MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2014

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Unitholder Returns

	Nine Months Ended September 30, 2014 (Per unit)	Year Ended December 31, 2013 (Per unit)
Opening price	$1.07	$0.65
Closing price	$1.10	$1.07

Lanesborough Real Estate Investment Trust ("LREIT") units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The 5 year 9% second mortgage bonds and two series of warrants are listed on the Toronto Stock Exchange under the symbols "LRT.NT.A", "LRT.WT" and "LRT.WT.A", respectively.

CHIEF EXECUTIVE OFFICER'S MESSAGE
2014 Third Quarter Report

Results of Operation

Overview

LREIT completed the third quarter of 2014 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of $0.7 Million, compared to income of $0.6 Million during the third quarter of 2013. The variance between the 2014 and 2013 third quarter results mainly reflects a decrease in income recoveries, net operating income and interest income.

After including discontinued operations, fair value adjustments and gain on sale of investment properties, LREIT completed the third quarter of 2014 with a comprehensive loss of $0.8 Million, compared to comprehensive income of $13.5 Million during the third quarter of 2013, representing a variance of approximately $14.3 Million. The variance mainly reflects a decrease in gains related to fair value adjustments of approximately $13.0 Million.

Net Operating Income

During the third quarter of 2014, net operating income decreased by $0.3 Million, compared to the third quarter of 2013. Excluding properties sold and Parsons Landing, net operating income decreased by $0.3 Million, as a result of a decrease in the net operating income of the Fort McMurray property portfolio of $0.4 Million, partially offset by an increase of $0.04 Million in the net operating income of the portfolio of other investment properties. The decrease in net operating income for the Fort McMurray portfolio mainly reflects the impact of more competitive rental market conditions.

The net operating income results for the third quarter of 2014 were stable, relative to the second quarter of 2014, and reflect a significant recovery in revenues and occupancy levels for the Fort McMurray property portfolio when compared to the first quarter of the year. During the third quarter of 2014, the average occupancy level for the Fort McMurray property portfolio was 89%, compared to 90% during the second quarter of 2014 and 80% during the first quarter of 2014.

Fair Value Adjustments

During the third quarter of 2014, LREIT recorded a loss of $0.2 Million related to fair value adjustments, compared to a gain of $12.8 Million during the third quarter of 2013. The variance in fair value adjustments served to decrease income by $13.0 Million during the third quarter of 2014, compared to the third quarter of 2013. Gains related to fair value adjustments during the third quarter of 2013 were due to favourable changes in key valuation assumptions for investment properties and improved earnings projections for Parsons Landing following the return of suites to active rental operations. The gain related to fair value adjustments in the third quarter of 2013, includes a $5.2 Million increase in the carrying value of Parsons Landing.

Cash Flow Results

During the third quarter of 2014, the cash inflow from operating activities, excluding working capital adjustments, amounted to $1.1 Million, compared to a cash inflow of $2.1 Million during the third quarter of 2013. Including working capital adjustments, LREIT completed the third quarter of 2014 with a cash inflow from operating activities of $0.5 Million, compared to a cash inflow of $3.3 Million during the third quarter of 2013.

Renewal of the Revolving Loan

Effective October 1, 2014, the revolving loan commitment was renewed for a nine month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15 Million. As of September 30, 2014, the balance of the revolving loan was $10 Million.

Removal of Covenant Breach

The Trust has received a loan commitment to refinance a $15.5 Million loan that has been subject to a covenant breach. The new loan was expected to fund in the third quarter of 2014 and is now expected to fund in the fourth quarter of 2014. Upon the anticipated funding of the new loan, the Trust will have successfully removed the one remaining loan covenant breach. The loan commitment provides for the new loan to bear interest at approximately 4.5% per annum for a ten-year term, compared to the 5.82% per annum rate on the existing loan.

Outlook

Refinancing activities to date and the completion of refinancings in the fourth quarter of 2014 will reduce the overall cost of mortgage loan debt and contribute to an inflow of working capital. After considering the revolving loan, upward refinancing and the potential of completing an additional property sale before the end of the year, management believes that LREIT has the capability to fund all of its projected funding commitments through 2015.

While the 2014 occupancy level of our Fort McMurray property portfolio has been weaker than expected, the medium term prospects for higher earnings from our investment in Fort McMurray is favourable as oil production from facilities under construction continues to expand over the next three years. Management will continue with its systematic approach to reduce the debt and interest expense of LREIT and remains optimistic regarding future operations.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information

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

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

Purchase Price Information

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

Financial Statements

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

FINANCIAL SUMMARY

	September 30	December 31	
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$ 459,539,723	$ 468,072,319	$ 481,552,578
Total long-term financial liabilities **(1)**	$ 329,766,000	$ 302,335,837	$ 324,501,221
Weighted average interest rate			
- Mortgage loan debt	5.7 %	5.4 %	7.1 %
- Total debt	6.3 %	5.9 %	7.4 %

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 9,924,262	$ 10,417,760	$ 28,808,159	$ 30,212,858
Net operating income	$ 6,103,953	$ 6,405,204	$ 16,532,671	$ 18,185,494
Income (loss) before discontinued operations	$ (820,772)	$ 13,422,853	$ (4,235,089)	$ 15,358,454
Income (loss) and comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750
Cash Flows				
Cash provided by (used in) operating activities	$ 462,910	$ 3,280,950	$ 920,884	$ 3,191,759
Funds from Operations (FFO) *	$ (637,581)	$ 700,219	$ (3,170,905)	$ (544,062)
Adjusted Funds from Operations (AFFO) *	$ (1,219,479)	$ (481,765)	$ (4,287,138)	$ (2,909,604)
Distributable income (loss)*	$ 367,070	$ 714,151	$ (941,600)	$ (833,474)
Per Unit				
Net operating income *				
- basic	$ 0.290	$ 0.339	$ 0.792	$ 0.965
- diluted	$ 0.213	$ 0.337	$ 0.569	$ 0.958
Income (loss) before discontinued operations *				
- basic	$ (0.039)	$ 0.711	$ (0.203)	$ 0.815
- diluted	$ (0.039)	$ 0.706	$ (0.203)	$ 0.809
Income (loss) and comprehensive income (loss)				
- basic	$ (0.038)	$ 0.716	$ (0.189)	$ 0.851
- diluted	$ (0.038)	$ 0.711	$ (0.189)	$ 0.845
Cash provided by (used in) operating activities				
- basic	$ 0.022	$ 0.174	$ 0.044	$ 0.169
- diluted	$ 0.016	$ 0.173	$ 0.032	$ 0.168
Funds from Operations (FFO) *				
- basic and diluted	$ (0.030)	$ 0.037	$ (0.152)	$ (0.029)
Adjusted Funds from Operations (AFFO) *				
- basic and diluted	$ (0.058)	$ (0.026)	$ (0.205)	$ (0.154)
Distributable income (loss) *				
- basic	$ 0.017	$ 0.038	$ (0.045)	$ (0.044)
- diluted	$ 0.013	$ 0.038	$ (0.045)	$ (0.044)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

LREIT owns a portfolio of income-producing real estate properties, comprised of 20 investment properties and two seniors' housing complexes classified under discontinued operations. The core business activities of LREIT include investment, development, management and divestiture activities which are focused on maximizing the return on the real estate portfolio.

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

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

Divestiture Program

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

Highlights of 2014 Q3 Results and Key Issues/Events

1. Background Information

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

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

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

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

2. Comparative Income Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net operating income				
Fort McMurray properties	$ 3,728,589	$ 4,107,718	$ 10,278,148	$ 12,086,552
Other investment properties	1,412,985	1,369,602	4,059,494	4,170,236
Sub-total	5,141,574	5,477,320	14,337,642	16,256,788
Properties sold	-	519,490	(102,372)	1,462,150
Parsons Landing	962,379	408,394	2,297,401	466,556
Total net operating income	6,103,953	6,405,204	16,532,671	18,185,494
Interest income	27,770	303,792	619,767	932,039
Interest expense	(6,240,075)	(6,281,557)	(18,940,300)	(20,733,401)
Trust expense	(554,533)	(440,395)	(1,774,482)	(1,762,327)
Income recovery on Parsons Landing	-	630,704	98,499	2,272,334
Income (loss) before the following	(662,885)	617,748	(3,463,845)	(1,105,861)
Gain on sale of investment properties	-	-	71,235	164,928
Fair value adjustments	(157,887)	7,652,786	(842,479)	9,077,308
Fair value adjustment of Parsons Landing	-	5,152,319	-	7,222,079
Income (loss) before discontinued operations	(820,772)	13,422,853	(4,235,089)	15,358,454
Income from discontinued operations	25,304	82,471	292,940	670,296
Income (loss) and comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750

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

During the third quarter of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and discontinued operations amounted to $0.7 Million, compared to income of $0.6 Million during the third quarter of 2013, representing a variance of $1.3 Million. The variance mainly reflects a decrease in income recovery on Parsons Landing of $0.6 Million, a decrease in net operating income of $0.3 Million and a decrease in interest income of $0.3 Million.

