LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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Unitholder Returns

	Six Months Ended June 30, 2014 (Per unit)	Year Ended December 31, 2013 (Per unit)
Opening price	$1.07	$0.65
Closing price	$1.24	$1.07

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
2014 Second Quarter Report

Results of Operation

Overview

LREIT completed the second quarter of 2014 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of $213,777, compared to a loss of $241,433 during the second quarter of 2013. The main variables affecting the second quarter results were a reduction in interest expense essentially offset by a comparable decrease in income recoveries and net operating income.

After including discontinued operations, fair value adjustments and gain on sale of investment properties, LREIT completed the second quarter of 2014 with a comprehensive loss of $742,668, compared to comprehensive income of $3,335,654 during the second quarter of 2013, representing a variance of approximately $4.1 Million. The variance mainly reflects a decrease in fair value adjustments of approximately $3.7 Million.

Net Operating Income and Income Recoveries

During the second quarter of 2014, net operating income decreased by $162,071, compared to the second quarter of 2013. Excluding properties sold and Parsons Landing, NOI decreased by $415,828, of which $353,482 or 85% is attributable to the portfolio of investment properties in Fort McMurray. Notwithstanding the decrease, the NOI results for the second quarter of 2014 reflect a significant recovery in revenues and occupancy levels for the Fort McMurray property portfolio, compared to the first quarter of the year. The average occupancy level of the Fort McMurray property portfolio for the second quarter of 2014 improved to 90%, compared to 80% in the first quarter of 2014, and the average monthly rental rate decreased by $28 or 2%.

The NOI for Parsons Landing for the second quarter of 2014 was positive after considering the multiple factors which affect the comparability of results from quarter to quarter, including the extent of insurance recoveries and the impact of the lease-up program for re-constructed units. During the second quarter of 2014, the NOI from Parsons Landing amounted to $815,621, compared to combined NOI and insurance recoveries of $800,662 during the second quarter of 2013. The lease-up program for Parsons Landing was effectively completed in May 2014 when the property achieved an occupancy level of 94%.

The NOI for the second quarter of 2014 is reflective of the rental market conditions which exist in Fort McMurray, notwithstanding the quarterly fluctuations in demand and periodic changes in rental supply. As of August 1, 2014, the occupancy level of all of the Fort McMurray properties, including Parsons Landing, is 89%.

Fair Value Adjustments

Fair value adjustments/gains, including Parsons Landing, decreased by $3.7 Million in the second quarter of 2014, compared to the second quarter of 2013. The decrease reflects the comparatively high level of fair value gains which were recorded in the second quarter of 2013 due to the reconstruction of Parsons Landing and increases in the NOI potential of a number of investment properties. As Parsons Landing returned to active operations in October 2013 and as market conditions are more stabilized, the extent of fair value adjustments has been minimal in 2014.

Cash Flow Results

During the second quarter of 2014, the cash inflow from operating activities, excluding working capital adjustments, amounted to $159,664, compared to a cash outflow of $501,717 during the second quarter of 2013. Including working capital adjustments, LREIT completed the second quarter of 2014 with a cash outflow from operating activities of $260,667, compared to a cash outflow of $213,186 during the second quarter of 2013.

Key Events - Second Quarter of 2014

- In June 2014, LREIT received full payment of the two mortgage loans receivable which were provided on the sale of the Clarington Seniors' Residence in 2012. The total payment received, including accrued interest, was $8,991,016.
- On June 16, 2014, the holders of the Series G debentures approved an extension of the maturity date of the debentures from February 28, 2015 to June 30, 2018.
- In May 2014, the upward refinancing of one mortgage loan resulted in net proceeds of approximately $1.6 Million.

Removal of Covenant Breach

The Trust has received a loan commitment to refinance a $16 Million loan that has been subject to a covenant breach. Upon the anticipated funding of the new loan in the third quarter of 2014, the Trust will have successfully removed the one remaining loan covenant breach. The loan commitment provides for the new loan to bear interest at approximately 4.5% for a ten-year term, compared to the 5.82% rate on the replaced loan.

Outlook

The collection of mortgage loans receivable, combined with the extension of the Series G debenture maturity date, has improved the stability and financial position of LREIT. For the remainder of 2014, LREIT will continue to focus on improving operational efficiencies while continuing to pursue mortgage refinancing at lower rates and divestiture opportunities. Proceeds from the 2015 exercise of warrants is expected to increase equity capital which will be used to reduce debt.

Based on the expectation that rental market conditions in Fort McMurray will stabilize at seasonal norms, the outlook is for similar operating results during the balance of the year.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the six months ended June 30, 2014 with reference to the Annual Report for 2013 and the First Quarter report for 2014.

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") 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 consolidated financial statements as of June 30, 2014 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of June 30, 2014 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the six months ended June 30, 2014 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the six months ended June 30, 2014 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	June 30	December 31	
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 458,387,209	$ 468,072,319	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 329,631,914	$ 301,147,731	$ 323,026,417
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.4 %	7.1 %
- Total debt	6.2 %	5.9 %	7.4 %

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 9,975,172	$ 10,026,210	$ 18,883,897	$ 19,795,098
Net operating income *	$ 5,924,651	$ 6,086,722	$ 10,428,718	$ 11,780,290
Income (loss) before discontinued operations *	$ (898,369)	$ 2,979,923	$ (3,414,317)	$ 1,935,601
Income (loss) and comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426
Cash Flows				
Cash provided by (used in) operating activities	$ (260,667)	$ (213,186)	$ 457,974	$ (89,191)
Funds from Operations (FFO) *	$ (58,076)	$ (72,790)	$ (2,533,324)	$ (1,244,281)
Adjusted Funds from Operations (AFFO) *	$ (959,791)	$ (872,523)	$ (3,067,659)	$ (2,427,839)
Distributable income (loss)*	$ (664,710)	$ (1,562,692)	$ (1,308,670)	$ (1,547,625)
Per Unit				
Net operating income *				
- basic	$ 0.283	$ 0.323	$ 0.501	$ 0.626
- diluted	$ 0.201	$ 0.319	$ 0.358	$ 0.619
Income (loss) before discontinued operations *				
- basic	$ (0.043)	$ 0.158	$ (0.164)	$ 0.103
- diluted	$ (0.043)	$ 0.156	$ (0.164)	$ 0.102
Income (loss) and comprehensive income (loss)				
- basic	$ (0.035)	$ 0.177	$ (0.151)	$ 0.134
- diluted	$ (0.035)	$ 0.175	$ (0.151)	$ 0.133
Cash provided by (used in) operating activities				
- basic	$ (0.012)	$ (0.011)	$ 0.022	$ (0.005)
- diluted	$ (0.012)	$ (0.011)	$ 0.016	$ (0.005)
Funds from Operations (FFO) *				
- basic and diluted	$ (0.003)	$ (0.004)	$ (0.122)	$ (0.066)
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.046)	$ (0.046)	$ (0.147)	$ (0.129)
Distributable income (loss) *				
- basic and diluted	$ (0.032)	$ (0.083)	$ (0.063)	$ (0.082)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, debentures, a defeased liability, an interest rate swap liability and mortgage bonds. The 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 owns a portfolio of income-producing real estate properties, comprised of 20 investment properties and two seniors' housing complexes classified under discontinued operations. 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.

The primary objective of LREIT is to maximize the income-producing potential and market value of its real estate portfolio. During the past five years, the divestiture program of LREIT, combined with systematic and proactive debt restructuring initiatives, has enabled LREIT to meet significant liquidity challenges and gradually improve the overall financial position of the Trust.

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".

Divestiture Program

During the period from 2009 to 2014, LREIT sold 23 properties and 17 condominium units under its divestiture program at a combined gross selling price of $261.3 Million. The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust. The timing of property sales is uncertain.

Highlights of 2014 Q2 Results and Key Issues/Events

1. Background Information

For segmented reporting purposes, LREIT's portfolio of investment properties is divided into four categories:

- Fort McMurray: Includes twelve multi-family properties in Fort McMurray.
- Other Investment Properties: Includes the seven other investment properties.
- Parsons Landing: Due to the fire in 2012 and subsequent reconstruction of the property in 2013, Parsons Landing is categorized separately for segmented reporting purposes.
- The segmented information also includes the operating results of the two properties which were sold in 2013 under the category "Properties Sold".

The operating results for the two seniors' housing complexes are classified under "Discontinued operations" in the Income Statement of the Trust. The income and expense analyses which are contained throughout this report do not include the two seniors' housing complexes, except where noted.

In the financial statements of the Trust, cash flow from operating activities includes net operating income, less interest and trust expenses, on a cash basis, from the investment properties and the seniors' housing complexes in discontinued operations. The cash flow analyses which are contained throughout this report provide a break-down of the cash flow from investment properties and discontinued operations.

2. Comparative Income Results

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net operating income				
Fort McMurray properties	$ 3,735,831	$ 4,089,313	$ 6,549,559	$ 7,978,834
Other investment properties	1,394,538	1,456,884	2,646,509	2,800,634
Sub-total	5,130,369	5,546,197	9,196,068	10,779,468
Properties sold	(21,339)	482,363	(102,372)	942,660
Parsons Landing	815,621	58,162	1,335,022	58,162
Total net operating income	5,924,651	6,086,722	10,428,718	11,780,290
Interest income	206,779	329,946	591,997	628,247
Interest expense	(5,745,943)	(6,609,966)	(12,700,225)	(14,451,844)
Trust expense	(599,264)	(790,635)	(1,219,949)	(1,321,932)
Income recovery on Parsons Landing	-	742,500	98,499	1,641,630
Loss before the following	(213,777)	(241,433)	(2,800,960)	(1,723,609)
Gain on sale of investment properties	-	164,928	71,235	164,928
Fair value adjustments	(684,592)	1,286,668	(684,592)	1,424,522
Fair value adjustment of Parsons Landing	-	1,769,760	-	2,069,760
Income (loss) before discontinued operations	(898,369)	2,979,923	(3,414,317)	1,935,601
Income from discontinued operations	155,701	355,731	267,636	587,825
Income (loss) and comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426

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

During the second quarter of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and discontinued operations decreased by $0.03 Million compared to the second quarter of 2013. The decrease in the loss mainly reflects a decrease in interest expense of $0.9 Million and a decrease in trust expense of $0.2 Million, partially offset by a decrease in income recovery on Parsons Landing of $0.7 Million and a decrease in net operating income of $0.2 Million.

During the second quarter of 2014, the net loss of LREIT was $0.7 Million, compared to net income of $3.3 Million during the second quarter of 2013, representing a variance of $4.0 Million. In addition to the variables noted in the preceding paragraph, the variance mainly reflects the decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing, compared to the second quarter of 2013.

For the six months ended June 30, 2014, the net loss of LREIT was $3.1 Million, compared to net income of $2.5 Million for the six months ended June 30, 2013, representing a variance of $5.6 Million.

