LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2012

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Unitholder Returns

	Nine Months Ended September 30, 2012 (Per unit)	Year Ended December 31, 2011 (Per unit)
Opening price	$0.42	$0.44
Closing price	$0.65	$0.42

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
2012 Q3 Report

Income/Loss from Operations

LREIT completed the third quarter of 2012 with a comprehensive loss of $2,298,800, compared to comprehensive income of $2,275,638 during the third quarter of 2011. The decrease in comprehensive income of approximately $4.6 Million is mainly due to the following factors:

- **Fair value gains/adjustments:** valuation gains/adjustments related to the fair market value of investment properties, including Parsons Landing, decreased by approximately $2.6 Million during the third quarter of 2012, compared to the third quarter of 2011.

- **Interest expense:** interest expense increased by approximately $2 Million or 25% during the third quarter of 2012, compared to the third quarter of 2011. The increase in interest expense mainly reflects mortgage loan prepayment charges, partially offset by a reduction in other interest charges for mortgage loan and debenture debt. The reduction in other interest charges for mortgage loan debt reflects the impact of the principal pay downs and debt refinancings which have occurred in 2011 and 2012, and the retirement of the mortgage debt for the Siena Apartments on the sale of the property, partially offset by the additional mortgage loan debt which has been encumbered against investment properties in 2012, including the replacement debt for Riverside Terrace in June 2012.

- **Net operating income combined with income recovery on Parsons Landing:** The net operating income of LREIT, combined with the income recovery on Parsons Landing, decreased by approximately $879,000 or 12% during the third quarter of 2012, compared to the third quarter of 2011. The decrease in the combined income is mainly due to a decrease in the net operating income of the Siena Apartments as a result of the sale of the property in the second quarter of 2012.

Factors which served to offset the extent of the decrease in comprehensive income include an increase in interest income of $240,911, a decrease in trust expense of $210,447, a decrease in income taxes of $480,043 and insurance proceeds of $400,000.

Cash Flow from Operating Activities

During the third quarter of 2012, the cash inflow from operating activities, excluding working capital adjustments, amounted to $1,104,929 compared to a cash inflow of $1,018,819 during the third quarter of 2011, representing an increase in operating cash flow of $86,110. The modest increase in the operating cash flow, excluding working capital adjustments, mainly reflects a decrease in interest "paid" and trust expense, largely offset by a decrease in net operating income, on a cash basis, net of the income recovery on Parsons Landing.

The variance between the income/loss results and the cash flow results mainly reflects the exclusion of mortgage loan prepayment charges in the determination of operating cash flow.

Including working capital adjustments, LREIT completed the third quarter of 2012 with a cash flow from operating activities of $488,083, compared to a cash outflow from operating activities of $2,575,907 during the third quarter of 2011.

Mortgage Refinancing

In September 2012, LREIT completed the first phase of the restructuring of the mortgage loan debt of Colony Square by obtaining a new interim first mortgage loan for the property. As a result of the new financing, the existing first mortgage was discharged and the mortgage loan covenant breach was eliminated. The interim first mortgage loan is expected to be replaced with a longer-term $45 Million first mortgage loan, at a lower interest rate, in the fourth quarter of 2012.

During the third quarter of 2012, LREIT also eliminated the covenant breach on the mortgage loan debt of the six apartment properties in downtown Fort McMurray. The covenant for the six apartment properties in downtown Fort McMurray was eliminated as a result of replacement first mortgage loan financing. LREIT also repaid two second mortgage loans in the combined amount of $2.9 Million during the third quarter of 2012.

Status of Mortgage Loan Covenant Breaches

During the nine month period ended September 30, 2012, LREIT has eliminated covenant breaches on $67.2 Million of mortgage loan debt, encumbered against eight properties, including seven properties in Fort McMurray, Alberta.

Mortgage loans with covenant breaches have been reduced to three mortgage loans and one swap mortgage loan, as of September 30, 2012. Two mortgage loans have a combined principal balance of approximately $70 Million and are encumbered against three properties in Fort McMurray. The covenant breaches are expected to be eliminated through refinancing. The covenant breach on the first mortgage loan for Lakewood Townhomes will be eliminated upon the completion of the condominium sales program. The swap mortgage loan of $16.5 Million is encumbered against one property in Fort McMurray and the covenant breach is expected to be eliminated through modified loan terms.

The elimination of covenant breaches on $67.2 Million of mortgage loan debt during the nine month period ended September 30, 2012, combined with lump-sum mortgage pay downs, has served to reduce the overall level of financing risk of the Trust. Going forward, it is expected that mortgage debt refinancing/renewal will reduce the current cost of mortgage debt.

Appointment of Executive Vice President

In October 2012, Mr. Doug Wells was appointed to the position of Executive Vice President of LREIT. Mr. Wells is the newly appointed Chief Investment Officer of Shelter Canadian Properties Limited and his services are being provided to LREIT pursuant to the services agreement between LREIT and Shelter Canadian Properties Limited. Mr. Wells will have responsibility for operations, capital markets and acquisitions for LREIT.

Mr. Wells has an extensive background in real estate capital markets, operations and portfolio management. Prior to joining Shelter Canadian Properties Limited, Mr. Wells was a Managing Principal in the New York office of Lazard Real Estate Partners, LLC. During his 15-year tenure with Lazard, Mr. Wells served on the boards of numerous public and privately owned real estate entities.

Mr. Wells will add an additional dimension to the experience and knowledge base of the leadership team of LREIT and strengthen the depth of the key management personnel of Shelter Canadian Properties Limited.

Reconstruction of Parsons Landing

During the third quarter of 2012, the reconstruction of Parsons Landing commenced with completion expected late next year. As previously reported, agreements were finalized in June 2012 under which the builder has agreed to complete the reconstruction of the property and attend to the recovery of the insurance claim in a manner which is expected to result in the cost of reconstruction being fully funded from insurance proceeds. An initial cash payment of $400,000 was also received by LREIT during the third quarter of 2012, under a separate insurance claim in regard to furniture and equipment losses.

Outlook

Interest expense was comparatively high in the third quarter of 2012 due to non-recurring lump-sum mortgage loan prepayment charges. A reduction in interest expense in 2013, combined with an anticipated improvement in the occupancy level of the property portfolio, is expected to result in an improvement in bottom-line results.

The refinancing/restructuring of mortgage loan debt will remain a high priority, with the objective of reducing interest costs and eliminating the remaining covenant breaches on mortgage loans.

The revolving loan commitment from 2668921 Manitoba Ltd. is expected to continue to be sufficient to enable LREIT to meet all of its projected funding commitments. The completion of additional property sales and lower interest cost refinancings will improve the overall liquidity position of LREIT next year.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 12, 2012

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 nine months ended September 30, 2012 and the Annual Report for 2011.

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with breaches of covenants under financing agreements, risks associated with delayed acquisition of properties, debt financing, availability of cash for distributions, the taxation of trusts, public markets, real property ownership, liquidity, interest and financing risk, credit risk, concentration of portfolio in one market, future property acquisitions, dependence on natural resources industries, reliance on single or anchor tenants, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, multi-family residential sector risk, environmental risks, other tax-related risk factors, supply risk, utility and property tax risk, government regulation, nature of Units, dilution, competition, general economic conditions, current economic conditions, relationship with the property manager, reliance on key personnel, reliance on Shelter Canadian Properties Limited ("Shelter Canadian") or its parent company 2668921 Manitoba Ltd. for interim funding and additional risks associated with debentures. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither LREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price Information

All purchase prices set forth herein are disclosed prior to closing costs, other adjustments on closing and GST, where applicable.

Divestiture Program

During the first nine months of 2012, LREIT sold one investment property (Siena Apartments) and one seniors' housing complex (Clarington Seniors' Residence) under its divestiture program, as well as eight condominium units at Lakewood Townhomes. The sale of Siena Apartments occurred on May 1, 2012 and the sale of Clarington Seniors' Residence occurred on May 9, 2012. Property sales in 2011 consisted of the sale of four condominium units at Lakewood Townhomes during the fourth quarter of the year.

Number of Properties

Prior to the third quarter of 2011, Lakewood Apartments and Lakewood Townhomes were considered to be a single property for the purposes of determining the number of properties in the LREIT portfolio. With the commencement of the condominium sale program for the 64 townhomes, the Lakewood Apartments and Lakewood Townhomes are identified as two distinct properties and the total number of properties reflected in the MD&A has been adjusted accordingly, effective with the report for the third quarter of 2011.

FINANCIAL SUMMARY

	September 30 2012	December 31 2011
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 506,873,246	$ 555,220,070
Total long-term financial liabilities **(1)**	$ 356,848,126	$ 399,176,274

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 9,206,783	$ 11,142,567	$ 28,978,605	$ 30,656,136
Net operating income *	$ 5,355,272	$ 7,103,623	$ 17,134,762	$ 18,546,592
Income (loss), before taxes and discontinued operations *	$ (3,078,641)	$ 1,594,954	$ 1,380,093	$ 1,110,649
Income (loss) and comprehensive income (loss)	$ (2,298,800)	$ 2,275,638	$ 3,912,535	$ 3,429,951
Cash Flows				
Cash flow from operating activities	$ 488,083	$ (2,575,907)	$ (5,111,689)	$ (3,101,636)
Funds from Operations (FFO) *	$ (2,919,690)	$ (876,000)	$ (5,089,829)	$ (6,574,430)
Adjusted Funds from Operations (AFFO) *	$ (3,615,882)	$ (1,282,891)	$ (6,531,470)	$ (7,463,075)
Distributable loss *	$ 733,513	$ 191,066	$ 400,635	$ (4,180,155)
Per Unit				
Net operating income *				
- basic	$ 0.287	$ 0.384	$ 0.922	$ 1.006
- diluted	$ 0.285	$ 0.384	$ 0.917	$ 1.006
Income (loss), before taxes and discontinued operations*				
- basic	$ (0.165)	$ 0.086	$ 0.074	$ 0.060
- diluted	$ (0.165)	$ 0.086	$ 0.074	$ 0.060
Income (loss) and comprehensive income (loss)				
- basic	$ (0.123)	$ 0.123	$ 0.211	$ 0.186
- diluted	$ (0.123)	$ 0.123	$ 0.209	$ 0.186
Cash flow from operating activities				
- basic	$ 0.026	$ (0.139)	$ (0.275)	$ (0.168)
- diluted	$ 0.026	$ (0.139)	$ (0.275)	$ (0.168)
Funds from Operations (FFO) *				
- basic	$ (0.156)	$ (0.047)	$ (0.274)	$ (0.357)
- diluted	$ (0.156)	$ (0.047)	$ (0.274)	$ (0.357)
Adjusted Funds from Operations (AFFO) *				
- basic	$ (0.194)	$ (0.069)	$ (0.351)	$ (0.405)
- diluted	$ (0.194)	$ (0.069)	$ (0.351)	$ (0.405)
Distributable income (loss) *				
- basic	$ 0.039	$ 0.010	$ 0.022	$ (0.227)
- diluted	$ 0.039	$ 0.010	$ 0.021	$ (0.227)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, a swap mortgage loan, debentures, defeased liability and mortgage bonds. The swap mortgage loan and mortgage bonds are included at face value.

(2) Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with International Financial Reporting Standards (IFRS) or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

LREIT was established in order to create a portfolio of income-producing real estate investments. The core business activities of LREIT include investment, development, management and divestiture activities which are focused on maximizing the return on the real estate portfolio.

Prior to 2009, the primary business strategy of LREIT was to achieve growth through the acquisition of new properties. As of December 31, 2008, the real estate portfolio of LREIT consisted of 45 properties with an acquisition cost of approximately $597 Million, including 14 properties located in Fort McMurray, Alberta.

In 2009, the slow down of economic activity in Fort McMurray resulted in a significant reduction in the operating income and operating cash flows of LREIT. Recessionary influences, combined with the reduced operating cash flows, negatively impacted the overall financing capabilities of LREIT. In response, LREIT initiated a divestiture strategy in 2009 with the objective of generating $250 Million of gross proceeds from property sales in order to create funds for the pay down of mortgage loan and convertible debenture debt and to restore working capital. In October 2011, the divestiture program was expanded to include a condominium sales program for the Lakewood Townhomes property in Fort McMurray, Alberta.

As of September 30, 2012, 20 properties and 12 condominium units have been sold under the divestiture program. The property portfolio of LREIT, as of September 30, 2012 consists of the remaining 25 properties, comprised of 22 investment properties (including the unsold condominium units at Lakewood Townhomes) and three seniors' housing complexes. The operating results for the three seniors' housing complexes are classified under discontinued operations.

A more detailed description of the operations and business strategy of LREIT is provided in the section of the MD&A titled, "Overview of Operations and Investment Strategy".

Highlights of 2012 Q3 Results and Key Issues/Events

1. Background Information

The revenues and expenses for the seniors' housing complexes are disclosed under one line item titled "Income from Discontinued Operations" in the Condensed Consolidated Statements of Comprehensive Income ("Statement of Comprehensive Income"). The following analysis of revenues and expenses does not include the revenues and expenses of the seniors' housing complexes, including the gain on the sale of the Clarington Seniors' Residence on May 9, 2012. After considering the sale of the Clarington Seniors' Residence, the portfolio of seniors' housing complexes consists of three properties as of September 30, 2012.

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties. There were not any changes to the number of properties in the property portfolio between January 1, 2011 and March 31, 2012. During the second quarter of 2012, LREIT sold one of the investment properties (Siena Apartments). Siena Apartments is disclosed as "Properties Sold" in the analyses throughout this report. In addition, 12 condominium units have been sold at the Lakewood Townhomes, comprised of the sale of four condominium units in the fourth quarter of 2011, and eight condominium units in 2012. The fire at Parsons Landing also resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012. Parsons Landing is disclosed as an "Impaired Property" in the analyses throughout this report.

Cash flow from operating activities includes net operating income, less interest and trust expenses incurred, on a cash basis, from the investment properties and the seniors' housing complexes in discontinued operations.

2. Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Average vacancy				
Fort McMurray	13%	6%	10%	21%
Other investment properties	3%	2%	3%	2%
Properties sold *	n/a	-%	n/a	-%
Impaired Property **	n/a	6%	n/a	17%
Total	9%	5%	7%	14%
Average rental rate				
Fort McMurray	$2,251	$2,180	$2,187	$2,217
Other investment properties	$1,048	$1,050	$1,064	$1,050
Properties sold *	n/a	$3,100	n/a	$3,100
Impaired Property **	n/a	$2,282	n/a	$2,324
Total	$1,704	$1,759	$1,697	$1,778

* The operating results of properties sold are analysed separately as the properties do not contribute to net operating income, subsequent to the closing date of sale. During the nine months ended September 30, 2012, the operating results for "Properties sold" pertain solely to Siena Apartments.

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

3. Income and Cash Flow

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net operating income				
Fort McMurray properties	$ 3,564,420	$ 3,767,939	$ 10,735,486	$ 9,092,934
Other investment properties	1,790,852	2,007,767	5,601,880	5,893,172
Sub-total	5,355,272	5,775,706	16,337,366	14,986,106
Properties sold	-	616,692	697,352	1,845,932
Impaired Property *	-	711,225	100,044	1,714,554
Total net operating income	5,355,272	7,103,623	17,134,762	18,546,592
Interest income	281,209	40,298	614,962	165,309
Forgiveness of debt	-	-	859,561	-
Interest expense	(10,116,020)	(8,085,179)	(24,474,974)	(25,453,004)
Trust expense	(407,263)	(617,710)	(1,572,022)	(2,050,625)
Income recovery on Parsons Landing *	869,547	-	2,393,658	-
Insurance proceeds	400,000	-	400,000	-
Loss before the following	(3,617,255)	(1,558,968)	(4,644,053)	(8,791,728)
Profit on sale of investment properties	-	-	1,045,307	-
Fair value gains	38,614	3,153,922	8,978,839	9,902,377
Fair value adjustment of Parsons Landing	500,000	-	(4,000,000)	-
Income (loss) before taxes and discontinued operations	(3,078,641)	1,594,954	1,380,093	1,110,649
Deferred income tax expense (recovery)	(181,339)	298,704	-	91,922
Income (loss) before discontinued operations	(2,897,302)	1,296,250	1,380,093	1,018,727
Income from discontinued operations	598,502	979,388	2,532,442	2,411,224
Income (loss) and comprehensive income (loss)	$ (2,298,800)	$ 2,275,638	$ 3,912,535	$ 3,429,951

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Cash provided by (used in) operating activities	$ 488,083	$ (2,575,907)	$ (5,111,689)	$ (3,101,636)

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

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing, discontinued operations and income taxes, the loss for the third quarter of 2012 increased by $2,058,287 compared to the third quarter of 2011. The increase in the loss is mainly due to a $1,748,351 decrease in net operating income and a $2,030,841 increase in interest expense, partially offset by an income recovery on Parsons Landing of $869,547, insurance proceeds of $400,000 and a $240,911 increase in interest income.

The decrease in net operating income reflects a decrease in net operating income from Parsons Landing, due to the fire, and from the Siena Apartments, due to the sale of the property, and, to a lesser extent a decrease in net operating income from the Fort McMurray property portfolio and the portfolio of other investment properties.

