working capital adjustments, net	<u>(446,633)</u>	<u>187,210</u>	<u>(259,423)</u>	<u>(1,638,926)</u>
Cash provided by (used in) operating activities	<u>\$ (4,940)</u>	<u>\$ 128,935</u>	<u>\$ 123,995</u>	<u>\$ (954,913)</u>

During the first quarter of 2013, net cash flow from operating activities, excluding working capital adjustments, decreased by \$300,595 compared to the first quarter of 2012. The decrease reflects a decrease in net operating income, on a cash basis, of \$1,702,361 and an increase in income tax expense of \$465,801, partially offset by an increase in income recovery on Parsons Landing of \$899,130 and a decrease in interest paid of \$857,092.

The decrease in the net operating income is mainly due to the sale of two seniors' housing complexes (Clarrington Seniors' Residence and Riverside Terrace), the sale of an investment property (Siena Apartments) and the reduction of rental income due to the fire at Parsons Landing.

The decrease in interest paid is mainly due to reductions in the mortgage loan debt as a result of property sales.

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 quarter of 2013, the FFO deficiency decreased by \$261,283, compared to the first quarter of 2012, while the AFFO deficiency decreased by \$17,300. On a basic per unit basis, the FFO deficiency decreased by \$0.015 per unit, while the AFFO deficiency decreased by \$0.002 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 March 31	
	2013	2012
Comprehensive income	\$ (812,228)	\$ (26,085,895)
Add (deduct):		
Deferred taxes	(285,734)	-
Profit on sale of investment properties	-	(324,225)
Taxes on sale of discontinued operations	364,325	(101,476)
Fair value gains	(137,854)	(1,861,617)
Fair value adjustment of Parsons Landing	(300,000)	27,800,000
Forgiveness of debt	-	(859,561)
Funds from operations (FFO) *	(1,171,491)	(1,432,774)
Add (deduct):		
Straight-line rent adjustment	(101,298)	102,860
Accretion of debt component of debentures and mortgage bonds	109,441	96,585
Unit-based compensation	44,843	18,750
Change in fair value of interest rate swaps	(68,460)	(184,675)
Capital expenditures on investment properties	(354,362)	(168,467)
Capital expenditures on property and equipment	(13,989)	(4,895)
Adjusted funds from operations (AFFO) *	\$ (1,555,316)	\$ (1,572,616)
FFO per unit *		
- basic and diluted	\$ (0.062)	\$ (0.077)
AFFO per unit *		
- basic and diluted	\$ (0.083)	\$ (0.085)

* 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

	Three Months Ended March 31	
	2013	2012
Cash provided by (used in) operating activities	\$ 123,995	\$ (954,913)
Changes in non-cash operating items	<u>259,423</u>	<u>1,638,926</u>
	383,418	684,013
Add (deduct):		
Capital expenditures on investment properties	(354,362)	(168,467)
Capital expenditures on property and equipment	<u>(13,989)</u>	<u>(4,895)</u>
Distributable income	<u>\$ 15,067</u>	<u>\$ 510,651</u>
Per unit		
- basic	\$ 0.001	\$ 0.028
- diluted	\$ 0.001	\$ 0.027

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 quarter of 2013, the distributable income of LREIT was \$15,067, representing a decrease in the distributable income of \$495,584 compared to the first quarter 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 \$906,301 during the first quarter 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 \$198,947 during the first quarter of 2013. Investing activities include proceeds from mortgage loan receivable of \$3,200,000, taxes paid on property sold of \$1,734,702, a cash outflow of \$934,343 in regard to a change in restricted cash, cash outflows of \$354,362 and \$13,989 in regard to capital expenditures on investment properties and discontinued operations, respectively, and cash inflows of \$36,343 in regard to a decrease in defeasance assets.

The cash outflow in regard to restricted cash is mainly comprised of an increase in mortgage loan reserves of \$600,000 upon refinancing of the six downtown Fort McMurray properties.

Cash Flow Summary

During the first quarter of 2013, the net cash outflow from operating, financing and investing activities was \$378,006. After providing for the opening cash balance of \$1,254,278, LREIT completed the first quarter of 2013 with a cash balance of \$876,272.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2013

Working Capital/Existing Cash

As of March 31, 2013, the unrestricted cash balance of LREIT was \$876,272 and the working capital deficit was \$7,045,016, representing an increase of approximately \$2.6 Million compared to the working capital deficit as of December 31, 2012. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of \$7,872,000 is included in the calculation of the working capital deficit.

