MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2014

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Unitholder Returns

	Three Months Ended March 31, 2014 (Per unit)	Year Ended December 31, 2013 (Per unit)
Opening price	$1.07	$0.65
Closing price	$1.47	$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 First Quarter Report

Results of Operation

LREIT completed the first quarter of 2014 with a comprehensive loss of $2,404,013, compared to a comprehensive loss of $812,228 during the first quarter of 2013.

Key Points:

– during the first quarter of 2014, operating income amounted to $4,504,067. After including income recoveries on Parsons Landing, the total operating income and income recoveries derived from investment properties amounted to $4,602,566, representing a decrease of $1,990,132, compared to the first quarter of 2013. The decrease is mainly due to a decrease in the occupancy level of the Fort McMurray property portfolio and the sale of two properties in the fourth quarter of 2013 (the Purolator Building and Nova Court).
– interest expense decreased by $887,596 or 11% during the first quarter of 2014, mainly due to a reduction of mortgage loan debt and a decrease in the weighted average interest rate of debt.
– during the first quarter of 2014, LREIT did not record any fair value gains or losses in regard to its investment properties, including Parsons Landing, compared to fair value gains of $437,854 in the first quarter of 2013.

The reduced occupancy level of the Fort McMurray property portfolio in the first quarter of 2014, compared to the first quarter of 2013, reflects 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 winter demand due to delays in the commencement of municipal and oil sands infrastructure projects. As of April 30, 2014, the occupancy level of the Fort McMurray portfolio, excluding Parsons Landing, has improved to 87%, compared to 80% for the first quarter of 2014 and 91% for the entire year in 2013. The occupancy level of the Fort McMurray portfolio, including Parsons Landing, at June 1, 2014 is expected to be 91%.

Cash Flow Results

During the first quarter of 2014, the cash outflow from operating activities, excluding working capital adjustments, amounted to $0.4 Million, compared to a cash inflow of $0.4 Million during the first quarter of 2013. Including working capital adjustments, LREIT completed the first quarter of 2014 with a cash inflow from operating activities of $0.7 Million, compared to a cash inflow of $0.1 Million during the first quarter of 2013.

Key Events

First Quarter of 2014

Closing of Parsons Landing: On March 6, 2014, the purchase of Parsons Landing was completed and the current liability, "Acquisition payable on Parsons Landing" was eliminated from the financial statements of the Trust. The acquisition was funded by $39,290,000 of net proceeds from a $40,000,000 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 strengthened the overall financial position of LREIT going forward by eliminating prior period uncertainties regarding the finalization of the property ownership and the forgiveness of excess interest.

Repayment of Mortgage Bonds: In January 2014, the Trust redeemed $10 Million of the 9% mortgage bonds which were secured in part by the Nova Court property, which was sold in December 2013. As of March 31, 2014, the face value of the remaining mortgage bonds, maturing December 24, 2015, is $6 Million.

Subsequent to March 31, 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 $1.7 Million.

Mortgage loans receivable: The mortgage loans receivable which were provided by LREIT on the sale of the Clarington Seniors' Residence in 2012 matured on May 8, 2014. Repayment of the $9.0 Million is expected to be received by June 30, 2014.

LREIT is seeking approval from the holders of the Series G debentures to extend the maturity date from February 28, 2015 to June 30, 2018. A meeting of the debenture holders is scheduled for June 16, 2014 to approve the proposed extension.

Debt Position and Refinancing Initiatives

As of March 31, 2014, the total debt of LREIT, including the revolving loan, was equal to 76% of the carrying value of the total property portfolio. As of March 31, 2014, the weighted average interest rate of the total debt of LREIT, including the revolving loan, was 6.3%, compared to 6.9% as of March 31, 2013 and 5.9% as of December 31, 2013.

LREIT is pursuing a number of upward refinancing opportunities with the objective of generating sufficient funds from refinancing activities and the collection of the mortgage loans receivable to be in a position to fully repay the remaining $6 Million balance of the 9% mortgage bonds and substantially reduce the balance of the revolving loan.

Outlook

The primary objective of LREIT for 2014 is to improve its overall liquidity position through the refinancing of existing mortgage loan debt at lower interest rates and the completion of additional property sales, with a focus on the two remaining seniors' housing complexes. The overriding goal is to increase the market price of the trust units to better reflect the net asset value of the units.

The "lease up" of Parsons Landing and the financing transactions which are expected to be completed this year should provide LREIT with a solid foundation for future growth. The continuation of strong activity in the oil sands industry and higher stabilized occupancy levels for the Fort McMurray property portfolio should provide earnings growth for the remainder of 2014.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 13, 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 three months ended March 31, 2014 with reference to the Annual Report for 2013.

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with breaches of covenants under financing agreements, risks associated with delayed acquisition of properties, debt financing, availability of cash for distributions, the taxation of trusts, public markets, real property ownership, liquidity, interest and financing risk, credit risk, concentration of portfolio in one market, future property acquisitions, dependence on natural resources industries, reliance on single or anchor tenants, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, multi-family residential sector risk, environmental risks, other tax-related risk factors, supply risk, utility and property tax risk, government regulation, nature of Units, dilution, competition, general economic conditions, current economic conditions, relationship with the property manager, reliance on key personnel, reliance on Shelter Canadian Properties Limited ("Shelter") 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 March 31, 2014 will be referred to as the "Financial Statements"; the condensed consolidated statements of financial position as of March 31, 2014 will be referred to as the "Statement of Financial Position"; the condensed consolidated statements of comprehensive income (loss) for the three months ended March 31, 2014 will be referred to as the "Income Statement"; and the condensed consolidated statements of cash flows for the three months ended March 31, 2014 will be referred to as the "Statement of Cash Flows".

FINANCIAL SUMMARY

	March 31	December 31	
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 466,414,471	$ 468,072,319	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 329,119,264	$ 301,147,731	$ 323,026,417
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.4 %	7.1 %
- Total debt	6.3 %	5.9 %	7.4 %

	Three Months Ended March 31		
	2014	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS (2)			
Operating Results			
Rentals from investment properties	$ 8,908,725	$ 9,768,888	$ 10,383,920
Net operating income *	$ 4,504,067	$ 5,693,568	$ 5,958,714
Loss before taxes and discontinued operations *	$ (2,515,948)	$ (1,044,322)	$ (26,418,131)
Loss and comprehensive loss	$ (2,404,013)	$ (812,228)	$ (26,085,895)
Cash Flows			
Cash provided by (used in) operating activities	$ 718,641	$ 123,995	$ (954,913)
Funds from Operations (FFO) *	$ (2,475,248)	$ (1,171,491)	$ (1,432,774)
Adjusted Funds from Operations (AFFO) *	$ (2,107,868)	$ (1,555,316)	$ (1,572,616)
Distributable income (loss)*	$ (643,960)	$ 15,067	$ 510,651
Per Unit			
Net operating income *			
- basic	$ 0.218	$ 0.303	$ 0.321
- diluted	$ 0.157	$ 0.300	$ 0.320
Loss before taxes and discontinued operations *			
- basic and diluted	$ (0.122)	$ (0.056)	$ (1.425)
Loss and comprehensive loss			
- basic and diluted	$ (0.116)	$ (0.043)	$ (1.407)
Cash provided by (used in) operating activities			
- basic	$ 0.035	$ 0.007	$ (0.052)
- diluted	$ 0.025	$ 0.007	$ (0.052)
Funds from Operations (FFO) *			
- basic and diluted	$ (0.120)	$ (0.062)	$ (0.077)
Adjusted Funds from Operations (AFFO) *			
- basic and diluted	$ (0.102)	$ (0.083)	$ (0.085)
Distributable income (loss) *			
- basic	$ (0.031)	$ 0.001	$ 0.028
- diluted	$ (0.031)	$ 0.001	$ 0.027

(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. The sale of other properties will continue to be considered as opportunities arise and with consideration to the overall cash needs of the Trust.