During the third quarter of 2014, the net loss of LREIT was $0.8 Million, compared to net income of $13.5 Million during the third quarter of 2013, representing a variance of $14.3 Million. In addition to the variables noted in the preceding paragraph, the variance mainly reflects a $13.0 Million decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing, compared to the third quarter of 2013.

For the nine months ended September 30, 2014, the net loss of LREIT was $3.9 Million, compared to net income of $16.0 Million for the nine months ended September 30, 2013, representing a variance of $20.0 Million.

2. Comparative Income Results (continued)

Occupancy/Rental Rate Comparison	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Average occupancy level				
Fort McMurray	89%	92%	86%	93%
Other investment properties	94%	92%	92%	94%
Total	91%	92%	88%	93%
Properties sold	n/a	100%	n/a	100%
Parsons Landing	93%	n/a	84%	n/a
Average rental rate				
Fort McMurray	$2,285	$2,318	$2,311	$2,284
Other investment properties	$919	$931	$927	$927
Total	$1,638	$1,661	$1,655	$1,642
Properties sold	n/a	$2,692	n/a	$2,596
Parsons Landing	$2,734	n/a	$2,740	n/a

3. Comparative Cash Flow Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Cash provided by (used in)				
Operating activities before working capital adjustments	$ 1,146,287	$ 2,056,389	$ 876,669	$ 1,938,090
Working capital adjustments	(683,377)	1,224,561	44,215	1,253,669
Operating activities	$ 462,910	$ 3,280,950	$ 920,884	$ 3,191,759

During the third quarter of 2014, the cash provided by (used in) operating activities, before working capital adjustments, decreased by $0.9 Million, compared to the third quarter of 2013. The decrease mainly reflects a decrease in the cash component of net operating income of $0.6 Million and a decrease in the income recovery on Parsons Landing of $0.6 Million, partially offset by a decrease in interest paid of $0.6 Million.

For the nine months ended September 30, 2014, the cash provided by (used in) operating activities, before working capital adjustments, decreased by $1.1 Million, compared to the nine months ended September 30, 2013.

4. Interest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Interest expense				
Investment properties	$ 6,240,075	$ 6,281,557	$ 18,940,300	$ 20,733,401
Discontinued operations	313,442	193,359	726,515	583,473
Total interest expense	$ 6,553,517	$ 6,474,916	$ 19,666,815	$ 21,316,874

Key Variables	September 30 2014	September 30 2013
Weighted average interest rate of total mortgage loan debt		
Investment properties	5.7 %	5.5 %
Seniors' housing complexes	6.6 %	5.0 %
Combined operations	5.7 %	5.4 %

4. Interest Expense (continued)

Total interest expense for investment properties decreased by $0.04 Million or 1% during the third quarter of 2014, compared to the third quarter of 2013. The decrease reflects a net decrease in the combined mortgage loan/acquisition payable interest of $0.5 Million and a decrease in mortgage bond interest of $0.2 Million, almost entirely offset by an increase in fair value adjustments on the interest rate swap liability of $0.5 Million and a net increase in total amortization charges for transaction costs of $0.3 Million.

The decrease in the combined mortgage loan/acquisition payable interest expense mainly reflects the elimination of the mortgage loan interest on properties sold (Nova Court and the Purolator building), a decrease in interest expense on the revolving loan and a decrease in the weighted average interest rate on the combined mortgage loan/acquisition payable debt. The decrease in mortgage bond interest reflects the redemption of $10.0 Million in mortgage bonds in January 2014. The mortgage bond redemption resulted in the recording of additional accretion of $0.6 Million in the first quarter of 2014.

The increase in interest expense for discontinued operations of $0.1 Million is mainly due to the upward refinancing of the first mortgage loan of Elgin Lodge on May 1, 2014.

5. Key Financing and Investing Events

2014 Q1

Completion of Parsons Landing Acquisition - On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by the net proceeds of a first mortgage loan maturing on May 1, 2015, an advance under the revolving loan and the balance in cash. The completion of the purchase transaction eliminated the "Acquisition payable" on the balance sheet of LREIT and resolved long-standing uncertainties regarding the finalization of property ownership and interest forgiveness.

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

2014 Q2

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

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

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

2014 Q3

Debt Covenants - As of September 30, 2014, LREIT was in breach of a global debt service coverage requirement on one $15.5 Million mortgage loan and the related $1.5 Million interest rate swap liability. The covenant breach was expected to be eliminated by the refinancing of the mortgage loan and interest rate swap liability in the third quarter of 2014. Although the refiancing has been delayed, management expects the refinancing will be completed in the fourth quarter of 2014.

6. Liquidity

	September 30 2014	December 31 2013
Unrestricted cash	$ 1,724,652	$ 2,401,741
Restricted cash	$ 4,009,392	$ 4,241,812
Working capital deficit	$ 8,345,836	$ 4,259,858
Amount available on revolving loan*	$ 5,000,000	$ 14,095,000

*As at November 10, 2014, there was $4.0 Million available on the revolving loan.

7. Risks and Uncertainties

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

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

As a result of the extension of the maturity date of the Series G debentures, the renewal or refinancing of mortgage loans, the completion of the Parsons Landing acquisition and the successful completion of property sales over the past six years, management believes that LREIT has the financial capacity to continue operations for the next twelve months. The continuation of development activity in the oil sands industry is also expected to provide an opportunity for future revenue growth for the Fort McMurray property portfolio.

The 2014 decline in oil prices has created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development and contributed to a tightening of mortgage lending conditions for properties in Fort McMurray. A delay or slowdown of development activity in the oil sands industry could adversely affect values for the Fort McMurray property portfolio.

A more detailed description of key risks is provided in the "Operating Risks and Uncertainties" section of this report and certain additional risks are described in the Annual Information Form.

CONTINUING OPERATIONS

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

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

CAPITAL REQUIREMENTS - GENERAL

As of September 30, 2014, the unrestricted cash balance of LREIT was $1,724,652 and the working capital deficit was $8,345,836, representing an increase of $4,085,978 compared to the working capital deficit as of December 31, 2013. As of December 31, 2013, the working capital deficit included $10 Million of mortgage bond debt, as the debt was being repaid in January 2014. The increase in the working capital deficit is mainly due to an increase in the revolving loan and a decrease in loans receivable, largely offset by the elimination of the mortgage bond liability of $10 Million. During the first nine months of 2014, net advances of the revolving loan were $9,095,000 and cash inflows in regard to the collection of loans receivable were $9,491,016. As of September 30, 2014, the balance of the revolving loan is $10,000,000.

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

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

After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and cash flow from operating activities, LREIT completed the first nine months of 2014 with a cash shortfall of $7.9 Million. The cash shortfall was funded by advances on the revolving loan.

Detailed information regarding the funding sources and funding commitments of LREIT are provided in the "Capital Resources and Liquidity" section of this report.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

LREIT is an unincorporated closed-end real estate trust which was established on April 23, 2002 under the laws of the Province of Manitoba. LREIT became a publicly traded entity on August 30, 2002. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN" and the Series G debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The second mortgage bonds and two series of warrants are listed on the Toronto Stock Exchange under the symbols "LRT.NT.A", "LRT.WT" and "LRT.WT.A", respectively.