2. Comparative Income Results (continued)

Occupancy/Rental Rate Comparison	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Average occupancy level				
Fort McMurray	90%	95%	85%	94%
Other investment properties	92%	94%	91%	94%
Total	91%	94%	86%	94%
Properties sold	n/a	100%	n/a	100%
Parsons Landing	89%	n/a	79%	n/a
Average rental rate				
Fort McMurray	$2,309	$2,275	$2,325	$2,267
Other investment properties	$927	$929	$930	$925
Total	$1,654	$1,638	$1,664	$1,632
Properties sold	n/a	$2,546	n/a	$2,548
Parsons Landing	$2,742	n/a	$2,743	n/a

3. Comparative Cash Flow Results

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Cash provided by (used in)				
Operating activities before working capital adjustments	$ 159,664	$ (501,717)	$ (269,618)	$ (118,299)
Working capital adjustments	(420,331)	288,531	727,592	29,108
Operating activities	$ (260,667)	$ (213,186)	$ 457,974	$ (89,191)

During the second quarter of 2014, the cash provided by (used in) operating activities, before working capital adjustments, increased by $0.7 Million, compared to the second quarter of 2013. The increase reflects a decrease in the cash component of interest expense of $1.8 Million, partially offset by a decrease in the cash component of net operating income of $0.2 Million and a decrease in the income recovery on Parsons Landing of $0.7 Million.

For the six months ended June 30, 2014, the cash provided by (used in) operating activities, before working capital adjustments, decreased by $0.2 Million, compared to the six months ended June 30, 2013.

4. Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Interest expense				
Investment properties	$ 5,745,943	$ 6,609,966	$ 12,700,225	$ 14,451,844
Discontinued operations	255,416	196,445	413,073	390,114
Total interest expense	$ 6,001,359	$ 6,806,411	$ 13,113,298	$ 14,841,958

Key Variables	June 30 2014	June 30 2013
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.7 %	5.6 %
Seniors' housing complexes	6.6 %	5.0 %
Combined operations	5.7 %	5.5 %

4. Interest Expense (continued)

The second quarter decrease in interest expense for investment properties of $0.9 Million is mainly due to the elimination of interest on acquisition payable of $0.9 Million and a decrease in mortgage bond interest of $0.2 Million, partially offset by an increase in mortgage loan interest of $0.2 Million and a net increase in total amortization charges for transaction costs of $0.2 Million.

The increase in mortgage loan interest expense reflects the new first mortgage loan of Parsons Landing almost entirely offset by a reduction in interest stemming from a decrease in the weighted average interest rate of mortgage debt, and elimination of the mortgage loan interest on properties sold (Nova Court and the Purolator building). The decrease in mortgage bond interest reflects the redemption of $10.0 Million in mortgage bonds in January 2014. The mortgage bond redemption resulted in the recording of additional accretion of $0.6 Million.

The increase in interest expense for discontinued operations is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

5. Key Financing and Investing Events

2014 Q1

Completion of Parsons Landing Acquisition - On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by the net proceeds of a first mortgage loan maturing on April 30, 2015, an advance under the revolving loan and the balance in cash. The completion of the purchase transaction eliminated the "Acquisition payable" on the balance sheet of LREIT and resolved long-standing uncertainties regarding the finalization of property ownership and interest forgiveness.

Redemption of Mortgage Bonds - In January 2014, the Trust redeemed $10.0 Million of the 9% mortgage bonds which were secured against the Nova Court property. As of June 30, 2014, the face value of the remaining mortgage bonds is $6.0 Million.

2014 Q2

Debt Covenants - As of June 30, 2014, LREIT was in breach of a global debt service coverage requirement on one $15.6 Million mortgage loan and the related $1.0 Million interest rate swap liability. The covenant breach is expected to be eliminated as a result of refinancing the mortgage loan in the third quarter of 2014.

Upward Refinancing - On May 1, 2014, the first mortgage loan of Elgin Lodge was upward refinanced with a new first mortgage loan of $10.0 Million. The net proceeds from the upward refinancing were approximately $1.6 Million.

Mortgage Loans Receivable - The mortgage loans receivable arising from the 2012 sale of the Clarington Seniors' Residence were received in full. The amount received, including accrued interest, was $9.0 Million.

Extension of Maturity Date of Debentures - On June 16, 2014, LREIT obtained approval from the holders of the Series G debentures to extend the maturity date of the debentures from February 28, 2015 to June 30, 2018.

6. Liquidity

	June 30 2014	December 31 2013
Unrestricted cash	$ 1,393,887	$ 2,401,741
Restricted cash	$ 4,328,771	$ 4,241,812
Working capital deficit	$ 7,870,494	$ 4,259,858
Amount available on revolving loan*	$ 6,700,000	$ 14,095,000

*As at August 14, 2014, there was $5.2 Million available on the revolving loan.

7. Risks and Uncertainties

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

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

As a result of the improvement in operating income in the Fort McMurray portfolio, the extension of the maturity date of the Series G debentures, the renewal or refinancing of mortgage loans, the completion of the Parsons Landing acquisition and the successful completion of property sales over the past four 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 "Operating 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 considered appropriate by management 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, receiving the continued financial support of Shelter and its parent company 2668921 Manitoba Ltd., completing upward financing, reducing high interest debt and generating additional capital through the completion of property sales.

CAPITAL REQUIREMENTS - GENERAL

As of June 30, 2014, the unrestricted cash balance of LREIT was $1,393,887 and the working capital deficit was $7,870,494, representing an increase of approximately $3.6 Million compared to the working capital deficit as of December 31, 2013. As of December 31, 2013, the working capital deficit included $10 Million of mortgage bond debt, as the debt was being repaid in January 2014. The increase in the working capital deficit is mainly due to an increase in the revolving loan and a decrease in loans receivable, largely offset by the elimination of the mortgage bond liability of $10 Million. During the first six months of 2014, advances on the revolving loan were used to fund the $10 Million mortgage bond redemption, to partially fund the equity component on the closing of the Parsons Landing acquisition and for working capital purposes. As of June 30, 2014, the balance of the revolving loan is $8.3 Million.

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

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

After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and the cash inflow from operating activities, LREIT completed the first six months of 2014 with a cash shortfall of $6.2 Million. The cash shortfall was funded by advances on the revolving loan and the collection of a mortgage loan receivable.

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 provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter is also responsible for the property management function for the investment properties of LREIT, pursuant to the terms of a Property Management Agreement. In the second quarter of 2014, the expiry dates of the Services Agreement and the Property Management Agreement were extended to December 31, 2024.

Investment in Properties

As of June 30, 2014, the real estate portfolio of LREIT consists of 18 multi-family residential properties, one commercial property 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 "Parsons Landing" representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information.

Operations

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

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

Financing

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

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of June 30, 2014, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During the first six months of 2014, the mortgage loan debt service coverage ratio was 0.98, compared to 1.01 during the first six months of 2013 and 1.03 during the entire year in 2013. For the purpose of calculating the debt service coverage ratio, the income recovery on Parsons Landing is added to net operating income and, prior to the completion of the acquisition of Parsons Landing on March 6, 2014, interest on the acquisition payable was included in debt service costs.

The reduction in the debt service coverage ratio reflects a decrease in operating income and income recoveries which was greater than the decrease in debt service costs during the six months ended June 30, 2014.

Divestiture Program

General

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

Since the inception of the divestiture program to June 30, 2014, LREIT has sold 23 properties and 17 condominium units at a combined gross selling price of $261.3 Million.

Divestiture Program

Year	Properties Sold	Condominium Units Sold	Gross Proceeds	Net Proceeds At Closing	Vendor Take-back Financing Received	Total Net Proceeds
2009	13	-	$ 90,392,000	$ 29,631,650	$ 6,300,000	$ 35,931,650
2010	5	-	40,835,000	17,563,501	3,790,650	21,354,151
2011	-	4	1,927,100	52,120	-	52,120
2012	3	9	102,896,400	21,927,121	-	21,927,121
2013	2	3	24,724,700	14,468,789	3,200,000	17,668,789
2014	-	1	474,900	(6,877)	9,491,016	9,484,139
Total	23	17	$ 261,250,100	$ 83,636,304	$ 22,781,666	$ 106,417,970

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

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 current expectation of management is that the condominium sales program will be substantially completed in 2017. The condominium sales program encompasses services and renovations fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the section of this report titled "Related Party Transactions".

As of June 30, 2014, 17 condominium units have been sold at a combined gross selling price of $8.2 Million.

Distributions

LREIT suspended cash distributions in 2009.

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2014

As of June 30, 2014, the property portfolio of LREIT consists of 22 rental properties, 20 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 22 properties has a total purchase price of approximately $396.1 Million and encompasses 2,125 suites and 123,126 square feet of leasable commercial area.

Quarterly Changes in Property Portfolio

During the fourth quarter of 2013, LREIT sold the Purolator Building and Nova Court. As of January 1, 2013, the 160 suites at Parsons Landing were in the process of being reconstructed following the fire in 2012. Rental operations recommenced for 84 reconstructed suites on June 1, 2013 and the remaining 76 suites were returned to rental operations on October 3, 2013. In addition, three condominium units at Lakewood Townhomes were sold in 2013.

During the six months of 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at Lakewood Townhomes.

After accounting for property and condominium sales as well as the return of reconstructed suites at Parsons Landing, the number of "revenue generating" suites in the investment property portfolio decreased by 32 suites or 1.6% as of June 30, 2014, compared to June 30, 2013 and the amount of available commercial space decreased by 16,117 square feet. The number of "revenue generating" suites is not a fully accurate indicator of the income potential of the investment property portfolio during the comparative six month periods, as a number of factors including the extent of insurance proceeds and the lease-up process have impacted the net operating income results of Parsons Landing since June 1, 2013.

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 20 properties which are classified as investment properties consist of one commercial property located in 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; one multi-family property in Yellowknife, Northwest Territories; and four multi-family residential 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 located in Moose Jaw, Saskatchewan and Port Elgin, Ontario.

Completion of Parsons Landing Acquisition

On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by the net proceeds from a first mortgage loan maturing on May 1, 2015, an advance under the revolving loan and the balance in cash.

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.

Rent and Other Receivables

As of December 31, 2013, "Rent and other receivables" included a 12.5% second mortgage loan of $8.5 Million and an interest free mortgage loan of $275,000, both of which pertain to the sale of Clarington Seniors' Residence in 2012 and a 5% second mortgage loan of $500,000 pertaining to the sale of Nova Villa.

During the first quarter of 2014, the mortgage loan receivable arising from the sale of Nova Villa in the amount of $500,000 was received in full.

During the second quarter of 2014, the two loans pertaining to the sale of the Clarington Seniors' Residence were received in full. The total payment received, including accrued interest, was $8,991,016.

FAIR VALUE MEASUREMENT

General

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

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

Parsons Landing

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. Although LREIT had acquired possession of Parsons Landing prior to the fire, the closing of the purchase transaction had not been completed.

From the date of the fire to May 31, 2013, the property was under reconstruction and unoccupied. On June 1, 2013, 84 suites were returned to active rental operations. On October 3, 2013, active rental operations recommenced for the entire property. On March 6, 2014, the purchase of Parsons Landing was completed.