3. Income and Cash Flow (continued)

The decrease in net operating income from the Fort McMurray property portfolio reflects a modest decrease in revenue and an increase in operating costs. Although the vacancy for the Fort McMurray portfolio increased from 6% during the third quarter of 2011 to 13% in the third quarter of 2012, the increase in the vacancy was largely offset by an increase in the average rental rate. During the third quarter of 2012, the average monthly rental rate increased by $71 or 3.3%, compared to the third quarter of 2011.

Pending the re-occupancy of Parsons Landing, the revenue of the property consists of accrued revenue in regard to the recovery of insurance proceeds for revenue losses. In accordance with IFRS, the insurance recoveries are recorded as a separate line item, titled, "Income recovery on Parsons Landing" and are not included in the calculation of net operating income. As a result there is not any revenue or operating income disclosed for the "Impaired Property" segment in 2012, aside from amounts which are attributable to the period before the fire occurred on February 5, 2012.

An analysis of the increase in interest expense is provided below.

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing, discontinued operations and income taxes, the loss for the first nine months of 2012 decreased by $4,147,675 compared to the first nine months of 2011. The decrease in the loss is mainly due to an increase in income of $3,368,022 after combining net operating income and the income recovery on Parsons Landing, a decrease in interest expense of $978,030, an increase in interest income of $449,653 and a gain on the forgiveness of debt of $859,561.

4. Fair Value Gains

In accordance with the IFRS accounting policies which were adopted by LREIT, the carrying value of investment properties is adjusted to reflect changes in fair value. During the third quarter of 2012, the fair value of investment properties increased by $38,614.

The increase in fair value is supported by appraisals for eleven properties that were obtained in the first nine months of 2012 and for seven properties in 2011 with an aggregate fair value of $357.8 Million.

The increase in fair value is a non-cash component of income and does not affect the operating cash flow of the Trust.

During the nine months ended September 30, 2012, the fair value of investment properties increased by $9.0 Million.

5. Profit on Sale of Investment Properties

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

During the first nine months of 2012, LREIT sold one investment property (Siena Apartments) which resulted in a profit on sale of $346,770. Eight units were also sold under the condominium sales program at the Lakewood Townhomes, resulting in a profit on sale of $698,537. During the first nine months of 2011, LREIT did not complete any property sales.

6. Interest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Interest expense	$ 10,116,020	$ 8,085,179	$ 24,474,974	$ 25,453,004

Key Variables

	September 30 2012	December 31 2011
Weighted average interest rate of total mortgage loan debt		
Investment properties	7.1 %	6.9 %
Seniors' housing complexes	5.0 %	7.3 %
Combined operations	7.0 %	6.9 %

Key Events Affecting Interest Expense

Interest expense increased by $2.0 Million or 25% during the third quarter of 2012 compared to the third quarter of 2011 as a result of the following factors:

- an increase in mortgage prepayment charges of $2.75 Million. The increase in mortgage prepayment charges is related to the refinancing of one mortgage loan previously in breach of covenant requirements and one swap mortgage loan in breach of covenant requirements;
- an increase in mortgage loan interest of $0.15 Million. The increase in mortgage loan interest is mainly due to an increase in the balance of mortgage loans payable during the three month period ended September 30, 2012 as a result of the repayment of the Riverside Terrace debt in June 2012, and the reclassification of the replacement financing to investment properties;
- a decrease in swap mortgage loan interest of $0.34 Million as a result of the sale of Siena Apartments and a lump sum prepayment of $4.3 Million on the Millennium Village swap mortgage loan; and
- a reduction of non-cash interest charges (amortization charges pertaining to mortgage loan transaction costs, accretion and change in value of interest rate swap) of $0.66 Million.

Total interest expense decreased by $1.0 Million or 4% during the first nine months of 2012 compared to the first nine months of 2011 as a result of the following factors:

- an increase in mortgage prepayment charges of $2.75 Million. The increase in mortgage prepayment charges is related to the refinancing of one mortgage loan previously in breach of covenant requirements and one swap mortgage loan in breach of covenant requirements;
- a decrease in mortgage loan interest of $0.98 Million. The decrease reflects a decrease of $1,128,595 in the first six months of 2012 and an increase of $150,457 in the third quarter. The decrease in the first six months of 2012 is due to a decrease in the balance of mortgage loans payable during the 12 month period ended June 30, 2012;
- a decrease in swap mortgage loan interest of $0.55 Million is a result of the sale of Siena Apartments and a lump sum prepayment of $4.3 Million on the Millennium Village swap mortgage loan; and
- a reduction of non-cash interest charges (amortization charges pertaining to mortgage loan transaction costs, accretion and change in value of interest rate swap) of $2.30 Million.

7. Financing

Mortgage Refinancing

2012 Q1

In January 2012, the existing 6.82% $24.9 Million loan for Lakewood Apartments was refinanced by a new $18.85 Million mortgage loan at an interest rate of 5.75% with a maturity date of October 31, 2017. The difference was funded by $2.7 Million of restricted cash deposits, an interest free advance from Shelter Canadian and the remaining $0.9 Million of the loan balance was forgiven.

In February 2012, LREIT obtained additional mortgage loan financing of $12 Million at an interest rate of prime rate plus 9%. The additional mortgage loan financing matures on March 1, 2013 and is secured by secondary mortgage charges on a number of investment properties.

2012 Q2

On May 1, 2012, LREIT discharged $18.6 Million of swap mortgage loan debt on the sale of the Siena Apartments. On May 9, 2012, LREIT discharged $14.75 Million of first mortgage loan debt on the sale of a seniors' housing complex, the Clarington Seniors' Residence.

2012 Q3

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the application of collateral deposits of $1.9 Million, working capital and a $10.2 Million interest-free advance from Shelter Canadian pending the receipt of proceeds from the new first mortgage loan. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt. The interest-free advance was repaid in August 2012 from the proceeds of a new first mortgage loan of $20.4 Million.

In August 2012, LREIT modified the terms of the first mortgage loan on Millennium Village including a prepayment of approximately $4.3 Million from the application of collateral deposits of $1.7 Million and working capital. The pay down required a prepayment charge of $713,000.

In September 2012, LREIT obtained a new mortgage loan of approximately $22.7 Million for the Colony Square property in Winnipeg and used the proceeds to repay the existing first mortgage loan. The refinancing extinguished the covenant breach.

Two second mortgage loans in the aggregate amount of $2.9 Million were also repaid in the third quarter of 2012 from working capital.

Debt Covenants

With the exception of three mortgage loans and one swap mortgage loan in breach of debt service coverage requirements, all of the mortgage loans on the investment properties which matured as of September 30, 2012 have been renewed or refinanced. The three matured loans and one swap mortgage loan in breach of debt service coverage requirements have a total principal balance of $98,469,764 as of September 30, 2012 and are secured by five investment properties in Fort McMurray. The loans are repayable on demand. A forbearance extension to December 31, 2012, has been received for the three mortgage loans. These loans are expected to be refinanced by early next year. The covenant breach for the swap mortgage loan is expected to be eliminated through modified loan terms.

Debentures

As of September 30, 2012, the total face value of the Series G debentures is $24.96 Million. The debentures mature on February 28, 2015. The terms of the debentures also provide for the net proceeds from property sales to be applied against the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment.

7. Financing (continued)

Revolving Loan with 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd.

During the first nine months of 2012, the interest rate on the loan has ranged from 9.75% to 12%. The maximum loan balance increased from $12 Million to $15 Million, effective April 1, 2012. The current term of the loan expires on December 31, 2012.

During the first nine months of 2012, the total interest expense associated with the revolving loan commitment was $632,236, compared to $936,562 during the first nine months of 2011.

As of the date of this report, the amount available on revolving loan commitment was $4,055,000.

8. Parsons Landing

Agreement with Builder

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

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest payments of $300,000 per months to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of September 30, 2012, interest in excess of $300,000 per month amounted to $19,010,579.

As of September 30, 2012, the balance owing in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

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

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. To the extent that insurance proceeds for revenue losses are less than the interest payment, the shortfall shall be forgiven until such time as the occupancy of the building recommences. The $300,000 monthly interest is expected to be funded from insurance proceeds as noted above.

Fair Value Adjustment

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47,800,000 at December 31, 2011 to $20,000,000 at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire.

Following the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the estimated fair value of the property was adjusted to reflect the estimated value at the construction completion date, discounted for the estimated time period of reconstruction and re-leasing. As of June 30, 2012, the estimated fair value was $43,300,000 representing an increase of $23,300,000 compared to the estimated fair value at March 31, 2012. As of September 30, 2012, the estimated fair value was $43,800,000, representing an additional increase of $500,000. The increase in fair value of $23,300,000 and $500,000 is reflected in the income of the Trust in the second and third quarter of 2012, respectively.

9. Liquidity

	September 30 2012	December 31 2011
Unrestricted cash	$ 888,729	$ 1,170,619
Restricted cash	$ 7,589,225	$ 15,246,600
Working capital deficit	$ 8,041,803	$ 13,510,274

Key Events affecting liquidity

- Cash outflow from operations and "ongoing" financing and investing activities: During the first nine months of 2012, the net cash outflow from operating activities, regular repayments of principal on mortgage loan debt and capital expenditures was $12.8 Million.
- Additional mortgage loan financing: During the first nine months of 2012, the net cash outflow from additional mortgage loan financing amounted to $1.8 Million.
- Net proceeds from property sales: During the first nine months of 2012, LREIT sold one investment property, one seniors' housing complex and eight condominium units resulting in net proceeds of $13.2 Million.
- Revolving loan: During the first nine months of 2012, net repayments of the revolving loan amounted to $2.0 Million, resulting in a loan balance of $10.0 Million as of September 30, 2012.
- Transaction costs: During the first nine months of 2012, expenditures on transaction costs associated with mortgage loan financing, amounted to $3.2 Million including $0.3 Million fees associated with mortgage loans with covenant breaches.

Liquidity summary

During the first nine months of 2012, the net proceeds from property sales and additional mortgage loan financing represented the main source of financing of LREIT, supplemented by periodic advances on the revolving loan. Interest-free advances from Shelter Canadian served as an interim source of funds in the first and third quarter of 2012 prior to the completion of the additional mortgage loan financing. In the first quarter of 2012, service fees and revolving loan interest were also partially deferred. The working capital deficiency of LREIT decreased from a balance of $13.5 Million as of December 31, 2011, to a balance of $8.0 Million as of September 30, 2012.

10. Divestiture Program

	Properties Sold				
	2009	2010	2011	2012	Total
Number of properties sold	13	5	-	2	20
Number of condominium units sold	-	-	4	8	12
Gross proceeds	$ 90,392,000	$ 40,835,000	$ 1,927,100	$ 58,429,500	$ 191,583,600
Net proceeds at closing	$ 29,631,650	$ 17,563,501	$ 52,120	$ 13,167,279	$ 60,414,550
Vendor take-back financing received	6,300,000	3,790,650	-	-	10,090,650
Total proceeds	$ 35,931,650	$ 21,354,151	$ 52,120	$ 13,167,279	$ 70,505,200

LREIT is pursuing the sale of the seniors' housing complexes and/or other properties. During the first nine months of 2012, LREIT sold one investment property and one seniors' housing complex under its divestiture program. In October 2011, LREIT also commenced a condominium sales program at Lakewood Townhomes. As of September 30, 2012, 12 condominium units have been sold, including eight units which were sold during the first nine months of 2012.

10. Divestiture Program (continued)

Subsequent to September 30, 2012, the Trust sold a condominium unit under the condominium sale program at Lakewood Townhomes, for gross proceeds of $466,900. After funding closing costs, in-suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan secured by the property.

11. Risks and Uncertainties

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

- as of the date of this report, the breach of covenants which remain on three mortgage loans and one swap mortgage loan encompasses $98.5 Million of mortgage loan debt;
- the working capital deficiency of the Trust;
- the concentration of properties in Fort McMurray and the resulting exposure to the Canadian oil sands industry;
- the impact of the timing of the increase in rental rates in Fort McMurray on the ability of the Trust to renew mortgage loan financing;
- ability of the Trust to complete additional property sales;
- ability of the Trust to complete additional upward refinancings; and
- reliance on Shelter Canadian and its parent 2668921 Manitoba Ltd. for interim funding.

As a result of the improvement in the occupancy level of the Fort McMurray portfolio, the extension of the Series G debentures in December 2011; the renewal or refinancing of mortgage loans and ongoing discussions with lenders for mortgages which have matured to the date of this report; and two property sales in the second quarter of 2012, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

The financial capacity of LREIT to continue operations is dependent on stabilized 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, renewal of the revolving loan commitment from 2668921 Manitoba Ltd., and the continued availability of interim funding from Shelter Canadian. In the event that the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter Canadian and its parent company 2668921 Manitoba Ltd., prior to completion of additional property sales, LREIT may not have the ability to fund all of its debt obligations.

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 AND LIQUIDITY

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

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

The main variables affecting the liquidity of LREIT for the fourth quarter of 2012 and 2013 are as follows:

Funding Requirements

Working Capital Deficiency

As at September 30, 2012, LREIT has a working capital deficiency of approximately $8.0 Million, representing a decrease of approximately $5.5 Million, compared to the working capital deficiency as of December 31, 2011. The working capital deficiency consists primarily of the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd. of $10.0 Million, accounts payable and other liabilities of approximately $3.0 Million, less unrestricted cash of approximately $0.9 Million, rent and other receivables of approximately $2.2 Million and deposits, prepaids and other current assets of approximately $1.9 Million. The working capital calculation excludes the amount payable on Parsons Landing.

The decrease in the working capital deficiency from December 31, 2011 is mainly due to a decrease in the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd., the repayment of advances from Shelter Canadian in February 2012, and the payment of accounts payable.

Operating Activities

During the first nine months of 2012, the cash inflow from operating activities was approximately $1.7 Million, excluding working capital adjustments. The cash inflow from operating activities, excluding working capital adjustments, increased by $4.2 Million during the first nine months of 2012, compared to the first nine months of 2011.

Net operating income and the income recovery on Parsons Landing are the main cash inflows in regard to operating activities, with the Fort McMurray property portfolio being the main contributor to net operating income. "Interest paid" is the main cash outflow in regard to operating activities. Interest paid includes interest payments for mortgage loan debt, including the revolving loan from 2668921 Manitoba Ltd., mortgage bonds and debentures. Income tax expense or recoveries may also have a significant impact on cash flow from operating activities.

The cash flow from operations excluding working capital adjustments of $1.7 Million was generated by a cash flow of $0.8 Million in Q1, a cash deficiency of $0.1 Million in Q2 and a cash flow of $1.1 Million in Q3. The decrease in cash flow in Q2 reflects the debenture and mortgage bond interest payments which are due in the second and fourth quarters in each year. As a result of the debenture and mortgage bond interest payments, it is anticipated that LREIT will complete Q4 with a reduced cash flow from operations, excluding working capital adjustments.

During the first nine months of 2012, the $2.4 Million income recovery on Parsons Landing, the $0.4 Million income from insurance proceeds and a $1.3 Million decrease in interest paid, on a cash basis, offset by a $0.6 Million decrease in net operating income, on a cash basis and a $0.2 Million increase in income tax expense, served to increase the cash inflow from operating activities, before working capital adjustments by $4.3 Million, compared to the first nine months of 2011. After including working capital adjustments, LREIT completed the first nine months of 2012 with a cash outflow of approximately $5.1 Million. For the fourth quarter of 2012 and into 2013, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal and capital improvements.

Ongoing Funding Commitments

The ongoing funding commitments of LREIT include regular payments of debt and capital improvements.

Regular payments of debt are expected to be approximately $1.1 Million during the fourth quarter of

2012, compared to $6.4 Million for the first nine months of 2012.

Capital improvements are expected to be approximately $0.6 Million for the fourth quarter of 2012, compared to $1.3 Million during the first nine months of 2012.

During the first nine months of 2012, regular payments of debt, capital improvements and the cash outflow from operating activities amounted to $12.8 Million, compared to $11.6 Million during the first nine months of 2011.

Series G Debentures

The 9.5% Series G debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The face value of the debentures is $24,961,000 as of September 30, 2012. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

Monthly Payments for Parsons Landing

As previously reported, a fire occurred at Parsons Landing in February 2012 which substantially destroyed one entire wing of the property and resulted in wide spread damage to the other two wings. The $300,000 monthly interest to the builder is expected to be funded from insurance proceeds until the occupancy of the property recommences.

A more detailed description of the status of the Parsons Landing property is presented in the "Parsons Landing" section of the MD&A.

Sources of Capital

Mortgage Refinancing

As previously reported, LREIT obtained additional mortgage loan financing of $12 Million in February 2012 at an interest rate of prime rate plus 9%. The additional mortgage loan financing matures on March 1, 2013 and is secured by secondary mortgage charges on a number of investment properties.

The existing mortgage loans for Riverside Terrace were refinanced by a new 5.0% $31.5 Million mortgage loan in June 2012. The excess funds after repaying the loans and prepayment charges were used to pay down the revolving loan from 2668921 Manitoba Ltd.