The core business activities of LREIT include acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada with a focus on multi-unit residential properties. Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

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

Investment in Properties

As of September 30, 2014, the real estate portfolio of LREIT consists of 18 multi-family residential properties, one commercial property and one mixed residential/commercial property (the "investment properties"), as well as two seniors' housing complexes (the "discontinued operations") under "assets held for sale".

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

Operations

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

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

Financing

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

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

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During the first nine months of 2014, the mortgage loan debt service coverage ratio was 1.02, compared to 1.04 during the first nine months of 2013 and 1.03 during the entire year in 2013. For the purpose of calculating the debt service coverage ratio, the income recovery on Parsons Landing is added to net operating income and, prior to the completion of the acquisition of Parsons Landing on March 6, 2014, interest on the acquisition payable was included in debt service costs.

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

Divestiture Program

General

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

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

Divestiture Program

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

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

Lakewood Townhomes Condominium Sales

In October, 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. After funding sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, net sales proceeds will be applied to reduce the first mortgage loan until such time that the first mortgage loan is repaid in full. The current expectation of management is that the condominium sales program will be substantially completed in 2017. The condominium sales program encompasses services and renovations fees payable to Shelter. Additional information regarding the fees payable to Shelter is provided in the section of this report titled "Related Party Transactions".

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

Distributions

LREIT suspended cash distributions in 2009.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2014

As of September 30, 2014, the property portfolio of LREIT consists of 22 rental properties, 20 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust, including all of the unsold condominium units at Lakewood Townhomes. The remaining two properties consist of two seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 22 properties has a total purchase price of approximately $396.1 Million and encompasses 2,125 suites and 123,126 square feet of leasable commercial area.

Quarterly Changes in Property Portfolio

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

During the nine months ended September 30, 2014, there were no changes in the property portfolio, aside from the sale of one condominium unit at Lakewood Townhomes.

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

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

Composition of Property Portfolio of Investment Properties

The 20 properties which are classified as investment properties consist of one commercial property located in Airdrie, Alberta; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 13 multi-family residential properties, including Parsons Landing, in Fort McMurray, Alberta; and one multi-family property in each of Yellowknife, Northwest Territories, Thompson, Manitoba, Brandon, Manitoba, Edson, Alberta and Peace River, Alberta (5 properties).

As noted above, the properties in "discontinued operations" consist of the two seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario.

Completion of Parsons Landing Acquisition

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

Properties Held for Sale/Discontinued Operations

Discontinued operations is a segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which is held for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the two seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Assets or liabilities classified as held for sale".

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

The cash inflows and outflows from properties in discontinued operations are included with the cash inflows and outflows from investment properties in the Statement of Cash Flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the Statement of Cash Flows.

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to units sold, are included with investment properties.

Rent and Other Receivables

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

During the first quarter of 2014, payment of the mortgage loan receivable arising from the sale of Nova Villa in the amount of $500,000 was received in full. During the second quarter of 2014, payment of the two remaining loans was received in full, which, including accrued interest, totaled $8,991,016.

FAIR VALUE MEASUREMENT

General

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

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

Parsons Landing

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. Although LREIT had acquired possession of Parsons Landing prior to the fire, the closing of the purchase transaction had not been completed.

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

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

The increases in the carrying value of the property to December 31, 2013 were disclosed in the Income Statement of LREIT as a separate line item, titled "Fair value adjustment on Parsons Landing". During 2013, the income of LREIT included a fair value adjustment on Parsons Landing in the total amount of $8.9 Million, comprised of quarterly adjustments of $0.3 Million (Q1), $1.8 Million (Q2), $5.2 Million (Q3) and $1.7 Million (Q4). The higher values in the third and fourth quarters of 2013 reflect improved revenue and vacancy expectations, based on actual leasing results for the reconstructed units, as well as a reduction in the present value discount attributable to the passage of time.

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

Investment Properties

During the third quarter of 2014, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $157,887, including Parsons Landing. During the third quarter of 2013, LREIT recorded gains related to fair value adjustment on its investment properties and on the fair value adjustment on Parsons Landing of $12,805,105. The variance in the amounts served to reduce income by $12,962,992 during the third quarter of 2014, compared to the third quarter of 2013. The gains related to fair value adjustments in the third quarter of 2013 were primarily due to an improvement in key valuation assumptions, including capitalization and discount rates, as well as an improvement in the revenue and occupancy expectations for Parsons Landing. The improved expectations for Parsons Landing were based on actual results following the return of 76 suites to active rental operations.

During the first nine months of 2014, LREIT recorded a loss related to fair value adjustments on its investment property portfolio of $842,479, including Parsons Landing. During the first nine months of 2013, LREIT recorded gains related to fair value adjustments on its investment properties and on the fair value adjustment on Parsons Landing of $16,299,387. The variance in the amounts served to reduce income by $17,141,866 in the first nine months of 2014, compared to the first nine months of 2013. The variance in the fair value adjustments that affected the nine month comparatives was largely the result of the same factors that affected the third quarter comparatives.

Summary of Quarterly Results

Quarterly Analysis

	2014			2013
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 9,924,262	$ 9,975,172	$ 8,908,725	$ 10,115,906
Net operating income	$ 6,103,953	$ 5,924,651	$ 4,504,067	$ 6,023,275
Income (loss) for the period before discontinued operations	$ (820,772)	$ (898,369)	$ (2,515,948)	$ (669,080)
Income (loss) and comprehensive income (loss)	$ (795,468)	$ (742,668)	$ (2,404,013)	$ (509,164)
PER UNIT				
Net operating income				
- basic	$ 0.290	$ 0.283	$ 0.218	$ 0.311
- diluted	$ 0.213	$ 0.201	$ 0.157	$ 0.237
Income (loss) for the period before discontinued operations				
- basic	$ (0.039)	$ (0.043)	$ (0.122)	$ (0.035)
- diluted	$ (0.039)	$ (0.043)	$ (0.122)	$ (0.035)
Income (loss) and comprehensive income (loss)				
- basic	$ (0.038)	$ (0.035)	$ (0.116)	$ (0.026)
- diluted	$ (0.038)	$ (0.035)	$ (0.116)	$ (0.026)

Quarterly Analysis

	2013			2012
	Q3	Q2	Q1	Q4
Rentals from investment properties	$ 10,417,760	$ 10,026,210	$ 9,768,888	$ 9,432,387
Net operating income	$ 6,405,204	$ 6,086,722	$ 5,693,568	$ 5,294,467
Income (loss) for the period before taxes and discontinued operations	$ 13,422,853	$ 2,979,923	$ (1,044,322)	$ (778,548)
Income (loss) and comprehensive income (loss)	$ 13,505,324	$ 3,335,654	$ (812,228)	$ 16,185,773
PER UNIT				
Net operating income				
- basic	$ 0.339	$ 0.323	$ 0.303	$ 0.282
- diluted	$ 0.337	$ 0.319	$ 0.300	$ 0.280
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.711	$ 0.158	$ (0.056)	$ (0.041)
- diluted	$ 0.706	$ 0.156	$ (0.056)	$ (0.041)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.716	$ 0.177	$ (0.043)	$ 0.862
- diluted	$ 0.711	$ 0.175	$ (0.043)	$ 0.857

Revenue and Operating Income

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

In general, rental market conditions in Fort McMurray have been positively affected by ongoing growth in oil sands development activity. Although management's growth expectations remain strong, there was a slowdown of development activity in the first quarter of 2014, which affected revenue and operating income results. The rental market is also affected by seasonal variations in demand, with stronger levels of demand typically being experienced in the second and third quarter of the year. Variations in the supply of rental units, resistance to rate increases and increased competition from work camp accommodations have also affected the quarterly revenue and operating income results of LREIT.

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

The phased-in return of reconstructed suites at Parsons Landing contributed to incremental increases in quarterly revenue and net operating income and offsetting reductions in quarterly income recoveries from insurance losses during the period from June 1, 2013 to February 5, 2014, the expiry date for insurance coverage. There was also an impact on the operating results of Parsons Landing between the insurance expiry date and the May 2014 completion of the lease-up phase for the reconstructed suites.

Net Income (Loss) before Taxes and Discontinued Operations

After accounting for operating income, quarterly variances in interest expense and fair value adjustments represent the two main "ongoing" factors that affect quarterly variances in income/loss before taxes and discontinued operations.