As a result of the fire, LREIT recorded an impairment loss of $27.8 Million in the first quarter of 2012. Throughout the remainder of 2012 and in 2013, the carrying value of Parsons Landing was adjusted on a quarterly basis to reflect the increase in fair market value during the reconstruction period. The fair market value was determined based on historical results and normalized operating performance at comparable properties. A discount was also applied to reflect the timing difference between the date of the valuation and the future re-occupation of the property.

The increases in the carrying value of the property to December 31, 2013 were disclosed in the Income Statement of LREIT as a separate line item, titled "Fair value adjustment on Parsons Landing". During 2013, the income of LREIT included a fair value adjustment on Parsons Landing in the total amount of $8,929,707, comprised of quarterly adjustments of $0.3 Million (Q1), $1.8 Million (Q2), $5.1 Million (Q3) and $1.7 Million (Q4). The higher values in the third and fourth quarters of 2013 reflect improved revenue and vacancy expectations, based on actual leasing results for the reconstructed units, as well as a reduction in the present value discount attributable to the passage of time.

Effective January 1, 2014, the fair value of the investment property portfolio of LREIT, and any gain or loss related to a change in the fair value, encompasses the fair market value of Parsons Landing.

Investment Properties

During the first six months of 2014, LREIT recorded fair value adjustments/losses on its investment property portfolio of $684,592, including Parsons Landing. During the first six months of 2013, fair value gains and the fair value adjustment on Parsons Landing amounted to $3,494,282. The variance in the amounts served to reduce income by $4,178,874 in the first six months of 2014, compared to the first six months of 2013.

Summary of Quarterly Results

Quarterly Analysis

	2014		2013	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 9,975,172	$ 8,908,725	$ 10,115,906	$ 10,417,760
Net operating income	$ 5,924,651	$ 4,504,067	$ 6,023,275	$ 6,405,204
Income (loss) for the period before discontinued operations	$ (898,369)	$ (2,515,948)	$ (669,080)	$ 13,422,853
Income (loss) and comprehensive income (loss)	$ (742,668)	$ (2,404,013)	$ (509,164)	$ 13,505,324
PER UNIT				
Net operating income				
- basic	$ 0.283	$ 0.218	$ 0.311	$ 0.339
- diluted	$ 0.201	$ 0.157	$ 0.237	$ 0.337
Income (loss) for the period before discontinued operations				
- basic	$ (0.043)	$ (0.122)	$ (0.035)	$ 0.711
- diluted	$ (0.043)	$ (0.122)	$ (0.035)	$ 0.706
Income (loss) and comprehensive income (loss)				
- basic	$ (0.035)	$ (0.116)	$ (0.026)	$ 0.716
- diluted	$ (0.035)	$ (0.116)	$ (0.026)	$ 0.711

Quarterly Analysis

	2013		2012	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 10,026,210	$ 9,768,888	$ 9,432,387	$ 9,206,783
Net operating income	$ 6,086,722	$ 5,693,568	$ 5,294,467	$ 5,355,272
Income (loss) for the period before taxes and discontinued operations	$ 2,979,923	$ (1,044,322)	$ (778,548)	$ (3,078,641)
Income (loss) and comprehensive income (loss)	$ 3,335,654	$ (812,228)	$ 16,185,773	$ (2,298,800)
PER UNIT				
Net operating income				
- basic	$ 0.323	$ 0.303	$ 0.282	$ 0.287
- diluted	$ 0.319	$ 0.300	$ 0.280	$ 0.285
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.158	$ (0.056)	$ (0.041)	$ (0.165)
- diluted	$ 0.156	$ (0.056)	$ (0.041)	$ (0.165)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.177	$ (0.043)	$ 0.862	$ (0.123)
- diluted	$ 0.175	$ (0.043)	$ 0.857	$ (0.123)

Revenue and Operating Income

The primary variables affecting the quarterly rental revenue and net operating income results of LREIT are rental market conditions in Fort McMurray, property sales and the reconstruction of Parsons Landing.

Increased activity in the oil sands industry has contributed to an improvement in rental market conditions in Fort McMurray since the beginning of 2013; however, the rental market is subject to seasonal variations in demand, particularly in the winter months, at the beginning of Q1 and the end of Q4. During the first quarter of 2014, the seasonal variation in demand was more pronounced due to higher supply levels and greater resistance to rental rate increases. The return of all 160 suites at Parsons Landing to the rental market in October 2013 also contributed to the higher rental market supply levels at the end of 2013 and into the second quarter of 2014.

The sale of the Purolator Building on October 1, 2013 and Nova Court on December 31, 2013, will affect quarterly revenue and NOI results throughout 2014.

The phased-in return of reconstructed suites at Parsons Landing contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses during the period from June 1, 2013 to December 31, 2013. The expiry of insurance coverage for revenue losses effective February 5, 2014 continued to affect the overall income results of Parsons Landing into the second quarter of 2014 pending the completion of the lease-up phase for the reconstructed suites. The lease-up phase was essentially completed in May 2014.

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/loss before taxes and discontinued operations, particularly in regard to total interest expense on mortgage loans/acquisition payable. Interest expense on mortgage loans includes interest on mortgage loans and the revolving loan commitment. The main variables affecting decreases in interest expense on mortgage loans/acquisition payable have been the discharge of mortgage loan debt on the sale of properties, periodic lump-sum paydowns of mortgage loan debt, the decrease in the weighted average interest rate and, in March 2014, the elimination of the acquisition payable on Parsons Landing. The main variables affecting increases in interest expense have been the upward refinancing of mortgage loan debt and the new mortgage loan financing for Parsons Landing which was obtained in March 2014.

Changes in the balance of the revolving loan, also contributed to quarterly variances in interest expense.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly changes in the fair value of investment properties. Fair value gains were most significant during the third quarter of 2013 when fair value gains served to increase income by $7.7 Million.

Changes in the fair market value of Parsons Landing, which were recorded separately during 2013 as "Fair value adjustments of Parsons Landing", have also contributed to substantial variations in income from investment properties. The write-down of the carrying value of Parsons Landing in the first quarter of 2012 due to the fire and subsequent increases in the carrying value of the property, particularly in the third quarter of 2013, had a substantial impact on income from investment properties.

Variances in fair market adjustments are a major contributing factor in the comparative results of LREIT for the second quarter of 2014 and the six months ended June 30, 2014.

Net Income (Loss)

The operations of the seniors' housing complexes of LREIT, as reflected in income from discontinued operations, have also contributed to variations in quarterly net income.

ANALYSIS OF INCOME (LOSS)

Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Rentals from investment properties	$ 9,975,172	$ 10,026,210	$ 18,883,897	$ 19,795,098
Property operating costs	4,050,521	3,939,488	8,455,179	8,014,808
Net operating income	5,924,651	6,086,722	10,428,718	11,780,290
Interest income	206,779	329,946	591,997	628,247
Interest expense	(5,745,943)	(6,609,966)	(12,700,225)	(14,451,844)
Trust expense	(599,264)	(790,635)	(1,219,949)	(1,321,932)
Income recovery on Parsons Landing	-	742,500	98,499	1,641,630
Loss before the following	(213,777)	(241,433)	(2,800,960)	(1,723,609)
Gain on sale of investment properties	-	164,928	71,235	164,928
Fair value adjustments	(684,592)	1,286,668	(684,592)	1,424,522
Fair value adjustment of Parsons Landing	-	1,769,760	-	2,069,760
Income (loss) before discontinued operations	(898,369)	2,979,923	(3,414,317)	1,935,601
Income from discontinued operations	155,701	355,731	267,636	587,825
Income (loss) and comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426

Analysis of Income (Loss) per Unit

	Six Months Ended June 30		Change	
	2014	2013		
Income (loss) before discontinued operations				
- basic	$ (0.164)	$ 0.103	$ (0.267)	(259)%
- diluted	$ (0.164)	$ 0.102	$ (0.266)	(261)%
Income (loss) and comprehensive income (loss)				
- basic	$ (0.151)	$ 0.134	$ (0.285)	(213)%
- diluted	$ (0.151)	$ 0.133	$ (0.284)	(214)%

Overall Results

Second Quarter Comparatives

During the second quarter of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment of Parsons Landing, and discontinued operations decreased by $27,656, compared to the second quarter of 2013. The decrease in the loss reflects a decrease in interest expense of $864,023 and a decrease in trust expense of $191,371, substantially offset by a decrease in income recovery on Parsons Landing of $742,500, a decrease in net operating income of $162,071 and a decrease in interest income of $123,167.

After accounting for fair value adjustments, including the fair value adjustment of Parsons Landing, and the gain on sale of investment properties, LREIT completed the second quarter of 2014 with a loss before discontinued operations of $898,369, compared to an income before discontinued operations of $2,979,923 during the second quarter of 2013, representing a variance of $3,878,292. The increase in the loss mainly reflects a decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing, totaling $3,741,020.

After accounting for discontinued operations, LREIT completed the second quarter of 2014 with a comprehensive loss of $742,668 compared to a comprehensive income of $3,335,654 during the second quarter of 2013.

Six Months Comparatives

During the first six months of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment of Parsons Landing, and discontinued operations increased by $1,077,351 compared to the first six months of 2013. The increase in the loss is mainly due to a decrease in operating income of $1,351,572 and a decrease in income recoveries of $1,543,131, partially offset by a decrease in interest expense of $1,751,619.

After accounting for fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and the gain on sale of investment properties, LREIT completed the first six months of 2014 with a loss of $3,414,317, compared to income of $1,935,601 during the first six months of 2013, representing a variance of $5,349,918. The variance is mainly due to a $4,178,874 decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing.

After accounting for discontinued operations, LREIT completed the first six months of 2014 with a comprehensive loss of $3,146,681 compared to a comprehensive income of $2,523,426 during the first six months of 2013.

Per Unit Results

On a per unit basis, the loss before discontinued operations amounted to $0.043 per unit during the second quarter of 2014, compared to income of $0.158 per unit during the second quarter of 2013, representing a variance of $0.201 per unit.

For the six months ended June 30, 2014, the loss before discontinued operations amounted to $0.164 per unit, compared to income of $0.103 per unit during the first six months of 2013, representing a variance of $0.267 per unit.

The per unit variances mainly reflect the loss of the Trust for the three and six month periods ended June 30, 2014 compared to income for the same periods of 2013, partially offset by an increase in the weighted average number of units. From June 30, 2013 to June 30, 2014, the weighted average number of units increased by 1,989,308 units or 11%. The increase largely reflects the exercise of trust unit purchase warrants during the first and second quarter of 2014 and the fourth quarter of 2013.

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, and the rental revenue in regard to investment properties which are sold during the year, including condominium units at Lakewood Townhomes.

Investment Properties

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

Fort McMurray (Twelve properties)

Accounting for approximately 48% 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 (Seven Properties)

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

Properties Sold (the Purolator Building and Nova Court)

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 to the operations of the Purolator Building and Nova Court in 2013.

Parsons Landing

As a result of the fire at Parsons Landing, the revenue generating capacity of the property was impaired. As a result, Parsons Landing has been segregated from operating properties and analysed separately. Parsons Landing is expected to be reclassified to the "Fort McMurray" operating segment on January 1, 2015.