Highlights of 2014 Q1 Results and Key Issues/Events

1. Background Information

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

- Fort McMurray: Includes all multi-family properties in Fort McMurray, with the exception of Parsons Landing. There were 12 properties in this category in the first quarter of 2014 and throughout 2013, including Lakewood Townhomes. The number of revenue-generating units at Lakewood Townhomes decreased from 51 as of January 1, 2013 to 47 as of March 31, 2014 due to condominium sales.

- Other Investment Properties: Reflects the operating results of the five other investment properties of LREIT.

- Properties sold: Includes the operating results of the two investment properties which were sold in 2013, namely, the Purolator building which was sold on October 1, 2013 and Nova Court which was sold on December 31, 2013.

- 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. Parsons Landing consists of 160 suites. During the first quarter of 2013, all of the suites were under reconstruction; the property did not contribute to net operating income; and insurance proceeds for revenue losses for suites under reconstruction was recorded under the line title "Income recoveries" on the Income Statement. On June 1, 2013, 84 suites at Parsons Landing were reconstructed and returned to rental operations. Effective October 3, 2013, the remaining 76 suites were completed and the entire property returned to active rental operations.

  For the period from January 1 to February 5, 2014, all reconstructed suites which have completed the initial lease-up phase are contributing to net operating income and the "income recoveries" are received for suites which have not completed the initial lease-up phase. Subsequent to February 5, 2014, insurance proceeds are no longer available.

1. Background Information (continued)

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 incurred, 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 March 31		
	2014	2013	Increase (Decrease) in income
Net operating income			
Fort McMurray properties	$ 2,813,728	$ 3,889,521	$ (1,075,793)
Other investment properties	1,251,971	1,343,750	(91,779)
Sub-total	4,065,699	5,233,271	(1,167,572)
Properties sold	(81,033)	460,297	(541,330)
Parsons Landing	519,401	-	519,401
Total net operating income	4,504,067	5,693,568	(1,189,501)
Interest income	385,218	298,301	86,917
Interest expense	(6,954,282)	(7,841,878)	887,596
Trust expense	(620,685)	(531,297)	(89,388)
Income recovery on Parsons Landing	98,499	899,130	(800,631)
Loss before the following	(2,587,183)	(1,482,176)	(1,105,007)
Gain on sale of investment properties	71,235	-	71,235
Fair value gains	-	137,854	(137,854)
Fair value adjustment of Parsons Landing	-	300,000	(300,000)
Loss before discontinued operations	(2,515,948)	(1,044,322)	(1,471,626)
Income from discontinued operations	111,935	232,094	(120,159)
Loss and comprehensive loss	$ (2,404,013)	$ (812,228)	$ (1,591,785)

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 first quarter of 2014, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing and discontinued operations increased by $1.1 Million compared to the first quarter of 2013. The increase in the loss is mainly due to a decrease of $1.2 Million in net operating income and a decrease of $0.8 Million in the income recovery on Parsons Landing, partially offset by a decrease of $0.9 Million in interest expense.

During the first quarter of 2014, the net loss of LREIT was $2.4 Million, compared to a net loss of $0.8 Million during the first quarter of 2013. In addition to the variables noted in the preceding paragraph, the increase in the loss mainly reflects the the decrease in fair value adjustments of Parsons Landing and a decrease in income from discontinued operations, compared to the first quarter of 2013.

2. Comparative Income Results (continued)

Occupancy/Rental Rate Comparison

	Three Months Ended March 31	
	2014	2013
Average occupancy level		
Fort McMurray	80%	93%
Other investment properties	89%	95%
Total	82%	94%
Properties sold	n/a	100%
Parsons Landing	69%	n/a
Average rental rate		
Fort McMurray	$2,337	$2,259
Other investment properties	$933	$922
Total	$1,672	$1,627
Properties sold	n/a	$2,550
Parsons Landing	$2,744	n/a

3. Comparative Cash Flow Results

	Three Months Ended March 31		
	2014	2013	Increase (Decrease)
Cash provided by (used in)			
Operating activities before working capital adjustments	$ (429,282)	$ 383,418	$ (812,700)
Working capital adjustments	1,147,923	(259,423)	1,407,346
Operating activities	$ 718,641	$ 123,995	$ 594,646

During the first quarter of 2014, the cash provided by (used in) operating activities before working capital adjustments decreased by $0.8 Million, compared the first quarter of 2013. The decrease reflects a decrease in the cash component of net operating income of $1.4 Million, a decrease in the income recovery on Parsons Landing of $0.8 Million, partially offset by a decrease in the cash component of interest expense of $1.0 Million.

4. Interest Expense

	Three Months Ended March 31		
	2014	2013	Increase (Decrease)
Interest expense			
Investment properties	$ 6,954,282	$ 7,841,878	$ (887,596)
Discontinued operations	157,657	193,669	(36,012)
Total interest expense	$ 7,111,939	$ 8,035,547	$ (923,608)

Key Variables	March 31 2014	March 31 2013
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.7 %	6.6 %
Seniors' housing complexes	5.0 %	5.0 %
Combined operations	5.7 %	6.5 %

The decrease in interest expense for investment properties of $0.9 Million is mainly due to a decrease in mortgage loan interest of $0.8 Million, a decrease in amortization of transaction costs of $0.3 Million, a decrease in mortgage bond interest of $0.2 Million and a decrease in interest on acquisition payable of $0.2 Million. partially offset by an increase in accretion of mortgage bonds of $0.6 Million.

4. Interest Expense (continued)

The decrease in mortgage loan interest expense reflects the decrease in the weighted average interest rate of mortgage debt. 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 additional accretion of $0.7 Million.

5. Key Financing and Investing Events

2014 Q1

Debt Covenants - As of March 31, 2014, LREIT was in breach of a global debt service coverage requirement on one $15.7 Million mortgage loan and the related $1.1 Million interest rate swap liability. The covenant breach is expected to be eliminated through modified loan terms.

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 Million of the 9% mortgage bonds which were secured against the Nova Court property. As of March 31, 2014, the face value of the remaining mortgage bonds is $6 Million.

6. Liquidity

	March 31 2014	December 31 2013
Unrestricted cash	$ 992,760	$ 2,401,741
Restricted cash	$ 4,603,524	$ 4,241,812
Working capital deficit	$ 6,747,824	$ 4,259,858
Amount available on revolving loan*	$ -	$ 14,095,000

*As of March 31, 2014, the revolving loan was fully advanced. As at May 13, 2014, there was $1.5 Million available on the revolving loan.

7. Subsequent Events

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 $1.7 Million.

Mortgage Loan Receivables - The mortgage loans receivable which were provided by LREIT on the sale of the Clarington Seniors' Residence in 2012 matured on May 8, 2014. Repayment of the $9.0 Million is expected to be received by June 30, 2014.

Extension of Maturity Date of Debentures - LREIT is seeking approval from the holders of the Series G debentures to extend the maturity date from February 28, 2015 to June 30, 2018. A meeting of the debenture holders is scheduled for June 16, 2014 to approve the proposed extension.

8. Risks and Uncertainties

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

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

As a result of the improvement in operating income in the Fort McMurray portfolio; 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 "Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

CONTINUING OPERATIONS

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

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

CAPITAL REQUIREMENTS - GENERAL

As of March 31, 2014, the unrestricted cash balance of LREIT was $992,760 and the working capital deficit was $6,747,824, representing an increase of approximately $2.5 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, largely offset by the elimination of the mortgage bond liability of $10 Million. During the first quarter of 2014, advances on the revolving loan were used to fund the $10 Million mortgage bond redemption and to partially fund the equity component on the closing of the Parsons Landing acquisition. As of March 31, 2014, the balance of the revolving loan is $15 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 quarter of 2014 with a cash shortfall of $2.1 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.

Investment in Properties

As of March 31, 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 March 31, 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 quarter of 2014, the mortgage loan debt service coverage ratio was 0.86, compared to 0.95 during the first quarter 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 that the decrease in operating income occurred at a greater percentage than the decrease in debt service costs.