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

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

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

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

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

Net Income (Loss)

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

ANALYSIS OF INCOME (LOSS)

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Rentals from investment properties	$ 9,924,262	$ 10,417,760	$ 28,808,159	$ 30,212,858
Property operating costs	3,820,309	4,012,556	12,275,488	12,027,364
Net operating income	6,103,953	6,405,204	16,532,671	18,185,494
Interest income	27,770	303,792	619,767	932,039
Interest expense	(6,240,075)	(6,281,557)	(18,940,300)	(20,733,401)
Trust expense	(554,533)	(440,395)	(1,774,482)	(1,762,327)
Income recovery on Parsons Landing	-	630,704	98,499	2,272,334
Gain (loss) before the following	(662,885)	617,748	(3,463,845)	(1,105,861)
Gain (loss) on sale of investment properties	-	-	71,235	164,928
Fair value adjustments	(157,887)	7,652,786	(842,479)	9,077,308
Fair value adjustment of Parsons Landing	-	5,152,319	-	7,222,079
Income (loss) before discontinued operations	(820,772)	13,422,853	(4,235,089)	15,358,454
Income from discontinued operations	25,304	82,471	292,940	670,296
Income (loss) and comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30		Change	
	2014	2013		
Income (loss) before discontinued operations				
- basic	$ (0.203)	$ 0.815	$ (1.018)	(125)%
- diluted	$ (0.203)	$ 0.809	$ (1.012)	(125)%
Income (loss) and comprehensive income (loss)				
- basic	$ (0.189)	$ 0.851	$ (1.040)	(122)%
- diluted	$ (0.189)	$ 0.845	$ (1.034)	(122)%

Overall Results

Third Quarter Comparatives

During the third quarter of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment of Parsons Landing and discontinued operations amounted to $662,885, compared to income of $617,748 during the third quarter of 2013, representing a variance of $1,280,633. The variance is largely due to a decrease in income recovery on Parsons Landing of $630,704, a decrease in net operating income of $301,251 and a decrease in interest income of $276,022.

After accounting for fair value adjustments, including the fair value adjustment of Parsons Landing, and the gain on sale of investment properties, LREIT completed the third quarter of 2014 with a loss before discontinued operations of $820,772, compared to income before discontinued operations of $13,422,853 during the third quarter of 2013, representing a variance of $14,243,625. The variance mainly reflects a $12,962,992 decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing.

After accounting for discontinued operations, LREIT completed the third quarter of 2014 with a comprehensive loss of $795,468 compared to comprehensive income of $13,505,324 during the third quarter of 2013.

Nine Month Comparatives

During the first nine months of 2014, the loss of LREIT, before gain on sale of investment properties, fair value adjustments, including the fair value adjustment of Parsons Landing, and discontinued operations increased by $2,357,984 compared to the first nine months of 2013. The increase in the loss is mainly due to a decrease in operating income of $1,652,823 and a decrease in income recovery on Parsons Landing of $2,173,835, partially offset by a decrease in interest expense of $1,793,101.

After accounting for fair value adjustments, including the fair value adjustment in regard to Parsons Landing, and the gain on sale of investment properties, LREIT completed the first nine months of 2014 with a loss of $4,235,089, compared to income of $15,358,454 during the first nine months of 2013, representing a variance of $19,593,543. The variance is mainly due to a $17,141,866 decrease in fair value adjustments, including the fair value adjustment in regard to Parsons Landing.

After accounting for discontinued operations, LREIT completed the first nine months of 2014 with a comprehensive loss of $3,942,149 compared to comprehensive income of $16,028,750 during the first nine months of 2013.

Per Unit Results

On a per unit basis, the loss before discontinued operations amounted to $0.039 per unit during the third quarter of 2014, compared to income of $0.711 per unit during the third quarter of 2013, representing a variance of $0.750 per unit.

During the first nine months of 2014, the loss before discontinued operations amounted to $0.203 per unit, compared to income of $0.815 per unit during the first nine months of 2013, representing a variance of $1.018 per unit.

The per unit variances mainly reflect the loss of the Trust for the three and nine month periods ended September 30, 2014 compared to income for the same periods of 2013, partially offset by an increase in the weighted average number of units. From September 30, 2013 to September 30, 2014, the weighted average number of units increased by 2,045,962 units or 11%. The increase largely reflects the exercise of trust unit purchase warrants during the first and second quarter of 2014 and the fourth quarter of 2013.

Net Operating Income

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

Rental Revenue

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

Investment Properties

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

Fort McMurray (Twelve properties)

Accounting for approximately 48% of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio, excluding Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

Other Investment Properties (Seven Properties)

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

Properties Sold (the Purolator Building and Nova Court)

The operating results of properties sold are analysed separately as the properties do not contribute to the net operating income of the Trust, subsequent to the closing date of sale. The operating results for properties sold as disclosed in the analysis of net operating income pertain to the operations of the Purolator Building and Nova Court in 2013.

Parsons Landing

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

As previously disclosed, 84 reconstructed units were returned to rental operations on June 1, 2013 and the remaining 76 reconstructed units were returned to rental operations on October 3, 2013. Prior to the return of reconstructed units on June 1, 2013, the income of Parsons Landing consisted of revenue in regard to the recovery of insurance proceeds for revenue losses. In accordance with IFRS, the insurance recoveries are recorded as a separate line item, titled, "Income recovery on Parsons Landing" and are not included in the calculation of net operating income.

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

In several instances throughout this report, the income recovery on Parsons Landing is combined with net operating income in order to derive an income amount for comparative purposes which includes all the income associated with Parsons Landing.

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

Discontinued Operations

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

Rental Revenue

Analysis of Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 5,881,636	$ 6,228,415	$ (346,779)	$ 17,220,467	$ 18,668,698	$ (1,448,231)
Other investment properties	2,750,193	2,673,558	76,635	8,111,063	8,141,398	(30,335)
Sub-total	8,631,829	8,901,973	(270,144)	25,331,530	26,810,096	(1,478,566)
Properties sold (1)	-	917,333	(917,333)	1,065	2,673,560	(2,672,495)
Parsons Landing (2)	1,292,433	598,454	693,979	3,475,564	729,202	2,746,362
Total	$ 9,924,262	$10,417,760	$ (493,498)	$ 28,808,159	$ 30,212,858	$ (1,404,699)

(1) Represents revenue from the Purolator Building and Nova Court.
(2) For the first nine months of 2013, the rental revenue for Parsons Landing consists solely of the revenue from 84 reconstructed suites for a period of 122 days, commencing June 1, 2013.

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $270,144 during the third quarter of 2014, compared to the third quarter of 2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $346,779, partially offset by an increase in revenue from the Other investment properties of $76,635.

The decrease in revenue from the Fort McMurray property portfolio, as reflected in the third quarter comparatives, is attributable to a decrease in both the average occupancy level and the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio decreased from 92% during the third quarter of 2013, to 89% during the third quarter of 2014, while the average monthly rental rate decreased by $33 or 1.4%.

During the nine month period ended September 30, 2014, the total revenue from investment properties of LREIT, excluding properties sold and Parsons Landing, decreased by $1,478,566, compared to the first nine months of 2013. The variance in the nine month comparatives is mainly due to the unfavourable variance in revenue results for the Fort McMurray portfolio, particularly during the first quarter of 2014. Specifically, during the nine months ended September 30, 2014, rental revenues for the Fort McMurray property portfolio decreased by $1,448,231, comprised of a decrease of $805,094 in Q1, a decrease of $296,358 in Q2 and a decrease of $346,779 in Q3.

The decrease in revenue from the Fort McMurray property portfolio, as reflected in the nine month comparatives, is due to a decrease in the average occupancy level, partially offset by an increase in the average rental rate. The average occupancy level for the Fort McMurray portfolio decreased from 93% during the first nine months of 2013 to 86% during the first nine months of 2014, while the average monthly rental rate increased by $27 or 1.2%.