The increase in the working capital deficiency from December 31, 2012 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). The revolving loan commitment currently provides for a maximum loan amount of \$12 Million at an interest rate of 12% with a maturity date of June 30, 2013. As of the date of this report, \$2.5 Million 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 first quarter of 2013, the cash flow from operating activities was \$123,995, comprised of a cash inflow of \$128,935 from discontinued operations, partially offset by a cash outflow of \$4,940 from investment properties.

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.

Subsequent to March 31, 2013, the Trust sold a condominium unit under the condominium sale program at Lakewood Townhomes, for gross proceeds of \$474,900.

Mortgage Loans Receivable

As of March 31, 2012, LREIT has mortgage loans receivable of \$8.8 Million, all of which are due in 2014.

During the first quarter of 2013, a \$3.2 Million mortgage loan receivable was paid in full.

Upward Refinancing of Mortgage Loans

LREIT expects to generate additional capital from the upward refinancing of mortgage loan debt in 2013. 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.

Subsequent to March 31, 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 \$91.5 Million of existing mortgage loan financing with a weighted average interest rate of 8.2%. The remaining mortgage proceeds, combined with working capital, were used to repay a 12% second mortgage loan of \$7.5 Million.

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.

The payment of \$3,000,000 at closing would reduce the amount payable on closing to \$42,720,000.

The \$300,000 monthly interest charge is being funded from insurance proceeds until the completion of reconstruction of the building.

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	\$ 164,467,144	\$ 97,901,840	(2)	\$ 17,327,197	\$ 30,563,948	\$ 18,674,159
Mortgage loans payable on demand	80,196,620	80,196,620	(3)	-	-	-
Sub-total - Investment properties	244,663,764	178,098,460		17,327,197	30,563,948	18,674,159
Loans on properties held for sale	14,956,794	14,956,794	(2)	-	-	-
Total mortgage loan debt	259,620,558	193,055,254		17,327,197	30,563,948	18,674,159
Swap mortgage loan (4)	16,281,737	362,320		1,175,033	1,319,713	13,424,671
Debentures and mortgage bonds	40,961,000	-		40,961,000	-	-
Total	\$ 316,863,295	\$ 193,417,574		\$ 59,463,230	\$ 31,883,661	\$ 32,098,830

- (1) Swap mortgage loan, debentures and mortgage bonds are reflected at face value.
- (2) All of the loans mature subsequent to May 10, 2013 and are expected to be renewed or refinanced at similar or more favourable terms, aside from two loans comprising \$33,685,970 of the total balance, which matured subsequent to March 31, 2013. The renewal/refinancing of the two loans is in process and is expected to be completed in due course.
- (3) Consists of the three 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. Subsequent to March 31, 2013, one of the loans in the amount of \$52,488,270 was retired from proceeds of new mortgage loan financing and the covenant breach was eliminated.
- (4) 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 \$209,336,991.

Principal Payments - Debentures and Mortgage Bonds

As of March 31, 2013, the total face value of the 9% Series G debentures is \$24,961,000. 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 indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

The 9% second mortgage bonds of LREIT mature on December 24, 2015. As of March 31, 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 March 31, 2013, cash deposits in regard to mortgage loans amount to \$6,233,196, of which \$4,430,535 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 \$3.3 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 \$2.5 Million.

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.

CAPITAL STRUCTURE

Capital Structure - March 31, 2013

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Long-term debt	\$ 98,372,953	24.3 %	\$ 86,760,933	21.3 %
Current portion of long-term debt	206,539,269	51.0 %	219,463,616	53.9 %
Equity	100,064,949	24.7 %	100,829,954	24.8 %
Total capitalization	<u>\$ 404,977,171</u>	<u>100.0 %</u>	<u>\$ 407,054,503</u>	<u>100.0 %</u>

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 March 31, 2013 decreased by \$1,642,578 or 0.5% compared to the total long-term debt as of December 31, 2012. The decrease is mainly reflects a decrease in mortgage loan debt.

