LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30 2013	December 31 2012
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$446,176,125**	$427,967,800
Loans and receivables (Note 5)	**9,113,215**	11,863,320
Defeasance assets	**2,916,436**	3,025,370
Restricted cash	**6,224,005**	7,801,248
Total non-current assets	**464,429,781**	450,657,738
Current assets		
Cash	**1,423,701**	1,254,278
Rent and other receivables	**841,296**	1,274,277
Deposits and prepaids	**1,319,038**	1,363,730
	3,584,035	3,892,285
Assets classified as held for sale (Note 6)	**26,410,939**	27,002,555
Total current assets	**29,994,974**	30,894,840
TOTAL ASSETS	**$494,424,755**	$481,552,578
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 7)	**$141,595,221**	$ 86,760,933
Total non-current liabilities	**141,595,221**	86,760,933
Current liabilities		
Trade and other payables (Note 8)	**62,622,354**	54,040,678
Current portion of long-term debt (Note 7)	**155,476,066**	219,463,616
Deposits from tenants	**2,708,995**	2,428,393
Deposit on property disposal	**1,000,000**	-
	221,807,415	275,932,687
Liabilities classified as held for sale (Note 6)	**14,078,692**	18,029,004
Total current liabilities	**235,886,107**	293,961,691
Total liabilities	**377,481,328**	380,722,624
Total equity	**116,943,427**	100,829,954
TOTAL LIABILITIES AND EQUITY	**$494,424,755**	$481,552,578

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Rentals from investment properties	**$ 10,417,760**	$ 9,206,783	**$ 30,212,858**	$ 28,978,605
Property operating costs	**4,012,556**	3,851,511	**12,027,364**	11,843,843
Net operating income	**6,405,204**	5,355,272	**18,185,494**	17,134,762
Interest income	**303,792**	281,209	**932,039**	614,962
Forgiveness of debt	**-**	-	**-**	859,561
Interest expense (Note 9)	**(6,281,557)**	(10,116,020)	**(20,733,401)**	(24,474,974)
Trust expense	**(440,395)**	(407,263)	**(1,762,327)**	(1,572,022)
Profit on sale of investment properties	**-**	-	**164,928**	1,045,307
Fair value gains (Note 4)	**7,652,786**	38,614	**9,077,308**	8,978,839
Fair value adjustment of Parsons Landing (Note 4)	**5,152,319**	500,000	**7,222,079**	(4,000,000)
Income recovery on Parsons Landing (Note 4)	**630,704**	869,547	**2,272,334**	2,393,658
Insurance proceeds (Note 4)	**-**	400,000	**-**	400,000
Income (loss) before taxes and discontinued operations	**13,422,853**	(3,078,641)	**15,358,454**	1,380,093
Deferred income tax expense (recovery)	**-**	(181,339)	**-**	-
Income before discontinued operations	**13,422,853**	(2,897,302)	**15,358,454**	1,380,093
Income from discontinued operations (Note 6)	**82,471**	598,502	**670,296**	2,532,442
Income (loss) and comprehensive income (loss)	**$ 13,505,324**	$ (2,298,800)	**$ 16,028,750**	$ 3,912,535
Income (loss) per unit before discontinued operations:				
Basic	**$ 0.711**	$ (0.155)	**$ 0.815**	$ 0.074
Diluted	**$ 0.706**	$ (0.155)	**$ 0.809**	$ 0.074
Income per unit from discontinued operations:				
Basic	**$ 0.005**	$ 0.032	**$ 0.036**	$ 0.137
Diluted	**$ 0.005**	$ 0.032	**$ 0.036**	$ 0.135
Income (loss) per unit:				
Basic	**$ 0.716**	$ (0.123)	**$ 0.851**	$ 0.211
Diluted	**$ 0.711**	$ (0.123)	**$ 0.845**	$ 0.209