The revenue results for the Fort McMurray property portfolio reflect a more competitive rental market at the outset of 2014 due to an increase in the supply of available rental units, increased competition from temporary housing units and abnormal variations in seasonal demand that resulted from a delay in the commencement of municipal and oil sands infrastructure projects. Although the second and third quarter revenue results for 2014 reflect an improvement in market conditions, the rental market remains highly competitive.

As disclosed in the following charts, the nine month occupancy level of the Fort McMurray property portfolio is below 2013 levels and has leveled off at the 89% to 90% mark. The average rental rate is above 2013 levels and displays a downward trend to September 30, 2014.

Occupancy Level, by Quarter

	2014			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	80 %	90 %	89 %	86 %
Other investment properties	89 %	92 %	94 %	92 %
Total	82 %	91 %	91 %	88 %
Properties sold	n/a	n/a	n/a	n/a
Parsons Landing	69 %	89 %	93 %	84 %

	2013					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	93 %	95 %	92 %	93 %	84 %	91 %
Other investment properties	95 %	94 %	92 %	94 %	90 %	93 %
Total	94 %	94 %	92 %	93 %	85 %	91 %
Properties sold	100 %	100 %	100 %	100 %	99 %	100 %
Parsons Landing	n/a	n/a	n/a	n/a	n/a	n/a

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

Average Monthly Rents, by Quarter

	2014			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	$2,337	$2,309	$2,285	$2,311
Other investment properties	$933	$927	$919	$927
Total	$1,672	$1,654	$1,638	$1,655
Properties sold	n/a	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,734	$2,740

	2013					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	$2,259	$2,275	$2,318	$2,284	$2,387	$2,329
Other investment properties	$922	$929	$931	$927	$934	$929
Total	$1,627	$1,638	$1,661	$1,642	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,692	$2,596	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a	n/a

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 2,153,047	$ 2,120,697	$ 32,350	$ 6,942,319	$ 6,582,146	$ 360,173
Other investment properties	1,337,208	1,303,956	33,252	4,051,569	3,971,162	80,407
Sub-total	3,490,255	3,424,653	65,602	10,993,888	10,553,308	440,580
Properties sold	-	397,843	(397,843)	103,437	1,211,410	(1,107,973)
Parsons Landing	330,054	190,060	139,994	1,178,163	262,646	915,517
Total	$ 3,820,309	$ 4,012,556	$ (192,247)	$ 12,275,488	$12,027,364	$ 248,124

During the third quarter of 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $65,602 or 1.9%, compared to the third quarter of 2013. The increase is comprised of an increase of $32,350 in the operating costs of the Fort McMurray portfolio and an increase of $33,252 in the Other investment properties portfolio.

During the nine months ended September 30, 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $440,580 or 4.2%, compared to the first nine months of 2013. The increase is comprised of an increase of $360,173 in the operating costs of the Fort McMurray portfolio and a $80,407 increase in the Other investment properties portfolio.

The increase in operating costs of the Fort McMurray portfolio for the nine month comparatives is mainly due to an increase in maintenance costs, including an increase in repair costs related to water damage, net of insurance recoveries and a decrease in property taxes.

Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 3,728,589	$ 4,107,718	$ (379,129)	$10,278,148	$ 12,086,552	$(1,808,404)
Other investment properties	1,412,985	1,369,602	43,383	4,059,494	4,170,236	(110,742)
Sub-total	5,141,574	5,477,320	(335,746)	14,337,642	16,256,788	(1,919,146)
Properties sold	-	519,490	(519,490)	(102,372)	1,462,150	(1,564,522)
Parsons Landing	962,379	408,394	553,985	2,297,401	466,556	1,830,845
Total	$ 6,103,953	$ 6,405,204	$ (301,251)	$16,532,671	$ 18,185,494	$(1,652,823)

After considering the decrease in rental revenue and the increase in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, decreased by $335,746 or 6% during the third quarter of 2014, compared to the third quarter of 2013.

The decrease in net operating income is comprised of a $379,129 decrease in net operating income from the Fort McMurray properties partially offset by a $43,383 increase in net operating income from the Other investment properties. For the nine month period ended September 30, 2014, the net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, decreased by $1,919,146.

After accounting for the decrease in net operating income related to properties sold and the net operating income attributable to Parsons Landing, net operating income decreased by $301,251 during the third quarter of 2014, compared to the third quarter of 2013. For the nine month period ended September 30, 2014, net operating income decreased by $1,652,823.

During the nine months ended September 30, 2014, the net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $2,395,900, compared to $2,738,890 during the nine months ended September 30, 2013, representing a decrease of $342,990 or 13%. The decrease is attributable to the change in the operational status of the property. During the first nine months of 2013, revenue losses from unleased or unreconstructed suites were fully covered by insurance proceeds, whereas, at the beginning of 2014, the property was in the lease-up phase and insurance recoveries ended on February 5, 2014. The lease-up phase was essentially completed in May 2014 when the property achieved an occupancy level of 94%.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Fort McMurray	63 %	66 %	60 %	65 %
Other investment properties	51 %	51 %	50 %	51 %
Sub-total	60 %	62 %	57 %	61 %
Properties sold	n/a	57 %	n/a	55 %
Parsons Landing	74 %	68 %	66 %	64 %
Total	62 %	61 %	57 %	60 %

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 62% during the third quarter of 2013, to 60% during the third quarter of 2014. For the nine months ended September 30, 2014, the operating margin was 57% compared to 61% for the nine months ended September 30, 2013. The decrease in the operating margin for the nine months ended September 30, 2014 is mainly due to the unfavourable variance in revenue results for the Fort McMurray property portfolio, particularly for the first quarter of 2014.

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

Interest Income

During the third quarter of 2014 interest income amounted to $27,770, compared to $303,792 during the third quarter of 2013. During the first nine months of 2014, interest income was $619,767 compared to $932,039 during the first nine months of 2013. The decrease in interest income mainly reflects the fact that LREIT received full repayment of its mortgage loans receivable in June 2014. Interest income is also earned on defeasance assets and cash.

Interest Expense

General

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

As disclosed in the following chart, total interest expense amounted to $6,553,517 during the third quarter of 2014, of which $6,240,075 pertains to investment properties and $313,442 pertains to discontinued operations.

Total interest expense for investment properties decreased by $41,482 or 1% during the third quarter of 2014, compared to the third quarter of 2013. The decrease reflects a net decrease in the combined mortgage loan/acquisition payable interest of $527,241 and a decrease in mortgage bond interest of $225,000, almost entirely offset by an increase in fair value adjustments on the interest rate swap liability of $513,120 and a net increase in total amortization charges for transaction costs of $265,456.

Total interest expense for discontinued operations increased by $120,083 or 62% during the third quarter of 2014, compared to the third quarter of 2013 as a result of the upward refinancing of Elgin Lodge in May 2014.

Interest expense encompasses a number of "non-cash" expenses, including amortization of transaction costs, accretion and the gain or loss related to the change in fair value of the interest rate swap liability. The $78,601 increase in total interest expense during the third quarter of 2014, compared to the third quarter of 2013, is comprised of a $767,746 increase in the "non-cash" component of interest expense, partially offset by a $689,145 decrease in the cash component of interest expense.