As previously disclosed, 84 reconstructed units were returned to rental operations on June 1, 2013 and the remaining 76 reconstructed units were returned to rental operations on October 3, 2013. Prior to the return of reconstructed units on June 1, 2013, the income of Parsons Landing consisted 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.

Commencing on June 1, 2013, the net income or loss from reconstructed units which were leased is reflected in operating income. To February 5, 2014, an income recovery continued to be recorded in regard to accrued revenue for insurance proceeds for non-reconstructed units and reconstructed units that have not been leased. Subsequent to February 5, 2014, insurance proceeds are no longer available as the two year revenue loss coverage term has expired.

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.

An analysis of the average monthly rents and occupancy level for the Fort McMurray, Other investment properties, Properties sold and Parsons Landing segments are provided in the following sections of this report.

Discontinued Operations

At June 30, 2014, the property portfolio includes two seniors' housing complexes which are classified under discontinued operations. The following analysis excludes the revenue and operating costs of the seniors' housing complexes.

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 5,989,170	$ 6,285,528	$ (296,358)	$ 11,338,831	$ 12,440,283	$ (1,101,452)
Other investment properties	2,745,656	2,734,087	11,569	5,360,870	5,467,840	(106,970)
Sub-total	8,734,826	9,019,615	(284,789)	16,699,701	17,908,123	(1,208,422)
Properties sold (1)	-	875,847	(875,847)	1,065	1,756,227	(1,755,162)
Parsons Landing (2)	1,240,346	130,748	1,109,598	2,183,131	130,748	2,052,383
Total	$ 9,975,172	$10,026,210	$ (51,038)	$ 18,883,897	$ 19,795,098	$ (911,201)

(1) Represents revenue from the Purolator Building and Nova Court.
(2) For the first six months of 2013, the rental revenue for Parsons Landing consists solely of the revenue from 84 reconstructed suites for a period of 30 days, commencing June 1, 2013.

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $284,789 during the second quarter of 2014, compared to the second quarter of 2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $296,358, partially offset by an increase in revenue from the Other investment properties of $11,569.

The decrease in revenue from the Fort McMurray property portfolio reflects a decrease in the average occupancy level, partially offset by an increase in the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio decreased from 95% during the second quarter of 2013, to 90% during the second quarter of 2014, while the average monthly rental rate increased by $34 or 1.5%.

In comparison to the average occupancy rate during the first quarter of 2014 of 80%, there has been a significant improvement in the occupancy rate of the Fort McMurray portfolio in the second quarter of 2014. As previously reported, the occupancy rate of the Fort McMurray property portfolio decreased to 80% in the first quarter of 2014, compared to 93% in the first quarter of 2013, as a result of a more competitive rental market due to an increase in the supply of available rental units, increased competition from temporary housing units and abnormal variations in seasonal demand due to a delay in the commencement of municipal and oil sands infrastructure projects. Although the occupancy rate improved during the second quarter of 2014, the competitive market factors affected the extent of the improvement in the occupancy rate in the second quarter of 2014, relative to the second quarter of 2013.

During the six month period ended June 30, 2014, the total revenue from investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $1,208,422, compared to the first six months of 2013. The variance in the six month comparatives is mainly due to the unfavourable variance in revenue results for the first quarter of 2014.

Occupancy Level, by Quarter

	2014 Q1	2014 Q2	2014 6 Month Average
Fort McMurray	80 %	90 %	85 %
Other investment properties	89 %	92 %	91 %
Total	82 %	91 %	86 %
Properties sold	n/a	n/a	n/a
Parsons Landing	69 %	89 %	79 %

	2013 Q1	2013 Q2	2013 6 Month Average	2013 Q3	2013 Q4	2013 12 Month Average
Fort McMurray	93 %	95 %	94 %	92 %	84 %	91 %
Other investment properties	95 %	94 %	94 %	92 %	90 %	93 %
Total	94 %	94 %	94 %	92 %	85 %	91 %
Properties sold	100 %	100 %	100 %	100 %	99 %	100 %
Parsons Landing	n/a	n/a	n/a	n/a	n/a	n/a

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

Average Monthly Rents, by Quarter

	2014 Q1	2014 Q2	2014 6 Month Average
Fort McMurray	$2,337	$2,309	$2,325
Other investment properties	$933	$927	$930
Total	$1,672	$1,654	$1,664
Properties sold	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,743

	2013 Q1	2013 Q2	2013 6 Month Average	2013 Q3	2013 Q4	2013 12 Month Average
Fort McMurray	$2,259	$2,275	$2,267	$2,318	$2,387	$2,329
Other investment properties	$922	$929	$925	$931	$934	$929
Total	$1,627	$1,638	$1,632	$1,661	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,548	$2,692	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a	n/a

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 2,253,339	$ 2,196,215	$ 57,124	$ 4,789,272	$ 4,461,449	$ 327,823
Other investment properties	1,351,118	1,277,203	73,915	2,714,361	2,667,206	47,155
Sub-total	3,604,457	3,473,418	131,039	7,503,633	7,128,655	374,978
Properties sold	21,339	393,484	(372,145)	103,437	813,567	(710,130)
Parsons Landing	424,725	72,586	352,139	848,109	72,586	775,523
Total	$ 4,050,521	$ 3,939,488	$ 111,033	$ 8,455,179	$ 8,014,808	$ 440,371

During the second quarter of 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $131,039 or 4%, compared to the second quarter of 2013. The increase is comprised of an increase of $57,124 in the operating costs of the Fort McMurray portfolio and an increase of $73,915 in the Other investment properties portfolio.

During the six months ended June 30, 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $374,978 or 5%, compared to the first six months of 2013. The increase is comprised of an increase of $327,823 in the operating costs of the Fort McMurray portfolio and a $47,155 increase in the Other investment properties portfolio.

The increase in the operating costs of the Fort McMurray portfolio for both the first quarter and six months comparatives is mainly due to an increase in repair costs related to water damage, net of insurance recoveries, and an increase in maintenance costs, partially offset by a decrease in property taxes.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 3,735,831	$ 4,089,313	$ (353,482)	$ 6,549,559	$ 7,978,834	$(1,429,275)
Other investment properties	1,394,538	1,456,884	(62,346)	2,646,509	2,800,634	(154,125)
Sub-total	5,130,369	5,546,197	(415,828)	9,196,068	10,779,468	(1,583,400)
Properties sold	(21,339)	482,363	(503,702)	(102,372)	942,660	(1,045,032)
Parsons Landing	815,621	58,162	757,459	1,335,022	58,162	1,276,860
Total	$ 5,924,651	$ 6,086,722	$ (162,071)	$10,428,718	$ 11,780,290	$(1,351,572)

After considering the decrease 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 Parsons Landing, decreased by $415,828 or 7% during the second quarter of 2014, compared to the second quarter of 2013.

The decrease in net operating income is comprised of a $353,482 decrease in net operating income from the Fort McMurray properties and a $62,346 decrease in net operating income from the Other investment properties. For the six month period ended June 30, 2014, the net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, decreased by $1,583,400.

After accounting for the decrease in net operating income related to properties sold and the net operating income attributable to Parsons Landing, net operating income decreased by $162,071 during the second quarter of 2014, compared to the second quarter of 2013. For the six month period ended June 30, 2014, net operating income decreased by $1,351,572.

During the six months ended June 30, 2014, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $1,433,521, compared to $1,699,792 during the six months ended June 30, 2013, representing a decrease of $266,271 or 16%. The decrease is attributable to the change in the operational status of the property. During the first six months of 2013, revenue losses from unleased or unreconstructed suites were fully covered by insurance proceeds, whereas, at the beginning of 2014, the property was in the lease-up phase and insurance recoveries ended on February 5, 2014. The lease-up phase was essentially completed in May 2014 when the property achieved an occupancy level of 94%.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Fort McMurray	62 %	65 %	58 %	64 %
Other investment properties	51 %	53 %	49 %	51 %
Sub-total	59 %	61 %	55 %	60 %
Properties sold	n/a	55 %	n/a	54 %
Parsons Landing	66 %	44 %	61 %	44 %
Total	59 %	61 %	55 %	60 %

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 61% during the second quarter of 2013, to 59% during the second quarter of 2014. For the six months ended June 30, 2014, the operating margin was 55% compared to 60% for the six months ended June 30, 2013. The decrease in the operating margin for the six months ended June 30, 2014 is mainly due to the unfavourable variance in revenue results for the Fort McMurray property portfolio in the first quarter of 2014.

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

Interest Income

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

During the second quarter of 2014 interest income amounted to $206,779, compared to $329,946 during the second quarter of 2013. During the first six months of 2014, interest income was $591,997 compared to $628,247 during the first six months of 2013. Interest income on mortgage loans receivable represented 75% of total interest income during the first six months of 2014.

Interest Expense

General

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

As disclosed in the following chart, total interest expense amounted to $6,001,359 during the second quarter of 2014, of which $5,745,943 pertains to investment properties and $255,416 pertains to discontinued operations.

Total interest expense for investment properties decreased by $864,023 or 13% during the second quarter of 2014, compared to the second quarter of 2013. The decrease is mainly due to a decrease in interest on acquisition payable of $900,000 and a decrease in mortgage bond interest of $225,000, partially offset by an increase in mortgage loan interest of $170,028 and a net increase in total amortization charges for transaction costs of $157,491.

Total interest expense for discontinued operations increased by $58,971 or 30% during the second quarter of 2014, compared to the second quarter of 2013.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and the gain or loss related to the change in fair value of the interest rate swap liability. The $805,052 decrease in total interest expense during the second quarter of 2014, compared to the second quarter of 2013, is comprised of a $945,322 decrease in the cash component of interest expense and a $140,270 increase in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Investment Properties						
Mortgage Loans and Acquisition Payable						
Mortgage loan interest	$ 4,394,251	$ 4,224,223	$ 170,028	$ 8,290,234	$ 8,927,710	$ (637,476)
Amortization of transaction costs	558,298	364,721	193,577	978,767	1,482,550	(503,783)
Change in value of interest rate swap liability	(82,714)	(72,791)	(9,923)	(157,426)	(141,251)	(16,175)
Interest on acquisition payable	-	900,000	(900,000)	653,315	1,800,000	(1,146,685)
Total - mortgage loans and acquisition payable	4,869,835	5,416,153	(546,318)	9,764,890	12,069,009	(2,304,119)
Mortgage Bonds						
Mortgage bond interest	135,000	360,000	(225,000)	311,918	720,000	(408,082)
Accretion of debt component	46,363	109,004	(62,641)	772,954	218,445	554,509
Amortization of transaction costs	31,725	68,211	(36,486)	533,899	133,630	400,269
Total - mortgage bonds	213,088	537,215	(324,127)	1,618,771	1,072,075	546,696
Debentures						
Interest on debentures	598,846	592,824	6,022	1,181,506	1,185,648	(4,142)
Amortization of transaction costs	64,174	63,774	400	135,058	125,112	9,946
Total - debentures	663,020	656,598	6,422	1,316,564	1,310,760	5,804
Total interest expense - investment properties	5,745,943	6,609,966	(864,023)	12,700,225	14,451,844	(1,751,619)
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	186,490	182,862	3,628	344,147	367,947	(23,800)
Amortization of transaction costs	68,926	13,583	55,343	68,926	22,167	46,759
Total interest expense - discontinued operations	255,416	196,445	58,971	413,073	390,114	22,959
Total - interest expense	$ 6,001,359	$ 6,806,411	$ (805,052)	$ 13,113,298	$ 14,841,958	$ (1,728,660)

	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Cash and Non-cash Component						
Non-cash component						
Accretion	$ 46,363	$ 109,004	$ (62,641)	$ 772,954	$ 218,445	$ 554,509
Amortization of transaction costs	723,123	510,289	212,834	1,716,650	1,763,459	(46,809)
Change in value of interest rate swaps	(82,714)	(72,791)	(9,923)	(157,426)	(141,251)	(16,175)
Total non-cash component	686,772	546,502	140,270	2,332,178	1,840,653	491,525
Cash component						
Interest	5,314,587	6,259,909	(945,322)	10,781,120	13,001,305	(2,220,185)
Total cash component	5,314,587	6,259,909	(945,322)	10,781,120	13,001,305	(2,220,185)
Total - interest expense	$ 6,001,359	$ 6,806,411	$ (805,052)	$ 13,113,298	$ 14,841,958	$ (1,728,660)

Cash Component of Interest Expense - General

The cash component of interest expense consists of mortgage loan interest, including mortgage loan interest in discontinued operations, interest on the revolving loan and interest on acquisition payable as well as mortgage bond interest and debenture interest.