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 March 31, 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)	500,000	493,123
Total	23	17	$ 261,250,100	$ 83,636,304	$ 13,790,650	$ 97,426,954

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 condominium sales program is expected to be substantially completed in 2016. 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 March 31, 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 - March 31, 2014

As of March 31, 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 76 reconstructed suites on June 1, 2013 and the remaining 84 suites were returned to rental operations on October 3, 2013. In addition, three condominium units were sold at the Lakewood Townhomes in 2013.

During the first quarter of 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at the 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 increased by 50 suites or 2.7% as of March 31, 2014, compared to March 31, 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 March 31, 2014, "Rent and other receivables" includes a 12.5% second mortgage loan of $8.7 Million and an interest free mortgage loan of $275,000, due May 8, 2014 both of which pertain to the sale of Clarington Seniors' Residence on May 9, 2012.

During the first quarter of 2014, payment of the mortgage loan receivable arising from the sale of Nova Villa in the amount of $500,000 was prepaid in full. The mortgage loans receivable which were provided by LREIT on the sale of the Clarington Seniors' Residence in 2012 matured on May 8, 2014. Repayment of the $9.0 Million is expected to be received by June 30, 2014.

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 quarter 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 quarter of 2014, LREIT did not record any fair value gains on its investment property portfolio, including Parsons Landing. During the first quarter of 2013, the fair value gain and fair value adjustment on Parsons Landing amounted to $437,854. The variance in the quarterly amounts served to reduce income by $437,854 in the first quarter of 2014, compared to the first quarter of 2013.

Other Investment Properties

During the first quarter of 2014, LREIT did not record any fair value gains on the portfolio of investment properties, compared to a fair value gain $137,854 during the first quarter of 2013.

Summary of Quarterly Results

Quarterly Analysis

	2014	2013		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 8,908,725	$ 10,115,906	$ 10,417,760	$ 10,026,210
Net operating income	$ 4,504,067	$ 6,023,275	$ 6,405,204	$ 6,086,722
Income (loss) for the period before taxes and discontinued operations	$ (2,515,948)	$ (669,080)	$ 13,422,853	$ 2,979,923
Income (loss) and comprehensive income (loss)	$ (2,404,013)	$ (509,164)	$ 13,505,324	$ 3,335,654
PER UNIT				
Net operating income				
- basic	$ 0.218	$ 0.311	$ 0.339	$ 0.323
- diluted	$ 0.157	$ 0.237	$ 0.337	$ 0.319
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.122)	$ (0.035)	$ 0.711	$ 0.158
- diluted	$ (0.122)	$ (0.035)	$ 0.706	$ 0.156
Income (loss) and comprehensive income (loss)				
- basic	$ (0.116)	$ (0.026)	$ 0.716	$ 0.177
- diluted	$ (0.116)	$ (0.026)	$ 0.711	$ 0.175

Quarterly Analysis

	2013	2012		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 9,768,888	$ 9,432,387	$ 9,206,783	$ 9,387,902
Net operating income	$ 5,693,568	$ 5,294,467	$ 5,355,272	$ 5,820,776
Income (loss) for the period before taxes and discontinued operations	$ (1,044,322)	$ (778,548)	$ (3,078,641)	$ 30,876,865
Income (loss) and comprehensive income (loss)	$ (812,228)	$ 16,185,773	$ (2,298,800)	$ 32,297,230
PER UNIT				
Net operating income				
- basic	$ 0.303	$ 0.282	$ 0.287	$ 0.314
- diluted	$ 0.300	$ 0.280	$ 0.285	$ 0.312
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.056)	$ (0.041)	$ (0.165)	$ 1.664
- diluted	$ (0.056)	$ (0.041)	$ (0.165)	$ 1.655
Income (loss) and comprehensive income (loss)				
- basic	$ (0.043)	$ 0.862	$ (0.123)	$ 1.741
- diluted	$ (0.043)	$ 0.857	$ (0.123)	$ 1.731

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 tightening of market conditions at the end of 2013 and into the first 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.

Commencing in the second quarter of 2013, the phased-in return of reconstructed suites at Parsons Landing has also contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses. The quarterly net income contribution and income recoveries of Parsons Landing will continue to be impacted until the transitional lease-up period is fully complete.

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. Interest expense on mortgage loans includes interest on mortgage loans, mortgage bonds and the revolving loan commitment. The main variables affecting decreases in interest expense on mortgage loans have been the discharge of mortgage loan debt on the sale of properties and periodic lump-sum paydowns of mortgage loan debt as well as a decrease in the weighted average interest rate. The main variables affecting increases in interest expense have been the upward refinancing of mortgage loan debt.

Changes in the interest rate on the revolving loan, as well as changes in the amount withdrawn on the revolving loan, are also contributing factors in regard to quarterly variances in interest expense.

As the investment properties of LREIT are carried at fair market value, net income from investment properties is also affected by quarterly 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.

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. The primary factors affecting quarterly variations in income from discontinued operations are property sales and mortgage loan debt transactions, including the elimination of the Riverside Terrace mortgage loan debt in the second quarter of 2012 and the sale of Riverside Terrace in the fourth quarter of 2012. An increase in income tax expense in the first quarter of 2013, following the repayment of the vendor take-back loan for Riverside Terrace, also contributed to a variation in quarterly income from discontinued operations.

ANALYSIS OF LOSS

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) In Income	
	2014	2013	Amount	%
Rentals from investment properties	$ 8,908,725	$ 9,768,888	$ (860,163)	(8.8)%
Property operating costs	4,404,658	4,075,320	329,338	8.1 %
Net operating income	4,504,067	5,693,568	(1,189,501)	(20.9)%
Interest income	385,218	298,301	86,917	29.1 %
Interest expense	(6,954,282)	(7,841,878)	887,596	11.3 %
Trust expense	(620,685)	(531,297)	(89,388)	(16.8)%
Income recovery on Parsons Landing	98,499	899,130	(800,631)	(89.0)%
Loss before the following	(2,587,183)	(1,482,176)	(1,105,007)	(74.6)%
Gain on sale of investment properties	71,235	-	71,235	n/m
Fair value gains	-	137,854	(137,854)	(100.0)%
Fair value adjustment of Parsons Landing	-	300,000	(300,000)	100.0 %
Loss before discontinued operations	(2,515,948)	(1,044,322)	(1,471,626)	140.9 %
Income from discontinued operations	111,935	232,094	(120,159)	(51.8)%
Loss and comprehensive loss	$ (2,404,013)	$ (812,228)	$ (1,591,785)	(196.0)%

Analysis of Loss per Unit

	Three Months Ended March 31		Change	
	2014	2013		
Loss and comprehensive loss - basic and diluted	$ (0.116)	$ (0.043)	$ (0.073)	170 %
Loss for the period before discontinued operations - basic and diluted	$ (0.122)	$ (0.056)	$ (0.066)	118%

Overall Results

During the first quarter of 2014, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing and discontinued operations increased by $1,105,007 compared to the first quarter of 2013. The increase in the loss mainly reflects a decrease of $800,631 in the income recovery on Parsons Landing and a decrease of $1,189,501 in net operating income, partially offset by a decrease in interest expense of $887,596.

After accounting for fair value gains, profit on property sales and fair value adjustment of Parsons Landing, LREIT completed the first quarter of 2014 with a loss before discontinued operations of $2,515,948, compared to a loss before discontinued operations of $1,044,322 during the first quarter of 2013, representing an increase in the loss of $1,471,626.

After accounting for discontinued operations, LREIT completed the first quarter of 2014 with a comprehensive loss of $2,404,013 compared to a comprehensive loss of $812,228 during the first quarter of 2013.

Per Unit Results

On a per unit basis, the loss before discontinued operations amounted to $0.122 per unit during the first quarter of 2014, compared to a loss of $0.056 per unit during the first quarter of 2013, representing an increase in the loss per unit of $0.066 per unit.