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Issued capital (Note 11)				
Balance, beginning of period	**$107,981,081**	$107,864,276	**$107,978,701**	$107,860,241
Issue of units on exercise of options	**-**	-	**2,380**	-
Issue of units on exercise of warrants	**-**	82,386	**-**	128,156
Units purchased under normal course issuer bid	**-**	-	**-**	(41,735)
Balance, end of period	**107,981,081**	107,946,662	**107,981,081**	107,946,662
Contributed surplus				
Balance, beginning of period	**17,274,663**	17,137,927	**17,211,070**	17,108,697
Value of deferred units granted	**18,750**	18,750	**56,250**	56,250
Value of unit options granted	**-**	-	**26,093**	-
Warrants exercised	**-**	(14,886)	**-**	(23,156)
Balance, end of period	**17,293,413**	17,141,791	**17,293,413**	17,141,791
Cumulative earnings				
Balance, beginning of period	**45,613,644**	29,203,245	**43,090,218**	22,991,910
Income (loss) and comprehensive income (loss)	**13,505,324**	(2,298,800)	**16,028,750**	3,912,535
Balance, end of period	**59,118,968**	26,904,445	**59,118,968**	26,904,445
Cumulative distributions to unitholders				
Balance, beginning and end of period	**(67,450,035)**	(67,450,035)	**(67,450,035)**	(67,450,035)
Total equity	**$116,943,427**	$ 84,542,863	**$116,943,427**	$ 84,542,863

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Operating activities				
Income (loss) and comprehensive income (loss)	**$ 13,505,324**	$ (2,298,800)	**$ 16,028,750**	$ 3,912,535
Adjustments to reconcile income to cash flows				
Fair value gains	**(7,652,786)**	(38,614)	**(9,077,308)**	(8,978,839)
Fair value adjustment of Parsons Landing	**(5,152,319)**	(500,000)	**(7,222,079)**	4,000,000
Profit on sale of properties	**-**	-	**(164,928)**	(3,085,115)
Write down of note receivable	**-**	-	**190,000**	-
Forgiveness of debt	**-**	-	**-**	(859,561)
Accrued rental revenue	**97,017**	96,672	**11,998**	455,230
Unit-based compensation	**18,750**	18,750	**82,343**	56,250
Deferred income tax expense	**-**	(82,276)	**(285,734)**	(78,849)
Interest income	**(303,792)**	(281,209)	**(932,039)**	(614,962)
Interest received	**143,234**	123,823	**482,144**	368,548
Interest expense	**6,474,916**	10,323,931	**21,316,874**	28,909,211
Interest paid	**(5,073,955)**	(6,257,348)	**(18,491,931)**	(22,382,650)
Cash from operations	**2,056,389**	1,104,929	**1,938,090**	1,701,798
Decrease (increase) in rent and other receivables	**82,287**	(119,470)	**235,184**	(486,285)
Decrease (increase) in deposits and prepaids	**328,868**	(100,756)	**70,699**	(463,860)
Increase (decrease) in tenant deposits	**37,076**	(20,653)	**275,581**	(844,403)
Increase (decrease) in property sale deposit	**1,000,000**	-	**1,000,000**	-
Increase (decrease) in trade and other payables	**(223,670)**	(375,967)	**(327,795)**	(5,018,939)
	3,280,950	488,083	**3,191,759**	(5,111,689)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**-**	43,125,000	**117,000,000**	105,475,000
Repayment of mortgage loans on refinancing	**-**	(43,656,222)	**(119,344,952)**	(96,839,584)
Repayment of long-term debt	**(2,064,624)**	(1,953,089)	**(6,128,603)**	(6,380,056)
Prepayment of mortgage loans	**(1,000,000)**	(7,900,000)	**(2,998,500)**	(10,435,000)
Proceeds of revolving loan commitment	**2,305,000**	11,173,629	**12,980,000**	22,918,629
Repayment of revolving loan commitment	**(400,000)**	(4,598,629)	**(4,100,000)**	(24,918,629)
Proceeds of Shelter Canadian Properties Limited advances	**-**	10,575,000	**-**	16,169,000
Repayment of Shelter Canadian Properties Limited advances	**-**	(10,575,000)	**-**	(17,352,000)
Expenditures on transaction costs	**(86,876)**	(1,679,702)	**(1,442,160)**	(3,207,304)
Exercise of options	**-**	-	**2,380**	-
Exercise of warrants	**-**	67,500	**-**	105,000
Units purchased and cancelled under normal course issuer bid	**-**	-	**-**	(41,732)
Debentures purchased and cancelled under normal course issuer bid	**(51,200)**	-	**(59,200)**	(351,000)
	(1,297,700)	(5,421,513)	**(4,091,035)**	(14,857,676)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(1,340,270)**	(361,386)	**(2,642,271)**	(1,273,958)
Capital expenditures on property and equipment	**(1,968)**	(10,030)	**(129,293)**	(27,205)
Decrease in defeasance assets	**36,297**	35,675	**108,934**	106,994
Proceeds of mortgage loan receivable	**-**	-	**3,200,000**	-
Taxes paid on property sold	**-**	-	**(1,734,702)**	-
Proceeds of sale	**-**	-	**(1,913)**	13,167,279
Change in restricted cash	**(205,599)**	4,577,289	**1,573,841**	7,952,505
	(1,511,540)	4,241,548	**374,596**	19,925,615
Cash increase (decrease)	**471,710**	(691,882)	**(524,680)**	(43,750)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 6)	**(65,313)**	(214,330)	**694,103**	(238,140)
	406,397	(906,212)	**169,423**	(281,890)
Cash, beginning of period	**1,017,304**	1,794,941	**1,254,278**	1,170,619
Cash, end of period	**$ 1,423,701**	$ 888,729	**$ 1,423,701**	$ 888,729