During the second quarter of 2014, the total cash component of interest expense decreased by $945,322 or 15%, compared to the second quarter of 2013. The decrease reflects a decrease of $948,950 in the cash component of interest expense for investment properties, partially offset by an increase of $3,628 in the cash component of interest expense for discontinued operations.

As a percentage of net operating income for both investment properties and discontinued operations and after including the income recovery on Parsons Landing, the cash component of interest on mortgage loans and acquisition payable, decreased from 74% during the second quarter of 2013 to 72% during the second quarter of 2014.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 84% for the second quarter of 2014, compared to 87% for the second quarter of 2013. The decrease in the interest-to-net operating income ratio reflects a decrease in the cash component of interest expense which was proportionately greater than the decrease in net operating income and insurance recoveries.

Cash Component of Interest Expense - Investment Properties

Interest on Mortgage Loans and Acquisition Payable

Mortgage loan interest for investment properties increased by $170,028 or 4.0% during the second quarter of 2014, compared to the second quarter of 2013, comprised of an increase in interest expense on mortgage loan debt of $2,252 and an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $167,776. The modest increase in interest expense on mortgage loan debt mainly reflects the new first mortgage loan for Parsons Landing, almost entirely offset by a reduction in interest stemming from a decrease in the weighted average interest rate of mortgage loan debt and the elimination of the mortgage loan debt for Nova Court and the Purolator Building.

After accounting for the $900,000 reduction in interest expense resulting from the elimination of the acquisition payable, interest on mortgage loans and acquisition payable decreased by $729,972 during the second quarter of 2014 compared to the second quarter of 2013.

Mortgage Bond Interest

Interest on the mortgage bonds decreased $225,000 during the second quarter of 2014 compared to the second quarter of 2013. The decrease in interest on the mortgage bonds is due to the redemption of $10 Million of mortgage bonds during the first quarter of 2014.

Debenture Interest

During the second quarter of 2014, interest on debentures amounted to $598,846, compared to $592,824 during the second quarter of 2013.

Cash Component of Interest Expense - Discontinued Operations

The cash component of interest expense for discontinued operations consists of interest payments on mortgage loans. Mortgage loan interest payments for discontinued operations increased by $3,628 or 2% during the second quarter of 2014, compared to the second quarter of 2013. The increase is mainly due to the upward refinancing of the mortgage loan debt of Elgin Lodge in April 2014.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense increased by $140,270 during the second quarter of 2014, compared to the second quarter of 2013. The increase mainly reflects a net increase in total amortization charges for transaction costs of $212,834, partially offset by a decrease in accretion of $62,641 as a result of the partial redemption of mortgage bonds.

The increase in amortization charges mainly consists of an increase in amortization charges for mortgage loans of $248,920, partially offset by a decrease in amortization charges for mortgage bonds of $36,486.

Six Month Comparative for Interest Expense

For the six month period ended June 30, 2014, total interest expense decreased by $1,728,660, compared to the same period in 2013. The decrease is comprised of a decrease in interest expense for investment properties of $1,751,619, partially offset by an increase in interest expense for discontinued operations of $22,959.

The decrease in interest expense for investment properties is comprised of a $2,196,385 decrease in the cash component of interest expense, partially offset by a $444,766 increase in the non-cash component of interest expense. The decrease in the cash component is mainly due to a decrease in interest on mortgage loans, acquisition payable and mortgage bonds. The increase in the non-cash component is mainly due to the lump-sum amortization charge which was recorded in the first quarter of 2014 in regard to the repayment of $10 Million of mortgage bond debt.

Mortgage loan/acquisition payable interest decreased during the six month period ended June 30, 2014 as the incremental interest associated with the new mortgage loan debt for Parsons Landing was substantially lower during the first quarter of the year.

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

Amortization charges for mortgage loans fluctuate from quarter to quarter depending on the extent of new financing activity and level of transaction costs incurred during the financing process.

Trust Expense

During the second quarter of 2014, trust expense decreased by $191,371, compared to the second quarter of 2013. For the six months ended June 30, 2014, trust expense decreased by $101,983 compared to the six months ended June 30, 2013. The decrease in both the quarterly and six month comparatives is mainly due to a one-time charge of $190,000 associated with the write down of a loan receivable in the second quarter of 2013.

Gain on Sale of Investment Properties

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

During the first six months of 2014, the Trust sold one condominium unit at Lakewood Townhomes, with the sale occurring in the first quarter of the year. During the first six months of 2013, the Trust sold two condominium units at Lakewood Townhomes, with one sale occurring in the first quarter of the year and one sale occurring in the second quarter of the year.

Fair Value Adjustments and Fair Value Adjustment of Parsons Landing

During the first six months of 2014, a fair value loss of $684,592 was recorded, compared to a fair value gain of $3,494,282 during the same period in 2013, including the fair value adjustment on Parsons Landing. Fair value gains/losses are included in the income of the Trust and are disclosed as positive or negative fair value "adjustments".

After accounting for fair value adjustments, capital expenditures and property dispositions, the carrying value of investment properties decreased by $137,512 during the first six months of 2014.

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

Discontinued Operations

Income from discontinued operations includes the net operating income, interest expense and income tax for the seniors' housing complexes.

Analysis of Income from Discontinued Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Rental income	$ 1,295,639	$ 1,275,736	$ 2,582,600	$ 2,670,218
Property operating costs	884,522	910,648	1,901,891	1,800,776
Net operating income	411,117	365,088	680,709	869,442
Interest expense	255,416	196,445	413,073	390,114
Tax expense (recovery)	-	(187,088)	-	(108,497)
Income from discontinued operations	$ 155,701	$ 355,731	$ 267,636	$ 587,825

During the second quarter of 2014, LREIT generated income from discontinued operations of $155,701, compared to $355,731 during the second quarter of 2013, representing a decrease of $200,030. For the six month period ended June 30, 2014, income from discontinued operations decreased by $320,189, compared to the six month period ended June 30, 2013. The decrease in the second quarter is mainly due to a decrease in income tax recoveries and an increase in interest expense, partially offset by an increase in net operating income. The decrease during the six month period ended June 30, 2014 is mainly due to a decrease in net operating income and the elimination of income tax recoveries.

The variance between the increase in NOI for the second quarter comparatives and the decrease in NOI for the six month comparatives mainly reflects a higher level of property operating costs during the first quarter of 2014, particularly in regard to maintenance and utility expenses.

Operating income for discontinued properties is earned in subsidiary operating companies which are subject to income tax and deferred income tax. In the first quarter of 2013, LREIT recorded a net income tax expense of $78,591 for discontinued operations and in the second quarter of 2013, LREIT recorded an income tax recovery of $187,088. The net result for the six months ended June 30, 2013 is a tax recovery of $108,497.

Comparison to Preceding Quarter

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	June 30, 2014	March 31, 2014	Amount	%
Rentals from investment properties	$ 9,975,172	$ 8,908,725	$ 1,066,447	12.0 %
Property operating costs	4,050,521	4,404,658	354,137	8.0 %
Net operating income	5,924,651	4,504,067	1,420,584	31.5 %
Interest income	206,779	385,218	(178,439)	(46.3)%
Interest expense	(5,745,943)	(6,954,282)	1,208,339	17.4 %
Trust expense	(599,264)	(620,685)	21,421	3.5 %
Income recovery on Parsons Landing	-	98,499	(98,499)	(100.0)%
Loss before the following	(213,777)	(2,587,183)	2,373,406	91.7 %
Gain on sale of investment properties	-	71,235	(71,235)	(100.0)%
Fair value adjustments	(684,592)	-	(684,592)	n/m
Loss for the period before discontinued operations	(898,369)	(2,515,948)	1,617,579	64.3 %
Income from discontinued operations	155,701	111,935	43,766	39.1 %
Comprehensive loss	$ (742,668)	$ (2,404,013)	$ 1,661,345	69.1 %

During the second quarter of 2014, LREIT incurred a loss of $213,777, before gain on sale of investment properties, fair value adjustments, and discontinued operations, compared to a loss of $2,587,183 during the first quarter of 2014. The variance in quarterly results mainly reflects an increase in net operating income of $1,420,584 and a decrease in interest expense of $1,208,339, partially offset by a decrease in interest income of $178,439 and a decrease in income recovery on Parsons Landing of $98,499. The increase in operating income is mainly due to an improvement in the overall occupancy level of the portfolio of investment properties, including the lease-up of additional suites at Parsons Landing. The decrease in income recovery from Parsons Landing reflects the expiry of insurance coverage for revenue losses on February 5, 2014. During the first quarter of 2014, the NOI from Parsons Landing, combined with the income recovery amounted to $617,900, compared to NOI of $815,621 in the second quarter of 2014.

After accounting for the variance in fair value adjustments in the amount of $684,592 and a decrease in gain on sale of investment properties of $71,235, the loss of LREIT before discontinued operations decreased by $1,617,579 during the second quarter of 2014, compared to the first quarter of 2014.

Income from discontinued operations increased by $43,766 during the second quarter of 2014, compared to the first quarter of 2014.

After accounting for discontinued operations, LREIT completed the second quarter of 2014 with a comprehensive loss of $742,668, compared to a comprehensive loss of $2,404,013 during the first quarter of 2014.

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 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", "loss on warrant repurchases" and the "write down of note receivable" . Net interest paid consists of interest paid, net of interest received.