The increase in loss per unit mainly reflects the increase in the overall loss of the Trust before discontinued operations, partially offset by an increase in the weighted average number of units. From March 31, 2013 to March 31, 2014, the weighted average number of units increased by 1,893,494 units or 10%. The increase largely reflects the exercise of trust unit purchase warrants during the first 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.

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

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, 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. As a result, there is not any revenue or operating income disclosed for the "Parsons Landing" segment in the first quarter of 2013.

Commencing in the second quarter of 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.

Discontinued Operations

At March 31, 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 March 31					
			Increase (Decrease)		% of Total	
	2014	2013	Amount	%	2014	2013
Fort McMurray	$ 5,349,661	$ 6,154,755	$ (805,094)	(13)%	60 %	63 %
Other investment properties	2,615,214	2,733,753	(118,539)	(4)%	29 %	28 %
Sub-total	7,964,875	8,888,508	(923,633)	(10)%	89 %	91 %
Properties sold (1)	1,065	880,380	(879,315)	(100)%	- %	9 %
Parsons Landing (2)	942,785	-	942,785	n/m	11 %	- %
Total	$ 8,908,725	$ 9,768,888	$ (860,163)	(9)%	100 %	100 %

(1) Represents revenue from the Purolator Building and Nova Court.
(2) During the first quarter of 2013, all 160 suites at Parsons Landing were under reconstruction. As a result, no rental revenue was generated.

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $923,633 during the first quarter of 2014, compared to the first quarter of 2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $805,094 and a decrease in revenue from the Other investment properties of $118,539.

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 93% during the first quarter of 2013, to 80% during the first quarter of 2014, while the average monthly rental rate increased by $78 or 3.5%. The decrease in the occupancy rate of the Fort McMurray property portfolio during the first quarter of 2014 is largely attributable to the tightening of market conditions in Fort McMurray. The reduced occupancy level of the Fort McMurray property portfolio in the first quarter of 2014, compared to the first quarter of 2013, reflects 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.

The decrease in revenue from the Other investment properties is due to a decrease in the average occupancy level from 95% in the first quarter of 2013 to 89% in the first quarter of 2014, partially offset by an increase in the average monthly rental rate of $11 or 1.2%.

Occupancy Level, by Quarter

	2013					2014
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	93 %	95 %	92 %	84 %	91 %	80 %
Other investment properties	95 %	94 %	92 %	90 %	93 %	89 %
Total	94 %	94 %	92 %	85 %	91 %	82 %
Properties sold	100 %	100 %	100 %	99 %	100 %	n/a
Parsons Landing	n/a	n/a	n/a	n/a	n/a	69 %

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

Average Monthly Rents, by Quarter

	2013					2014
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	$2,259	$2,275	$2,318	$2,387	$2,329	$2,337
Other investment properties	$922	$929	$931	$934	$929	$933
Total	$1,627	$1,638	$1,661	$1,699	$1,666	$1,672
Properties sold	$2,550	$2,546	$2,692	$2,299	$2,521	n/a
Parsons Landing	n/a	n/a	n/a	n/a	n/a	$2,744

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31		Increase (Decrease)	
	2014	2013	Amount	%
Fort McMurray	$ 2,535,933	$ 2,265,234	$ 270,699	12 %
Other investment properties	1,363,243	1,390,003	(26,760)	(2)%
Sub-total	3,899,176	3,655,237	243,939	7 %
Properties sold	82,098	420,083	(337,985)	(80)%
Parsons Landing	423,384	-	423,384	n/m
Total	$ 4,404,658	$ 4,075,320	$ 329,338	8 %

During the first quarter of 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $243,939, compared to the first quarter of 2013. The increase is comprised of an increase of $270,699 in the operating costs of the Fort McMurray portfolio, partially offset by a decrease of $26,760 in the Other investment properties portfolio.

The increase in the operating costs of the Fort McMurray portfolio is mainly due to an increase in insurance deductibles in respect to claims for water damage and to additional snow removal costs.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2014	2013	Amount	%	2014	2013	2014	2013
Fort McMurray	$ 2,813,728	$ 3,889,521	$ (1,075,793)	(28)%	62 %	68 %	53 %	63 %
Other investment properties	1,251,971	1,343,750	(91,779)	(7)%	28 %	24 %	48 %	49 %
Sub-total	4,065,699	5,233,271	(1,167,572)	(22)%	90 %	92 %	51 %	59 %
Properties sold	(81,033)	460,297	(541,330)	(118)%	(2)%	8 %	n/a	52 %
Parsons Landing	519,401	-	519,401	n/m	12 %	- %	55 %	n/a
Total	$ 4,504,067	$ 5,693,568	$ (1,189,501)	(21)%	100 %	100 %	51 %	58 %

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 $1,167,572 or 22% during the first quarter of 2014, compared to the first quarter of 2013.

The decrease in net operating income is comprised of a $1,075,793 decrease in net operating income from the Fort McMurray properties and a $91,779 decrease in net operating income from the Other investment properties.

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 $1,189,501 during the first quarter of 2014, compared to the first quarter of 2013.

During the first quarter of 2014, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $617,900, compared to $899,130 during the first quarter of 2013, representing a decrease of $281,230 or 31%. The decrease mainly reflects that insurance proceeds were discontinued effective February 5, 2014 and that the property only achieved an average occupancy rate of 69% in Q1 2014.

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 59% during the first quarter of 2013, to 51% during the first quarter of 2014. The decrease in the overall operating margin reflects a decrease in the operating margin for the Fort McMurray property portfolio.

The operating margin is a measurement of the relative profitability of the investment properties and represents the amount of 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 first quarter of 2014 interest income amounted to $385,218, compared to $298,301 during the first quarter of 2013.

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 $7,111,939 during the first quarter of 2014, of which $6,954,282 pertains to investment properties and $157,657 pertains to discontinued operations.

Total interest expense for investment properties decreased by $887,596 or 11% during the first quarter of 2014, compared to the first quarter of 2013. The decrease is mainly due to a decrease in mortgage loan interest of $807,504, a decrease in mortgage bond interest of $183,082, a decrease in interest on acquisition payable of $246,685, and a net decrease in total amortization charges for transaction costs of $251,059, partially offset by an increase in mortgage bond accretion of $617,150.

Total interest expense for discontinued operations decreased by $36,012 or 19% during the first quarter of 2014, compared to the first quarter of 2013. The decrease is comprised of a decrease in mortgage loan interest of $27,428 and a decrease in amortization of transaction costs of $8,584.

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 $923,608 decrease in total interest expense during the first quarter of 2014, compared to the first quarter of 2013, is comprised of a $1,274,863 decrease in the cash component of interest expense and a $351,255 increase in the "non-cash" component of interest expense.

Analysis of Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
	2014	2013	Amount	%
Investment Properties				
Mortgage Loans and Acquisition Payable				
Mortgage loan interest	$ 3,895,983	$ 4,703,487	$ (807,504)	(17)%
Amortization of transaction costs	420,469	1,117,829	(697,360)	(62)%
Change in value of interest rate swap liability	(74,712)	(68,460)	(6,252)	(9)%
Interest on acquisition payable	653,315	900,000	(246,685)	(27)%
Total - mortgage loans and acquisition payable	4,895,055	6,652,856	(1,757,801)	(26)%
Mortgage Bonds				
Mortgage bond interest	176,918	360,000	(183,082)	(51)%
Accretion of debt component	726,591	109,441	617,150	564 %
Amortization of transaction costs	502,174	65,419	436,755	668 %
Total - mortgage bonds	1,405,683	534,860	870,823	163 %
Debentures				
Interest on debentures	582,660	592,824	(10,164)	(2)%
Amortization of transaction costs	70,884	61,338	9,546	16 %
Total - debentures	653,544	654,162	(618)	- %
Total interest expense - investment properties	6,954,282	7,841,878	(887,596)	(11)%
Discontinued Operations				
Mortgage Loans				
Mortgage loan interest	157,657	185,085	(27,428)	(15)%
Amortization of transaction costs	-	8,584	(8,584)	(100)%
Total interest expense - discontinued operations	157,657	193,669	(36,012)	(19)%
Total - interest expense	$ 7,111,939	$ 8,035,547	$ (923,608)	(11)%