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust, which was created under the laws of the Province of Manitoba by a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006, June 18, 2008 and December 9, 2009.

The registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of the Trust, which trade on the TSX and the related trading symbols:

Units	LRT.UN
Series G Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Trust unit purchase warrants expiring March 9, 2015	LRT.WT
Trust unit purchase warrants expiring December 23, 2015	LRT.WT.A

The Trust and its subsidiaries earn income from real estate investments in Canada.

2 Basis of presentation and continuing operations

The condensed consolidated financial statements of the Trust for the three and nine months ended September 30, 2013 ("Financial Statements"), have been prepared in accordance with International Accounting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on November 8, 2013.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned operating subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust generated cash from operating activities of $3,280,950 for the three months ended September 30, 2013 (2012 - $488,083) and $3,191,759 for the nine months ended September 30, 2013 (2012 - cash deficiency of $5,111,689). After deduction of capital expenditures and regular principal repayments of long term debt, the Trust incurred a cash deficiency of $125,912 for the three months ended September 30, 2013 (2012 - $1,836,422) and $5,708,408 for the nine months ended September 30, 2013 (2012 - $12,792,908). In addition, the Trust has a working capital deficit of $14,352,731 as at September 30, 2013 (December 31, 2012 - $4,462,801) and the Trust was in breach of debt service and other covenant requirements on two mortgage loans and one swap mortgage loan (December 31, 2012 - four mortgage loans and one swap mortgage loan).

As of September 30, 2013, the Trust was in breach of the 1.2 times debt service coverage requirement of a second mortgage loan in the amount of $16,279,101, on two properties in Fort McMurray, Alberta. The Trust was also in breach of the 1.1 times debt service coverage requirement of a $9,830,332 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The two mortgage loans in breach of debt coverage requirements, in the aggregate amount of $26,109,433 have matured. A forbearance extension to September 30, 2013 has been obtained for the two mortgage loans. Subsequent to September 30, 2013, the loans were refinanced and the covenant breaches in the aggregate amount of $26,109,433 were extinguished.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a 1.15 overall Trust debt service coverage requirement of a $17,272,478 swap mortgage loan on a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis.

The breach of the debt service coverage requirement on the swap mortgage loan, as noted above, is a result of lower residential rents. The covenant breach may continue for the next 12 months and there can be no assurance that the covenant breach will be remedied.

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

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt and the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees.

Management believes that the going concern assumption is appropriate for the Financial Statements as the Trust has successfully sold 22 properties, including three properties during the year ended December 31, 2012 and one property subsequent to September 30, 2013, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has extended the maturity date for the Series G debentures to 2015 and the Trust has successfully eliminated covenant breaches on eight mortgage loans through refinancing and/or improved operations.

If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities and reported revenues and expenses used in these Financial Statements.

Statement of compliance
The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same presentation and accounting policies under International Financial Reporting Standards ("IFRS") as disclosed in the December 31, 2012 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at November 8, 2013.

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

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

3 Significant accounting judgments, estimates and assumptions

The preparation of the Trust's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Trust's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Trust's Consolidated Financial Statements for the year ended December 31, 2012.