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the application of collateral deposits of $1.9 Million, working capital and a $10.2 Million interest-free advance from Shelter Canadian pending the receipt of proceeds from a new mortgage loan. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt. In August 2012 a new mortgage loan of $20.4 Million was obtained and the mortgage proceeds were used to repay the interest-free advance from Shelter Canadian and for working capital.

In August 2012, the Trust paid down a swap mortgage loan in the amount of approximately $4.3 Million from the application of collateral deposits of $1,750,425, with the balance funded from working capital. The pay down encompassed a prepayment charge of $713,000. Two second mortgage loans in the aggregate amount of $2.9 Million were also repaid in the third quarter of 2012 from working capital.

In September 2012, LREIT obtained a replacement first mortgage loan of approximately $22.7 Million for the Colony Square property in Winnipeg. The proceeds from the replacement first mortgage loan were used to repay the existing first mortgage loan and fund a prepayment charge. The refinancing resulted in the elimination of the covenant breach on the previous first mortgage loan.

In the event that the net proceeds from property sales are insufficient to fund obligations, LREIT may pursue additional upward refinancing to fund the shortfall. The opportunity to complete upward refinancings is limited, given the extent to which the existing property portfolio is leveraged, the mortgage loans with covenant breaches and the maximum 75% mortgage loan debt to appraised value restriction pursuant to the terms of the Declaration of Trust.

Revolving Loan Commitment

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian). Effective September 1, 2012, the revolving loan commitment was renewed for a four month term to December 31, 2012 at an interest rate of 12% with a maximum balance of $15 Million. The amount available under the revolving loan commitment was $5 Million as of September 30, 2012 and $4,055,000 as of the date of this report. Subject to regulatory approval, the revolving loan commitment is expected to be renewed for 2013 on similar terms and conditions.

As at December 31, 2011, deferred interest payments on the revolving loan from 2668921 Manitoba Ltd. were $294,000. Subsequent to December 31, 2011, the deferred interest payments on the revolving loan were fully paid and no additional interest payments on the revolving loan have been deferred.

Credit Support From Shelter Canadian

Shelter Canadian has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000 and deferred service fees of $425,833. During the first quarter of 2012, all of the interim funding was fully repaid.

On July 31, 2012, an interest-free advance of $10.2 Million was received from Shelter Canadian which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was repaid on August 2, 2012 from the proceeds of a new first mortgage financing of $20.4 Million.

Property Sales

The sale of properties under the divestiture sale program of LREIT represents a primary source of capital. The timing and completion of property sales is subject to uncertainty. The condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2015.

One of the four seniors' housing complexes and one investment property were sold during the second quarter of 2012 for gross proceeds of $24 Million and net proceeds of approximately $1.5 Million after repayment of mortgage loan debt, a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

The net proceeds from the two property sales and eight condominium units of $13.2 were used for working capital purposes and to partially repay the revolving loan.

There is no assurance that LREIT will sell properties proposed for sale on favourable terms or at all.

Other Factors

Other factors which could impact the liquidity of LREIT or affect property operations are:

*Mortgage Loans in Breach of Covenant Requirement*s

As of September 30, 2012, there are three mortgage loans and one swap mortgage loan having a total principal balance of $98.5 Million which are in breach of debt service coverage requirements. One of the loans is encumbered against the Lakewood Townhomes, and the other three loans are encumbered against four other properties in Fort McMurray.

A forbearance extension to December 31, 2012 has been received for the three mortgage loans. Management believes that the covenant breaches will be satisfactorily resolved through extension of the forbearance agreements, debt repayment, modified loan terms and/or refinancing.

Maturing Debt

With the exception of three mortgage loans which are in breach of debt service coverage requirements and are repayable on demand, all of the LREIT mortgage loans which have matured to date have been renewed or refinanced.

Summary

It is anticipated that the proceeds from property sales and upward refinancings, supplemented by draws on the revolving loan and periodic credit support from Shelter Canadian, as required, will continue to be sufficient to fund the projected funding commitments of LREIT for the fourth quarter 2012 and 2013. As of the date of this report, the amount available under the revolving loan is $4,055,000.

In summary, management believes that the going concern assumption is appropriate and that LREIT will have sufficient liquidity to address its operating and debt obligations.

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 stated investment objectives of LREIT are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments through the ongoing acquisition and development of multi-unit residential properties.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter Canadian provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter Canadian is also responsible for the property management function for the investment properties of LREIT, pursuant to the terms of a Property Management Agreement.

The core business activities of LREIT includes acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada. As of September 30, 2012, the real estate portfolio of LREIT consists of 19 multi-family residential properties, two commercial properties and one mixed residential/commercial property (the "investment properties"), as well as three seniors' housing complexes (the "discontinued operations") under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

Prior to 2009, the primary investment strategy of LREIT was to expand its income base through the acquisition of additional properties. In 2006 and 2007, LREIT focused its investment activities on the acquisition and development of new residential rental properties in Fort McMurray, Alberta due to the high level of economic growth and the favourable rate of return which was being generated by real estate investments in Fort McMurray prior to the economic downturn which began in 2008.

The investment properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. In 2009 and 2010, the decline in economic conditions in Fort McMurray resulted in a reduction in the profitability of the Fort McMurray property portfolio and a decrease in the operating income of LREIT. As a result of an increase in activity in the oil sands industry, the occupancy levels and operating income from the Fort McMurray property portfolio have improved. The occupancy level in the second and third quarter of 2012 is slightly less than the occupancy level achieved in the later half of 2011 mostly due to an increase in vacancy at the downtown Fort McMurray properties (a major renovation project was in process, requiring that units be unoccupied) and at Lakewood Townhomes (a condominium sales program is underway, requiring that 13 units be unoccupied). Occupancy and rental revenue (excluding Lakewood Townhomes) are expected to increase as the demand for rental housing continues to grow.

The Financial Statements of LREIT provide segmented results for investment properties, with "Fort McMurray", "Other Investment Properties", "Properties Sold" and "Impaired Property" representing the segments. Operating results pertaining to general trust operations are disclosed separately in the segmented financial information.

Operations

LREIT seeks to maximize the operating income of its property portfolio through the implementation of financial management practices, operating procedures, responsive management services and proactive leasing strategies. LREIT also completes capital improvements and upgrades to its properties on an ongoing basis and undertakes major renovation programs or expansion projects at selected properties, as deemed appropriate.

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

Financing

The purchase price of new property acquisitions is typically 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 investment capital. LREIT also utilizes a revolving loan commitment from 2668921 Manitoba Ltd. as an interim source of funds. Interest-free advances from Shelter Canadian have also periodically served as an interim funding source.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of September 30, 2012, 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 third quarter of 2012, the mortgage loan debt service coverage ratio was 1.07, compared to 0.97 in the third quarter of 2011 and 0.97 for the entire year in 2011. The mortgage loan debt service coverage ratio excludes net operating income and debt service costs for Parsons Landing.

Divestiture Program

General

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

During 2009 and 2010, LREIT sold 18 properties at a combined gross selling price of $131.2 Million. The total net proceeds from sale were approximately $57.3 Million, after accounting for expenses, the repayment or assumption of debt and the subsequent receipt of take-back financing provided to purchasers. The 2010 Annual Report provides a report on the disbursement of divestiture program proceeds. LREIT did not complete any property sales under its divestiture program during 2011, aside from the sale of four condominium units at Lakewood Townhomes at a combined gross selling price of $1.9 Million.

LREIT is pursuing the sale of the three seniors' housing complexes and/or other properties and undertaking a condominium sales program at Lakewood Townhomes.

In May, 2012, LREIT sold one investment property (Siena Apartments) and one of the seniors' housing complexes (the Clarington Seniors' Residence) for total net proceeds of approximately $13.4 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

Lakewood Townhomes Condominium Sales

The Lakewood complex is comprised of 64 townhomes and a 111 suite apartment building. In October, 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. After funding sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, net sales proceeds will be applied to reduce the first mortgage loan until such time that the first mortgage loan is repaid in full. The condominium sales program is expected to be substantially completed in 2015. The condominium sales program encompasses services and renovations fees payable to Shelter Canadian. See "Related Party Transactions".

As of September 30, 2012, 12 condominium units have been sold at a combined gross selling price of $5.9 Million.

Subsequent to September 30, 2012, the Trust sold a condominium unit under the condominium sale program at Lakewood Townhomes, for gross proceeds of $466,900. After funding closing costs, in-suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan secured by the property.

Distributions

Due to the downturn in rental market conditions in Fort McMurray in 2008, LREIT suspended cash distributions in March 2009.

TAX CHANGES

Effective January 1, 2011, in accordance with the federal income taxation policy for SIFT's ("specified investment flow-through" trusts), the distributions of LREIT are generally not deductible for purposes of determining the taxable income of LREIT, with certain exceptions, until such time as the Trust qualifies as a qualifying REIT in accordance with the Income Tax Act.

Income from capital gains on investment property sales will be subject to tax in 2012. To the extent that the investment property sale results in a capital gain, the income tax liability associated with a capital gain will serve to reduce the net proceeds from a property sale

As a result of property sales, it may be necessary for LREIT to declare a "special" distribution, payable in units, in order to reduce its income tax liability. The special distribution may represent ordinary income or dividends which will generally be taxable to the unitholders.

A more detailed description of the impact of SIFT rules on the income tax position of the Trust is included in the MD&A under the title "Taxation".

PARSONS LANDING

Possession of Property and Closing/Financing Agreement

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

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of September 30, 2012, interest in excess of $300,000 per month amounted to $19,010,579.

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

Destruction of Property by Fire

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

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. The $300,000 monthly interest is expected to be funded from the insurance proceeds. To the extent that insurance proceeds for revenue losses are less than the monthly interest payment, the shortfall shall be forgiven until such time as the occupancy of the building recommences.

Impact on Financial Statements

The circumstances at Parsons Landing have impacted the Financial Statements of LREIT, as follows:

Payable on acquisition of Parsons Landing

As of September 30, 2012, the balance owing in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

Fair value adjustment of Parsons Landing

Parsons Landing is classified as an investment property and is carried at fair value. The carrying value of the property at December 31, 2011 was $47,800,000.

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47,800,000 at December 31, 2011 to $20,000,000 at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire.

Following the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the estimated fair value of the property was adjusted to reflect the estimated fair value at the construction completion date, discounted for the estimated time period of reconstruction and re-leasing. As of June 30, 2012, the estimated fair value was $43,300,000 representing an increase of $23,300,000 compared to the estimated fair value at March 31, 2012. As of September 30, 2012, the estimated fair value was $43,800,000, representing an additional increase of $500,000. The increase in fair value of $23,300,000 and $500,000 is reflected in the income of the Trust in the second and third quarter of 2012, respectively.

Insurance proceeds

An insurance policy for the furniture and equipment of the property was arranged by the Trust. As of September 30, 2012, the insurer has agreed to process a cash settlement in respect of the loss, with an initial payment of $400,000. The payment of $400,000 is reflected in the income of the Trust in the third quarter of 2012 as "insurance proceeds".

Net operating income and interest expense

The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012, as well as the $300,000 monthly interest payment for January 2012.

Subsequent to February 5, 2012, the Financial Statements reflect accrued revenue in regard to the recovery of insurance proceeds for revenue losses and the monthly interest in the amount of $300,000. As the monthly interest requirement is being funded from insurance proceeds until the reconstruction of the property is completed, there has not been any cash outflow associated with the interest expense on the acquisition payable since January 2012. The accrued revenue in regard to insurance recoveries is recorded as a separate line item, "Income recovery on Parsons Landing" in the Statement of Comprehensive Income.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2012

As of September 30, 2012, the property portfolio of LREIT consists of 25 rental properties, 22 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust. The investment properties include all of the unsold condominium units at Lakewood Townhomes. The remaining three properties consist of three 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 25 properties has a total purchase price of approximately $438.3 Million and encompasses 2,426 suites and 139,243 square feet of leasable commercial area.

There were not any changes to the number of properties in the property portfolio between January 1, 2011 and March 31, 2012. During the second quarter of 2012, LREIT sold one of the investment properties (Siena Apartments) and one of the seniors' housing complexes (Clarington Seniors' Residence). In addition, 12 condominium units have been sold at the Lakewood Townhomes, comprised of the sale of four condominium units in the fourth quarter of 2011, and eight condominium units in the first and second quarter of 2012. The fire at Parsons Landing also resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012.

After accounting for the two property sales, the condominium sales program at Lakewood Townhomes and the fire at Parsons Landing, the number of "revenue generating" suites in the investment property portfolio decreased by 238 suites or 11.3% as of September 30, 2012, compared to September 30, 2011, while the number of "revenue generating" suites in discontinued operations decreased by 112 suites or 22.0%

A list of all of the properties in the LREIT investment portfolio is provided in Schedule I of this report.

Composition of Property Portfolio of Investment Properties

The 22 properties which are classified as investment properties consist of two commercial properties located in Burlington, Ontario and Airdrie, Alberta; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 13 multi-family residential properties, including Parsons Landing, in Fort McMurray, Alberta; two multi-family properties in Yellowknife, Northwest Territories; and four multi-family properties located in Thompson, Manitoba, Brandon, Manitoba, Edson, Alberta and Peace River, Alberta.

As noted above, the properties in "discontinued operations" consist of the three seniors' housing complexes.

Properties Held for Sale/Discontinued Operations

Discontinued operations is a segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which was acquired for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the three 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" properties.

Income from properties in discontinued operations is disclosed separately on the Statement of Comprehensive Income of LREIT.

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, as well as the profit on sale of condominium units, are included with investment properties.

The carrying value of investment properties and long-term debt of investment properties are reduced on a proportional basis as units are sold.

Analysis of Operating Results

In this report, the analysis of operating results excludes the operating results from discontinued operations, except where noted.

During the first nine months of 2012, the operating results for investment properties include the operating results for 23 investment properties for the period from January 1, 2012 to the sale date of the Siena Apartments on May 1, 2012. For the period from May 1, 2012 to September 30, 2012 the operating results for investment properties include the operating results for 22 investment properties. The sale of 12 condominium units at Lakewood Townhomes and the fire at Parsons Landing also affected the comparability of the second and third quarter results for 2012 and 2011.

During the first nine months of 2011, the operating results for investment properties include the operating results for 23 investment properties. There were no investment properties classified as "held-for-sale" at the end of any of the quarterly reporting periods in 2011 or 2012.

Loans and Receivables

As of September 30, 2012, "Loans and receivables" consisted of a 12.5% second mortgage loan of $7.7 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, a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a 12% $250,000 secured note receivable from a previous tenant which is due on demand.

CAPITAL STRUCTURE

Capital Structure - September 30, 2012

	September 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Long-term debt	$ 141,991,067	33.5 %	$ 130,476,452	31.1 %
Current portion of long-term debt	197,510,824	46.6 %	208,484,873	49.7 %
Equity	84,542,863	19.9 %	80,510,813	19.2 %
Total capitalization	$ 424,044,754	100.0 %	$ 419,472,138	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, a swap mortgage loan, mortgage bonds, debenture debt, a defeased liability 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 three 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 the Parsons Landing is included in trade and other payables.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of September 30, 2012 decreased by $43,431,563 or 10.9% compared to the total long-term debt as of December 31, 2011. The decrease is comprised of $43,972,129 in the mortgage loan debt of discontinued operations and a $24,843,025 decrease in swap mortgage loans, partially offset by a $26,171,123 increase in mortgage loans.

	September 30 2012	December 31 2011	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 281,034,294	$ 254,863,171	$ 26,171,123
Swap mortgage loans	18,099,331	42,942,356	(24,843,025)
Mortgage bonds	14,354,043	14,058,307	295,736
Debentures	24,961,000	25,312,000	(351,000)
Defeased liability	2,715,247	2,755,325	(40,078)
Total secured long-term debt	341,163,915	339,931,159	1,232,756
Accrued interest payable	2,698,459	2,019,182	679,277
Unamortized transaction costs	(4,360,483)	(2,989,016)	(1,371,467)
Total long-term debt - Investment properties	339,501,891	338,961,325	540,566
Total long-term debt - Properties held for sale	15,571,640	59,543,769	(43,972,129)
Total long-term debt	$ 355,073,531	$ 398,505,094	$ (43,431,563)

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of September 30, 2012, the mortgage loan debt of LREIT decreased by $18,388,509 compared to the amount payable as of December 31, 2011. As disclosed in the following chart, the decrease is comprised of an increase in mortgage loan debt of $26,171,123 for investment properties and a decrease in the mortgage loan debt of $44,559,632 for the seniors' housing complexes in discontinued operations.