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

Due to the exclusion of non-cash expenses such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of the interest swap liability, there is a substantial difference between interest expense on the Income Statement and interest paid on the Statement of Cash Flows. Quarterly variances in accrued interest in regard to the Series G debentures and mortgage bonds also serve to increase "interest paid" by a substantial amount in the second and fourth quarters of the year, compared to the first and third quarters of the year. In 2013, "interest paid" was approximately $1.9 Million higher in the second and fourth quarters of the year compared to the first and third quarters. In 2014, "interest paid" is expected to be approximately $1.45 Million higher in the second and fourth quarters of 2014, compared to the first and third quarters. The decrease in the quarterly discrepancy reflects the redemption of $10 Million of mortgage bonds in January of 2014.

Q2 2014 vs Q2 2013 Comparatives

Cash from Operating Activities

	Three Months Ended June 30 2014	Three Months Ended June 30 2013	Increase (Decrease)
Net operating income			
Investment properties	$ 5,924,651	$ 6,086,722	$ (162,071)
Discontinued operations	411,117	365,088	46,029
Total net operating income	6,335,768	6,451,810	(116,042)
Accrued rent receivable	(119,896)	16,279	(136,175)
Net operating income - cash basis	6,215,872	6,468,089	(252,217)
Income recovery on Parsons Landing	-	742,500	(742,500)
Trust expense	(599,264)	(790,635)	191,371
Loss on warrant repurchases	2,395	-	2,395
Unit-based compensation	78,906	18,750	60,156
Write down of note receivable	-	190,000	(190,000)
Trust expense - cash basis	(517,963)	(581,885)	63,922
Interest paid			
Investment properties	(5,583,332)	(7,309,232)	1,725,900
Discontinued operations	(161,692)	(186,300)	24,608
Total interest paid	(5,745,024)	(7,495,532)	1,750,508
Interest received	206,779	178,023	28,756
Interest expense - cash basis	(5,538,245)	(7,317,509)	1,779,264
Income tax recovery - current	-	187,088	(187,088)
Cash provided by (used in) operating activities, before working capital adjustments	159,664	(501,717)	661,381
Working capital adjustments, net	(420,331)	288,531	(708,862)
Cash provided by (used in) operating activities	$ (260,667)	$ (213,186)	$ (47,481)

During the second quarter of 2014, the net cash provided by operating activities, excluding working capital adjustments, amounted to $159,664, compared to net cash used in operating activities of $501,717 during the second quarter of 2013, representing an increase in cash flow before working capital adjustments of $661,381. The increase reflects a decrease in interest paid of $1,750,508, partially offset by a decrease in the cash component of net operating income of $252,217, a decrease in the income recovery on Parsons Landing of $742,500, and a decrease in income tax recovery of $187,088. The decrease in interest paid mainly reflects a decrease in interest payments in regard to mortgage bonds, mortgage loans and the acquisition payable.

After providing for working capital adjustments, the cash provided by (used in) operating activities decreased by $47,481 during the second quarter of 2014, compared to the second quarter of 2013.

Six Months Comparatives

Cash from Operating Activities

	Six Months Ended June 30		Increase
	2014	2013	(Decrease)
Net operating income			
Investment properties	$ 10,428,718	$ 11,780,290	$ (1,351,572)
Discontinued operations	680,709	869,442	(188,733)
Total net operating income	11,109,427	12,649,732	(1,540,305)
Accrued rent receivable	(208,467)	(85,019)	(123,448)
Net operating income - cash basis	10,900,960	12,564,713	(1,663,753)
Income recovery on Parsons Landing	98,499	1,641,630	(1,543,131)
Trust expense	(1,219,949)	(1,321,932)	101,983
Loss on warrant repurchases	37,342	-	37,342
Unit-based compensation	97,656	63,593	34,063
Write down of note receivable	-	190,000	(190,000)
Trust expense - cash basis	(1,084,951)	(1,068,339)	(16,612)
Interest paid			
Investment properties	(10,284,914)	(13,045,133)	2,760,219
Discontinued operations	(320,794)	(372,843)	52,049
Total interest paid	(10,605,708)	(13,417,976)	2,812,268
Interest received	421,582	338,910	82,672
Interest expense - cash basis	(10,184,126)	(13,079,066)	2,894,940
Income tax expense - current	-	(177,237)	177,237
Cash provided by (used in) operating activities, before working capital adjustments	(269,618)	(118,299)	(151,319)
Working capital adjustments, net	727,592	29,108	698,484
Cash provided by (used in) operating activities	$ 457,974	$ (89,191)	$ 547,165

During the first six months of 2014, net cash provided by (used in) operating activities, excluding working capital adjustments, decreased by $151,319 compared to the first six months of 2013. The decrease mainly reflects a decrease in the cash component of net operating income of $1,663,753 and a decrease in the income recovery on Parsons Landing of $1,543,131, partially offset by a decrease in interest paid of $2,812,268.

The variance in the cash flow results for the second quarter and six month comparatives is generally due to the same factors which affected the variance in NOI results and interest expense as disclosed in the preceding sections of this report.

Comparison to First Quarter of 2014

Cash from Operating Activities

	Three Months Ended June 30 2014	Three Months Ended March 31 2014	Increase (Decrease)
Net operating income			
Investment properties	$ 5,924,651	$ 4,504,067	$ 1,420,584
Discontinued operations	411,117	269,592	141,525
Total net operating income	6,335,768	4,773,659	1,562,109
Accrued rent receivable	(119,896)	(88,571)	(31,325)
Net operating income - cash basis	6,215,872	4,685,088	1,530,784
Income recovery on Parsons Landing	-	98,499	(98,499)
Trust expense	(599,264)	(620,685)	21,421
Loss on warrant repurchases	2,395	34,947	(32,552)
Unit-based compensation	78,906	18,750	60,156
Trust expense - cash basis	(517,963)	(566,988)	49,025
Interest paid			
Investment properties	(5,583,332)	(4,701,582)	(881,750)
Discontinued operations	(161,692)	(159,102)	(2,590)
Total interest paid	(5,745,024)	(4,860,684)	(884,340)
Interest received	206,779	214,803	(8,024)
Interest expense - cash basis	(5,538,245)	(4,645,881)	(892,364)
Cash provided by operating activities, before working capital adjustments	159,664	(429,282)	588,946
Working capital adjustments, net	(420,331)	1,147,923	(1,568,254)
Cash provided by (used in) operating activities	$ (260,667)	$ 718,641	$ (979,308)

In comparison to the first quarter of 2014, the net cash provided by (used in) operating activities, excluding working capital adjustments, increased by $588,946 during the second quarter of 2014. The increase mainly reflects an increase in the cash component of net operating income of $1,530,784, partially offset by an increase in interest paid of $884,340. The increase in the cash component of net operating income mainly reflects the improvement in the overall occupancy level of the portfolio of investment properties.

The increase in interest paid reflects the timing of interest payments on the Series G debentures and mortgage bonds, as noted above, partially offset by a decrease in mortgage loan and acquisition payable interest.

After providing for working capital adjustments, the cash provided by (used in) operating activities decreased by $979,308 during the second quarter of 2014, compared to the first quarter of 2014.

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

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

During the first six months of 2014, the FFO deficiency increased by $1,289,043, compared to the first six months of 2013, while the AFFO deficiency increased by $639,820. On a basic per unit basis, the FFO deficiency increased by $0.056 per unit, compared to the first six months of 2013, while the AFFO deficiency increased by $0.018 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426
Add (deduct):				
Deferred taxes	-	-	-	(285,734)
Gain on sale of properties	-	(164,928)	(71,235)	(164,928)
Taxes on sale of discontinued operations	-	(187,088)	-	177,237
Fair value adjustments	684,592	(1,286,668)	684,592	(1,424,522)
Fair value adjustment of Parsons Landing	-	(1,769,760)	-	(2,069,760)
Funds from operations (FFO) *	(58,076)	(72,790)	(2,533,324)	(1,244,281)
Add (deduct):				
Straight-line rent adjustment	(119,896)	16,279	(208,467)	(85,019)
Accretion of debt component of mortgage bonds	46,363	109,004	772,954	218,445
Write down of note receivable	-	190,000	-	190,000
Unit-based compensation	78,906	18,750	97,656	63,593
Change in fair value of interest rate swaps	(82,714)	(72,791)	(157,426)	(141,251)
Capital expenditures on investment properties	(721,349)	(947,639)	(920,125)	(1,302,001)
Capital expenditures on property and equipment	(103,025)	(113,336)	(118,927)	(127,325)
Adjusted funds from operations (AFFO) *	$ (959,791)	$ (872,523)	$ (3,067,659)	$ (2,427,839)
FFO per unit *				
- basic and diluted	$ (0.003)	$ (0.004)	$ (0.122)	$ (0.066)
AFFO per unit *				
- basic and diluted	$ (0.046)	$ (0.046)	$ (0.147)	$ (0.129)

* 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 adjusting for capital expenditures and other items that impact available cash flow. 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 Loss

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Cash provided by (used in) operating activities	$ (260,667)	$ (213,186)	$ 457,974	$ (89,191)
Changes in working capital adjustments	420,331	(288,531)	(727,592)	(29,108)
	159,664	(501,717)	(269,618)	(118,299)
Add (deduct):				
Capital expenditures on investment properties	(721,349)	(947,639)	(920,125)	(1,302,001)
Capital expenditures on property and equipment	(103,025)	(113,336)	(118,927)	(127,325)
Distributable loss	$ (664,710)	$ (1,562,692)	$ (1,308,670)	$ (1,547,625)
Per unit				
- basic and diluted	$ (0.032)	$ (0.083)	$ (0.063)	$ (0.082)

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

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

After accounting for the decrease in capital expenditures, and the increase in cash flow, excluding working capital adjustments, as previously discussed, LREIT completed the first six months of 2014 with a distributable loss of $1,308,670, compared to a distributable loss of $1,547,625 during the first six months of 2013.

Distributions

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

For information regarding the "special" trust unit distribution made on December 31, 2013, please refer to the "Taxation" section of this report.

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $9,857,560 during the first six months of 2014. Financing activities consist of cash inflows and outflows related to the repayment of mortgage loan debt, mortgage loan refinancing activities for Parsons Landing and Elgin Lodge, including transaction costs, draws and repayments on the revolving loan commitment, the repayment of mortgage bonds, the payment of the acquisition payable, cash inflows related to the exercise of options and warrants and cash outflows related to the purchase of warrants under the normal course issuer bid (NCIB) of LREIT.

Additional information regarding the financing activities of LREIT is 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 $8,428,576 during the first six months of 2014. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties and discontinued operations of $920,125 and $118,927, respectively, and an increase in restricted cash of $90,415. Investing activities that resulted in a cash inflow during the period include the collection of mortgage loans receivable of $9,491,016 and a decrease in defeasance assets of $73,904.

Cash Flow Summary

During the first six months of 2014, the net cash outflow from operating, financing and investing activities was $1,007,854. After providing for the opening cash balance of $2,401,741, LREIT completed the first six months of 2014 with a cash balance of $1,393,887.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2014

Working Capital/Existing Cash

As of June 30, 2014, the unrestricted cash balance of LREIT was $1,393,887 and the working capital deficit was $7,870,494, representing an increase in the working capital deficit of approximately $3.6 Million compared to the working capital deficit as of December 31, 2013. The working capital deficit consists of current assets less current liabilities, excluding 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 $8,300,000 is included in the calculation of the working capital deficit.