	March 31 2013	December 31 2012	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	\$ 244,663,763	\$ 247,654,245	\$ (2,990,482)
Swap mortgage loans	17,688,081	17,888,836	(200,755)
Mortgage bonds	14,568,272	14,458,831	109,441
Debentures	24,961,000	24,961,000	-
Deceased liability	<u>2,687,583</u>	<u>2,701,511</u>	<u>(13,928)</u>
Total secured long-term debt	304,568,699	307,664,423	(3,095,724)
Mortgage guarantee fees	123,428	133,864	(10,436)
Accrued interest payable	2,565,319	1,746,367	818,952
Unamortized transaction costs	<u>(2,345,224)</u>	<u>(3,320,105)</u>	<u>974,881</u>
Total long-term debt - Investment properties	304,912,222	306,224,549	(1,312,327)
Total long-term debt - Properties held for sale	<u>14,948,211</u>	<u>15,278,462</u>	<u>(330,251)</u>
Total long-term debt	<u>\$ 319,860,433</u>	<u>\$ 321,503,011</u>	<u>\$ (1,642,578)</u>

Swap Mortgage Loan

As of March 31, 2013, the amount of swap mortgage loan debt outstanding, excluding unamortized transaction costs was \$17,688,081, representing a decrease of \$200,755 in comparison to \$17,888,836 as of December 31, 2012. The decrease is comprised of \$132,295 of debt principal repayments and a \$68,460 decrease in the fair value of interest rate swap.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of March 31, 2013, the mortgage loan debt of LREIT decreased by \$3,329,317 compared to the amount payable as of December 31, 2012. As disclosed in the following chart, the decrease is mainly attributable to the regular repayments and prepayments of principal on mortgage loans, partially offset by net proceeds of refinancing of \$600,000.

	Three Months Ended March 31, 2013		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	\$ 21,000,000	\$ 21,000,000	\$ -
Repayment of mortgage loans on refinancing	<u>(20,400,000)</u>	<u>(20,400,000)</u>	<u>-</u>
Net proceeds	600,000	600,000	-
Regular repayment of principal on mortgage loans	(1,930,817)	(1,591,982)	(338,835)
Prepayment of mortgage loan	<u>(1,998,500)</u>	<u>(1,998,500)</u>	<u>-</u>
Decrease in mortgage loans	(3,329,317)	(2,990,482)	(338,835)
Total mortgage loans - December 31, 2012	<u>262,949,874</u>	<u>247,654,245</u>	<u>15,295,629</u>
Total mortgage loans - March 31, 2013	<u>\$ 259,620,557</u>	<u>\$ 244,663,763</u>	<u>\$ 14,956,794</u>

Investment Properties

Net Proceeds of Mortgage Loan Financing

Proceeds of mortgage loan financing of \$21,000,000, as disclosed in the preceding chart, reflects a 4.99%, \$21 Million first mortgage loan obtained in January 2013 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 \$20,400,000, the net proceeds from refinancing were \$600,000. The proceeds were used to fund a capital expenditure reserve account of \$600,000.

Prepayment of Mortgage Loan

During the first quarter of 2013, the mortgage loan prepayment of \$1,998,500 was in regard to the prepayment of an interim loan.

Discontinued Operations (Seniors' Housing Complexes)

The decrease in the mortgage loan debt for discontinued operations of approximately \$0.3 Million, as disclosed in the preceding chart, is attributable to regular principal payments.

Regular Repayments of Principal

During the first quarter of 2013, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to \$1,930,817, compared to \$1,846,553 during the first quarter of 2012.

Composition of Mortgage Loan Debt - March 31, 2013

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount March 31, 2013	Percentage of Total
Investment Properties			
Fixed rate			
2013	4.1 %	\$ 50,188,170	19.4 %
2014	5.0 %	8,951,459	3.4 %
2015	4.8 %	6,333,629	2.4 %
2016	5.0 %	11,486,738	4.4 %
2017	5.7 %	20,016,234	7.7 %
2018	5.0 %	<u>20,964,413</u>	<u>8.1 %</u>
	4.7 %	117,940,643	45.4 %
Demand/variable rate	8.5 %	<u>126,723,120</u>	<u>48.8 %</u>
Principal amount		<u>244,663,763</u>	<u>94.2 %</u>
Discontinued Operations			
Demand/variable rate	5.0 %	<u>14,956,794</u>	<u>5.8 %</u>
Total		<u>\$ 259,620,557</u>	<u>100.0 %</u>

- (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 March 31, 2013, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 6.7%, 5.0% and 6.6%, 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 1	Q 4	Q 3	Q 2
Weighted average interest rate - Investment properties				
Fixed rate mortgage loans	4.7%	4.8%	4.9%	5.0%
Variable rate mortgage loans	8.5%	9.0%	9.0%	8.9%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	67%	68%	72%	73%
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 *	77%	78%	81%	83%
	2012	Q 4	2011	Q 2
	Q 1	Q 3	Q 4	Q 2
Weighted average interest rate - Investment properties				
Fixed rate mortgage loans	5.5%	5.7%	5.7%	6.0%
Variable rate mortgage loans	8.9%	8.5%	8.5%	8.6%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	74%	74%	74%	73%
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 *	82%	82%	83%	81%

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

Long-term Debt Maturities

As of March 31, 2013, all mortgage loans which have matured for investment properties have been renewed or refinanced with the exception of the three loans which are in breach of debt service coverage requirements (see "Covenant Breaches" below).