	Nine Months Ended September 30, 2012		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 105,475,000	$ 105,475,000	$ -
Repayment of mortgage loans on refinancing *	(93,476,681)	(65,569,644)	(27,907,037)
Forgiveness of debt	(859,561)	(859,561)	-
Net proceeds (repayment)	11,138,758	39,045,795	(27,907,037)
Regular repayment of principal on mortgage loans	(5,672,143)	(4,769,548)	(902,595)
Prepayment of mortgage loans	(5,435,000)	(4,435,000)	(1,000,000)
Reduction of mortgage loans on sale of properties	(18,420,124)	(3,670,124)	(14,750,000)
Increase (decrease) in mortgage loans	(18,388,509)	26,171,123	(44,559,632)
Total mortgage loans - December 31, 2011	315,015,968	254,863,171	60,152,797
Total mortgage loans - September 30, 2012	$ 296,627,459	$ 281,034,294	$ 15,593,165

* Repayment of mortgage loans on refinancing excludes the mortgage prepayment charges in the aggregate amount of $3,362,903 which were required in order to upward refinance the first mortgage loans of Riverside Terrace and Colony Square.

Investment Properties

Proceeds of Mortgage Loan Financing

Mortgage loan proceeds of $105,475,000, as disclosed in the preceding chart, are comprised of additional mortgage loan financing of $12.0 Million obtained in February 2012, additional mortgage financing obtained in June 2012 in the amount of $31.5 Million and new mortgage loan financing in the total amount of $62.0 Million for Lakewood Apartments ($18.9 Million in Q2), Colony Square ($22.7 Million in Q3) and the six apartment properties in downtown Fort McMurray ($20.4 Million in Q3).

The proceeds of the $31.5 Million first mortgage loan were used to repay $27.9 Million of mortgage loan debt of Riverside Terrace and for general working capital purposes.

Repayment of Mortgage Loans on Refinancing

The repayment of mortgage loans on refinancing of $65,569,644 is comprised of the repayment of the previous mortgage loan for Lakewood Apartments, the downtown Fort McMurray properties and Colony Square. The repayment of the previous first mortgage loans for Colony Square encompassed prepayment charges of $2,038,548.

The repayment of the previous mortgage loan for Lakewood Apartments encompassed interest-free advances from Shelter Canadian in the amount of $2.4 Million, the application of restricted cash deposits of $2.7 Million and the forgiveness of debt in the amount of $0.9 Million. The repayment of the previous first mortgage loan for the downtown Fort McMurray properties was initially funded by the application of collateral deposits of $1.9 Million, a $10.1 Million advance under the revolving loan commitment from 2668921 Manitoba Ltd. and an interest-free advance from Shelter Canadian of $10.2 Million.

The reduction of mortgage loans on sale of properties is comprised of $3.7 Million of first mortgage loan debt discharged on condominium sales at Lakewood Townhomes.

Discontinued Operations (Seniors' Housing Complexes)

The decrease in the mortgage loan debt for discontinued operations of approximately $44.6 Million, as disclosed in the preceding chart, consists of $27.91 Million of first and second mortgage loan debt which was discharged on Riverside Terrace in the second quarter of 2012 from $31.5 Million of new mortgage loan financing of investment properties; $14.75 Million of first mortgage loan debt which was discharged on the sale of the Clarington Seniors' Residence in the second quarter of 2012; a $1 Million one-time lump-sum prepayment of principal on the mortgage of Elgin Lodge; and regular repayments of principal of $902,595. The repayment of the mortgage debt for Riverside Terrace encompassed a prepayment charge of $1,324,352.

As of September 30, 2012, the total long-term debt in discontinued operations of $15,593,165 is comprised of first mortgage loans in respect of Chateau St. Michael's and Elgin Lodge.

Regular Repayments of Principal

During the nine month period ended September 30, 2012, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $5,672,143, compared to $5,842,819 for the nine months ended September 30, 2011.

Composition of Mortgage Loan Debt - September 30, 2012

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate	Amount September 30, 2012	Percentage of Total
Investment Properties			
Fixed rate			
2013	4.4 %	$ 51,447,126	17.3 %
2014	5.0 %	9,073,339	3.1 %
2015	4.8 %	6,440,231	2.2 %
2016	5.0 %	11,620,248	3.9 %
2017	5.7 %	20,210,611	6.8 %
2022	5.0 %	31,392,395	10.6 %
		130,183,950	43.9 %
Demand/variable rate	9.0 %	150,850,344	50.9 %
Principal amount		281,034,294	94.8 %
Discontinued Operations			
Demand/variable rate	5.0 %	15,593,165	5.2 %
Total		$ 296,627,459	100.0 %

(1) The year of maturity for the above noted schedule reflects the contractual obligation and does not reflect the requirement under IFRS to disclose loans with covenant breaches as payable on demand.

Mortgage Loan Debt Summary *

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

	2011 Q 3	2011 Q 2	2011 Q 1	2010 Q 4
Weighted average interest rate - Investment properties				
Fixed rate mortgage loans	5.7%	6.0%	6.3%	6.2%
Variable rate mortgage loans	8.5%	8.6%	8.6%	6.7%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	74%	73%	73%	74%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	83%	81%	82%	85%

* Excludes long-term debt and property values for Parsons Landing.

Weighted Average Interest Rates

Total

As of September 30, 2012, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 7.1%, 5.0% and 7.0%, respectively, compared to 6.9%, 7.3% and 6.9% at December 31, 2011.

The weighted average interest rate for mortgage loan debt excludes the interest on acquisition payable on Parsons Landing. The interest payments on the acquisition payable represent an effective interest rate of 8%.

Discontinued Operations

The mortgage loan debt in discontinued operations has a weighted average interest rate of 5.0% as of September 30, 2012, compared 7.3% as of December 31, 2011.

Investment Properties

The weighted average interest rates for investment properties are disclosed in the chart above.

Long-term Debt Maturities

With the exception of three mortgage loans which are in breach of debt service coverage requirements, all of the mortgage loans which matured as of September 30, 2012, for both investment properties and discontinued operations, have been renewed or refinanced.

A summary of the mortgage loan debt which matures during the remainder of 2012 is provided in the "Capital Resources and Liquidity" section of this report.

Debt Covenant Breaches

As noted in the following chart, the three matured loans and one swap mortgage loan in breach of debt service coverage requirements have a total principal balance of $98,469,764 as of September 30, 2012 and are secured by five investment properties in Fort McMurray. Three of the mortgage loans have matured and are repayable on demand. A forbearance extension to December 31, 2012, has been received for the three matured mortgage loans.

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance September 30, 2012	Maturity Date	
Mortgage Loans					
Fort McMurray					
Lakewood Townhomes	1.1	First	$ 12,158,440	July 18, 2010	(1)
Laird's Landing	1.2	First	52,995,168	October 1, 2011	(1)
Woodland Park, Nelson Ridge Estates	1.2	Second	16,771,736	October 31, 2010	(1)
Subtotal			81,925,344		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(2)	First	16,544,420	May 1, 2018	
			$ 98,469,764		

(1) The loans are repayable on demand.
(2) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

During the first nine months of 2012, LREIT eliminated debt covenant breaches for three mortgage loans with a total principal balance of approximately $67.2 Million encumbered against eight properties. The debt covenant breaches were eliminated as a result of refinancing of the mortgage loans.

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

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

As of September 30, 2012, the cash deposits on mortgage loans with covenant breaches amounted to $4,408,526.

Notwithstanding the fact that the Fort McMurray property portfolio achieved improved occupancy and operating income levels, the properties are not expected to reach income levels in 2012 which satisfy the existing covenant requirements. The first mortgage loan for the Lakewood Townhomes will be repaid from net proceeds of the condominium sales program.

During the first nine months of 2012, the total fees related to covenant breaches and forbearance agreements amounted to $341,392. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first nine months of 2012, interest expense includes amortization charges related to fees on covenant breaches and forbearance agreements of $367,801, compared to $809,083 during the first nine months of 2011.

Swap Mortgage Loans

As disclosed in the following chart, the swap mortgage loan debt of LREIT decreased by $24,843,025 during the first nine months of 2012. The remaining swap mortgage loan pertains to an investment property.

	Nine Months Ended September 30, 2012
Prepayment of swap mortgage loan on Millennium Village in Q3 (1)	$ (4,287,000)
Regular repayment of principal on swap mortgage loans	(667,838)
Decrease in the fair value of interest rate swaps	(947,694)
Reduction of swap mortgage loans on sale of Siena Apartments in Q2	(18,593,723)
Reduction of fair value of interest rate swaps on sale of property	(346,770)
Decrease in swap mortgage loans	(24,843,025)
Swap mortgage loans - December 31, 2011	42,942,356
Swap mortgage loan - September 30, 2012	$ 18,099,331

(1) The pay down of the swap mortgage loan for Millennium Village was funded by the upward refinancing of the six apartment properties in downtown Fort McMurray, the application of collateral deposits of $1.7 Million and working capital.

Prepayment of swap mortgage loan excludes the mortgage prepayment charge in the amount of $713,000 which was required in order to repay a lump-sum amount of $4,287,000.

Interest on the swap mortgage loans, as well as the change in the fair value of the interest rate swaps, are included in interest expense.

Mortgage Bonds

The debt of LREIT includes mortgage bonds with a face value of $16,000,000. The mortgage bonds mature on December 23, 2015. Interest is payable semi-annually on May 31 and November 30 in each year, as well as on the maturity date . The bonds are secured by second mortgages registered against five investment properties. The mortgage bonds were issued pursuant to a public offering which had a final closing date of January 28, 2011. The first interest payment occurred on May 31, 2011.

For Financial Statement purposes, the initial book value of the mortgage bonds was determined to be $13,699,574 based on the valuation methodology as established under IFRS. The carrying value of the mortgage bonds, as of September 30, 2012, of $13,257,597 is based on the initial book value plus accretion from the date of issue, net of unamortized transaction costs.

Warrants

The $16 Million mortgage bond offering included the issuance of 16,000,000 warrants. Each warrant entitles the holder to purchase one unit of LREIT at a price of $0.75 per unit at any time for a period of five years expiring December 23, 2015. During the nine months ended September 30, 2012, 140,000 units were issued on the exercise of warrants. As a result, 15,860,000 warrants remain outstanding.

LREIT also issued 6,780,000 warrants on March 9, 2010. The March 2010 warrants entitle the holder to purchase one unit of LREIT at a price of $1.00 per unit at any time for a period of five years expiring March 9, 2015.

Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of debenture debt which may be issued by the Trust.

Between August 2002 and December 2006, LREIT issued $69,543,000 of debentures in seven separate debenture offerings. With the exception of the Series G debentures, all of the debenture debt was repaid or converted to trust units.

The Series G convertible debentures were issued in December 2006 with a maturity date of December 31, 2011. In October 2011, the debenture holders approved an extension of the maturity date to February 28, 2015, with an increase in the interest rate to 9.5%. The restructured debentures are not convertible and interest or principal may not be paid through the issuance of trust units. The net proceeds from property sales after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing from time to time to 2668921 Manitoba Ltd. under the revolving loan commitment are to be used to redeem the Series G debentures on a pro rata basis.

The following is a summary of the Series G debenture debt.

Summary of Debenture Offering

				Purchased and Cancelled		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Nine Months Ended September 30 2012	As of December 31 2011	Net Amount Outstanding September 30 2012
Debentures						
Jan. 1/12/Feb. 28/15	G	9.5 %	$ 25,312,000	$ (351,000)	$ -	$ 24,961,000
Unamortized transaction costs						(672,265)
Book value, September 30, 2012						$ 24,288,735
Allocation of book value						
Debt component						$ 24,961,000
Unamortized transaction costs						(672,265)
September 30, 2012						$ 24,288,735

The carrying value of debentures is included in "Long-Term Debt" the Statement of Financial Position of LREIT.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2011	17,988,339
- September 30, 2012	18,049,011
- November 12, 2012	18,049,011

As of September 30, 2012, LREIT had 18,049,011 units outstanding, representing an increase of 60,672 units or 0.3%, compared to the number of units outstanding as of December 31, 2011. The increase is comprised of 140,000 units which were issued on the exercise of warrants net of 79,328 units which were purchased and cancelled under the normal course issuer bid during the first quarter of 2012.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan and the Deferred Unit Plan are provided in the Annual Information Form (AIF). The AIF is available on the SEDAR website at www.sedar.com.

OTHER LIABILITIES

Acquisition Payable

The amount payable on the acquisition of Parsons Landing is included in "Trade and other payables" on the Statement of Financial Position of LREIT.

As of September 30, 2012, the amount payable in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor in regard to the amount payable. In total, $5,841,638 of interest was forgiven during 2009.

Interest charges for the period from January 1, 2010 to September 30, 2012, amounted to $28,910,579 of which $21,020,640 pertains to 2010 and 2011 and $7,889,939 pertains to the first nine months of 2012. Based on the actual events which have occurred since the initial payment deadline date, management expects that the entire amount of the "excess interest" which has accrued since January 1, 2010 will be forgiven and, as such, the financial statements for the nine month period ended September 30, 2012 reflect the forgiveness of interest in the amount of $5,189,939. The recognition of the forgiveness of interest has resulted in the reduction of accrued interest payable by $19,010,579 for the 33 month period ended September 30, 2012. "Excess interest" represents the interest charges in excess of the $300,000 monthly interest payments which are required by the vendor. The interest of $300,000 per month represent an effective interest rate of 8%.

Revolving Loan Commitment

The liabilities of LREIT include a revolving loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian.

During the first nine months of 2012, the interest rate on the loan has ranged from 9.75% to 12%. The maximum loan balance increased from $12 Million to $15 Million, effective April 1, 2012. The current term of the loan expires on December 31, 2012. Subject to regulatory approval, the revolving loan commitment is expected to be renewed for 2013 on similar terms and conditions.

During the first nine months of 2012, the total interest expense associated with the revolving loan commitment was $632,236, compared to $936,562 during the first nine months of 2011. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT.

Additional information regarding the revolving loan commitment are provided in the section of this report titled "Related Party Transactions".

ANALYSIS OF INCOME (LOSS)

Overall Results

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Rentals from investment properties	$ 9,206,783	$ 11,142,567	$ 28,978,605	$ 30,656,136
Property operating costs	3,851,511	4,038,944	11,843,843	12,109,544
Net operating income	5,355,272	7,103,623	17,134,762	18,546,592
Interest income	281,209	40,298	614,962	165,309
Forgiveness of debt	-	-	859,561	-
Interest expense	(10,116,020)	(8,085,179)	(24,474,974)	(25,453,004)
Trust expense	(407,263)	(617,710)	(1,572,022)	(2,050,625)
Income recovery on Parsons Landing	869,547	-	2,393,658	-
Insurance proceeds	400,000	-	400,000	-
Loss before the following	(3,617,255)	(1,558,968)	(4,644,053)	(8,791,728)
Profit on sale of investment properties	-	-	1,045,307	-
Fair value gains	38,614	3,153,922	8,978,839	9,902,377
Fair value adjustment of Parsons Landing	500,000	-	(4,000,000)	-
Income (loss) before taxes and discontinued operations	(3,078,641)	1,594,954	1,380,093	1,110,649
Deferred income tax expense (recovery)	(181,339)	298,704	-	91,922
Income (loss) before discontinued operations	(2,897,302)	1,296,250	1,380,093	1,018,727
Income from discontinued operations	598,502	979,388	2,532,442	2,411,224
Income (loss) and comprehensive income (loss)	$ (2,298,800)	$ 2,275,638	$ 3,912,535	$ 3,429,951

During the third quarter of 2012, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations increased by $2,058,287 compared to the third quarter of 2011. The increase in the loss is mainly due to a $1,748,351 decrease in net operating income and a $2,030,841 increase in interest expense, partially offset by an income recovery on Parsons Landing of $869,547, insurance proceeds of $400,000 and a $240,911 increase in interest income.

After accounting for fair value gains, profit on property sales, fair value adjustment of Parsons Landing, income taxes and discontinued operations, LREIT completed the third quarter of 2012 with a comprehensive loss of $2,298,800 compared to comprehensive income of $2,275,638 during the third quarter of 2011.

During the nine month period ended September 30, 2012, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations decreased by $4,147,675 compared to the nine month period ended September 30, 2011. The decrease in the loss is comprised of a $2,393,658 income recovery on Parsons Landing, a $978,030 decrease in interest expense, a gain of $859,561 in regard to the forgiveness of debt, a $449,653 increase in interest income, a $478,603 decrease in trust expense and insurance proceeds of $400,000, partially offset by a $1,411,830 decrease in net operating income.

After accounting for fair value gains, profit on property sales, fair value adjustment of Parsons Landing, income taxes and discontinued operations, LREIT completed the first nine months of 2012 with comprehensive income of $3,912,535, compared to comprehensive income of $3,429,951 during the first nine months of 2011.

Investment Properties

The investment properties of LREIT are separated in four categories, as noted below.

Fort McMurray (Twelve properties)

Accounting for approximately 46% of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio, excluding Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

Other Investment Properties (Nine Properties)

The nine other investment properties consist of one mixed use residential/commercial property, two commercial properties, and six multi-family residential rental properties in locations throughout Western Canada.

Impaired Property (One Property)

Pending reconstruction of Parsons Landing, the revenue generating capacity of the property is impaired. As a result, and in accordance with IFRS, Parsons Landing has been segregated from operating properties and analysed separately under the caption "Impaired Property". Parsons Landing will continue to be classified as an Impaired Property for segmented reporting purposes until the completion of reconstruction and re-occupancy of the building.