Analysis of Interest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Investment Properties						
Mortgage Loans and Acquisition Payable						
Mortgage loan interest	$ 4,326,620	$ 3,953,861	$ 372,759	$ 12,616,854	$ 12,881,571	$ (264,717)
Acquisition payable interest	-	900,000	(900,000)	653,315	2,700,000	(2,046,685)
Amortization of transaction costs	607,577	289,021	318,556	1,586,343	1,771,571	(185,228)
Change in fair value of interest rate swap liability	440,729	(72,391)	513,120	283,303	(213,642)	496,945
Total - mortgage loans and acquisition payable	5,374,926	5,070,491	304,435	15,139,815	17,139,500	(1,999,685)
Mortgage Bonds						
Mortgage bond interest	135,000	360,000	(225,000)	446,918	1,080,000	(633,082)
Accretion of debt component	49,712	116,878	(67,166)	822,666	335,323	487,343
Amortization of transaction costs	33,079	71,122	(38,043)	566,979	204,752	362,227
Total - mortgage bonds	217,791	548,000	(330,209)	1,836,563	1,620,075	216,488
Debentures						
Interest on debentures	595,608	596,259	(651)	1,777,114	1,781,907	(4,793)
Amortization of transaction costs	51,750	66,807	(15,057)	186,808	191,919	(5,111)
Total - debentures	647,358	663,066	(15,708)	1,963,922	1,973,826	(9,904)
Total interest expense - investment properties	6,240,075	6,281,557	(41,482)	18,940,300	20,733,401	(1,793,101)
Discontinued Operations						
Mortgage Loans						
Mortgage loan interest	237,106	173,359	63,747	581,253	541,306	39,947
Amortization of transaction costs	76,336	20,000	56,336	145,262	42,167	103,095
Total interest expense - discontinued operations	313,442	193,359	120,083	726,515	583,473	143,042
Total - interest expense	$ 6,553,517	$ 6,474,916	$ 78,601	$ 19,666,815	$ 21,316,874	$ (1,650,059)

Cash and Non-cash Component						
Non-cash component						
Accretion	$ 49,712	$ 116,878	$ (67,166)	$ 822,666	$ 335,323	$ 487,343
Amortization of transaction costs	768,742	446,950	321,792	2,485,392	2,210,409	274,983
Change in fair value of interest rate swaps	440,729	(72,391)	513,120	283,303	(213,642)	496,945
Total non-cash component	1,259,183	491,437	767,746	3,591,361	2,332,090	1,259,271
Cash component						
Interest	5,294,334	5,983,479	(689,145)	16,075,454	18,984,784	(2,909,330)
Total cash component	5,294,334	5,983,479	(689,145)	16,075,454	18,984,784	(2,909,330)
Total - interest expense	$ 6,553,517	$ 6,474,916	$ 78,601	$ 19,666,815	$ 21,316,874	$ (1,650,059)

Cash Component of Interest Expense - General

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

During the third quarter of 2014, the total cash component of interest expense decreased by $689,145 or 12%, compared to the third quarter of 2013. The decrease reflects a decrease of $752,892 in the cash component of interest expense for investment properties, partially offset by an increase of $63,747 in the cash component of interest expense for discontinued operations.

As a percentage of net operating income for both investment properties and discontinued operations and after including the income recovery on Parsons Landing, the cash component of interest on mortgage loans and acquisition payable, increased from 69% during the third quarter of 2013 to 71% during the third quarter of 2014.

After including the cash component of interest on mortgage bonds and debentures, the interest-to-net operating income ratio is 82% for the third quarter of 2014, compared to 82% for the third quarter of 2013. The interest-to-net operating income ratio remained in line with the third quarter of 2013 as the decrease in net operating income and insurance recoveries was offset by the decrease in the cash component of interest expense.

Cash Component of Interest Expense - Investment Properties

Interest on Mortgage Loans and Acquisition Payable

Mortgage loan and acquisition payable interest for investment properties decreased by $527,241 or 11% during the third quarter of 2014, compared to the third quarter of 2013, comprised of a decrease in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $119,732, a decrease in interest expense on the mortgage loan for Parsons Landing compared to the interest on the acquisition payable relating to Parsons Landing of $95,274, interest savings on the elimination of the mortgage loan debt for Nova Court and the Purolator Building of $121,665, and a reduction of interest primarily as a result of favourable refinancing transactions of $190,570.

Mortgage Bond Interest

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

Debenture Interest

During the third quarter of 2014, interest on debentures amounted to $595,608, compared to $596,259 during the third quarter of 2013.

Cash Component of Interest Expense - Discontinued Operations

The cash component of interest expense for discontinued operations consists of interest payments on mortgage loans. Mortgage loan interest for discontinued operations increased by $63,747 or 37% during the third quarter of 2014, compared to the third quarter of 2013. The increase is mainly due to the upward refinancing of the mortgage loan debt of Elgin Lodge in May 2014.

Non-cash Component of Interest Expense

As indicated in the preceding chart, the non-cash component of interest expense increased by $767,746 during the third quarter of 2014, compared to the third quarter of 2013. The increase mainly reflects a $513,120 increase in the fair value adjustment on the interest rate swap liability and an increase in total amortization charges for transaction costs, including discontinued operations, of $321,792, partially offset by a decrease in accretion of $67,166 as a result of the partial redemption of mortgage bonds.

Management expects the interest rate swap liability to be settled in conjunction with the anticipated refinancing of the Millennium Village mortgage loan in the fourth quarter of 2014. The fair value adjustment on the interest rate swap liability was made to adjust its carrying value to reflect the fair value of the anticipated prepayment.

The increase in amortization charges mainly consists of an increase in amortization charges for mortgage loans of $374,892, partially offset by a decrease in amortization charges for mortgage bonds of $38,043. The increase in amortization charges for mortgage loans is mainly due to the mortgage financing for Parsons Landing in the first quarter of 2014 and the upward refinancing of Lakewood Townhomes in the fourth quarter of 2013.

Nine Month Comparative for Interest Expense

For the nine month period ended September 30, 2014, total interest expense decreased by $1,650,059, compared to the same period in 2013. The decrease is comprised of a decrease in interest expense for investment properties of $1,793,101, partially offset by an increase in interest expense for discontinued operations of $143,042.

The decrease in interest expense for investment properties is comprised of a $2,949,277 decrease in the cash component of interest expense, partially offset by a $1,156,176 increase in the non-cash component of interest expense. The decrease in the cash component is mainly due to the elimination of mortgage loan interest on properties sold, a decrease in interest on the revolving loan, a decrease in the weighted average interest rate of the combined mortgage loan/acquisition payable debt and a decrease of mortgage bond interest as a result of the lump-sum repayment in the first quarter of 2014. The increase in the non-cash component is mainly due to the accretion and amortization charges which were recorded in the first quarter of 2014 in regard to the repayment of $10 Million of mortgage bond debt and the adjustment to the fair value of the interest rate swap, which was recorded in the third quarter of 2014.

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

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

Trust Expense

Trust expense for the nine months ended September 30, 2014, is comparable to the prior year increasing by $12,155 compared to the nine months ended September 30, 2013. The increase in the nine month comparatives is mainly due to an increase in loss on warrant purchases of $79,742 and transaction costs related to the acquisition of Parsons Landing of $52,755, partially offset by a one-time charge of $190,000 associated with the write down of a loan receivable in the second quarter of 2013.

Gain on Sale of Investment Properties

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

During the first nine months of 2014, the Trust recorded a gain on sale of investment properties of $71,235 related to the sale of one condominium unit at Lakewood Townhomes in the first quarter of the year. During the first nine months of 2013, the Trust recorded a gain on sale of investment properties of $164,928 related to the sale of two condominium units at Lakewood Townhomes in the first and second quarter of the year.

Fair Value Adjustments and Fair Value Adjustment of Parsons Landing

During the first nine months of 2014, a loss from fair value adjustments of $842,479 was recorded, compared to a gain from fair value adjustments of $16,299,387 during the same period in 2013, including the fair value adjustment on Parsons Landing. Gains/losses on fair value adjustments are included in the income of the Trust and are disclosed as positive or negative "adjustments".

After accounting for fair value adjustments, capital expenditures and property dispositions, the carrying value of investment properties increased by $467,301 during the first nine months of 2014.

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

Discontinued Operations

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

Analysis of Income from Discontinued Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Rental income	$ 1,282,270	$ 1,249,773	$ 3,864,870	$ 3,919,991
Property operating costs	943,524	973,943	2,845,415	2,774,719
Net operating income	338,746	275,830	1,019,455	1,145,272
Interest expense	313,442	193,359	726,515	583,473
Tax expense (recovery)	-	-	-	(108,497)
Income from discontinued operations	$ 25,304	$ 82,471	$ 292,940	$ 670,296

During the third quarter of 2014, LREIT generated income from discontinued operations of $25,304, compared to $82,471 during the third quarter of 2013, representing a decrease of $57,167. For the nine month period ended September 30, 2014, income from discontinued operations decreased by $377,356, compared to the nine month period ended September 30, 2013. The decrease in the third quarter is mainly due to an increase in interest expense, partially offset by an increase in net operating income. The decrease during the nine month period ended September 30, 2014 is due to the absence of income tax recoveries, an increase in interest expense and a decrease in net operating income.