4 *Investment properties*

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Balance, beginning of period	$432,030,750	$423,950,000	$427,967,800	$451,857,370
Additions - capital expenditures	1,340,270	361,386	2,642,271	1,273,958
Fair value gains	7,652,786	38,614	9,077,308	8,978,839
Dispositions (a)	-	-	(733,333)	(33,260,167)
Fair value adjustment of Parsons Landing (b)	5,152,319	500,000	7,222,079	(4,000,000)
Balance, end of period	$446,176,125	$424,850,000	$446,176,125	$424,850,000

Investment properties have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to stabilized annual income forecasts.

(ii) *The discounted cash flow method*. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity.

(iii) *Direct comparison*. For properties with condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value.

(iv) *External appraisals and reports.* Independent appraisals of each investment property are periodically conducted to substantiate the valuation process utilized by the Trust.

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to unconditional sale agreements are valued at the sale price less estimated selling expenses.

4 Investment properties (continued)

Investment properties have been valued using the following weighted average capitalization and discount rates:

	Capitalization Rate		Discount Rate	
	Range	Weighted Average	Range	Weighted Average
September 30, 2013	4.75% - 8.75%	6.88 %	6.75% - 10.75%	8.88 %
December 31, 2012	4.75% - 8.75%	6.92 %	6.75% - 10.75%	8.92 %

To assist in the determination of fair value at September 30, 2013, external appraisals were obtained in 2013 for 8 properties having an aggregate fair value of $310.5 Million representing 70% of the total carrying value of investment properties. Appraisals were obtained in 2012 for 11 properties having an aggregate fair value of $121.1 Million representing 27% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 1 property having a fair value of $7.1 Million representing 1% of the total carrying value of investment properties. Appraisals were obtained in 2010 for 2 properties having an aggregate fair value of $7.5 Million representing 2% of the total carrying value of investment properties.

(a) Property dispositions

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Units sold	-	nil	2	8
Gross proceeds	$ -	nil	$ 959,800	$ 3,959,500
Gain on sale	$ -	nil	$ 164,928	$ 698,537

(b) Fair value adjustment of Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million at closing. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of September 30, 2013, interest in excess of $300,000 per month amounted to $25,280,460.

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

4 Investment properties (continued)

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

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 reconstruction of 84 suites and the return of the suites to LREIT, was completed effective June 1, 2013 and reconstruction of the remaining 76 suites was completed effective October 3, 2013. The cost of the reconstruction has been fully funded from insurance proceeds. In accordance with the agreement, the acquisition is scheduled to close on January 2, 2014.

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

Impact on Financial Statements
The Financial Statements reflect the following:

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

Net operating income and income recovery
The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012.

For the period from February 5, 2012 to May 31, 2013, the Financial Statements reflect revenue in regard to recovery of insurance proceeds for revenue losses. The revenue is reflected as "Income recovery on Parsons Landing" in the income of the Trust.

For the period from June 1, 2013 to September 30, 2013, the Financial Statements reflect operating revenues and expenses for 84 units and recovery of insurance proceeds for the remaining 76 units.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

5 Loans and receivables

	September 30 2013	December 31 2012
Second mortgage loan due May 8, 2014, bearing interest at 12.5%, of which 5% shall be payable monthly and 7.5% shall be capitalized and added to the outstanding principal amount	$ 8,338,215	$ 7,888,320
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	500,000	500,000
5% second mortgage loan	-	3,200,000
Interest free mortgage loan due on the earlier of the sale date of a condominium unit or the maturity date of May 8, 2014	275,000	275,000
Note receivable from a previous tenant. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	60,000	250,000
	9,173,215	12,113,320
Current portion of loans and receivables	(60,000)	(250,000)
	$ 9,113,215	$ 11,863,320

6 *Assets and liabilities of properties held for sale*

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations.