Cash and Non-cash Component				
Non-cash component				
Accretion	$ 726,591	$ 109,441	$ 617,150	564 %
Amortization of transaction costs	993,527	1,253,170	(259,643)	(21)%
Change in value of interest rate swaps	(74,712)	(68,460)	(6,252)	(9)%
Total non-cash component	1,645,406	1,294,151	351,255	27 %
Cash component				
Interest	5,466,533	6,741,396	(1,274,863)	(19)%
Total cash component	5,466,533	6,741,396	(1,274,863)	(19)%
Total - interest expense	$ 7,111,939	$ 8,035,547	$ (923,608)	(11)%

Cash Component of Interest Expense - General

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

During the first quarter of 2014, the total cash component of interest expense decreased by $1,274,863 or 19%, compared to the first quarter of 2013. The decrease reflects a decrease of $1,247,435 in the cash component of interest expense for investment properties as well as a decrease of $27,428 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, increased from 82% during the first quarter of 2013 to 97% during the first quarter of 2014.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 112% for the first quarter of 2014, compared to 95% for the first quarter of 2013. The increase in the interest-to-net operating income ratio reflects a decrease in net operating income and insurance recoveries which was proportionately greater than the decrease in the cash component of interest expense.

Cash Component of Interest Expense - Investment Properties

Interest on Mortgage Loans and Acquisition Payable

Mortgage loan interest for investment properties decreased by $807,504 or 17.0% during the first quarter of 2014, compared to the first quarter of 2013, due to a decrease in interest expense on mortgage loan debt of $991,784, partially offset by an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $184,280. The decrease in interest expense on mortgage loan debt mainly reflects a decrease in the weighted average interest rate of mortgage loan debt as well as the elimination of the mortgage loan debt for Nova Court and the Purolator Building, partially offset by interest on the new mortgage loan for Parsons Landing.

Mortgage Bond Interest

Interest on the mortgage bonds decreased $183,082 during the first quarter of 2014 compared to the first quarter of 2014. 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 first quarter of 2014, interest on debentures amounted to $582,660, compared to $592,824 during the first 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 decreased by $27,428 or 15% during the first quarter of 2014, compared to the first quarter of 2013. The decrease is attributable to a reduction in mortgage loan debt due to regular repayments of principal.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense increased by $351,255 during the first quarter of 2014, compared to the first quarter of 2013. The increase mainly reflects an increase in accretion of $617,150 related to the partial redemption of mortgage bonds, partially offset by a net decrease in total amortization charges for transaction costs of $259,643.

The decrease in amortization charges mainly consists of an decrease in amortization charges for mortgage loans of $697,360, partially offset by an increase in amortization charges for mortgage bonds of $436,755. The decrease in amortization charges for mortgage loans is due to the comparatively higher level of amortization charges, which were incurred in the first quarter of 2013, following the refinancing of the first mortgage loan for the six downtown Fort McMurray properties. The increase in amortization charges for mortgage bonds reflects a lump-sum amortization charge in regard to the repayment of $10 Million of mortgage bond debt in January 2014.

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.

Trust Expense

During the first quarter of 2014, trust expense increased by $89,388, compared to the first quarter of 2013. The increase in trust expense reflects transaction costs related to the acquisition of Parsons Landing of $47,419 and the loss on purchase of warrants of $34,947.

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 quarter of 2014 the Trust sold one condominium unit at Lakewood Townhomes. During the first quarter of 2013, the Trust did not sell any properties.

Fair Value Gains

In the first quarter of 2014, there were no fair value gains or losses. In the first quarter of 2013, a fair value gain of $137,854 was recorded. Fair value gains/losses are included in the income of the Trust.

During the first quarter of 2014, the carrying value of investment properties increased by $198,776 as a result of capital expenditures.

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 March 31 2014	Three Months Ended March 31 2013	Increase (Decrease)
Rental income	$ 1,286,961	$ 1,394,482	$ (107,521)
Property operating costs	1,017,369	890,128	(127,241)
Net operating income	269,592	504,354	(234,762)
Interest expense	(157,657)	(193,669)	(36,012)
Tax recovery (expense)			
Current	-	(364,325)	(364,325)
Deferred	-	285,734	285,734
Income from discontinued operations	$ 111,935	$ 232,094	$ (120,159)

During the first quarter of 2014, LREIT generated income from discontinued operations of $111,935, compared to $232,094 during the first quarter of 2013, representing a decrease of $120,159. The decrease is mainly due to a decrease in net operating income of $234,762, partially offset by a decrease in tax expense of $78,591 and a decrease in interest expense of $36,012.

Operating income for discontinued properties is earned in subsidiary operating companies which are subject to income tax and deferred income tax. In the first quarter of 2013, the collection by a subsidiary company of the $3.2 Million mortgage loan receivable, representing the balance of the proceeds of sale of Riverside Terrace in December 2012, resulted in an income tax expense and deferred tax recovery.

Comparison to Preceding Quarter

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	March 31, 2014	December 31, 2013	Amount	%
Rentals from investment properties	$ 8,908,725	$ 10,115,906	$ (1,207,181)	(11.9)%
Property operating costs	4,404,658	4,092,631	(312,027)	(7.6)%
Net operating income	4,504,067	6,023,275	(1,519,208)	(25.2)%
Interest income	385,218	340,701	44,517	13.1 %
Interest expense	(6,954,282)	(6,490,178)	(464,104)	(7.2)%
Trust expense	(620,685)	(550,238)	(70,447)	(12.8)%
Income recovery on Parsons Landing	98,499	350,295	(251,796)	(71.9)%
Loss before the following	(2,587,183)	(326,145)	(2,261,038)	(693.3)%
Gain on sale of investment properties	71,235	56,714	14,521	25.6 %
Fair value losses	-	(2,107,277)	2,107,277	(100.0)%
Fair value adjustment of Parsons Landing	-	1,707,628	(1,707,628)	(100.0)%
Loss for the period before discontinued operations	(2,515,948)	(669,080)	(1,846,868)	(276.0)%
Income from discontinued operations	111,935	159,916	(47,981)	(30.0)%
Comprehensive loss	$ (2,404,013)	$ (509,164)	$ (1,894,849)	(372.1)%

Comparison to Preceding Quarter

During the first quarter of 2014, LREIT incurred a loss of $2,587,183, before gain on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing and discontinued operations, compared to a loss of $326,145 during the fourth quarter of 2013. The variance in quarterly results mainly reflects a decrease in net operating income of $1,519,208, a decrease in income recovery on Parsons Landing of $251,796 and an increase in interest expense of $464,104. The decrease in operating income also reflects the sale of Nova Court on December 31, 2013. The decrease in income recovery from Parsons Landing reflects that insurance proceeds were no longer received subsequent to February 5, 2014, as well as the gradual lease up of reconstructed units during the fourth quarter of 2013 and the first quarter of 2014. The NOI from the leased suites at Parsons Landing served to partially offset the decrease in income recovery. During the first quarter of 2014, the NOI from Parsons Landing, combined with the income recovery on Parsons Landing, amounted to $617,900, compared to $930,451 in the fourth quarter of 2013.

After accounting for the variance in fair value losses and fair value adjustment of Parsons Landing in the combined amount of $399,649 and an increase in gain on sale of investment properties of $14,521, the loss of LREIT before discontinued operations increased by $1,846,868 during the first quarter of 2014, compared to the fourth quarter of 2013.

Income from discontinued operations decreased by $47,981 during the first quarter of 2014, compared to the fourth quarter of 2013.