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 working capital may differ from the method which is used by other issuers. Accordingly, working capital as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Cash Inflow from Operating Activities

The overall funding requirements of LREIT are affected by the level of cash inflows or outflows from operating activities. After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and the cash inflow from operating activities, LREIT completed the first six months of 2014 with a cash shortfall of $6.2 Million, compared to a shortfall of $6.9 Million during the first six months of 2013. Although the extent of the shortfall is expected to be lower in the second half of 2014, LREIT will continue to require other sources of cash to meet its ongoing funding commitments.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter). Effective January 1, 2014, the revolving loan commitment was renewed for a nine-month term to September 30, 2014 at an interest rate of 12% with a maximum balance of $15 Million. As of the date of this report, $5.2 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".

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust. The timing of property sales is uncertain.

Mortgage Loans Receivable

For the six months ended June 30, 2014, LREIT collected $9,491,016 of mortgage loans receivable, as follows:

- In February 2014, payment of a 5% second mortgage loan receivable of $500,000 was received in full.
- In May 2014, payment of two mortgage loans receivable with a combined balance of $8,991,016, including accrued interest, was received in full.

Upward Refinancing of Mortgage Loans

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

On May 1, 2014, the first mortgage loan of Elgin Lodge was upward refinanced, resulting in net proceeds of approximately $1.6 Million after transaction costs.

Details regarding mortgage loan transactions in 2014 are disclosed in the "Long-term Debt" section of the MD&A.

Debt and/or Equity Offerings

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

Exercise of Warrants

During 2010, LREIT issued 6.78 Million trust unit purchase warrants with an exercise price of $1.00 and 16 Million trust unit purchase warrants with an exercise price of $0.75. The warrants may be exercised prior to March 9, 2015 and December 23, 2015, respectively. During the first six months of 2014, 610,375 warrants were exercised, generating proceeds of $477,624. If all outstanding warrants were exercised as of the date of this report, LREIT would receive additional proceeds of $17,068,800. LREIT has a NCIB for the warrants which is reducing the number of unexercised outstanding warrants by a modest amount each quarter.

Uses of Funds - 2014

Long-term Debt Principal Payments

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for the second half of 2014 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

Payments Due by Period	Total	Remainder of 2014	2015/2016	2017/2018	2019 and beyond
Mortgage loans					
Investment properties *	$ 281,684,413	$ 45,352,888	$ 117,511,962	$ 91,382,238	$ 27,437,325
Properties held for sale	14,458,744	4,458,744	10,000,000	-	-
Total mortgage loans	296,143,157	49,811,632	127,511,962	91,382,238	27,437,325
Debentures and mortgage bonds **	30,873,000	-	6,000,000	24,873,000	-
Total	$ 327,016,157	$ 49,811,632	$ 133,511,962	$ 116,255,238	$ 27,437,325

* The amount due in "2017/2018" includes a mortgage loan of $15,590,677 which is subject to an interest rate swap arrangement. The loan matures in 2018 and is in breach of a global debt service coverage requirement. Under IFRS, mortgages in breach of debt covenants are classified as a current liability, regardless of the maturity date. If the above chart was adjusted to reflect the mortgage loan as a current liability, the total long-term debt due in 2014 would increase to $65,111,514.

** Reflects the face value of mortgage bonds.

Summary of Mortgage Loan Debt Due in 2014

The amount due for the remainder of 2014 for mortgage loans on investment properties of $45,352,888 consists of three mortgage loans, with maturity dates in 2014, in the aggregate amount of $39,083,735, a demand loan of $4,391,250, and regular principal payments of $1,877,903 for other mortgage loans.

Management expects that the three mortgage loans with maturity dates in 2014 will be renewed/ refinanced on similar terms at maturity or upward refinanced.

The mortgage loans on properties held for sale of $14,458,744 includes the mortgage loan debt of Chateau St. Michael's. The loan matured on June 1, 2014 and was renewed for one year at same terms.

An analysis of mortgage loans is provided in the "Mortgage Loans Payable" section of the MD&A.

Principal Payments - Debentures and Mortgage Bonds

As of June 30, 2014, the total face value of the 9% Series G debentures is $24,873,800. The terms of the debentures provide for the net proceeds from property sales to be applied to redeem the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness, if applicable, and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage loan and mortgage bond indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

At a meeting of the debenture holders on June 16, 2014, the maturity date of the Series G debentures was extended from February 28, 2015 to June 30, 2018.

LREIT has a NCIB in place for the Series G debentures. The current terms of the NCIB, as extended in June 2014, provide for the repurchase of debentures by LREIT to a maximum amount of $2,476,380 during the twelve month period ending June 22, 2015. For the period from January 1, 2014 to the date of this report, LREIT did not repurchase any debentures under its NCIB.

As of June 30, 2014, the total face value of the 9% mortgage bonds, due December 24, 2015, is $6,000,000.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. As of June 30, 2014, cash deposits in regard to future capital expenditures amount to $1,465,379.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $1.8 Million for the remainder of 2014.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan commitment and periodic credit support from Shelter, as required, will be sufficient to fund the projected funding commitments of LREIT for the remainder of 2014. As of the date of this report, $5.2 Million is available under the revolving loan commitment.

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

CAPITAL STRUCTURE

Capital Structure - June 30, 2014

	June 30, 2014		December 31, 2013	
	Amount	%	Amount	%
Long-term debt	$ 150,730,676	35.1 %	$ 154,124,845	38.1 %
Current portion of long-term debt	163,540,424	38.1 %	133,107,487	32.9 %
Equity	114,882,322	26.8 %	117,452,013	29.0 %
Total capitalization	$ 429,153,422	100.0 %	$ 404,684,345	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, 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 current and non-current portions, 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 was included in trade and other payables at December 31, 2013.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of June 30, 2014 increased by $28,247,816 or 9.4% compared to the total long-term debt as of December 31, 2013. The increase mainly reflects an increase in mortgage loan debt, partially offset by a decrease in mortgage bond debt.

	June 30 2014	December 31 2013	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 281,684,413	$ 244,586,398	$ 37,098,015
Interest rate swap liability	1,030,680	1,188,106	(157,426)
Mortgage bonds	5,685,962	14,913,008	(9,227,046)
Debentures	24,873,800	24,873,800	-
Defeased liability	2,614,957	2,644,615	(29,658)
Total secured long-term debt	315,889,812	288,205,927	27,683,885
Mortgage guarantee fees	-	91,362	(91,362)
Accrued interest payable	2,121,805	1,975,830	145,975
Unamortized transaction costs	(3,740,517)	(3,040,787)	(699,730)
Total long-term debt - Investment properties	314,271,100	287,232,332	27,038,768
Total long-term debt - Properties held for sale			
Mortgage loans	14,458,744	13,042,918	1,415,826
Unamortized transaction costs	(206,778)	-	(206,778)
Total long-term debt - Properties held for sale	14,251,966	13,042,918	1,209,048
Total long-term debt	$ 328,523,066	$ 300,275,250	$ 28,247,816

As of December 31, 2013, the amount payable in regard to the acquisition of Parsons Landing was $41,793,000, excluding the GST liability. If the acquisition payable was included in long-term debt at December 31, 2013, the chart above would reflect a decrease in the total long-term debt of investment properties of $14,754,232 during the first six months of 2014.

Mortgage Bonds

During the first quarter of 2014, LREIT repaid mortgage bonds with a face value of $10 Million. As of June 30, 2014, the remaining balance of the 9% mortgage bonds, due December 24, 2015, at face value, is $6 Million. The mortgage bonds are secured by second mortgage charges registered against four investment properties.

Debentures

As of June 30, 2014, LREIT has debentures outstanding with a face value of $24,873,800, due June 30, 2018.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of June 30, 2014, the total mortgage loan debt of LREIT increased by $38,513,841 compared to the amount payable as of December 31, 2013. As disclosed in the following chart, the increase is largely attributable to an increase in mortgage loan financing for investment properties, partially offset by regular repayments of principal.

	Six Months Ended June 30, 2014		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 50,000,000	$ 40,000,000	$ 10,000,000
Repayment of mortgage loans on refinancing	(8,104,208)	-	(8,104,208)
Net proceeds	41,895,792	40,000,000	1,895,792
Regular repayment of principal on mortgage loans	(2,930,796)	(2,450,830)	(479,966)
Reduction of mortgage loans on sale of properties	(451,155)	(451,155)	-
Increase (decrease) in mortgage loans	38,513,841	37,098,015	1,415,826
Total mortgage loans - December 31, 2013	257,629,316	244,586,398	13,042,918
Total mortgage loans - June 30, 2014	$ 296,143,157	$ 281,684,413	$ 14,458,744

If the acquisition payable on Parsons Landing of $41,793,000, excluding the GST liability, was included in mortgage loan payable at December 31, 2013, the chart above would reflect a decrease in mortgage loan debt of $3,279,159 during the first six months of 2014.

Net Proceeds (Repayment) of Mortgage Loan Financing

Investment Properties

The proceeds of mortgage loan financing of $40 Million as disclosed on the preceding chart, consist of the first mortgage loan which was obtained for Parsons Landing.

During the first quarter of 2014, the cash outflow in regard to the payment of the acquisition payable on Parsons Landing was $44 Million.

Discontinued Operations (Seniors' Housing Complexes)

The proceeds of mortgage loan financing of $1,895,792 as disclosed on the preceding chart, consist of the new first mortgage loan for Elgin Lodge of $10 Million less the amount required to discharge the previous first mortgage loan.

After accounting for transaction costs, the net cash inflow from mortgage financing activities for investment properties and discontinued operations was $40.7 Million during the first six months of 2014.

Regular Repayments of Principal

During the first six months of 2014, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $2,930,796, compared to $4,014,929 during the first six months of 2013.

Revolving Loan

As of June 30, 2014, the amount drawn on the revolving loan was $8,300,000, compared to $905,000 as of December 31, 2013, representing an increase of $7,395,000. During the first six months of 2014, funds were drawn on the revolving loan in order to redeem $10 Million of mortgage bonds related to the sale of Nova Court in 2013, to fund a portion of the cash payment on the completion of the acquisition of Parsons Landing and for general working capital purposes. During 2013 and the first six months of 2014, the interest rate on the revolving loan was 12%. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan commitment is included in mortgage loan interest.

Composition of Mortgage Loan Debt - June 30, 2014

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount June 30, 2014	Percentage of Total
Investment Properties			
Fixed rate			
2014	3.3 %	$ 25,995,545	8.8 %
2015	3.6 %	17,570,629	5.9 %
2016	9.2 %	7,687,461	2.6 %
2017	5.7 %	19,505,571	6.6 %
2018	4.5 %	76,948,730	25.9 %
2019	5.0 %	30,682,000	10.4 %
	4.7 %	178,389,936	60.2 %
Demand/variable rate	7.5 %	103,294,477	34.9 %
Principal amount		281,684,413	95.1 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	3.4 %
Demand/variable rate	5.0 %	4,458,744	1.5 %
Principal amount		14,458,744	4.9 %
Total		$ 296,143,157	100.0 %

(1) The year of maturity is based on the contractual loan obligation and does not reflect the IFRS Financial Statement disclosure requirement to disclose fixed term loans which are secured by a demand promissory note as a current liability.