Assets and liabilities classified as "held for sale" are as follows:

	September 30 2013	December 31 2012
ASSETS		
Assets in discontinued operations		
Property and equipment	$ 26,244,407	$ 26,115,114
Cash	90,344	784,447
Restricted cash	43,530	40,128
Rent and other receivables	5,690	9,891
Deposits, prepaids and other	26,968	52,975
Assets classified as held for sale	$ 26,410,939	$ 27,002,555
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (a)	$ 13,383,079	$ 15,278,462
Deferred tax	-	285,734
Trade and other payables	435,874	2,200,048
Deposits from tenants	259,739	264,760
Liabilities classified as held for sale	$ 14,078,692	$ 18,029,004

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash inflow (outflow) from operating activities	$ 137,912	$ 1,039,934	$ 422,449	$ 1,348,200
Cash inflow (outflow) from financing activities	(67,947)	(814,289)	750,845	(10,350,407)
Cash inflow (outflow) from investing activities	(4,652)	(11,315)	(1,867,397)	9,240,347
Increase (decrease) in cash from discontinued operations	$ 65,313	$ 214,330	$ (694,103)	$ 238,140

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

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

(a) Long term debt

	September 30 2013	December 31 2012
Secured debt		
Mortgage loans	$ 13,383,079	$ 15,295,629
Unamortized transaction costs	-	(17,167)
Total long term debt	$ 13,383,079	$ 15,278,462

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements. As of September 30, 2013, the Trust was in compliance with all mortgage covenants.

(b) Interest expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Mortgage loan interest	$ 173,359	$ 196,887	$ 541,306	$ 2,478,284
Mortgage prepayment penalty	-	-	-	1,324,352
Amortization of transaction costs	20,000	11,024	42,167	631,601
	$ 193,359	$ 207,911	$ 583,473	$ 4,434,237

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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7 *Long-term debt*

	September 30 2013	December 31 2012
Secured debt		
Mortgage loans (a)	$ 237,671,341	$ 247,654,245
Swap mortgage loan (b)	17,272,478	17,888,836
Mortgage bonds (c)	14,794,154	14,458,831
Debentures (d)	24,901,800	24,961,000
Defeased liability	2,659,138	2,701,511
Total secured debt	297,298,911	307,664,423
Mortgage guarantee fees	102,179	133,864
Total debt	297,401,090	307,798,287
Accrued interest payable	2,239,220	1,746,367
Unamortized transaction costs		
Mortgage loans	(1,197,374)	(1,531,326)
Swap mortgage loan	(95,039)	(108,024)
Mortgage bonds	(828,952)	(1,033,704)
Debentures	(421,186)	(613,105)
Defeased liability	(26,472)	(33,946)
Total unamortized transaction costs	(2,569,023)	(3,320,105)
	297,071,287	306,224,549
Less current portion		
Mortgage loans	(137,329,352)	(201,725,598)
Swap mortgage loan	(17,272,478)	(17,888,836)
Defeased liability	(59,335)	(56,896)
Mortgage guarantee fees	(44,056)	(42,502)
Accrued interest payable	(2,239,220)	(1,746,367)
Transaction costs	1,468,375	1,996,583
Total current portion	(155,476,066)	(219,463,616)
	$ 141,595,221	$ 86,760,933
Current portion of unamortized transaction costs		
Mortgage loans	$ 756,870	$ 1,340,398
Swap mortgage loan	95,039	108,024
Mortgage bonds	316,163	278,909
Debentures	290,103	259,240
Defeased liability	10,200	10,012
	$ 1,468,375	$ 1,996,583

7 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates			
	September 30 2013	December 31 2012	September 30 2013	December 31 2012
First mortgage loans				
Fixed rate	4.3%	4.8%	$ 157,561,908	$ 97,891,938
Variable rate	6.5%	8.9%	49,530,332	107,325,680
Total first mortgage loans	4.8%	7.0%	207,092,240	205,217,618
Second mortgage loans				
Variable rate	9.6%	9.1%	30,579,101	42,436,627
Total second mortgage loans	9.6%	9.1%	30,579,101	42,436,627
Total	5.4%	7.3%	$ 237,671,341	$ 247,654,245

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. At September 30, 2013, the Trust was not in compliance with one first mortgage loan and one second mortgage loan totaling $26,109,433, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $26,109,433 is included in current portion of long-term debt. A forbearance to September 30, 2013 was obtained for the two mortgage loans which have matured and are payable on demand. Subsequent to September 30, 2013, the mortgage loans were refinanced and the breaches were extinguished.

Except for one mortgage loan in the amount of $26,790,856, all mortgages which have matured prior to November 8, 2013 have been renewed or refinanced. Management expects that the loan will be renewed by December 31, 2013.

Mortgage loans are secured by mortgage charges registered against specific investment properties and are secured by assignments of book debts and rents and by repayment guarantees.