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

In accordance with IFRS, the insurance recoveries are recorded as a separate line item, titled, "Income recovery on Parsons Landing" and are not included in the calculation of net operating income. As a result there is not any revenue or operating income disclosed for the "Impaired Property" segment in 2012, aside from amounts which are attributable to the period before the fire occurred on February 5, 2012.

The insurance proceeds for revenue losses are being used to fund the monthly interest of $300,000 in regard to the balance owing on Parsons Landing.

Properties Sold (One Property)

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 for the nine months ended September 30, 2012 pertain solely to the Siena Apartments.

An analysis of the average monthly rents and vacancy for the investment properties is provided in the following sections of this report.

Discontinued Operations

At September 30, 2012, the property portfolio includes three seniors' housing complexes which are classified under discontinued operations (Prior to the sale of the Clarington Seniors' Residence on May 9, 2012, the property portfolio included four seniors' housing complexes). The following analyses exclude the revenue and operating costs of the seniors' housing complexes.

Net Operating Income

Net operating income consists of rental revenue less property operating costs.

Rental Revenue

All of the rental revenue of LREIT is derived from the leasing of residential units or commercial space. Rental revenue includes revenue from all investment properties, including a portion of the rental revenue which is attributable to any investment properties which are sold during the year, including condominium units at Lakewood Townhomes.

Rental Revenue Results

Analysis of Total Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 5,686,706	$ 5,731,942	$ (45,236)	$ 17,093,994	$ 15,103,956	$ 1,990,038
Other investment properties	3,520,077	3,523,595	(3,518)	10,693,323	10,498,954	194,369
Sub-total	9,206,783	9,255,537	(48,754)	27,787,317	25,602,910	2,184,407
Properties sold	-	800,413	(800,413)	796,861	2,136,640	(1,339,779)
Impaired property	-	1,086,617	(1,086,617)	394,427	2,916,586	(2,522,159)
Total	$ 9,206,783	$11,142,567	$ (1,935,784)	$ 28,978,605	$ 30,656,136	$ (1,677,531)

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, decreased by $48,754 during the third quarter of 2012 compared to the third quarter of 2011. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $45,236 and a decrease in revenue from the other investment properties of $3,518.

The decrease in revenue from the Fort McMurray property portfolio reflects an increase in the vacancy, partially offset by an increase in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio increased from 6% during the third quarter of 2011, to 13% in the third quarter of 2012, while the average monthly rental rate increased by $71 or 3.3%.

During the third quarter of 2012, revenue for "properties sold" decreased by $800,413 due to the sale of Siena Apartments effective May 1, 2012. Revenue from the "Impaired property" decreased by $1,086,617 as the property is under reconstruction following the fire in February 2012. As previously noted, the recovery of insurance proceeds for revenue losses is recorded as a separate income category after the calculation of net operating income.

During the nine month period ended September 30, 2012, the total revenue from investment properties, excluding properties sold and the impaired property, increased by $2,184,407, compared to the nine month period ended September 30, 2011. The increase in total revenue for the nine month period is comprised of a $1,593,170 increase in the first quarter of 2012 and a $639,991 increase in the second quarter of 2012, partially offset by a $48,754 decrease in the third quarter of 2012. As reflected in the following chart, the change in quarterly comparative results mainly reflects the year-to-year quarterly change in vacancy loss of the Fort McMurray property portfolio.

Vacancy, by Quarter

	2012			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	8 %	10 %	13 %	10 %
Other investment properties	2 %	3 %	3 %	3 %
Properties sold	- %	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a
Total	5 %	8 %	9 %	7 %

Vacancy, by Quarter

	2011					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	36 %	21 %	6 %	21 %	7 %	18 %
Other investment properties	2 %	2 %	2 %	2 %	1 %	2 %
Properties sold	- %	- %	- %	- %	- %	- %
Impaired property	37 %	9 %	6 %	17 %	3 %	14 %
Total	25 %	13 %	5 %	14 %	5 %	12 %

Vacancy represents the revenue potential of vacant suites.

Average Monthly Rents, by Quarter

	2012			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	$2,124	$2,191	$2,251	$2,187
Other investment properties	$1,075	$1,069	$1,048	$1,064
Properties sold	$3,100	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a
Total	$1,704	$1,684	$1,704	$1,697

Average Monthly Rents, by Quarter

	2011					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	$2,260	$2,211	$2,180	$2,217	$2,129	$2,195
Other investment properties	$1,034	$1,065	$1,050	$1,050	$1,064	$1,050
Properties sold	$3,100	$3,100	$3,100	$3,100	$3,100	$3,100
Impaired property	$2,370	$2,319	$2,282	$2,324	$2,241	$2,303
Total	$1,790	$1,784	$1,759	$1,778	$1,743	$1,767

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 2,122,286	$ 1,964,003	$ 158,283	$ 6,358,508	$ 6,011,022	$ 347,486
Other investment properties	1,729,225	1,515,828	213,397	5,091,443	4,605,782	485,661
Sub-total	3,851,511	3,479,831	371,680	11,449,951	10,616,804	833,147
Properties sold	-	183,721	(183,721)	99,509	290,708	(191,199)
Impaired property	-	375,392	(375,392)	294,383	1,202,032	(907,649)
Total	$ 3,851,511	$ 4,038,944	$ (187,433)	$ 11,843,843	$12,109,544	$ (265,701)

During the third quarter of 2012, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $371,680 or 11%, compared to the third quarter of 2011. The increase is comprised of a $158,283 increase in the Fort McMurray portfolio and an increase of $213,397 in the operating costs of the other investment properties portfolio.

The increase in operating costs for the Fort McMurray portfolio mainly reflects an increase in variable costs such as maintenance costs associated with ongoing renovations. The increase in operating costs for the Other investment property portfolio reflects an increase in maintenance expense mostly associated with repairs to building exterior.

During the nine month period ended September 30, 2012, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $833,147 or 8%, compared to the nine month period ended September 30, 2011. The increase is comprised of $347,486 increase in the Fort McMurray portfolio and an increase of $485,661 in the operating costs of the other investment properties portfolio.

Summary of Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 3,564,420	$ 3,767,939	$ (203,519)	$10,735,486	$ 9,092,934	$ 1,642,552
Other investment properties	1,790,852	2,007,767	(216,915)	5,601,880	5,893,172	(291,292)
Sub-total	5,355,272	5,775,706	(420,434)	16,337,366	14,986,106	1,351,260
Properties sold	-	616,692	(616,692)	697,352	1,845,932	(1,148,580)
Impaired property	-	711,225	(711,225)	100,044	1,714,554	(1,614,510)
Total	$ 5,355,272	$ 7,103,623	$(1,748,351)	$17,134,762	$18,546,592	$(1,411,830)

After considering the decrease in rental revenue and an increase in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding properties sold and the impaired property, decreased by $420,434 or 7% during the third quarter of 2012, compared to the third quarter of 2011.

The decrease in net operating income is comprised of a decrease in net operating income from both the Fort McMurray properties and the other investment properties. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio decreased by $203,519 during the third quarter of 2012, compared to the third quarter of 2011, while the net operating income of the Other Investment Properties portfolio decreased by $216,915.

For the nine month period ended September 30, 2012, the net operating income from investment properties, excluding properties sold and the impaired property, increased by $1,351,260 or 9% compared to the same period in 2011.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Fort McMurray	63 %	66 %	63 %	60 %
Other investment properties	51 %	57 %	52 %	56 %
Total	58 %	64 %	59 %	60 %

Overall, the operating margin for the property portfolio decreased from 64% during the third quarter of 2011, to 58% during the third quarter of 2012. The decrease in the overall operating margin reflects a decrease in the profit margin for both the Fort McMurray property portfolio and the Other investment properties portfolio. For the nine month period ended September 30, 2012, the portfolio of investment properties achieved a profit margin of 59% compared to 60% for the nine month period ended September 30, 2011.

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

Interest Income

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

During the third quarter of 2012 interest income amounted to $281,209 compared to $40,298 during the third quarter of 2011. For the nine month period ended September 30, 2012, interest income amounted to $614,962 compared to $165,309 for the nine month period ended September 30, 2011.

The increase in interest income mainly reflects interest income on the $7.7 Million 12.5% "vendor take-back" loan on the sale of Clarington Seniors' Residence.

Forgiveness of Debt

The refinancing of the first mortgage loan for the Lakewood Apartments in January 2012 encompassed the forgiveness of debt in the amount of $859,561. In accordance with IFRS, the entire amount of the debt forgiveness is recognized as income in the first quarter of 2012.

Interest Expense

Third Quarter Comparatives

Interest expense includes interest expense for investment properties and discontinued operations. On the Statement of Comprehensive Income, 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 Consolidated 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 $10,323,931 during the third quarter of 2012, of which $10,116,020 pertains to investment properties and $207,911 pertains to discontinued operations.

Total interest expense increased by $1,288,023 or 14% during the third quarter of 2012, compared to the third quarter of 2011. The increase is comprised of a $1,758,899 increase in interest expense related to mortgage loans, including swap mortgage loans and mortgage loans in discontinued operations and a $21,456 increase in interest expense related to the mortgage bonds, partially offset by a $492,332 decrease in interest expense related to debentures.

Interest expense encompasses a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. The $1,288,023 increase in interest expense during the third quarter of 2012, compared to the third quarter of 2011, is comprised of a $2,056,095 increase in the cash component of interest expense, partially offset by a $768,072 decrease in the "non-cash" component of interest expense.

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

Analysis of Interest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Investment Properties						
Mortgage Loans						
Mortgage loan interest	$ 4,934,549	$ 4,784,092	$ 150,457	$ 13,802,668	$ 14,780,806	$ (978,138)
Swap mortgage loan interest	248,754	584,918	(336,164)	1,217,633	1,767,414	(549,781)
Mortgage prepayment charges	2,751,548	-	2,751,548	2,751,548	-	2,751,548
Amortization of transaction costs	647,082	354,035	293,047	1,452,149	1,755,639	(303,490)
Change in value of interest rate swaps	(543,245)	(186,074)	(357,171)	(947,694)	(558,679)	(389,015)
Total - mortgage loans	8,038,688	5,536,971	2,501,717	18,276,304	17,745,180	531,124
Mortgage Bonds						
Mortgage bond interest	360,000	360,000	-	1,080,000	1,080,000	-
Accretion of debt component	103,047	90,854	12,193	295,736	228,637	67,099
Amortization of transaction costs	60,174	50,911	9,263	173,233	126,163	47,070
Total - mortgage bonds	523,221	501,765	21,456	1,548,969	1,434,800	114,169
Debentures						
Interest on debentures	597,696	476,625	121,071	1,783,344	1,687,186	96,158
Accretion of debt component	-	559,034	(559,034)	-	1,536,183	(1,536,183)
Amortization of transaction costs	56,415	110,784	(54,369)	166,357	349,655	(183,298)
Total - debentures	654,111	1,146,443	(492,332)	1,949,701	3,573,024	(1,623,323)
Acquisition Payable						
Interest on acquisition payable	900,000	900,000	-	2,700,000	2,700,000	-
Total - acquisition payable	900,000	900,000	-	2,700,000	2,700,000	-
Total interest expense - investment properties	10,116,020	8,085,179	2,030,841	24,474,974	25,453,004	(978,030)
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	196,887	827,704	(630,817)	2,478,284	2,354,464	123,820
Mortgage prepayment charge	-	-	-	1,324,352	-	1,324,352
Amortization of transaction costs	11,024	123,025	(112,001)	631,601	124,575	507,026
Total interest expense - discontinued operations	207,911	950,729	(742,818)	4,434,237	2,479,039	1,955,198
Total - interest expense	$ 10,323,931	$ 9,035,908	$ 1,288,023	$ 28,909,211	$ 27,932,043	$ 977,168

Cash and Non-cash Component						
Non-cash component						
Accretion	$ 103,047	$ 649,888	$ (546,841)	$ 295,736	$ 1,764,820	$(1,469,084)
Amortization of transaction costs	774,695	638,755	135,940	2,423,340	2,356,032	67,308
Change in value of interest rate swaps	(543,245)	(186,074)	(357,171)	(947,694)	(558,679)	(389,015)
Total non-cash component	334,497	1,102,569	(768,072)	1,771,382	3,562,173	(1,790,791)
Total cash component	9,989,434	7,933,339	2,056,095	27,137,829	24,369,870	2,767,959
Total - interest expense	$ 10,323,931	$ 9,035,908	$ 1,288,023	$ 28,909,211	$ 27,932,043	$ 977,168

Cash Component of Interest Expense

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

"Interest paid" on the Consolidated Statements of Cash Flows of $6,257,348 includes the cash component of interest expense of $9,989,434 for both investment properties and discontinued operations, less the cash component of interest expense pertaining to mortgage prepayment charges of $2,751,548, less the increase in accrued interest between June 30, 2012 and September 30, 2012 of $980,538. Mortgage prepayment charges are included in "repayment of mortgage loans on refinancing" and "prepayment of mortgage loans" on the Consolidated Statements of Cash Flows.

During the third quarter of 2012, the total cash component of interest expense increased by $2,056,095 or 26%, compared to the third quarter of 2011. The increase reflects the $2,751,548 mortgage prepayment charges, partially offset by a decrease of $64,636 and $630,817 in the cash component of interest expense for investment properties and discontinued operations, respectively. The decrease in the cash component of interest expense of discontinued operations reflects the repayment of mortgage loan debt on Riverside Terrace and the sale of Clarington Seniors' Residence.

As a percentage of net operating income for both investment properties and discontinued operations, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, increased from 81% during the third quarter of 2011 to 138% during the third quarter of 2012.

The increase in the ratio of the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, relative to net operating income is mainly due to the mortgage prepayment charges which were incurred during the third quarter of 2012. If mortgage prepayment charges were removed from the cash component of interest expense, the cash component of interest expense as a percentage of net operating income for both investment properties and discontinued operations would be 96% during the third quarter of 2012.

After including the cash component of interest on mortgage bonds and debentures, the ratio of the cash component of interest, relative to net operating income, is 153% for the third quarter of 2012, compared to 90% for the third quarter of 2011. If mortgage prepayment charges were removed from the cash component of interest expense, the cash component of interest expense as a percentage of net operating income for both investment properties and discontinued operations would be 111% during the third quarter of 2012.

Mortgage Loan Interest

Investment Properties

Mortgage loan interest for investment properties increased by $150,457 or 3% during the third quarter of 2012, compared to the third quarter of 2011, comprised of an increase in interest on mortgage loan debt of $160,053 and an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $60,325, partially offset by a decrease in interest on bank line of credit of $69,921. The increase in interest on mortgage loan debt reflects a higher balance of mortgage loans payable during the third quarter of 2012, compared to the third quarter of 2011 and an increase in interest charges in regard to the revolving loan.

Discontinued Operations

Mortgage loan Interest for discontinued operations decreased by $630,817 or 76% during the third quarter of 2012, compared to the third quarter of 2011. The decrease is mainly due to the elimination of the mortgage loan debt for the Clarington Seniors' Residence on the sale of the property in May 2012 and the retirement of the mortgage loan debt for Riverside Terrace in June 2012.

Swap Mortgage Loan Interest

Swap mortgage loan interest decreased by $336,164 during the third quarter of 2012, compared to the third quarter of 2011 as a result of the sale of Siena Apartments in May 2012 and a lump sum prepayment of $4,287,000 on the Millennium Village swap mortgage loan.

Mortgage Bond Interest

Interest on the mortgage bonds was equal to $360,000 for the third quarter of 2012 and the third quarter of 2011.

Debenture Interest

During the third quarter of 2012, interest on debentures increased by $121,071, compared to the third quarter of 2011, due to the increase in the interest rate for the Series G debentures from 7.5% to 9.5%, effective January 1, 2012.

Interest on Acquisition Payable

Interest expense associated with the balance owing on Parsons Landing is reflected in "interest on acquisition payable". Interest on acquisition payable was equal to $900,000 for both the third quarter of 2012 and 2011 and reflects the assumption that interest in excess of this amount will be forgiven at closing.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense decreased $768,072 during the third quarter of 2012, compared to the third quarter of 2011. The decrease is comprised of a decrease in accretion of $546,841 and a decrease in expense of $357,171 in regard to the change in fair value of interest rate swaps, partially offset by an increase in amortization of transaction costs of $135,940.

Accretion

For the third quarter of 2012, accretion only encompasses accretion on mortgage bonds of $103,047, where as in the third quarter of 2011, accretion encompasses accretion on mortgage bonds of $90,854 and accretion on the Series G debentures of $559,034.

Amortization of Transaction Costs

Transaction costs related to mortgage loans, mortgage bonds and debentures are capitalized and expensed through amortization charges. During the third quarter of 2012, amortization of transaction costs increased by $135,940, compared to the third quarter of 2011.

The increase in amortization of transaction costs is mainly attributable to the fact that amortization of transaction cost expense was comparatively high during the third quarter of 2012 due to fees associated with the refinancing of mortgage loan debt which was in breach of debt service covenants.