After accounting for discontinued operations, LREIT completed the first quarter of 2014 with a comprehensive loss of $2,404,013, compared to a comprehensive loss of $509,164 during the fourth quarter of 2013.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash Flow from Operating Activities

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

"Interest paid" on the Statements of Cash Flows 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 $950,000 higher in the second and fourth quarters of the year. As a result of the redemption of $10 Million of mortgage bonds in January of 2014, "interest paid" is expected to be approximately $720,000 higher in the second and fourth quarters of 2014, compared to the first and third quarters.

Q1 2014 vs Q1 2013 Comparatives

Cash from Operating Activities

	Three Months Ended March 31		Increase
	2014	2013	(Decrease)
Net operating income			
Investment properties	$ 4,504,067	$ 5,693,568	$ (1,189,501)
Discontinued operations	269,592	504,354	(234,762)
Total net operating income	4,773,659	6,197,922	(1,424,263)
Accrued rent receivable	(88,571)	(101,298)	12,727
Net operating income - cash basis	4,685,088	6,096,624	(1,411,536)
Income recovery on Parsons Landing	98,499	899,130	(800,631)
Trust expense	(620,685)	(531,297)	(89,388)
Loss on warrant repurchases	34,947	-	34,947
Unit-based compensation	18,750	44,843	(26,093)
Trust expense - cash basis	(566,988)	(486,454)	(80,534)
Interest paid			
Investment properties	(4,701,582)	(5,735,901)	1,034,319
Discontinued operations	(159,102)	(186,543)	27,441
Total interest paid	(4,860,684)	(5,922,444)	1,061,760
Interest received	214,803	160,887	53,916
Interest expense - cash basis	(4,645,881)	(5,761,557)	1,115,676
Income tax expense - current	-	(364,325)	364,325
Cash provided by (used in) operating activities, before working capital adjustments	(429,282)	383,418	(812,700)
Working capital adjustments, net	1,147,923	(259,423)	1,407,346
Cash provided by (used in) operating activities	$ 718,641	$ 123,995	$ 594,646

During the first quarter of 2014, the net cash used in operating activities, excluding working capital adjustments, amounted to $429,282, compared to net cash provided by operating activities of $383,418 during the first quarter of 2013, representing a decrease in cash flow before working capital adjustments of $812,700. The decrease reflects a decrease in the cash component of net operating income of $1,411,536 and a decrease in the income recovery on Parsons Landing of $800,631, partially offset by a decrease in interest paid of $1,061,760 and a decrease in income tax expense of $364,325. The decrease in interest paid mainly reflects a decrease in interest payments in regard to mortgage loans and the acquisition payable.

After providing for working capital adjustments, the cash provided by operating activities increased by $594,646 during the first quarter of 2014, compared to the first quarter of 2013.

Comparison to Fourth Quarter of 2013

Cash from Operating Activities

	Three Months Ended March 31, 2014	Three Months Ended December 31, 2013	Increase (Decrease)
Net operating income			
Investment properties	$ 4,504,067	$ 6,023,275	$ (1,519,208)
Discontinued operations	269,592	324,280	(54,688)
Total net operating income	4,773,659	6,347,555	(1,573,896)
Accrued rent receivable	(88,571)	70,344	(158,915)
Net operating income - cash basis	4,685,088	6,417,899	(1,732,811)
Income recovery on Parsons Landing	98,499	350,295	(251,796)
Trust expense	(620,685)	(550,238)	(70,447)
Loss on warrant repurchases	34,947	(3,985)	38,932
Non-cash component of trust expense	18,750	33,750	(15,000)
Trust expense - cash basis	(566,988)	(520,473)	(46,515)
Interest paid			
Investment properties	(4,701,582)	(6,169,778)	1,468,196
Discontinued operations	(159,102)	(164,122)	5,020
Total interest paid	(4,860,684)	(6,333,900)	1,473,216
Interest received	214,803	178,315	36,488
Interest expense - cash basis	(4,645,881)	(6,155,585)	1,509,704
Cash provided by operating activities, before working capital adjustments	(429,282)	92,136	(521,418)
Working capital adjustments, net	1,147,923	(1,658,419)	2,806,342
Cash provided by (used in) operating activities	$ 718,641	$ (1,566,283)	$ 2,284,924

In comparison to the fourth quarter of 2013, the net cash provided by operating activities, excluding working capital adjustments, decreased by $521,418 in the first quarter of 2014. The decrease is mainly due to a decrease in net operating income of $1,732,811 and a decrease in the income recovery on Parsons Landing of $251,796, partially offset by a decrease in interest paid of $1,473,216. The decrease in cash from operating activities reflects the circumstances noted earlier in the report, namely the decrease in occupancy for the Fort McMurray portfolio and increased operating expenses.

The decrease in interest paid is mainly attributable to the timing of interest payments on the Series G debentures and mortgage bonds as well as the repayment of $10 Million of the mortgage bond debt. During the first quarter of 2014, interest payments on debentures and mortgage bonds amounted to $118,356, compared to $1,901,506 in the fourth quarter of 2013. The elimination of mortgage loan debt for Nova Court also contributed to the decrease in interest paid. The main factors which affected the decrease in net operating income and income recoveries are disclosed in the preceding sections of this report.

After providing for working capital adjustments, the cash provided by operating activities increased by $2,284,924 during the first quarter of 2014, compared to the fourth quarter of 2013.

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

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

During the first quarter of 2014, the FFO deficiency increased by $1,303,757, compared to the first quarter of 2013, while the AFFO deficiency increased by $552,552. On a basic per unit basis, the FFO deficiency increased by $0.058 per unit, while the AFFO deficiency increased by $0.019 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended March 31	
	2014	2013
Comprehensive loss	$ (2,404,013)	$ (812,228)
Add (deduct):		
Deferred taxes	-	(285,734)
Gain on sale of properties	(71,235)	-
Taxes on sale of discontinued operations	-	364,325
Fair value gains	-	(137,854)
Fair value adjustment of Parsons Landing	-	(300,000)
Funds from operations (FFO) *	(2,475,248)	(1,171,491)
Add (deduct):		
Straight-line rent adjustment	(88,571)	(101,298)
Accretion of debt component of mortgage bonds	726,591	109,441
Unit-based compensation	18,750	44,843
Change in fair value of interest rate swaps	(74,712)	(68,460)
Capital expenditures on investment properties	(198,776)	(354,362)
Capital expenditures on property and equipment	(15,902)	(13,989)
Adjusted funds from operations (AFFO) *	$ (2,107,868)	$ (1,555,316)
FFO per unit *		
- basic and diluted	$ (0.120)	$ (0.062)
AFFO per unit *		
- basic and diluted	$ (0.102)	$ (0.083)

* 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 Income (Loss)

	Three Months Ended March 31	
	2014	2013
Cash provided by (used in) operating activities	$ 718,641	$ 123,995
Changes in non-cash operating items	(1,147,923)	259,423
	(429,282)	383,418
Add (deduct):		
Capital expenditures on investment properties	(198,776)	(354,362)
Capital expenditures on property and equipment	(15,902)	(13,989)
Distributable income (loss)	$ (643,960)	$ 15,067
Per unit		
- basic and diluted	$ (0.031)	$ 0.001

Distributable income (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 increase in capital expenditures, and the increase in cash flow, excluding working capital adjustments, as previously discussed, LREIT completed the first quarter of 2014 with a distributable loss of $643,960, representing a decrease in distributable income of $659,027 compared to the first quarter 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 $2,092,252 during the first quarter of 2014. Financing activities consist primarily of cash inflows and outflows related to the repayment of mortgage loan debt, new mortgage financing associated with the acquisition of Parsons Landing, including transaction costs, the revolving loan commitment, the repayment of mortgage bonds, the repayment of the acquisition payable and cash inflows related to the exercise of warrants.

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

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash outflow of $50,072 during the first quarter of 2014. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties and discontinued operations of $198,776 and $15,902, respectively, and an increase in restricted cash of $365,476. Investing activities that resulted in a cash inflow during the period include the collection of a mortgage loan receivable of $500,000 and a decrease in defeasance assets of $36,959.