(b) Swap mortgage loan

	September 30 2013	December 31 2012
Face value of mortgage loan, subject to swap	$ 16,011,316	$ 16,414,032
Fair value of interest rate swap	1,261,162	1,474,804
	$ 17,272,478	$ 17,888,836

The Trust is not in compliance with a debt service coverage requirement for the swap mortgage loan. In accordance with IFRS the total balance of $17,272,478 is included in current portion of long-term debt.

7 Long-term debt (continued)

(c) Mortgage bonds

	September 30 2013	December 31 2012
Balance, beginning of period	$ 14,458,831	$ 14,058,307
Accretion	335,323	400,524
Balance, end of period	$ 14,794,154	$ 14,458,831

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

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due February 28, 2015 is $24,901,800 (December 31, 2012 - $24,961,000).

On June 17, 2013, LREIT initiated a normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,493,000 of Series G debentures. The normal course issuer bid expires on June 16, 2014.

During the period from June 17, 2013 to September 30, 2013, the Trust purchased and cancelled Series G debentures with a face value of $59,200 at an average price of $95.25 per $100.00.

Subsequent to September 30, 2013, the Trust purchased and cancelled Series G debentures with a face value of $28,000 at an average price of $95.82 per $100.00.

8 Trade and other payables

	September 30 2013	December 31 2012
Accounts payable - vendor invoices	$ 1,119,286	$ 1,300,506
Accrued payables	1,170,504	1,230,798
Prepaid rent	707,564	764,374
Payable on acquisition of Parsons Landing	45,720,000	45,720,000
Revolving loan from 2668921 Manitoba Ltd.	13,905,000	5,025,000
	$ 62,622,354	$ 54,040,678

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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9 *Interest expense*

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Mortgage loan interest	$ 3,722,648	$ 4,934,549	$ 12,180,953	$ 13,802,668
Swap mortgage loan interest	231,213	248,754	700,618	1,217,633
Mortgage prepayment penalties	-	2,751,548	-	2,751,548
Change in fair value of interest rate swaps	(72,391)	(543,245)	(213,642)	(947,694)
Mortgage bond interest	360,000	360,000	1,080,000	1,080,000
Accretion of mortgage bonds	116,878	103,047	335,323	295,736
Debenture interest	596,259	597,696	1,781,907	1,783,344
Amortization of transaction costs	426,950	763,671	2,168,242	1,791,739
Interest on acquisition payable	900,000	900,000	2,700,000	2,700,000
	$ 6,281,557	$ 10,116,020	$ 20,733,401	$ 24,474,974

10 *Per unit calculations*

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Income (loss) before discontinued operations	$ 13,422,853	$ (2,897,302)	$ 15,358,454	$ 1,380,093
Income and diluted income from discontinued operations	82,471	598,502	670,296	2,532,442
Income (loss)	$ 13,505,324	$ (2,298,800)	$ 16,028,750	$ 3,912,535

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted average number of units:				
Units	18,091,011	17,990,641	18,089,832	17,953,125
Deferred units	777,577	666,396	751,842	631,777
Total basic	18,868,588	18,657,037	18,841,674	18,584,902
Weighted average diluted number of units	19,001,415	18,776,268	18,974,500	18,688,350

11 Units

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

12 Unit option plan

On January 15, 2013, the Trust granted options to purchase 180,000 units at $0.65 per Trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $26,093 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 21.77% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.47%. The fair value of the options issued was charged to unit-based compensation.

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

	Nine Months Ended September 30, 2013		Year Ended December 31, 2012	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	891,000	$ 1.69	571,000	$ 3.05
Cancelled, January 7, 2013	(231,000)	5.10	-	-
Issued, January 15, 2013	180,000	0.65	-	-
Exercised, February 15, 2013	(7,000)	0.34	-	-
Cancelled, July 15, 2013	(350,000)	0.60	-	-
Cancelled, July 15, 2013	(150,000)	0.65	-	-
Cancelled, June 8, 2012	-	-	(90,000)	5.30
Issued, November 19, 2012	-	-	410,000	0.60
Outstanding, end of period	333,000	$ 0.41	891,000	$ 1.69
Vested, end of period	333,000		891,000	

At September 30, 2013 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	243,000	243,000	December 12, 2016
0.60	60,000	60,000	November 19, 2017
0.65	30,000	30,000	January 15, 2018
	333,000	333,000	

13 Deferred unit plan

Deferred units granted to Trustees totaled 27,574 for the three months ended September 30, 2013 (2012 - 28,846) and 79,667 for the nine months ended September 30, 2013 (2012 - 97,706). Aggregate deferred units outstanding and fully vested at September 30, 2013 were 805,151 (2012 - 695,242).