(2) As of June 30, 2014, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 5.7%, 6.6% and 5.7%, respectively, compared to 5.4%, 5.0% and 5.4% at December 31, 2013.

Mortgage Loan Debt Summary

	2014		2013	
	Q 2	Q 1 *	Q 4	Q 3
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.7%	4.8%	4.5%
Variable rate mortgage loans	7.5%	7.5%	7.2%	7.7%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.2%	6.3%	5.9%	6.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations **	66%	66%	65%	64%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations **	73%	73%	76%	73%

	2013		2012	
	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.6%	4.9%	5.0%	5.0%
Variable rate mortgage loans	7.7%	8.5%	9.0%	9.0%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.2%	7.0%	7.4%	7.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations **	66%	67%	68%	72%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations **	76%	77%	78%	81%

* Commencing in Q1 2014, the weighted average interest rate statistics include a first mortgage loan on Parsons Landing and the loan ratios include the property value and first mortgage loan for Parsons Landing. Statistics prior to Q1 2014, exclude the amount payable on acquisition of Parsons Landing and the property value of Parsons Landing.

** Excludes the revolving loan.

Long-term Debt Maturities

All mortgage loans for investment properties and discontinued operations which matured on or prior to June 30, 2014 have been renewed or refinanced.

Debt Covenant Breaches

For investment properties, one mortgage loan with a principal balance of $15,590,677 and the related interest swap liability of $1,030,680 are in breach of debt service coverage requirement as of June 30, 2014. The mortgage loan matures on May 1, 2018. The covenant breach is expected to be eliminated as a result of refinancing the mortgage loan in the third quarter of 2014.

A summary of the mortgage loan debt which matures during 2014 is provided in the "Capital Resources and Liquidity" section of this report.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2013	19,423,011
- June 30, 2014	20,100,386
- August 14, 2014	20,151,886

As of June 30, 2014, LREIT had 20,100,386 units outstanding, representing an increase of 677,375 units or 3.49%, compared to the number of units outstanding as of December 31, 2013.

The increase in the number of units outstanding mainly reflects the exercise of 610,375 warrants during the first six months of 2014 for cash proceeds of $477,624.

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.

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

Shelter 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 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 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. In May 2014, the independent trustees of LREIT approved an extension of the term of the Services Agreement to December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to the Property Management Agreement. Shelter 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 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 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 is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. In May 2014, the independent trustees of LREIT approved an extension of the term of the Property Management Agreement to December 31, 2024.

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

During the first six months of 2014, the fees payable to Shelter for investment properties included service fees of $674,224 and property management fees of $802,585.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

LREIT has entered into an agreement with Shelter, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter will administer the sales program and completion of the in-suite renovations. LREIT pays a service fee equal to 5% of the gross sales proceeds. Shelter 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 increases by the amount of the increase in the fixed rate. LREIT also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During the first six months of 2014, LREIT incurred service fees in regard to the condominium sales program of $24,932 and renovation fees of nil.

Loans

Revolving Loan

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter. As of June 30, 2014, the revolving loan commitment was secured by mortgage charges against the title to four investment properties and two seniors' housing complexes.

A summary of the terms for the revolving loan commitment from January 1, 2013 are provided in the following chart.

Revolving Loan Term					
From	**To**	**Renewal Fees**	**Interest Rate**	**Maximum Interest Charge**	**Maximum Loan Commitment**
January 1, 2013	June 30, 2013	$ 25,000	12.00%	$ 379,916	$ 12,000,000
July 1, 2013	December 31, 2013	25,000	12.00%	872,637	15,000,000
January 1, 2014	September 30, 2014	25,000	12.00%	1,181,357	15,000,000

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.

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.

During the first six months of 2014, interest on the loan commitment amounted to $731,971, compared to $379,916 during the first six months of 2013.

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) multiple years of sustaining a cash deficiency from operations, (ii) the breach of debt covenant requirements which, as of the date of this report, remains on one mortgage loan and the related interest rate swap liability in the aggregate amount of $16,621,357, (iii) the impact of rental market conditions in Fort McMurray on rental rates and occupancy levels and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit, (v) the reliance on Shelter 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 NOI cash flow contribution 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. 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 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 resulted in improved occupancy levels, rental rate increases in 2013 and, notwithstanding the decrease in occupancy levels in the first three months of 2014, occupancy levels trended upwards and are expected to stabilize during the second half of the year. In addition, the Trust has sold 23 properties under its divestiture program and renewed or refinanced all mortgage loans which have matured as of the date of this report. The Trust also obtained approval from the debenture holders for the extension of the maturity date for the Series G debentures to June 30, 2018 and eliminated all covenant breaches on mortgage loan debt, with the exception of one mortgage loan which is in breach of a debt service coverage requirement. The covenant breach is expected to be eliminated as a result of refinancing the mortgage loan in the third quarter of 2014.

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.

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

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 2014 depending on the timing of upward refinancings or property sales.

Credit Support from Shelter

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

The continuation of interim funding from Shelter 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 June 30, 2014, LREIT sold 23 properties and 17 condominium units at Lakewood Townhomes for a combined gross selling price of $261.3 Million.

During the first six months of 2014, the Trust sold one condominium unit at Lakewood Townhomes for gross proceeds of $474,900.

The primary focus of LREIT in regard to current divestiture activities is to pursue the sale of its two seniors' housing complexes and complete the condominium sales program for Lakewood Townhomes. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust.

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.

Concentration of the Portfolio of LREIT in One Market

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

At June 30, 2014, there were 22 properties in the real estate portfolio of LREIT comprised of 20 properties in the investment property portfolio and 2 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of one commercial property, 18 residential properties and one mixed residential/commercial property, comprising a total of 1,917 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, including Parsons Landing. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 57% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $316.0 Million, which represents approximately 75% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 60% of investment property revenue during the first six months of 2014 and 63% of the net operating income. Parsons Landing did not achieve its full revenue and NOI potential during the first six months of 2014 as the property commenced the year under lease-up. The lease-up phase was essentially completed in May 2014.

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 in 2013, 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. Although activity in the oil sands industry remains strong, the overall occupancy level of the Fort McMurray portfolio decreased during the first six months of 2014 mainly due to a tightening of market conditions in the first quarter of the year. 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.

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.

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

Mortgage Maturities

To the date of this report, all mortgage loans which have matured have been renewed or refinanced.

Covenant Breach

As of June 30, 2014, LREIT is in breach of a debt service covenant requirement associated with one mortgage loan and a related interest rate swap liability in the aggregate amount of $16.6 Million. The covenant breach is expected to be eliminated as a result of refinancing the mortgage loan in the third quarter of 2014. The mortgage loan matures on May 1, 2018.

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

Payment of Cash Distributions

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

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

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

Tax Treatment of LREIT

The annual determination of LREIT's status in regard to qualifying for the REIT Exception has a significant impact on the tax treatment of the Trust. The determination as to whether LREIT qualifies for the REIT Exception is subject to uncertainty and, as such, there is a risk that the tax treatment of the Trust may be less favourable than anticipated. Details regarding the REIT Exception are provided in the "Taxation" section of this report.

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

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

Conflicts of Interest

There are potential conflicts of interest to which Trustees and officers of LREIT are, or may become, subject to in connection with the operations of LREIT. Arni Thorsteinson, a Trustee and Chief Executive Officer of LREIT, is also a director and officer of Shelter and the director and the President of 2668921 Manitoba Ltd., the parent company of Shelter. Shelter provides Asset and Property Management services to LREIT and is also engaged in a wide range of real estate and other business activities, including the development and management of real estate. Kenneth Dando, the Chief Financial Officer of LREIT, is also an employee of Shelter.

Shelter and its affiliates and associates and its directors and officers, including Mr. Thorsteinson, may become involved in transactions in which their interests actually, or are perceived to, conflict with the interests of LREIT. Such conflicts will be subject to the procedures and remedies set out in the CBCA.

Shelter has granted LREIT a right of first refusal to acquire interests in multi-family residential properties on the terms and conditions available to Shelter and/or its affiliates, subject to limited exceptions in the case of properties which are managed by Shelter and/or its affiliates outside of the LREIT portfolio.

Shelter also provides asset management services to Temple Hotels Inc. ("Temple"), a corporation with a primary focus of acquiring hotel businesses and assets. Mr. Thorsteinson is a Director and President and Chief Executive Officer of Temple. Temple acquired Siena Apartments from LREIT in 2012 and Nova Court from LREIT on December 31, 2013.

Mr. Thorsteinson abstained from voting on the sale of Siena Apartments and Nova Court by LREIT to Temple. The sales were approved by the Independent Trustees of LREIT. In addition, an independent third party appraisal was obtained for both properties which supported the consideration received by LREIT.

Other

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

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 interest rate swap liability: 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;

- 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;

- 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; and

- determination of the status of the Trust for income tax purposes: qualification for the REIT Exception is subject to uncertainties in the interpretation and application of the SIFT Rules and can only be determined for a given year after the year has ended.

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.

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2013, are referred to as the "SIFT Rules". LREIT became a SIFT trust 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 trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust 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.

The REIT Exception is applied on an annual basis. Previously, LREIT did not qualify for the REIT Exception and therefore was subject to the SIFT Rules in 2011 and 2012. Prior to the end of 2012, LREIT disposed of certain non-qualifying properties, including its interests in two seniors' housing complexes. As a result of the disposition of certain non-qualifying properties and other transactions, it has been determined that LREIT qualified for the REIT Exception in 2013.

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 2014 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 2014 or any subsequent year.

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.

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

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 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 paid by LREIT since inception, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009, December 2010 and December 2013.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the first six months of 2014 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2014 Second Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 14, 2014

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
2014 SECOND QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of June 30, 2014

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2014
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	94 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	84 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	67 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	58 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	76 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	91 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	89 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	97 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	76 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	92 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	82 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	99 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	91 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	99 %
Westhaven Manor	Edson	4,050,000	May 2007	48	88 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	83 %
Colony Square (3)	Winnipeg	29,907,700	October 2008	428	95 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	98 %
Total - Residential		360,822,188	Total suites	1,917	
COMMERCIAL					
Retail and Office					
Colony Square (3)	Winnipeg, MB	7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd. (4)	Airdrie, AB	1,600,000	June 2003	39,936	- %
Total - Commercial		9,531,600	Total leasable area	123,126	
Total investment properties		370,353,788			
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	98 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	70 %
Total seniors' housing complexes		25,722,000	Total suites	208	
Total real estate portfolio		$ 396,075,788			

Notes to the Property Portfolio:

(1) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of June 30, 2014 has been reduced to 47 to account for the sale of 17 condominium units. Seven units are unoccupied and held as available for sale and are not included in the occupancy statistic.

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

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

(4) Subsequent to June 30, 2014, a long term commercial lease for 100% of the property has been executed.