Subsequent to March 31, 2013, two mortgage loans with a combined balance of \$33,685,970 matured. The renewal/refinancing of the loans is in process and is expected to be completed in due course.

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 three mortgage loans and one swap mortgage loan in breach of debt service coverage requirements have a total principal balance of \$96,478,357 as of March 31, 2013 and are secured by five investment properties in Fort McMurray. The three mortgage loans have matured and are repayable on demand.

In April 2013, one of the covenant breaches was eliminated as a result of mortgage loan refinancing. A forbearance extension to March 31, 2013, has been received for the two remaining matured mortgage loans.

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

<u>Property</u>	<u>Covenant Requirement</u>	<u>Type of Mortgage</u>	<u>Mortgage Balance March 31, 2013</u>	<u>Maturity Date</u>	
Mortgage Loans					
Fort McMurray					
Lakewood Townhomes	1.1	First	\$ 11,201,085	July 18, 2010	(1)
Laird's Landing	1.2	First	52,488,270	October 1, 2011	(2)
Woodland Park, Nelson Ridge Estates	1.2	Second	<u>16,507,265</u>	October 31, 2010	(1)
Sub-total			80,196,620		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(3)	First	<u>16,281,737</u>	May 1, 2018	
			<u>\$ 96,478,357</u>		

(1) The loans are repayable on demand. A forbearance to March 31, 2013 has been provided by the lender.

(2) Subsequent to March 31, 2013, the mortgage loan was refinanced with another lender and the breach was extinguished.

(3) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

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 three 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 March 31, 2013, the cash deposits on mortgage loans with covenant breaches amounted to \$4,430,535.

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 quarter of 2013, the total fees related to covenant breaches and forbearance agreements amounted to \$17,107. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first quarter of 2013, interest expense included amortization charges related to fees on covenant breaches and forbearance agreements of \$19,661, compared to \$114,670 during the first quarter of 2012.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2012	18,084,011
- March 31, 2013	18,091,011
- May 10, 2013	18,091,011

As of March 31, 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 March 31, 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 March 31, 2013, amounted to \$33,751,560 of which \$2,473,230 pertains to the first quarter 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 first quarter of 2013 reflect the forgiveness of interest in the amount of \$1,573,230. The recognition of the forgiveness of interest has resulted in the reduction of accrued interest payable by \$22,051,560 for the 39 month period ended March 31, 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 March 31, 2013, the amount withdrawn on the revolving loan was \$7,872,000, compared to \$5,025,000 as of December 31, 2012 and \$10,200,000 as of March 31, 2012.

Although additional draws on the revolving loan may be required in 2013, the general expectation of management is that there will be a net reduction in the balance of the revolving loan during 2013.

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. In August 2011, the term of the Property Management Agreement was extended from December 31, 2015 to 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 quarter of 2013, the fees payable to Shelter Canadian for investment properties included service fees of \$366,493 and property management fees of \$407,110.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

The Trust 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. The Trust 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. The Trust 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 quarter of 2013, the Trust incurred service fees of nil 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, one seniors' housing complex and the assignment of a mortgage loan in the amount of \$8,025,734.

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

Revolving Loan Term		Renewal Fees	Interest Rate	Maximum Interest Charge	Maximum Loan Commitment
From	To				
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

As disclosed in the chart above, effective January 1, 2013, the loan was renewed for a term expiring June 30, 2013, with a maximum loan amount of \$12 Million at an interest rate of 12%, subject to a maximum interest and fee payment of \$404,916 for the period from January 1 to June 30, 2013. 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 quarter of 2013, interest on the loan commitment amounted to \$192,906, compared to \$162,594 during the first quarter of 2012.

Advances

During 2011, the Trust obtained interest-free advances from Shelter Canadian. Included in trade and other payables at December 31, 2011 is a balance of \$1,183,000 payable to Shelter Canadian in regard to interest-free advances. The interest-free advances payable, as at December 31, 2011, as well as \$5,594,000 of additional interest-free advances obtained in January and February 2012, were repaid in full in February 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 March 31, 2013 in the amount of \$7,045,016, (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 three 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. As of March 31, 2013 no interim funding from Shelter Canadian is outstanding.