Unit-based compensation expense of $18,750 for the three months ended September 30, 2013 (2012 - $18,750) and $56,250 for the nine months ended September 30, 2013 (2012 - $56,250) relating to deferred units granted was recorded to expense the fair value of unit-based compensation. Unit-based compensation is recorded in trust expense.

14 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

Management agreement
The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to investment properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $427,907 for the three months ended September 30, 2013 (2012 - $386,580) and $1,264,039 for the nine months ended September 30, 2013 (2012 - $1,157,214).

Included in trade and other payables at September 30, 2013 is a balance of $38,763 (December 31, 2012 - $29,337), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, fair value gains (losses) and defeasance assets. Service fees are included in trust expense.

The Trust incurred service fees of $359,261 for the three months ended September 30, 2013 (2012 - $389,636) and $1,078,979 for the nine months ended September 30, 2013 (2012 - $1,212,349).

14 Related party transactions (continued)

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

The Trust incurred service fees payable to Shelter Canadian Properties Limited of nil for the three months ended September 30, 2013 (2012 - nil) and $50,390 for the nine months ended September 30, 2013 (2012 - $281,883). The Trust incurred renovation fees payable to Shelter Canadian Properties Limited of nil for the three months ended September 30, 2013 (2012 - nil) and nil for the nine months ended September 30, 2013 (2012 - $3,534).

Financing

On January 1, 2012, the Trust had a $12 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $15 Million on April 1, 2012, reduced to $12 Million effective January 1, 2013 and increased to $15 Million effective July 1, 2013. The loan matures December 31, 2013 and bears interest at 12%, subject to a maximum interest and fee payment of $404,916 for the period from January 1, 2013 to June 30, 2013 and subject to a maximum interest and fee payment of $897,637 for the period from July 1, 2013 to December 31, 2013 (2012 - 9.75%, subject to a maximum interest payment of $162,594 to March 31, 2012, 10% from April 1, 2012 to August 31, 2012, and 12% from September 1, 2012, subject to a maximum interest and fee payment of $650,870 for the period from September 1 to December 31, 2012). The renewals at January 1, 2013 and July 1, 2013, encompassed the payments of extension fees of $25,000 and $25,000, respectively (2012 - $75,000 at April 1, 2012 and $150,000 at August 31, 2012). The loan is secured by mortgage charges against the title to six investment properties, two seniors' housing complexes and the assignment of a mortgage loan receivable in the amount of $8,338,215. As of September 30, 2013, $13,905,000 has been drawn and is included in trade and other payables.

Interest on the revolving loan of $409,182 for the three months ended September 30, 2013 (2012 - $229,883) and $789,098 for the nine months ended September 30, 2013 (2012 - $632,236) is included in interest expense.

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

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited and/or its parent company, 2668921 Manitoba Ltd. No fees were charged to the Trust in regard to the guarantees.

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15 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties").

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

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

Three months ended September 30, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	6,228,415	3,590,891	-	598,454	-	10,417,760
Property operating costs	2,120,697	1,701,799	-	190,060	-	4,012,556
Net operating income	4,107,718	1,889,092	-	408,394	-	6,405,204
Interest income	7,243	11,929	-	1,140	283,480	303,792
Interest expense	2,563,202	798,737	-	900,000	2,019,618	6,281,557
Income (loss) before discontinued operations	4,223,268	6,085,408	-	5,292,557	(2,178,380)	13,422,853
Cash from operating activities	1,534,103	884,109	-	486,513	238,313	3,143,038
Cash from financing activities	(789,734)	(622,324)	-	485,626	(303,321)	(1,229,753)
Cash from investing activities	(418,783)	(109,751)	-	(1,016,405)	38,051	(1,506,888)