The variance between the increase in net operating income for the third quarter comparatives and the decrease in net operating income for the nine month comparatives mainly reflects a higher level of property operating costs during the third quarter of 2013 and the first quarter of 2014, particularly in regard to maintenance and salaries expenses.

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

Comparison to Preceding Quarter

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	September 30, 2014	June 30, 2014	Amount	%
Rentals from investment properties	$ 9,924,262	$ 9,975,172	$ (50,910)	(0.5)%
Property operating costs	3,820,309	4,050,521	230,212	5.7 %
Net operating income	6,103,953	5,924,651	179,302	3.0 %
Interest income	27,770	206,779	(179,009)	(86.6)%
Interest expense	(6,240,075)	(5,745,943)	(494,132)	(8.6)%
Trust expense	(554,533)	(599,264)	44,731	7.5 %
Loss before the following	(662,885)	(213,777)	(449,108)	(210.1)%
Fair value adjustments	(157,887)	(684,592)	526,705	(76.9)%
Loss for the period before discontinued operations	(820,772)	(898,369)	77,597	8.6 %
Income from discontinued operations	25,304	155,701	(130,397)	(83.7)%
Comprehensive loss	$ (795,468)	$ (742,668)	$ (52,800)	(7.1)%

During the third quarter of 2014, LREIT incurred a loss of $662,885, before fair value adjustments, and discontinued operations, compared to a loss of $213,777 during the second quarter of 2014. The increase in the loss mainly reflects an increase in interest expense of $494,132 and a decrease in interest income of $179,009, partially offset by an increase in net operating income of $179,302. The increase in interest expense is mainly attributable to the change in fair value of the interest rate swap liability. The decrease in interest income is due to the repayment of the mortgage loans receivable in June 2014. The increase in operating income is mainly due to a decrease in property operating costs of $230,212 or, more specifically, a decrease in utilities expense of $109,659 and a decrease in maintenance expense of $156,530.

After accounting for the variance in fair value adjustments in the amount of $526,705, the loss of LREIT before discontinued operations decreased by $77,597 during the third quarter of 2014, compared to the second quarter of 2014.

Income from discontinued operations decreased by $130,397 during the third quarter of 2014, compared to the second quarter of 2014.

After accounting for discontinued operations, LREIT completed the third quarter of 2014 with a comprehensive loss of $795,468, compared to a comprehensive loss of $742,668 during the second quarter of 2014.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash Flow from Operating Activities

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

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

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

Three Month Comparatives

Cash from Operating Activities

	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Increase (Decrease)
Net operating income			
Investment properties	$ 6,103,953	$ 6,405,204	$ (301,251)
Discontinued operations	338,746	275,830	62,916
Total net operating income	6,442,699	6,681,034	(238,335)
Accrued rent receivable	(311,872)	97,017	(408,889)
Net operating income - cash basis	6,130,827	6,778,051	(647,224)
Income recovery on Parsons Landing	-	630,704	(630,704)
Trust expense	(554,533)	(440,395)	(114,138)
Loss on warrant repurchases	42,400	-	42,400
Unit-based compensation	18,750	18,750	-
Trust expense - cash basis	(493,383)	(421,645)	(71,738)
Interest paid			
Investment properties	(4,284,172)	(4,895,664)	611,492
Discontinued operations	(237,273)	(178,291)	(58,982)
Total interest paid	(4,521,445)	(5,073,955)	552,510
Interest received	30,288	143,234	(112,946)
Interest expense - cash basis	(4,491,157)	(4,930,721)	439,564
Cash provided by (used in) operating activities, before working capital adjustments	1,146,287	2,056,389	(910,102)
Working capital adjustments, net	(683,377)	1,224,561	(1,907,938)
Cash provided by (used in) operating activities	$ 462,910	$ 3,280,950	$ (2,818,040)

During the third quarter of 2014, the net cash provided by operating activities, excluding working capital adjustments, amounted to $1,146,287, compared to net cash provided by operating activities of $2,056,389 during the third quarter of 2013, representing a decrease in cash flow before working capital adjustments of $910,102. The decrease reflects a decrease in the cash component of net operating income of $647,224 and a decrease in the income recovery on Parsons Landing of $630,704, partially offset by a decrease in interest paid of $552,510.

After providing for working capital adjustments, the cash provided by (used in) operating activities decreased by $2,818,040 during the third quarter of 2014, compared to the third quarter of 2013.

Nine Month Comparatives

Cash from Operating Activities

	Nine Months Ended September 30		Increase
	2014	2013	(Decrease)
Net operating income			
Investment properties	$ 16,532,671	$ 18,185,494	$ (1,652,823)
Discontinued operations	1,019,455	1,145,272	(125,817)
Total net operating income	17,552,126	19,330,766	(1,778,640)
Accrued rent receivable	(520,339)	11,998	(532,337)
Net operating income - cash basis	17,031,787	19,342,764	(2,310,977)
Income recovery on Parsons Landing	98,499	2,272,334	(2,173,835)
Trust expense	(1,774,482)	(1,762,327)	(12,155)
Loss on warrant repurchases	79,742	-	79,742
Unit-based compensation	116,406	82,343	34,063
Write down of note receivable	-	190,000	(190,000)
Trust expense - cash basis	(1,578,334)	(1,489,984)	(88,350)
Interest paid			
Investment properties	(14,569,086)	(17,940,797)	3,371,711
Discontinued operations	(558,067)	(551,134)	(6,933)
Total interest paid	(15,127,153)	(18,491,931)	3,364,778
Interest received	451,870	482,144	(30,274)
Interest expense - cash basis	(14,675,283)	(18,009,787)	3,334,504
Income tax recovery (expense) - current	-	(177,237)	177,237
Cash provided by (used in) operating activities, before working capital adjustments	876,669	1,938,090	(1,061,421)
Working capital adjustments, net	44,215	1,253,669	(1,209,454)
Cash provided by (used in) operating activities	$ 920,884	$ 3,191,759	$ (2,270,875)

During the first nine months of 2014, net cash provided by (used in) operating activities, excluding working capital adjustments, decreased by $1,061,421 compared to the first nine months of 2013. The decrease mainly reflects a decrease in the cash component of net operating income of $2,310,977 and a decrease in the income recovery on Parsons Landing of $2,173,835, partially offset by a decrease in interest paid of $3,364,778.

The variance in the cash flow results for the third quarter and nine month comparatives is generally due to the same factors which affected the variance in net operating income results and interest expense as disclosed in the preceding sections of this report.

Comparison to Second Quarter of 2014

Cash from Operating Activities

	Three Months Ended September 30 2014	Three Months Ended June 30 2014	Increase (Decrease)
Net operating income			
Investment properties	$ 6,103,953	$ 5,924,651	$ 179,302
Discontinued operations	338,746	411,117	(72,371)
Total net operating income	6,442,699	6,335,768	106,931
Accrued rent receivable	(311,872)	(119,896)	(191,976)
Net operating income - cash basis	6,130,827	6,215,872	(85,045)
Trust expense	(554,533)	(599,264)	44,731
Loss on warrant repurchases	42,400	2,395	40,005
Unit-based compensation	18,750	78,906	(60,156)
Trust expense - cash basis	(493,383)	(517,963)	24,580
Interest paid			
Investment properties	(4,284,172)	(5,583,332)	1,299,160
Discontinued operations	(237,273)	(161,692)	(75,581)
Total interest paid	(4,521,445)	(5,745,024)	1,223,579
Interest received	30,288	206,779	(176,491)
Interest expense - cash basis	(4,491,157)	(5,538,245)	1,047,088
Cash provided by operating activities, before working capital adjustments	1,146,287	159,664	986,623
Working capital adjustments, net	(683,377)	(420,331)	(263,046)
Cash provided by (used in) operating activities	$ 462,910	$ (260,667)	$ 723,577

In comparison to the second quarter of 2014, the net cash provided by (used in) operating activities, excluding working capital adjustments, increased by $986,623 during the third quarter of 2014. The increase mainly reflects a decrease in interest paid of $1,223,579. The decrease in interest paid reflects the timing of interest payments on the Series G debentures and mortgage bonds, as noted above.