Cash Flow Summary

During the first quarter of 2014, the net cash outflow from operating, financing and investing activities was $1,408,981. After providing for the opening cash balance of $2,401,741, LREIT completed the first quarter of 2014 with a cash balance of $992,760.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2014

Working Capital/Existing Cash

As of March 31, 2014, the unrestricted cash balance of LREIT was $992,760 and the working capital deficit was $6,747,824, representing an increase in the working capital deficit of approximately $2.5 Million compared to the working capital deficit as of December 31, 2013. The working capital deficit consists of current assets less current liabilities, 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 $15,000,000 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 the working capital surplus may differ from the method which is used by other issuers. Accordingly, the working capital surplus 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 quarter of 2014 with a cash shortfall of $2.1 Million, compared to a shortfall of $2.6 Million during the first quarter of 2013. Although the extent of the shortfall is expected to be lower in 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, $1.5 Million is available under the revolving loan commitment.

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

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

The current expectations of management are that the remaining seniors' housing complex and/or other properties will be sold in 2014. The timing and extent of projected property sales cannot be reasonably predicted and there is no assurance that LREIT will sell properties proposed for sale on favourable terms or at all. The condominium sales program at the Lakewood Townhomes is expected to be substantially completed in 2016. The condominium sales program is not expected to represent a funding source in 2014, as the proceeds from sales are currently being applied to debt reduction.

Mortgage Loans Receivable

In February 2014, payment of a 5% second mortgage loan receivable of $500,000 due October 1, 2014 was received in full.

As of March 31, 2014, LREIT has two mortgage loans receivable with a combined balance of $9.0 Million, both of which matured on May 8, 2014. Repayment of the $9.0 Million is expected to be received by June 30, 2014.

Upward Refinancing of Mortgage Loans

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

On May 1, 2014, the first mortgage loan of Elgin Lodge was upward refinanced, resulting in net proceeds of approximately $1.7 Million.

Details regarding mortgage loan transactions in 2014 are disclosed in the "Mortgage Loans Payable" section of the MD&A.

Debt and/or Equity Offerings

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

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 expire on March 9, 2015 and December 24, 2015, respectively. During the first quarter of 2014, 597,875 warrants were exercised, generating proceeds of $468,249. As of March 31, 2014, LREIT would receive additional proceeds of $17,086,675, if all outstanding warrants were exercised. LREIT has a normal course issuer bid 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 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 *	$ 282,913,001	$ 96,787,763	$ 67,305,674	$ 91,382,237	$ 27,437,327
Properties held for sale	12,702,574	12,702,574	-	-	-
Total mortgage loans	295,615,575	109,490,337	67,305,674	91,382,237	27,437,327
Debentures and mortgage bonds **	30,873,800	-	30,873,800	-	-
Total	$ 326,489,375	$ 109,490,337	$ 98,179,474	$ 91,382,237	$ 27,437,327

* Includes a mortgage loan of $15,732,930 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 portion of long-term debt", 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 for 2014 would increase to $124,790,217.

** 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 of investment properties of $96,787,763 consists of six mortgage loans, with maturity dates in 2014, in the aggregate amount of $93,988,859, as well as regular principal payments of $2,798,904 for other mortgage loans. The mortgage loans with maturity dates in 2014 include a mortgage loan which has a fixed term to August 1, 2015 under a demand promissory note.

Subsequent to March 31, 2014, a maturing loan was renewed. Management expects that the remaining five mortgage loans in the amount of $90,272,830 will be renewed/ refinanced on similar terms at maturity or upward refinanced.

The mortgage loans on properties held for sale of $12,702,574 consists of the mortgage loan debt of Elgin Lodge ($8,204,208) and Chateau St. Michael's ($4,498,366) which mature on June 20, 2014 and June 1, 2014, respectively. On May 1, 2014, a new first mortgage loan of $10.0 Million was obtained for Elgin Lodge and the existing loan was discharged. Management expects that the mortgage loan for Chateau St. Michael's will be renewed under similar conditions or upward refinanced.

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 March 31, 2014, the total face value of the 9% Series G debentures is $24,873,800. The debentures mature on February 28, 2015. The terms of the debentures provide for the net proceeds from property sales to be applied to 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.

LREIT is seeking approval from the holders of the Series G debentures to extend the maturity date from February 28, 2015 to June 30, 2018. A meeting of the debenture holders is scheduled for June 16, 2014 to approve the proposed extension.

LREIT has a normal course issuer bid (NCIB) in place for the Series G debentures. The NCIB provides for the repurchase of debentures by LREIT to a maximum amount of $2,493,000 during the twelve month period ending June 16, 2014. For the period from January 1, 2014 to the date of this report, there have not been any debentures purchased under the normal course issuer bid.

As of March 31, 2014, the total face value of the 9% mortgage bonds is $6,000,000. The mortgage bonds mature on December 24, 2015.

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 March 31, 2014, cash deposits in regard to future capital expenditures amount to $1,955,999.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $2.7 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, $1.5 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 - March 31, 2014

	March 31, 2014		December 31, 2013	
	Amount	%	Amount	%
Long-term debt	$ 168,811,331	39.1 %	$ 154,124,845	38.1 %
Current portion of long-term debt	147,853,073	34.2 %	133,107,487	32.9 %
Equity	115,534,993	26.7 %	117,452,013	29.0 %
Total capitalization	$ 432,199,397	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 a current and non-current portion, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities classified as held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs. The amount payable in regard to the acquisition of Parsons Landing was included in trade and other payables in 2013.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of March 31, 2014 increased by $29,091,728 or 9.7% 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.

	March 31 2014	December 31 2013	Increase (Decrease)
Long-term debt - Investment properties *			
Secured long-term debt			
Mortgages loans	$ 282,913,001	$ 244,586,398	$ 38,326,603
Interest rate swap liability	1,113,394	1,188,106	(74,712)
Mortgage bonds	5,639,599	14,913,008	(9,273,409)
Debentures	24,873,800	24,873,800	-
Defeased liability	2,629,889	2,644,615	(14,726)
Total secured long-term debt	317,169,683	288,205,927	28,963,756
Mortgage guarantee fees	-	91,362	(91,362)
Accrued interest payable	2,578,486	1,975,830	602,656
Unamortized transaction costs	(3,083,765)	(3,040,787)	(42,978)
Total long-term debt - Investment properties	316,664,404	287,232,332	29,432,072
Total long-term debt - Properties held for sale	12,702,574	13,042,918	(340,344)
Total long-term debt	$ 329,366,978	$ 300,275,250	$ 29,091,728

∗ 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 chart above was adjusted to reflect the amount payable in regard to the acquisition of Parsons Landing in long term debt as of December 31, 2013, there would be a decrease in total long term debt of investment properties of $12,744,064 as of March 31, 2014.

Mortgage Bonds

During the first quarter of 2014, LREIT repaid mortgage bonds with a face value of $10 Million. As of March 31, 2014, the remaining balance of the 9% mortgage bonds, at face value, is $6 Million. The mortgage bonds are secured by second mortgage charges registered against four investment properties.

Debentures

As of March 31, 2014, LREIT has debentures outstanding with a face value of $24,873,800, due February 28, 2015.

LREIT is seeking approval from the holders of the Series G debentures to extend the maturity date from February 28, 2015 to June 30, 2018. A meeting of the debenture holders is scheduled for June 16, 2014 to approve the proposed extension.

Mortgage Loans

Change in Total Mortgage Loan Debt

As of March 31, 2014, the mortgage loan debt of LREIT increased by $37,986,259 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.

	Three Months Ended March 31, 2014		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 40,000,000	$ 40,000,000	$ -
Regular repayment of principal on mortgage loans	(1,562,586)	(1,222,242)	(340,344)
Reduction of mortgage loans on sale of properties	(451,155)	(451,155)	-
Increase (decrease) in mortgage loans	37,986,259	38,326,603	(340,344)
Total mortgage loans - December 31, 2013	257,629,316	244,586,398	13,042,918
Total mortgage loans - March 31, 2014 *	$ 295,615,575	$ 282,913,001	$ 12,702,574

* If the acquisition payable on Parsons Landing were included in mortgage loan payable at December 31, 2013, the mortgage loan debt would have decreased by $3,466,397 during the first quarter 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.