Three months ended September 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	5,686,706	3,520,077	-	-	-	9,206,783
Property operating costs	2,122,286	1,729,225	-	-	-	3,851,511
Net operating income	3,564,420	1,790,852	-	-	-	5,355,272
Interest income	6,178	2,456	-	248	272,327	281,209
Interest expense	3,309,267	3,120,477	-	900,000	2,786,276	10,116,020
Income (loss) before discontinued operations	(119,455)	(901,969)	-	863,707	(2,739,585)	(2,897,302)
Cash from operating activities	723,097	736,016	(70,589)	10,704	(1,951,079)	(551,851)
Cash from financing activities	(304,361)	(1,858,390)	74,073	(229,000)	(2,289,546)	(4,607,224)
Cash from investing activities	(442,601)	1,024,344	(3,514)	(6,087)	3,680,721	4,252,863

15 *Segmented financial information (continued)*

Nine months ended September 30, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	18,668,698	10,814,958	-	729,202	-	30,212,858
Property operating costs	6,582,146	5,182,572	-	262,646	-	12,027,364
Net operating income	12,086,552	5,632,386	-	466,556	-	18,185,494
Interest income	62,692	34,388	-	1,418	833,541	932,039
Interest expense	8,513,898	3,436,974	-	2,700,000	6,082,529	20,733,401
Income (loss) before discontinued operations	7,500,504	7,606,355	-	7,262,387	(7,010,792)	15,358,454
Cash from operating activities	4,084,592	2,241,593	(55,754)	319,178	(3,820,299)	2,769,310
Cash from financing activities	(2,524,114)	(1,550,610)	55,754	1,488,087	(2,310,997)	(4,841,880)
Cash from investing activities	(1,401,190)	(626,856)	-	(1,756,236)	6,026,275	2,241,993
Total assets excluding assets held for sale at September 30, 2013	269,742,296	130,431,821	-	53,391,998	14,447,701	468,013,816

Nine months ended September 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	17,093,994	10,693,323	796,861	394,427	-	28,978,605
Property operating costs	6,358,508	5,091,443	99,509	294,383	-	11,843,843
Net operating income	10,735,486	5,601,880	697,352	100,044	-	17,134,762
Interest income	23,458	8,024	70,193	1,565	511,722	614,962
Interest expense	9,229,624	5,252,797	227,472	2,700,011	7,065,070	24,474,974
Income (loss) before discontinued operations	10,946,868	1,269,354	1,186,843	(3,902,196)	(8,120,776)	1,380,093
Cash from operating activities	2,079,181	2,448,519	(9,371)	(2,461,053)	(8,517,165)	(6,459,889)
Cash from financing activities	(3,859,098)	(2,813,059)	(12,185,850)	2,171,000	12,179,738	(4,507,269)
Cash from investing activities	1,841,655	409,481	12,002,267	289,799	(3,857,934)	10,685,268
Total assets excluding assets held for sale at December 31, 2012	265,210,801	124,345,591	-	44,342,231	20,651,400	454,550,023

16 *Sale of Nova Court*

On October 28, 2013, the Trust entered into an unconditional sales agreement to dispose of Nova Court for gross proceeds of $21,680,000. The closing of the proposed sale is expected to occur by December 31, 2013.

17 *Contingencies*

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

18 Subsequent events

Mortgage financing
Subsequent to September 30, 2013, the Trust received a new $31 Million, 5% first mortgage loan and a $4.5 Million, 11.75% second mortgage loan. After application of collateral deposits of $1.6 Million, the proceeds were used to repay an $18.4 Million, 3.8% first mortgage loan and a $16.4 Million, 8.5% second mortgage loan and for working capital purposes. The second mortgage loan, which was repaid, was in breach of a debt service covenant and the breach was extinquished.

Subsequent to September 30, 2013, the Trust received a new $11 Million, 6.5% first mortgage loan and a new $3 Million, 12% second mortgage loan. The proceeds were used to repay a $9.8 Million, 8.25% first mortgage loan and to partially repay a $14.3 Million, 10.825% second mortgage loan by $3.8 Million. The first mortgage loan, which was repaid, was in breach of a debt service covenant and the breach was extinquished.

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

Revolving loan
Subsequent to September 30, 2013, the Trust received advances of $500,000 and repaid $2,900,000, resulting in a balance of $11,505,000 as of the date of the Financial Statements.

19 Comparative figures

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