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the variance between the change in value of interest rate swaps in the third quarter of 2012, compared to the third quarter of 2011, served to decrease interest expense by $357,171 during the third quarter of 2012.

During 2008, LREIT entered into interest rate swap arrangements whereby the interest rate on two floating rate mortgages were fixed for the five and ten year terms of the mortgages. The main purpose of the interest rate swap arrangement is to reduce the risk associated with floating interest rates. In accordance with IFRS, the swap mortgage loans are recorded at "fair value" on the Statement of Financial Position of the Trust. Changes in fair value are recorded to interest expense. Increases in the fair value of the interest rate swaps serve to increase interest expense, while decreases in fair value serve to decrease interest expense.

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the third quarter of 2012, the fair value of the interest rate swaps decreased by $543,245. The decrease reflects the sale of Siena Apartments and the assumption of the swap mortgage loan by the purchaser and the $4,287,000 lump sum prepayment on the Millennium Village swap mortgage loan in August 2012. During the third quarter of 2011, the fair value of the interest rate swaps decreased by $186,074.

As the decrease in value in the third quarter of 2012 was greater than the decrease in value in the third quarter of 2011, the change in value of the interest rate swaps resulted in a decrease in interest expense in the third quarter of 2012 of $357,171, compared to the third quarter of 2011.

Although the change in the fair value of the interest rate swaps has served to decrease interest expense during the third quarter of 2012, the change in value is a non-cash transaction which is excluded from the determination of cash flow from operating activities of the Trust. As a result of fluctuations in market interest rates, the fair value of the interest rate swaps may change significantly in the future, however, the change in value has no impact on cash outflows throughout the entire term of the swap agreements. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time.

Nine Month Comparatives

Total interest expense increased by $977,168 or 3% during the first nine months of 2012 compared to the first nine months of 2011, comprised of an increase in interest expense for discontinued operations of $1,955,198, partially offset by a decrease in interest expense for investment properties of $978,030.

The increase in interest expense for discontinued operations is mainly due to the mortgage prepayment charge of $1,324,352, which was incurred in the second quarter of 2012, in regard to the prepayment of the mortgage loan debt of Riverside Terrace and an increase in amortization charges for transaction costs. The decrease in interest expense for investment properties mainly reflects a decrease in mortgage loan interest of $978,138, a decrease in swap mortgage loan interest of $549,781 and a reduction of non-cash interest charges of $2,297,817, largely offset by an increase in mortgage prepayment charges of $2,751,548.

Trust Expense

Trust expense decreased by $210,447 during the third quarter of 2012, compared to the third quarter of 2011.

For the nine months ended September 30, 2012, trust expense decreased by $478,603, compared to the nine months ended September 30, 2011. The decrease is mainly due to final closing costs for properties sold in 2010 that were included in the trust expense of the first quarter of 2011, a recovery of costs for properties sold in 2012 and a decrease in professional fees.

Profit on Sale of Investment Properties

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

During the first nine months of 2012, LREIT sold one investment property which resulted in a profit on sale of $346,770. Eight units were also sold under the condominium sales program at the Lakewood Townhomes, resulting in a profit on sale of $698,537. During the first nine months of 2011, LREIT did not complete any property sales.

Fair Value Gains

The valuation gain of $38,614 for the third quarter of 2012 represents a net increase in the fair value of investment properties during the quarter. When capital expenditures of $361,386 are added to the valuation gain, the carrying value of investment properties increased by $400,000 during the third quarter of 2012.

For the nine months ended September 30, 2012, the carrying value of investment properties increased by $10,252,797, comprised of a valuation gain of $8,978,839 and capital expenditures of $1,273,958.

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

Fair Value Adjustment of Parsons Landing

As a result of commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the carrying value of Parsons Landing increased by $23,300,000 during the second quarter of 2012, representing the increase in the estimated fair value of the reconstructed property, discounted for the estimated time period of reconstruction and leasing. The carrying value increased by an additional $500,000 during the third quarter of 2012. Corresponding amounts were also recorded as income in the second and third quarter of 2012, respectively under the line title "fair value adjustment of Parsons Landing".

In the first quarter of 2012, in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, an impairment loss of $27.8 Million was recorded for Parsons Landing to account for the decrease in the fair value of the property due to the fire. The income recorded in the second and third quarter of 2012 in regard to increase in value has substantially offset the first quarter impairment loss.

Discontinued Operations

During the third quarter of 2012, LREIT generated income from discontinued operations of $598,502 compared to $979,388 during the third quarter of 2011, representing a decrease of $380,886. The income from discontinued operations includes the net operating income, interest expense and income tax for the seniors' housing complexes, as well as the gain on sale in regard to the Clarington Seniors' Residence. The decrease in income from discontinued operations reflects the sale of Clarinton Seniors' Residence in May 2012.

Analysis of Income from Discontinued Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Rental income	$ 2,881,136	$ 3,901,337	$ 10,433,183	$ 11,377,372
Property operating costs	1,700,923	2,228,397	5,668,639	6,472,346
Net operating income	1,180,213	1,672,940	4,764,544	4,905,026
Interest expense	207,911	950,729	4,434,237	2,479,039
Profit on sale	-	-	2,039,808	-
Tax expense (recovery)	373,800	(257,177)	(162,327)	14,763
Income from discontinued operations	$ 598,502	$ 979,388	$ 2,532,442	$ 2,411,224

The decrease in income from discontinued operations during the third quarter of 2012 reflects a $492,727 decrease in net operating income and a $630,977 increase in income tax expense, largely offset by a $742,818 decrease in interest expense. The decrease in operating income as well as a portion of the decrease in interest expense is due to the sale of the Clarington Seniors' Residence in May 2012. The decrease in interest expense also reflects the repayment of the Riverside Terrace first mortgage loan in the second quarter of 2012.

For the nine month period ended September 30, 2012, income from discontinued operations increased by $121,218, compared to the nine month period ended September 30, 2011. The nine month results include profit on the sale of the Clarington Seniors' Residence of $2,039,808 and a mortgage prepayment charge of $1,324,352, which resulted from the repayment of the first mortgage loan at Riverside Terrace. The mortgage prepayment charge is included in interest expense.

Deferred Taxes

The estimate of the deferred tax assets and liabilities is subject to periodic change. To the extent that the net deferred income tax position increases or decreases, there is a corresponding increase or decrease in the deferred tax expense or recovery of the Trust, with the increase or decrease having a direct impact on bottom-line results.

In determining a deferred tax asset, the Trust considers the likelihood of realizing the deferred tax asset and if the likelihood that a tax asset will not be realized is high, the deferred tax asset is not recorded.

At September 30, 2012, temporary differences between the carrying values and tax values of investment properties and mortgage bonds has created deferred tax liabilities of $1,920,537 and $427,949, respectively. The deferred tax liabilities are completely offset by deferred tax assets created by temporary differences between tax values and carrying values of transaction costs, interest rate swaps, mortgage prepayment charges and unused tax losses available for carry forward.

Comparison to Preceding Quarter

Analysis of Income (Loss)

	Three Months Ended		Increase (Decrease)	
	September 30, 2012	June 30, 2012	Amount	%
Rentals from investment properties	9,206,783	9,387,902	(181,119)	(1.9)%
Property operating costs	3,851,511	3,567,126	(284,385)	8.0 %
Net operating income	5,355,272	5,820,776	(465,504)	(8.0)%
Interest income	281,209	259,186	22,023	8.5 %
Forgiveness of debt	-	-	-	- %
Interest expense	(10,116,020)	(7,241,022)	(2,874,998)	39.7 %
Trust expense	(407,263)	(585,876)	178,613	(30.5)%
Income recovery on Parsons Landing	869,547	1,524,111	(654,564)	(42.9)%
Insurance proceeds	400,000	-	400,000	- %
Loss before the following	(3,617,255)	(222,825)	(3,394,430)	(1,523.4)%
Profit on sale of investment properties	-	721,082	(721,082)	(100.0)%
Fair value gains	38,614	7,078,608	(7,039,994)	(99.5)%
Fair value adjustment of Parsons Landing	500,000	23,300,000	(22,800,000)	(97.9)%
Income (loss) for the period before taxes and discontinued operations	(3,078,641)	30,876,865	(33,955,506)	(110.0)%
Deferred income tax expense (recovery)	(181,339)	181,339	(362,678)	200.0 %
Income (loss) for the period before discontinued operations	(2,897,302)	30,695,526	(33,592,828)	109.4 %
Income from discontinued operations	598,502	1,601,704	(1,003,202)	(62.6)%
Comprehensive income (loss)	$ (2,298,800)	$ 32,297,230	$ (34,596,030)	(107.1)%

During the third quarter of 2012, the loss of LREIT, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, increased by $3,394,430 compared to the second quarter of 2012. The increase in the loss mainly reflects an increase in interest expense, a decrease in net operating income and a reduction in net insurance recoveries/proceeds in regard to Parsons Landing.

The increase in interest expense mainly reflects $2.75 Million in mortgage prepayment charges and incremental interest on the net increase in mortgage loan debt. The decrease in operating income is mainly due to a decrease in operating income from both the Fort McMurray property portfolio and Other investment properties. The net insurance recoveries/proceeds for Parsons Landing decreased by $254,564 during the third quarter of 2012, comprised of a decrease in the quarterly income recovery of $654,564, largely offset by the $400,000 payment which was received from the insurance claim for furniture and equipment. The income recovery on Parsons Landing decreased by $654,564 during the third quarter of 2012, as the income recovery for the second quarter of 2012 also included income recovered for March 2012 and a partial income recovery for February 2012.

During the second quarter of 2012, LREIT recorded a fair value gain of $23,300,000 in regard to the carrying value of Parsons Landing, compared to a fair value gain of $500,000 in the third quarter of 2012. During the second quarter of 2012, fair value gains in regard to the carrying value of investment properties amounted to $7,078,608, compared to $38,614 during the third quarter of 2012. The sale of the Siena Apartments in May 2012 and five condominium units at Lakewood Townhomes also resulted in a total profit on sale of investment properties of $721,082 during the second quarter of 2012, compared to nil during the third quarter of 2012. In total, fair value gains/adjustments and profits on sale were $30,561,076 higher in the second quarter of 2012, compared to the third quarter of 2012.

Income from discontinued operations also decreased by $1,003,202 during the third quarter of 2012, compared to the second quarter of 2012. The decrease in income is comprised of a $0.7 Million decrease in net operating income as a result of the sale of the Clarington Seniors' Residence, a $2.0 Million decrease in profit on sale of the Clarington Seniors' Residence and a $0.8 Million increase in income tax expense, partially offset by a $2.0 Million decrease in interest expense.

The decrease in interest expense reflects the $1,324,354 mortgage prepayment charge, which was incurred in the second quarter of 2012, the interest reduction which resulted from the repayment of the Riverside Terrace mortgage and the elimination of the Clarington Seniors' Residence mortgage as a result of the sale.

After accounting for the variance in fair value gains/adjustments, profit on sale, income from discontinued operations and income tax expense, LREIT completed the third quarter of 2012 with a comprehensive loss of $2,298,800, compared to comprehensive income of $32,297,230 during the second quarter of 2012.

Revenue and Net Operating Income Analysis

The following analysis provides comparative results for the third quarter of 2012, compared to the second quarter of 2012 for the investment properties of LREIT, as well as the seniors' housing complexes in discontinued operations.

	Three Months Ended		Increase (Decrease)	
	September 30, 2012	June 30, 2012	Amount	%
Revenue				
Fort McMurray	$ 5,686,706	$ 5,715,755	$ (29,049)	(0.5)%
Other investment properties	3,520,077	3,545,890	(25,813)	(0.7)%
Sub-total	9,206,783	9,261,645	(54,862)	(0.6)%
Properties sold	-	126,257	(126,257)	(100.0)%
Impaired property	-	-	-	- %
Total revenue - investment properties	9,206,783	9,387,902	(181,119)	(1.9)%
Total revenue - discontinued operations	2,881,136	3,546,796	(665,660)	(18.8)%
Total revenue	$ 12,087,919	$ 12,934,698	$ (846,779)	(6.5)%
Net operating income				
Fort McMurray	$ 3,564,420	$ 3,758,516	$ (194,096)	(5.2)%
Other investment properties	1,790,852	1,981,871	(191,019)	(9.6)%
Sub-total	5,355,272	5,740,387	(385,115)	(6.7)%
Properties sold	-	80,389	(80,389)	(100.0)%
Impaired property	-	-	-	- %
Total net operating income - investment properties	5,355,272	5,820,776	(465,504)	(8.0)%
Total net operating income - discontinued operations	1,180,213	1,846,920	(666,707)	(36.1)%
Total net operating income	$ 6,535,485	$ 7,667,696	$ (1,132,211)	(14.8)%

As noted in the chart above, the decrease in net operating income is comprised of a decrease in net operating income at the Fort McMurray properties of $194,096 and a $191,019 decrease in net operating income at the Other Investment Properties and a $80,389 decrease in net operating income for the sold property (Siena Apartments).

The decrease in net operating income for discontinued operations reflects the sale of the Clarington Seniors' Residence.

Summary of Quarterly Results

Quarterly Analysis

	2012			2011
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 9,206,783	$ 9,387,902	$ 10,383,920	$ 11,196,590
Net operating income	$ 5,355,272	$ 5,820,776	$ 5,958,714	$ 7,182,799
Income (loss) for the period before taxes and discontinued operations	$ (3,078,641)	$ 30,876,865	$(26,418,131)	$ 1,272,013
Income (loss) and comprehensive income (loss)	$ (2,298,800)	$ 32,297,230	$(26,085,895)	$ 1,605,280
PER UNIT				
Net operating income				
- basic	$ 0.287	$ 0.314	$ 0.321	$ 0.388
- diluted	$ 0.285	$ 0.312	$ 0.320	$ 0.387
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.165)	$ 1.664	$ (1.425)	$ 0.069
- diluted	$ (0.165)	$ 1.655	$ (1.425)	$ 0.069
Income (loss) and comprehensive income (loss)				
- basic	$ (0.123)	$ 1.741	$ (1.407)	$ 0.087
- diluted	$ (0.123)	$ 1.731	$ (1.407)	$ 0.087

Quarterly Analysis

	2011			2010
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 11,142,567	$ 10,363,052	$ 9,150,517	$ 9,612,269
Net operating income	$ 7,103,623	$ 6,319,962	$ 5,123,007	$ 5,694,805
Income (loss) for the period before taxes and discontinued operations	$ 1,594,954	$ 4,103,543	$ (4,587,848)	$ (6,239,806)
Income (loss) and comprehensive income (loss)	$ 2,275,638	$ 4,900,921	$ (3,746,608)	$ (5,796,072)
PER UNIT				
Net operating income				
- basic	$ 0.384	$ 0.343	$ 0.279	$ 0.310
- diluted	$ 0.384	$ 0.343	$ 0.279	$ 0.310
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.086	$ 0.223	$ (0.250)	$ (0.340)
- diluted	$ 0.086	$ 0.223	$ (0.250)	$ (0.340)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.123	$ 0.266	$ (0.204)	$ (0.316)
- diluted	$ 0.123	$ 0.266	$ (0.204)	$ (0.316)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30						
	2012		2011		Change		
Income and comprehensive income							
- basic	$	0.211	$	0.186	$	0.025	13 %
- diluted	$	0.209	$	0.186	$	0.023	12 %
Income (loss) for the period before taxes and discontinued operations							
- basic	$	0.074	$	0.060	$	0.014	(23)%
- diluted	$	0.074	$	0.060	$	0.014	(23)%

Excluding income taxes and discontinued operations, LREIT incurred a loss of $3,078,641 ($0.165 per unit) during the third quarter of 2012, compared to income of $1,594,954 ($0.086 per unit) during the third quarter of 2011, representing a decrease in income of $4,673,595 ($0.251 per unit). For the nine months ended September 30, 2012, income before income taxes and discontinued operations increased by $269,444 ($0.014 per unit). As the weighted average number of units has increased by 1.75% since January 1, 2011, the increase in income per unit mainly reflects the increase in the overall income of the Trust before income tax expense and discontinued operations.

The increase in the overall income of the Trust before income tax expense and discontinued operations for the nine months ended September 30, 2012 includes a decrease in income of $3,878,231 ($0.209 per unit) attributable to the fair value gains, the fair value adjustment of Parsons Landing and profit on sale of investment properties. Excluding the fair value gains, the fair value adjustment of Parsons Landing and profit on sale of investment properties, and before income tax expense and discontinued operations, the income of the Trust decreased by $2,058,287 ($0.111 per unit) during the third quarter of 2012 and the loss decreased by $4,147,675 ($0.223 per unit) for the nine months ended September 30, 2012.