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 quarter of 2013, the Trust did not sell any properties.

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 sale 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 has agreed to complete the reconstruction of the Parsons Landing and attend to the recovery of the insurance claim for property in a manner which is expected to result in the cost of reconstruction being fully funded from insurance proceeds. The builder has 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 builder has also agreed to accept interest payments of \$300,000 per month in regard to the amount payable on closing. During the period of reconstruction, the monthly interest payment is expected to be fully funded from insurance proceeds for revenue losses.

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 \$22,051,560 as at March 31, 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 March 31, 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 2,027 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 928 suites, or 46% of the total residential suites in the investment property portfolio. The 12 properties have an aggregate carrying value of \$261.8 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 quarter 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 three 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 March 31, 2013, all mortgage loans which have matured for investment properties have been renewed or refinanced with the exception of the three loans which are in breach of debt service coverage requirements (see "Covenant Breaches" below).

Subsequent to March 31, 2013, two mortgage loans with a combined balance of \$33,685,970 matured. The renewal/refinancing of the loans is in process and is expected to be completed in due course.

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

Covenant Breaches

As of March 31 2013, LREIT had \$97.3 Million of mortgage loan debt with covenant breaches, comprised of four mortgage loans. The refinancing of one of the loans in April 2013, reduced the amount of debt with covenant breaches to \$44.0 Million. It is anticipated that the covenant breach for two of the remaining loans, with a combined balance of \$27.7 Million, both of which are over-holding past maturity with the consent of the lenders, will also be eliminated in 2013 as a result of the refinancing of the loans.

The covenant breach for the other mortgage loan is expected to be eliminated through modified loan terms. The other loan has a balance of \$16.3 Million and matures on May 1, 2018.

There is a risk that the lenders of the mortgage 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 March 31, 2013, \$4,430,535 is on deposit with a mortgage lender in order to provide cash reserves for three 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 quarter 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 the 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 May 10, 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 quarter of 2013 is \$1,573,230. Cumulative excess interest from January 1, 2010 to March 31, 2013 is \$22,051,560;
- 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 the 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 March 31, 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 quarter 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 First 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
May 10, 2013

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

SCHEDULE I

Real Estate Portfolio as of March 31, 2013

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2013
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	\$ 5,700,000	January 2005	77	91 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	100 %
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	97 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	96 %
Parkland Apartments (3)	Fort McMurray	2,230,200	June 2006	12	83 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	90 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	100 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	99 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	100 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	98 %
Lakewood Townhomes (4)	Fort McMurray	20,218,536	July 2007	51	41 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	99 %
Parsons Landing (5)	Fort McMurray	60,733,000	September 2008	160	n/a
Westhaven Manor	Edson	4,050,000	May 2007	48	90 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	93 %
Nova Court (6)	Yellowknife	<u>15,000,000</u>	March 2007	<u>106</u>	100 %
Total - Residential		<u>\$ 377,407,955</u>	Total suites	<u>2,027</u>	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	<u>\$ 7,931,600</u>	October 2008	<u>83,190</u>	96 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	-
Purolator	Burlington	<u>1,200,000</u>	September 2003	<u>16,117</u>	100 %
		<u>2,800,000</u>		<u>56,053</u>	
Total - Commercial		<u>10,731,600</u>	Total leasable area	<u>139,243</u>	
Total investment properties		<u>\$ 388,139,555</u>			

Property Portfolio

<u>Property</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Acquisition Date</u>	<u>Suites/ Leasable Area - Sq. Ft.</u>	<u>Occupancy March 31 2013</u>
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	\$ 7,600,000	June 2006	93	96 %
Ontario					
Elgin Lodge	Port Elgin	<u>18,122,000</u>	June 2006	<u>124</u>	65 %
Total seniors' housing complexes		<u>\$ 25,722,000</u>	Total suites	<u>217</u>	
Total real estate portfolio		<u>\$ 413,861,555</u>			

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) Parkland Apartments has undergone extensive renovations requiring that the suites be unoccupied. The renovations were completed in the third quarter of 2012.
- (4) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of March 31, 2013 reflects the sale of four condominium units in 2011 and nine condominium units in 2012. Thirteen units are unoccupied and held as available for sale.
- (5) 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.
- (6) Property includes 8,400 square feet of commercial space.