After accounting for transaction costs, the net cash inflow from mortgage financing activities was $39.1 Million during the first quarter of 2014.

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 net repayment from for discontinued operations of approximately $0.3 Million, as disclosed in the preceding chart, is comprised of regular principal repayments.

Regular Repayments of Principal

During the first quarter of 2014, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $1,562,586, compared to $2,063,112 during the first quarter of 2013.

Revolving Loan

As of March 31, 2014, the amount drawn on the revolving loan was $15,000,000, compared to $905,000 as of December 31, 2013, representing an increase of $14,095,000. During the first quarter 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 quarter 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 - March 31, 2014

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount March 31, 2014	Percentage of Total
Investment Properties			
Fixed rate			
2014	3.3 %	$ 26,260,004	8.9 %
2015	3.6 %	17,740,050	6.0 %
2016	9.1 %	7,706,338	2.6 %
2017	5.7 %	19,610,611	6.6 %
2018	4.5 %	77,459,539	26.3 %
2019	5.0 %	30,841,982	10.4 %
	4.7 %	179,618,524	60.8 %
Demand/variable rate	7.5 %	103,294,477	34.9 %
Principal amount		282,913,001	95.7 %
Discontinued Operations			
Demand/variable rate	5.0 %	12,702,574	4.3 %
Total		$ 295,615,575	100.0 %

(1) The year of maturity for the above noted schedule reflects the contractual obligation and does not reflect the IFRS requirement to disclose fixed term loans secured by a demand promissory note.

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

Mortgage Loan Debt Summary *

	2014	2013		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.7%	4.8%	4.5%	4.6%
Variable rate mortgage loans	7.5%	7.2%	7.7%	7.7%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.3%	5.9%	6.2%	6.2%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	66%	65%	64%	66%
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%	76%	73%	76%

	2013	2012		
	Q 1	Q 4	Q 3	Q 2
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.9%	5.0%	5.0%	5.1%
Variable rate mortgage loans	8.5%	9.0%	9.0%	8.9%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	7.0%	7.4%	7.2%	6.8%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations *	67%	68%	72%	73%
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 *	77%	78%	81%	83%

* Excludes the revolving loan.

** 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.

Long-term Debt Maturities

All mortgage loans for investment properties and discontinued operations which have matured prior to May 13, 2014 have been renewed or refinanced.

Debt Covenant Breaches

For investment properties, one mortgage loan with a principal balance of $15,732,930 and the related interest swap liability of $1,113,394 are in breach of debt service coverage requirement as of March 31, 2014. The mortgage loan matures on May 1, 2018. The covenant breach is expected to be eliminated through modified loan terms.

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

Contingent Liability

The Trust has a contingent liability in regard to the guarantee on the first mortgage loan of property which was sold.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2013	19,423,011
- March 31, 2014	20,077,886
- May 13, 2014	20,087,886

As of March 31, 2014, LREIT had 20,077,886 units outstanding, representing an increase of 654,875 units or 3.37%, 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 597,875 warrants during the first quarter of 2014 for cash proceeds of $468,249.

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. The Services Agreement expires December 31, 2019.

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. The Property Management Agreement expires December 31, 2019.

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

During the first quarter of 2014, the fees payable to Shelter for investment properties included service fees of $337,163 and property management fees of $377,633.

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 quarter 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 March 31, 2014, the revolving loan commitment was secured by mortgage charges against the title to five investment properties, two seniors' housing complexes and the assignment of a mortgage loan receivable in the amount of $8,716,015.

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 quarter of 2014, interest on the loan commitment amounted to $377,186, compared to $192,906 during the first quarter 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) the cash deficiency from operations sustained by LREIT in prior years, (ii) the breach of debt covenant requirements which, as of the date of this report, remains on one mortgage loan of $16,846,324, (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 deficiency, (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 operating cash flow from the Fort McMurray portfolio, the completion of property sales and/or upward refinancings, the continued ability of the Trust to repay, renew or refinance debt at maturity, the renewal of the revolving loan commitment from 2668921 Manitoba Ltd., and/or the continued availability of interim funding from Shelter. 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 further improvements are expected in 2014, notwithstanding the decrease in occupancy levels in the first quarter of this 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 Unitholder approval in 2011 for the extension of the maturity date for the Series G debentures 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.

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.

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

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 March 31, 2014, LREIT sold 23 properties and 16 condominium units at Lakewood Townhomes for a combined gross selling price of $261 Million.

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

The current expectations of management are that the remaining seniors' housing complexes and/or other properties will be sold in 2014. In addition, the condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2016.

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 March 31, 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, which is undergoing lease-up. 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 $315.5 Million, which represents approximately 75% of the total aggregate carrying value of the investment property portfolio.

The investment properties in Fort McMurray, excluding Parsons Landing, accounted for 60% of the total revenue of LREIT during the first quarter of 2014 and 62% of the net operating income. Parsons Landing returned to full rental operations on October 3, 2013.

Oil Sands Industry

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

Based on the growth in the level of production in the oil sands industry and the resulting increase in occupancy levels of the Fort McMurray properties 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 quarter of 2014 due to seasonal fluctuations in demand and a tightening of market conditions. 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 March 31, 2014, LREIT is in breach of debt service covenant requirement associated with one mortgage loan and a related interest rate swap liability in the aggregate amount of $16.8 Million. It is expected that the covenant breach will be eliminated through modified loan terms. 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 director 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 the 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 quarter 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 First Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 13, 2014

SCHEDULE I

Real Estate Portfolio as of March 31, 2014

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2014
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	89 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	84 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	58 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	58 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	66 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	88 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	89 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	91 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	87 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	80 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	64 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	97 %
Parsons Landing (2)	Fort McMurray	60,733,000	September 2008	160	73 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	94 %
Westhaven Manor	Edson	4,050,000	May 2007	48	92 %
Manitoba					
Highland Tower (3)	Thompson	5,700,000	January 2005	77	81 %
Colony Square (4)	Winnipeg	29,907,700	October 2008	428	96 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	88 %
Total - Residential		**360,822,188**	Total suites	**1,917**	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd.)	Airdrie, AB	1,600,000	June 2003	39,936	- %
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	99 %
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 March 31, 2014 reflects the sale of four condominium units in 2011, nine condominium units in 2012, three condominium units in 2013 and one condominium unit in 2014. Eight units are unoccupied and held as available for sale and are not included in the occupancy statistic.

(2) LREIT obtained possession of Parsons Landing on September 1, 2008. In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. On June 1, 2013, 84 of 160 units were reconstructed and returned to rental operations. On October 3, 2013, the remaining 76 units were reconstructed and returned to rental operations. On March 6, 2014, the purchase of Parsons Landing was completed.

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

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

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of LREIT are subject to the control of the trustees, pursuant to the terms of the Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited ("Shelter") with the right to appoint one trustee.

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr. Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is an entrepreneur, formerly President of Big Freight Systems Inc. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter.

The Chief Financial Officer and Secretary of LREIT is Mr. Kenneth Dando, CA, Senior Manager - Administration for Shelter.

Administrator of the Trust

Shelter has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of LREIT and to perform the accounting and reporting functions of LREIT.

Property Management

Shelter has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the investment properties in the LREIT portfolio. Shelter manages all of the investment properties except for the seniors' housing complexes, where the Trust has retained third party property managers to provide on-site management services, due to the nature of the operations.

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Email: info@lreit.com
Website: www.lreit.com

Unit Listing

Toronto Stock Exchange (TSX)	
Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G
Mortgage bond trading symbol:	LRT.NT.A
Trust unit purchase warrants trading symbols:	LRT.WT LRT.WT.A

Unitholder and Investor Contact

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Transfer Agent and Registrar

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Chartered Accountants
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