ANALYSIS OF CASH FLOWS

Operating Activities

Third Quarter Comparatives

Cash from Operating Activities

	Three Months Ended September 30			
	2012			2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,355,272	$ 1,180,213	$ 6,535,485	$ 8,776,563
Accrued rent receivable	96,672	-	96,672	(61,702)
Net operating income - cash basis	5,451,944	1,180,213	6,632,157	8,714,861
Income recovery on Parsons Landing	869,547	-	869,547	-
Insurance proceeds	400,000	-	400,000	-
Trust expense	(407,263)	-	(407,263)	(617,710)
Non-cash component of trust expense	18,750	-	18,750	18,750
Trust expense - cash basis	(388,513)	-	(388,513)	(598,960)
Interest paid	(6,059,680)	(197,668)	(6,257,348)	(7,098,137)
Interest received	123,823	-	123,823	40,298
Interest expense - cash basis	(5,935,857)	(197,668)	(6,133,525)	(7,057,839)
Income tax recovery (expense) - current	-	(274,737)	(274,737)	(39,243)
Cash from operating activities, before working capital adjustments	397,121	707,808	1,104,929	1,018,819
Working capital adjustments, net	(948,972)	332,126	(616,846)	(3,594,726)
Cash provided by (used in) operating activities	$ (551,851)	$ 1,039,934	$ 488,083	$ (2,575,907)

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

During the third quarter of 2012, the net cash inflow from operating activities for the portfolio of investment properties was $397,121, before working capital adjustments. After including working capital adjustments there was a cash outflow of $551,851. The cash inflow from the operations of the seniors' housing complexes in discontinued operations for the third quarter of 2012 was $707,808, before working capital adjustments. After including working capital adjustments, there was a cash inflow of $1,039,934 for discontinued operations. Overall, the net cash inflow from investment properties and discontinued operations excluding working capital adjustments, increased by $86,110 during the third quarter of 2012, compared to the third quarter of 2011. The increase in operating cash flow results, before working capital adjustments, is mainly due to an income recovery on Parsons Landing, insurance proceeds and a decrease in interest expense, on a cash basis, partially offset by a decrease in net operating income, on a cash basis.

The difference between interest expense of $10,116,020 on the Statement of Comprehensive Income and interest paid of $6,059,680 on the Consolidated Statements of Cash Flows is mainly due to the exclusion of prepayment charges in the calculation of cash flow from operations and non-cash items such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of interest rate swaps.

Nine Month Comparatives

Cash from Operating Activities

	Nine Months Ended September 30			
	2012			2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 17,134,762	$ 4,764,544	$ 21,899,306	$ 23,451,618
Accrued rent receivable	455,230	-	455,230	(477,179)
Net operating income - cash basis	17,589,992	4,764,544	22,354,536	22,974,439
Income recovery on Parsons Landing	2,393,658	-	2,393,658	-
Insurance recovery	400,000	-	400,000	-
Trust expense	(1,572,022)	-	(1,572,022)	(2,050,625)
Non-cash component of trust expense	56,250	-	56,250	60,545
Trust expense - cash basis	(1,515,772)	-	(1,515,772)	(1,990,080)
Interest paid	(19,730,826)	(2,651,824)	(22,382,650)	(23,442,982)
Interest received	368,548	-	368,548	165,309
Interest expense - cash basis	(19,362,278)	(2,651,824)	(22,014,102)	(23,277,673)
Income tax recovery (expense) - current	-	83,478	83,478	(208,689)
Cash from operating activities, before working capital adjustments	(494,400)	2,196,198	1,701,798	(2,502,003)
Working capital adjustments, net	(5,965,489)	(847,998)	(6,813,487)	(599,633)
Cash provided by (used in) operating activities	$ (6,459,889)	$ 1,348,200	$ (5,111,689)	$ (3,101,636)

During the first nine months of 2012, the net cash from investment properties and discontinued operations excluding working capital adjustments, increased by $4,203,801 compared to the first nine months of 2011. The increase in cash provided by operating activities excluding working capital adjustments, mainly reflects income/insurance recoveries on Parsons Landing and a decrease in interest expense, on a cash basis.

The difference between interest expense of $24,474,974 on the Statement of Comprehensive Income and interest paid of $19,730,826 on the Consolidated Statements of Cash Flows is mainly due to the exclusion of prepayment charges in the calculation of cash flow from operations and non-cash items such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of interest rate swaps.

Comparison to Second Quarter of 2012

Cash from Operating Activities

	Three Months Ended			
	September 30, 2012			June 30, 2012
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,355,272	$ 1,180,213	$ 6,535,485	$ 7,667,696
Accrued rent receivable	96,672	-	96,672	255,698
Net operating income - cash basis	5,451,944	1,180,213	6,632,157	7,923,394
Income recovery on Parsons Landing	869,547	-	869,547	1,524,111
Income recovery on Parsons Landing	400,000	-	400,000	-
Trust expense	(407,263)	-	(407,263)	(585,876)
Non-cash component of trust expense	18,750	-	18,750	18,750
Trust expense - cash basis	(388,513)	-	(388,513)	(567,126)
Interest paid	(6,059,680)	(197,668)	(6,257,348)	(9,345,766)
Interest received	123,823	-	123,823	121,504
Net interest - cash basis	(5,935,857)	(197,668)	(6,133,525)	(9,224,262)
Income tax recovery (expense) - current	-	(274,737)	(274,737)	256,739
Cash from operating activities, before working capital adjustments	397,121	707,808	1,104,929	(87,144)
Working capital adjustments, net	(948,972)	332,126	(616,846)	(4,557,715)
Cash provided by (used in) operating activities	$ (551,851)	$ 1,039,934	$ 488,083	$ (4,644,859)

In comparison to the second quarter of 2012, the cash provided by operating activities excluding working capital adjustments, increased by $1,192,073 in the third quarter of 2012. The increase in cash provided by operating activities excluding working capital adjustments, is mainly due to a $3,088,418 decrease in interest paid, partially offset by a $654,564 decrease in income recovery on Parsons Landing and a $1,291,237 decrease in net operating income, on a cash basis. Cash provided by operating activities includes cash flow from investment properties and discontinued operations.

The difference between interest expense of $10,116,020 on the Statement of Comprehensive Income and interest paid of $6,059,680 on the Statements of Cash Flows is mainly due to the exclusion of prepayment charges in the calculation of cash flow from operations and non-cash items such as amortization of transaction costs, accretion of mortgage bonds and change in fair value of interest rate swaps.

The amount of interest paid on the Series G debentures and mortgage bonds is approximately $2.1 Million higher in the second and fourth quarters of the year, compared to the first and third quarters of the year due to the timing of interest payments. For the fourth quarter of 2012, interest paid on the Series G debentures and mortgage bonds is expected to increase by approximately $2.1 Million compared to the third quarter of 2012.

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 nine months of 2012, the FFO deficiency decreased by $1,484,601, compared to the first nine months of 2011, while the AFFO deficiency decreased by $931,605. On a basic per unit basis, the

FFO deficiency decreased by $0.083 per unit, while the AFFO deficiency decreased by $0.054 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 September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Comprehensive income	$ (2,298,800)	$ 2,275,638	$ 3,912,535	$ 3,429,951
Add (deduct):				
Deferred taxes	(82,276)	2,284	(78,849)	(102,004)
Profit on sale of investment properties	-	-	(1,045,307)	-
Profit on sale of discontinued operations	-	-	(2,039,808)	-
Fair value gains	(38,614)	(3,153,922)	(8,978,839)	(9,902,377)
Fair value adjustment of Parsons Landing	(500,000)	-	4,000,000	-
Forgiveness of debt	-	-	(859,561)	-
Funds from operations (FFO) *	(2,919,690)	(876,000)	(5,089,829)	(6,574,430)
Add (deduct):				
Straight-line rent adjustment	96,672	(61,702)	455,230	(477,179)
Accretion of debt component of debentures and mortgage bonds	103,047	649,888	295,736	1,764,820
Unit-based compensation	18,750	18,750	56,250	60,545
Change in fair value of interest rate swaps	(543,245)	(186,074)	(947,694)	(558,679)
Capital expenditures on investment properties	(361,386)	(819,899)	(1,273,958)	(1,608,496)
Capital expenditures on property and equipment	(10,030)	(7,854)	(27,205)	(69,656)
Adjusted funds from operations (AFFO) *	$ (3,615,882)	$ (1,282,891)	$ (6,531,470)	$ (7,463,075)
FFO per unit *				
- basic and diluted	$ (0.156)	$ (0.047)	$ (0.274)	$ (0.357)
AFFO per unit *				
- basic and diluted	$ (0.194)	$ (0.069)	$ (0.351)	$ (0.405)

* 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.

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 Consolidated Statement of Cash Flows in the Financial Statements. Accordingly, a reconciliation between the net cash flow from operating activities and distributable income is provided in the chart below.

Reconciliation Between Cash from Operating Activities and Distributable Loss

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Cash provided by (used in) operating activities	$ 488,083	$ (2,575,907)	$ (5,111,689)	$ (3,101,636)
Changes in non-cash operating items	616,846	3,594,726	6,813,487	599,633
	1,104,929	1,018,819	1,701,798	(2,502,003)
Add (deduct):				
Capital expenditures on investment properties	(361,386)	(819,899)	(1,273,958)	(1,608,496)
Capital expenditures on property and equipment	(10,030)	(7,854)	(27,205)	(69,656)
Distributable income (loss)	$ 733,513	$ 191,066	$ 400,635	$ (4,180,155)
Per unit				
- basic	$ 0.039	$ 0.010	$ 0.022	$ (0.227)
- diluted	$ 0.039	$ 0.010	$ 0.021	$ (0.227)

Distributable income (loss) is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures. Cash from operating activities and capital expenditures includes components from both investment properties and discontinued operations.

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

During the first nine months of 2012, the distributable income of LREIT was $400,635, representing an increase in the distributable income of $4,580,790 compared to the first nine months of 2011.

Distributions

In March 2009, LREIT suspended cash distributions due to the decline in rental market conditions in Fort McMurray and the impact on operating cash flow. Cash distributions will continue to be suspended for the foreseeable future, given the other funding priorities of LREIT.

CAPITAL RESOURCES AND LIQUIDITY

Source and Use of Funds - General

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

The net cash inflow from the sale or 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 and capital expenditures.

Source and Use of Funds - 2012 First Nine Months Summary

An analysis of the cash flows of LREIT for the first nine months of 2012 is provided in the chart which follows this section of the MD&A. The analysis discloses the following:

(i) the cash outflow from operating activities amounted to $5,111,689;

(ii) after accounting for regular monthly long-term debt principal payments and capital expenditures the net cash shortfall increased to $12,792,908;

(iii) after including the cash flows from other financing and investing activities, there was a net cash outflow of $281,890. As disclosed in the Consolidated Statement of Cash Flows, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:

- proceeds from mortgage loan financing of $105,475,000, less repayment of mortgage loans on refinancing of $96,839,584 and prepayment of mortgage loans of $10,435,000 for a net cash outflow of $1,799,584;
- net proceeds from property sales of $13,167,279. The net proceeds from property sales are net of selling expenses and any mortgage loan debt which was discharged on sale or assumed by or provided to the Purchaser; and
- change in restricted cash of $7,952,505. The change in restricted cash is mainly comprised of the application of $2,525,045 of reserves to the Lakewood Apartments mortgage loan balance at refinancing, the repayment of Parsons Landing security deposits of $387,250, the application of $890,858 of reserves to Colony Square mortgage loan balance at refinancing, and the application of $3,661,034 of collateral deposits to a mortgage against six apartment properties in downtown Fort McMurray.

Outflows:

- expenditures on transaction costs of $3,207,304;
- net repayments on the revolving loan commitment of $2,000,000; and
- net repayment of advances from Shelter Canadian of $1,183,000.

After accounting for the cash balance at December 31, 2011 of $1,170,619, LREIT completed the first nine months of 2012 with a cash balance of $888,729.

Cash Flow Analysis (Note 1) - Nine Months Ended September 30, 2012

Cash provided by (used in) operating activities		$ (5,111,689)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on long term debt	(6,380,056)	
Capital expenditures (Note 2)	(1,301,163)	(7,681,219)
Shortfall in cash provided by operating activities		(12,792,908)
Main sources of funds, net of transaction costs		
Proceeds of mortgage loan financing	105,475,000	
Transaction costs	(3,207,304)	
Restricted cash	7,952,505	
	110,220,201	
Less: Lump-sum debt repayments		
Repayment of mortgage loans on refinancing	(96,839,584)	
Prepayment of mortgage loans	(10,435,000)	
Net repayment of revolving loan commitment (Note 1)	(2,000,000)	
Net repayment of advances from Shelter Canadian	(1,183,000)	
Units purchased under normal course issuer bid	(41,732)	
Debentures purchased under normal course issuer bid	(351,000)	
	(110,850,316)	(630,115)
		(13,423,023)
Other sources of funds		
Defeasance assets	106,994	
Net proceeds from sale (Note 1)	13,167,279	
Exercise of warrants	105,000	
Cash from (to) discontinued operations	(238,140)	13,141,133
Cash decrease		(281,890)
Cash, beginning of period		1,170,619
Cash, end of period		$ 888,729

Note 1 - IFRS Measurements

The preceding cash flow analysis represents the re-formatting of amounts from the Consolidated Statements of Cash Flows in order to separately identify the variance between the cash outflow from operating activities and the cash outflow from "ongoing" financing and investing activities and to highlight the cash inflows associated with property sales, upward refinancing and debt or equity offerings and the cash outflows associated with lump-sum repayments of debt. The specific line item amounts which are disclosed in the analysis, agree to the Consolidated Statements of Cash Flows with the exception of the noted amounts, all of which are the net amount of two identified amounts, aside from "net cash inflow - other" which is equal to the cash decrease relating to discontinued operations which is excluded from the cash balance, net of the cash used to purchase debentures under the NCIB. The order of presentation of the line items differs from the Consolidated Statements of Cash Flows, as follows:

- the cash inflows/outflows for regular repayments of principal on mortgage loans and two investing activity (capital expenditures on investment properties and on property and equipment) are disclosed separately under the category of "Ongoing Financing and Investing Activities".
- the net cash inflow from property sales, upward refinancing, and debt or equity offerings, net of transaction costs, are disclosed separately.
- the net cash outflow from lump-sum repayments of debt is disclosed separately.
- the net cash inflow/outflow from all other financing and investing activities is disclosed separately.

Note 2 - Capital Expenditures

Capital expenditures on investment properties and property and equipment consist of capital expenditures which were incurred during the normal course of operations, such as improvements to the investment properties and grounds, as well as, common area upgrades and in-suite replacements, including appliances, carpeting and draperies.

Sources and Use of Funds - Remainder of 2012

Sources

Working Capital/Existing Cash

As of September 30, 2012, the unrestricted cash balance of LREIT was $888,729 and the working capital deficit was $8,041,803. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $10,000,000 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 deficit may differ from the method which is used by other issuers. Accordingly, the working capital deficit as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian). The revolving loan commitment currently provides for a maximum loan amount of $15 Million at an interest rate of 12% with a maturity date of December 31, 2012. Based on the increased balance of $15 Million, $4,055,000 is available under the revolving loan commitment, as of the date of this report.

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. are provided in the section of this report titled "Related Party Transactions".

Cash Outflow from Operating Activities

During the first nine months of 2012, the net cash outflow from operating activities was $5,111,689. The main components of the cash outflow from operating activities are net operating income on a cash basis, interest paid and working capital adjustments, from both investment properties and discontinued operations. Net operating income and interest paid decreased during the first nine months of 2012 due to the fire at Parsons Landing in February 2012, the sale of properties and the associated repayment of mortgage loan debt. The improvement in net operating income for the Fort McMurray property portfolio served to limit the extent of the decrease in net operating income.

Overall, the decrease in interest paid has exceeded the decrease in net operating income for both investment properties and discontinued operations during the first nine months of 2012 and this trend is expected to continue for the remainder of 2012. After accounting for working capital adjustments, the net cash outflow from operating activities is expected to increase in 2012. During the remainder of 2012, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal, lump sum payments of mortgage loan principal and capital improvements.

Sale Proceeds

LREIT is pursuing property sales under its divestiture program. The current expectations of management are that the three remaining seniors' housing complexes and/or other properties will be sold by December 31, 2013. The timing and extent of projected property sales cannot be reasonably predicted. The condominium sales program at the Lakewood Townhomes is expected to be substantially completed in 2015.

During the first nine months of 2012, LREIT sold one investment property and one seniors' housing complex as well as eight condominium units.

Mortgage Loans Receivable

As of September 30, 2012, LREIT has mortgage loans receivable of $8.5 Million, comprised of three loans.

Debt and/or Equity Offerings

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

Uses

Parsons Landing

The funding commitments under the purchase agreement for Parsons Landing are comprised of a $3,000,000 payment on closing as a final reduction of the amount payable and payments of $300,000 per month as interest on the amount payable.

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

The $300,000 monthly interest charge is being funded from insurance proceeds until the occupancy of the property recommences.

Long-term Debt Principal Payments

A summary of the debt obligations of LREIT for the remainder of 2012 and for the next five years, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2012	2013/2014	2015/2016	2017 and beyond
Regular mortgage loans	$ 199,108,950	$ 1,062,407	$ 131,967,545	$ 19,379,504	$ 46,699,494
Variable rate demand loans	81,925,344	81,925,344	-	-	-
Sub-total - Investment properties	281,034,294	82,987,751	131,967,545	19,379,504	46,699,494
Seniors' Housing Complexes	15,593,165	15,593,165	-	-	-
Total mortgage loan debt	296,627,459	98,580,916	131,967,545	19,379,504	46,699,494
Swap mortgage loan *	16,544,420	16,544,420	-	-	-
Debentures and mortgage bonds *	40,961,000	-	-	40,961,000	-
Total	$ 354,132,879	$ 115,125,336	$ 131,967,545	$ 60,340,504	$ 46,699,494

* Swap mortgage loan and mortgage bonds are reflected at face value.

Summary of Mortgage Loan Debt "Due in 2012"

The amount of long-term debt which is considered to be "current" in accordance with IFRS includes all mortgage loans which are payable on demand and all mortgage loans which are in default of covenant breaches, as well as the fixed term mortgages which mature during the remainder of 2012 and the mortgage loan debt for the seniors' housing complexes.

An analysis of the mortgage loan debt which is considered due in the remainder of 2012 in the amount of $98,580,916 is provided on the following chart.

	Investment Properties		Seniors' Housing Complexes		Total
Mortgages					
Demand loans with covenant breaches	$ 81,925,344	(1)	$ -		$ 81,925,344
Loans on assets held for sale	-		15,593,165	(2)	15,593,165
	81,925,344		15,593,165		97,518,509
Principal repayments	1,062,407		-		1,062,407
	$ 82,987,751		$ 15,593,165		$ 98,580,916

(1) Consists of three mortgage loans which matured in 2010 or 2011 and are in breach of debt service coverage requirements. An analysis of the mortgage loans is provided in the "Mortgage Loans Payable" section of the MD&A.

(2) Consists of a prime plus 3% first mortgage loan of $10,864,012 and a prime plus 3% first mortgage loan of $4,729,153 which mature on December 31, 2012 and June 30, 2013, respectively. The first mortgage loans are expected to be renewed under similar terms and conditions. In accordance with IFRS, mortgages of discontinued operations are held as current.

Investing Activities

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $2.0 Million for 2012. During the first nine months of 2012, capital expenditures amounted to $1.3 Million, including $0.8 Million of capital expenditures for the in-suite upgrade program for the properties located in downtown Fort McMurray. The in-suite upgrade program was substantially completed in the third quarter of 2012.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to fund future capital repairs and/or as additional security relating to breaches of debt service coverage requirements. As of September 30, 2012, cash deposits in regard to mortgage loans amount to $5,290,762, of which $4,408,526 pertains to mortgage loans which are in breach of debt service coverage requirements.

It is anticipated that there will not be any additional cash deposits required for existing loans which are in breach debt service coverage requirements for the remainder of 2012.

Principal Payments - Debentures and Mortgage Bonds

As of September 30, 2012, the total face value of the restructured Series G debentures is $24,961,000. The debentures mature on February 28, 2015. The term of the debentures also provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment.

The 9% second mortgage bonds of LREIT mature on December 23, 2015. As of September 30, 2012 the total face value of the mortgage bonds is $16,000,000.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan commitment, additional interest-free advances and the deferral of payments of service fees and revolving loan interest, as required, will continue to be sufficient to fund the projected funding commitments of LREIT for the next twelve months. As of the date of this report, the amount available under the revolving loan is $4,055,000.

The net proceeds from property sales will be used to repay advances from 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

RELATED PARTY TRANSACTIONS

Shelter Canadian

Asset and Property Management

Shelter Canadian provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. The Services Agreement expires December 31, 2019.

Shelter Canadian is also the Property Manager for LREIT, pursuant to the Property Management

Agreement. Shelter Canadian has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter Canadian receives a property management fee equal to 4% of gross receipts from the investment properties which it manages. In regard to commercial properties, Shelter Canadian is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. In August 2011, the term of the Property Management Agreement was extended from December 31, 2015 to December 31, 2019.

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

During the first nine months of 2012, the fees payable to Shelter Canadian for investment properties included service fees of $1,212,349 and property management fees of $1,157,214.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

The Trust incurred service fees of $281,883 for the nine months ended September 30, 2012 (2011 - nil) and renovation fees of $3,534 for the nine months ended September 30, 2012 (2011 - nil).

The terms of the condominium sales program, including the service fee and renovation fee, were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the service fee and renovation fee.

Loans

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment is secured by mortgage charges against the title to six investment properties, one seniors' housing complex and the assignment of a mortgage loan in the amount of $7,746,414.

During the first quarter of 2012, the loan had an interest rate of 9.75%, subject to a maximum interest charge of $162,594 to March 31, 2012, and a maximum balance of $12 Million. Effective April 1, 2012, the loan was renewed to August 31, 2012, and the maximum loan amount was increased to $15 Million, at an interest rate of 10%. A renewal commitment fee of $75,000 was charged at the renewal. Effective September 1, 2012, the revolving loan commitment was renewed at an interest rate of 12% to December 31, 2012, subject to a maximum interest payment of $650,870. The renewal encompassed the payment of a $150,000 extension fee.

2668921 Manitoba Ltd. has agreed to maintain the revolving loan commitment with the Trust, in the amount of $8,800,000, until the closing date of the Parsons Landing acquisition.

Interest on the revolving loan for the nine months ended September 30, 2012 of $632,236 is included in interest expense.

During 2011, the Trust obtained interest-free advances from Shelter Canadian. Included in trade and other payables at December 31, 2011 is a balance of $1,183,000 payable to Shelter Canadian in regard to interest-free advances. The interest-free advances payable, as at December 31, 2011, as well as $5,594,000 of additional interest-free advances obtained in January and February 2012, were repaid in full in February 2012.

During the third quarter of 2012, an interest-free advance of $10.6 Million was received from Shelter Canadian which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was subsequently repaid from the proceeds of new first mortgage financing of $20.4 Million.

The terms of the revolving loan and interest-free advances and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson, the Chief Executive Officer of LREIT and a Trustee, is also President of Shelter Canadian and President of 2668921 Manitoba Ltd. and abstained from voting in regard to all matters concerning the loans. All necessary regulatory approvals were also obtained for the revolving loan and the second mortgage loan, including loan renewals.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. For a summary of certain additional key risks relating to LREIT, see the Annual Information Form, which is available at www.sedar.com.

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors which are considered in assessing whether LREIT has the ability to continue to operate, including: (i) the cash deficiency from operations sustained by LREIT during the first nine months of 2012 and prior years, (ii) the breach of debt covenant requirements which, as of the date of this report, remain on three mortgage loans and one swap mortgage loan, encompassing $98.5 Million of mortgage debt, (iii) the impact of the timing of increased rental rates and changes in vacancy losses in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit of the Trust, as of September 30, 2012 in the amount of $8,041,803, (v) the reliance on Shelter Canadian and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) the successful completion of additional property sales under the divestiture program, and (viii) the ability to complete upward refinancings to generate additional funds in the event that the net proceeds from property sales are not sufficient to fund operating losses.

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 the continued availability of interim funding from Shelter Canadian. In the event that the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter Canadian and its parent company 2668921 Manitoba Ltd., prior to completion of additional property sales, LREIT may not have the ability to fund all of its debt obligations.

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, the Trust has successfully sold 20 properties, including 2 properties during the nine months ended September 30, 2012, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust extended the maturity date for the Series G debentures to 2015 and the Trust has successfully eliminated covenant breaches on four mortgage loans through refinancing and/or improved operations.

Real Property Ownership

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors.

The properties of LREIT generate income through rent payments made by the tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. Leasing results are affected by a number of factors, including location of the property and, in particular, the level of supply and demand in the local rental market.

Credit Support from Shelter Canadian

Shelter Canadian has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000 and deferred service fees of $425,833. During the first quarter of 2012, all of the interim funding was fully repaid.

During the third quarter of 2012, an interest-free advance of $10.6 Million was received from Shelter Canadian which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was subsequently repaid from the proceeds of new first mortgage financing of $20.4 Million.

The continuation of interim funding from Shelter Canadian may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from upward refinancings or property sales to the extent required to restore working capital.

Revolving Loan Commitment From 2668921 Manitoba Ltd.

2668921 Manitoba Ltd. (the parent company of Shelter Canadian) has periodically deferred interest payments on the revolving loan. As of December 31, 2011, deferred interest on the revolving loan amounted to $294,000. The deferred interest was fully repaid during the first quarter of 2012.

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.

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.

During 2009, LREIT sold 13 properties under the divestiture program at a combined gross selling price of $90.4 Million. During 2010, LREIT sold five additional properties at a combined gross selling price of $40.4 Million. During 2011, LREIT did not complete any property sales. During 2011, LREIT sold four condominium units at Lakewood Townhomes at a gross selling price of $1.9 Million.

During the first nine months of 2012, LREIT sold one investment property and one seniors' housing complex at a combined gross selling price of $54.5 Million, as well as eight condominium units at Lakewood Townhomes at a gross selling price of $3.9 Million.

The current expectations of management are that the three remaining seniors' housing complexes and/or other properties will be sold by December 31, 2013. In addition, the condominium sale program for the Lakewood Townhomes is expected to be substantially completed in 2015.

There can be no assurance that LREIT will complete the divestiture program under the time frame or to the extent which is contemplated by management.

Completion of Parsons Landing Acquisition

In June 2012, agreements were finalized under which the builder has agreed to complete the reconstruction of the Parsons Landing and attend to the recovery of the insurance claim for property in a manner which is expected to result in the cost of reconstruction being fully funded from insurance proceeds. The builder has also agreed to extend the closing date of the acquisition to a date which is 90 days after the final occupancy permit is obtained.

There is a risk that financing arrangements for Parsons Landing will not be completed by the extended closing date and the property may be listed for sale. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments made to the vendor. Interest charges in the amount of $19,010,579 as at September 30, 2012 which have been recorded as forgiven, may also become payable. See "Parsons Landing".

Concentration of LREIT's Portfolio in One Market

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

At September 30, 2012, there were 25 properties in the real estate portfolio of LREIT comprised of 22 properties in the investment property portfolio and 3 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of two commercial properties, 19 residential properties and one mixed residential/commercial property, comprising a total of 2,028 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, one of which is an impaired property (Parsons Landing). The remaining 12 properties comprise a total of 929 suites, or 46% of the total residential suites in the investment property portfolio. The 12 properties have an aggregate carrying value of $262.4 Million, which represents approximately 62% of the total aggregate carrying value of the investment property portfolio.

The 12 properties in Fort McMurray accounted for 59% of the total revenue of LREIT during the first nine months of 2012 and 63% of the net operating income.

Oil Sands Industry

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

Based on the recent growth in the level of construction activity in the oil sands industry and the resulting substantial increase in occupancy levels of the Fort McMurray properties, the residential property market in Fort McMurray has improved; however, there can be no assurance as to the extent of the improvement and there is the possibility that market conditions may decline. LREIT financial results for 2012 and future periods are subject to numerous uncertainties arising from a marked slowdown in the oil sands industry and a weak general economy.

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

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.

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a more restrictive capital market, a change in legislation and numerous other factors beyond the control of LREIT.

The adoption of more restrictive and conservative lending policies by mortgage lenders following the economic downturn in October 2008, combined with the decline in operating income of the Fort McMurray property portfolio, increased the level of risk for LREIT in regard to debt financing. As a result of an improvement in market conditions the level of risk has declined.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties. As disclosed in the following sections of this report, LREIT is in breach of mortgage loan covenants on three mortgage loans which have matured and, in the absence of renewal agreements or replacement financing, are considered to be repayable on demand.

Mortgage Maturities

With the exception of the first mortgage loan of $12,158,440 for the Lakewood Townhomes which matured on July 18, 2010, the second mortgage loan of $16,771,736 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010 and the $52,995,168 first mortgage loan for Laird's Landing, which matured October 1, 2011, all of which are in breach of the debt service coverage requirements, all of the mortgage loans for investment properties which matured to the date of this report were renewed, or refinanced. The three loans are repayable on demand. A forbearance extension has been received from the lender in regard to the covenant breaches for the three loans to December 31, 2012. The first mortgage loan for the Lakewood Townhomes will be repaid from the net proceeds of the condominium sales program.

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

Covenant Breaches

As previously disclosed, as of the date of this report, LREIT is in breach in regard to debt service coverage requirements for three mortgage loans and one swap mortgage loan related to five properties with a total balance of $98.5 Million. Forbearance extensions to December 31, 2012 have been received for the three mortgage loans.

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

The expectation is that the covenant breaches will continue to be addressed through extensions of the forbearance agreements, debt repayment, modified loan terms and/or refinancing.

At September 30, 2012, $4,408,526 is on deposit with a mortgage lender in order to increase the cash reserve requirements for three of the mortgage loans which were in breach of debt service coverage requirements. During 2012, 2011 and 2010, fees of $341,392, $625,245 and $1.2 Million, respectively, were incurred in regard to mortgage loans in breach of debt covenant requirements. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred.

During the first nine months of 2012, LREIT was not required to remit any additional deposits in regard to the mortgage loans with covenant breaches.

Payment of Cash Distributions

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

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

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

Changes to Tax Treatment of Trusts

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. Under the SIFT Rules, distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of a SIFT received by a Unitholder that are not deductible to the SIFT will be characterized as dividends payable to the Unitholders. Generally, distributions paid by a SIFT as a return of capital will not be subject to the tax.

The SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its revenue and property (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the REIT Conditions and management expects that the Trust will not satisfy the REIT Conditions prior to December 31, 2012. Accordingly, LREIT is subject to the SIFT Rules and LREIT will be subject to the tax on taxable income commencing in 2011 and continuing until the Trust meets the prescribed conditions of a Qualifying REIT. LREIT is considering its alternatives, including restructuring its affairs to qualify as a Qualifying REIT, however, no assurances can be given that any reorganization can or will be implemented before 2013, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to LREIT and its Unitholders.

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

Legal Claims

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

Relationship with Shelter Canadian

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

Reliance on Key Personnel

The success of LREIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on 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, anticipated capital expenditures, 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 swap mortgage loans: The fair value of interest rate swap arrangements 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 was based on market interest rates with the residual value used to value the trust unit purchase warrants;

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for the nine months ended September 30, 2012 is $5,189,939. Cumulative excess interest from January 1, 2010 to September 30, 2012 is $19,010,579;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method; and

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating deferred income tax assets and liabilities are based on estimates.

TAXATION

Taxation of LREIT

LREIT qualifies as a mutual fund trust for income tax purposes. Subject to the SIFT Rules, LREIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect to its taxable income each year, except to the extent that such taxable income is paid or deemed to be payable to Unitholders and deducted by LREIT for tax purposes. The distributions of LREIT are established at the discretion of the Trustees. If circumstances permit and subject to the application of the SIFT Rules, it is the intent of the Trust to distribute or designate all taxable income directly earned by LREIT to the Unitholders in order that LREIT will not be subject to income tax under Part I of the Tax Act.

LREIT does not meet the REIT Conditions under the SIFT Rules to become a Qualifying REIT, and is subject to tax on taxable income commencing in 2011 at a rate that is substantively equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid as a return of capital will generally not be subject to the tax.

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. Subject to the SIFT Rules, 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. Distributions 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 not included in income.

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to September 30, 2012, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010.

Under the SIFT Rules, which apply to LREIT as set out above, certain 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 nine months of 2012 that have materially affected, or are reasonable likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2012 Third 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
November 12, 2012

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
2012 THIRD QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of September 30, 2012

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2012
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	99 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	100 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	90 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	84 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	97 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	79 %
Parkland Apartments (3)	Fort McMurray	2,230,200	June 2006	12	50 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	79 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	88 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	97 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	96 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	90 %
Lakewood Apartments (4)	Fort McMurray	34,527,719	July 2007	111	96 %
Lakewood Townhomes (4) (5)	Fort McMurray	20,614,978	July 2007	52	21 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	92 %
Parsons Landing (6)	Fort McMurray	60,733,000	September 2008	160	n/a
Westhaven Manor	Edson	4,050,000	May 2007	48	83 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	95 %
Nova Court (7)	Yellowknife	15,000,000	March 2007	106	99 %
Total - Residential		**$ 377,804,397**	Total suites	**2,028**	
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	100 %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 388,535,997**			

Property Portfolio

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2012
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	90 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	95 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	68 %
Total seniors' housing complexes		**$ 49,722,000**	Total suites	**398**	
Total real estate portfolio		**$ 438,257,997**			

Notes to the Property Portfolio:

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

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

(3) Parkland Apartments has undergone extensive renovations requiring that the suites be unoccupied. The renovations were completed in the third quarter of 2012.

(4) Effective September 30, 2011, Lakewood Apartments and Lakewood Townhomes are reflected as two separate properties. Prior to this date, the analysis reflected one property of 175 units.

(5) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of September 30, 2012 reflects the sale of 4 condominium units in 2011 and 8 condominium units in 2012. Thirteen units are unoccupied and held as available for sale.

(6) LREIT obtained possession and the right to operate of Parsons Landing on September 1, 2008. In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The closing date for Parsons Landing is expected to occur 90 days following the issuance of an occupancy permit for the reconstructed property.

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