After providing for working capital adjustments, the cash provided by (used in) operating activities increased by $723,577 during the third quarter of 2014, compared to the second quarter of 2014.

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

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

During the first nine months of 2014, the FFO deficiency increased by $2,626,843, compared to the first nine months of 2013, while the AFFO deficiency increased by $1,377,534. On a basic per unit basis, the FFO deficiency increased by $0.123 per unit, compared to the first nine months of 2013, while the AFFO deficiency increased by $0.051 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	
	2014	2013	2014	2013
Comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750
Add (deduct):				
Deferred taxes	-	-	-	(285,734)
Gain on sale of properties	-	-	(71,235)	(164,928)
Taxes on sale of discontinued operations	-	-	-	177,237
Fair value adjustments	157,887	(7,652,786)	842,479	(9,077,308)
Fair value adjustment of Parsons Landing	-	(5,152,319)	-	(7,222,079)
Funds from operations (FFO) *	(637,581)	700,219	(3,170,905)	(544,062)
Add (deduct):				
Straight-line rent adjustment	(311,872)	97,017	(520,339)	11,998
Accretion of debt component of mortgage bonds	49,712	116,878	822,666	335,323
Write down of note receivable	-	-	-	190,000
Unit-based compensation	18,750	18,750	116,406	82,343
Change in fair value of interest rate swaps	440,729	(72,391)	283,303	(213,642)
Capital expenditures on investment properties	(762,700)	(1,340,270)	(1,682,825)	(2,642,271)
Capital expenditures on property and equipment	(16,517)	(1,968)	(135,444)	(129,293)
Adjusted funds from operations (AFFO) *	$ (1,219,479)	$ (481,765)	$ (4,287,138)	$ (2,909,604)
FFO per unit *				
- basic and diluted	$ (0.030)	$ 0.037	$ (0.152)	$ (0.029)
AFFO per unit *				
- basic and diluted	$ (0.058)	$ (0.026)	$ (0.205)	$ (0.154)

* FFO and AFFO are non-IFRS financial measures of operating performance widely used by the real estate industry. Accordingly, FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

FFO has been calculated in accordance with the recommendations of RealPac. The method that is used by LREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers. The FFO and AFFO per unit amounts have been calculated on a basis consistent with that prescribed by IFRS for calculating earnings per unit.

AFFO is determined by taking the amounts reported as FFO and adjusting for capital expenditures and other items that impact available cash flow. Capital expenditures are referred to as expenditures that by standard accounting definitions are accounted for as capital in that the expenditure itself has a useful life in excess of the current financial year and also adds or maintains the value of the related asset.

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by LREIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of LREIT is the "net cash flow from operating activities", as disclosed in the Statement of Cash Flows in the Financial Statements. Accordingly, a reconciliation between the net cash flow from operating activities and distributable income is provided in the chart below.

Reconciliation Between Cash from Operating Activities and Distributable Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Cash provided by (used in) operating activities	$ 462,910	$ 3,280,950	$ 920,884	$ 3,191,759
Working capital adjustments	683,377	(1,224,561)	(44,215)	(1,253,669)
	1,146,287	2,056,389	876,669	1,938,090
Add (deduct):				
Capital expenditures on investment properties	(762,700)	(1,340,270)	(1,682,825)	(2,642,271)
Capital expenditures on property and equipment	(16,517)	(1,968)	(135,444)	(129,293)
Distributable income (loss)	$ 367,070	$ 714,151	$ (941,600)	$ (833,474)
Per unit				
- basic	$ 0.017	$ 0.038	$ (0.045)	$ (0.044)
- diluted	$ 0.013	$ 0.038	$ (0.045)	$ (0.044)

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

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

As disclosed in the preceding chart, LREIT completed the first nine months of 2014 with a distributable loss of $941,600, compared to a distributable loss of $833,474 during the first nine months of 2013. The increase in the distributable loss reflects the decrease in cash flow, excluding working capital adjustments, as previously discussed, partially offset by a decrease in capital expenditures.

Distributions

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

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

Financing Activities

As disclosed in the Statement of Cash Flows, the financing activities of LREIT resulted in a cash outflow of $9,530,211 during the first nine months of 2014. Financing activities consist of cash inflows and outflows related to the repayment of mortgage loan debt, mortgage loan financing activities for Parsons Landing and Elgin Lodge, including transaction costs, draws and repayments on the revolving loan commitment, the repayment of mortgage bonds, the payment of the acquisition payable, cash inflows related to the exercise of options and warrants and cash outflows related to the purchase of warrants under the normal course issuer bid (NCIB) of LREIT.

Additional information regarding the financing activities of LREIT is provided in other sections of this report.

Investing Activities

As disclosed in the Statement of Cash Flows, the investing activities of LREIT resulted in a net cash inflow of $8,004,471 during the first nine months of 2014. Investing activities representing a cash outflow include the cash outflow related to capital expenditures on investment properties and discontinued operations of $1,682,825 and $135,444, respectively. Investing activities that resulted in a cash inflow during the period include the collection of mortgage loans receivable of $9,491,016, a decrease in restricted cash of $227,725 and a decrease in defeasance assets of $110,876.

Cash Flow Summary

During the first nine months of 2014, the net cash outflow from operating, financing and investing activities was $677,089. After providing for the opening cash balance of $2,401,741, LREIT completed the first nine months of 2014 with a cash balance of $1,724,652.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Funds - 2014

Working Capital/Existing Cash

As of September 30, 2014, the unrestricted cash balance of LREIT was $1,724,652 and the working capital deficit was $8,345,836, representing an increase in the working capital deficit of approximately $4,085,978 compared to the working capital deficit as of December 31, 2013. The working capital deficit consists of current assets less current liabilities, excluding the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $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 working capital may differ from the method which is used by other issuers. Accordingly, working capital as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Cash Inflow from Operating Activities

The overall funding requirements of LREIT are affected by the level of cash inflows or outflows from operating activities. After accounting for regular payments of debt, transaction costs for debt financing, capital improvements and the cash inflow from operating activities, LREIT completed the first nine months of 2014 with a cash shortfall of $7.9 Million, compared to a shortfall of $7.2 Million during the first nine months of 2013.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter). Effective October 1, 2014, the revolving loan commitment was renewed for a nine-month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15 Million. As of the date of this report, $4.0 Million is available under the revolving loan commitment.

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

Sale Proceeds

LREIT is pursuing property sales under its divestiture program.

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

Mortgage Loans Receivable

During the nine months ended September 30, 2014, LREIT fully collected payment on all of its mortgage loans receivable. The amount collected was $9,491,016.

Upward Refinancing of Mortgage Loans

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

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

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

Debt and/or Equity Offerings

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

Exercise of Warrants

During 2010, LREIT issued 6.78 Million trust unit purchase warrants with an exercise price of $1.00 and 16 Million trust unit purchase warrants with an exercise price of $0.75. The warrants may be exercised prior to March 9, 2015 and December 23, 2015, respectively. During the first nine months of 2014, 762,375 warrants were exercised, generating proceeds of $591,624. If all outstanding warrants were exercised as of the date of this report, LREIT would receive additional proceeds of $16,799,475. LREIT has a NCIB for the warrants which has reduced, and may continue to reduce, the number of unexercised outstanding warrants by a modest amount each quarter.

Uses of Funds - 2014

Long-term Debt Principal Payments

Summary of Total Debt Obligations by Year

A summary of the debt obligations of LREIT for the remainder of 2014 and for the next five years, is provided in the following chart. The chart reflects mortgage payments in accordance with the payment terms specified by the applicable mortgage loan.

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2014	2015/2016	2017/2018	2019 and beyond
Mortgage loans					
Investment properties *	$ 280,402,813	$ 44,022,934	$ 117,511,961	$ 91,430,590	$ 27,437,328
Properties held for sale	14,418,163	41,696	14,376,467	-	-
Total mortgage loans	294,820,976	44,064,630	131,888,428	91,430,590	27,437,328
Debentures and mortgage bonds **	30,873,800	-	6,000,000	24,873,800	-
Total	$ 325,694,776	$ 44,064,630	$ 137,888,428	$ 116,304,390	$ 27,437,328

* The amount due in "2017/2018" includes a mortgage loan of $15,494,688 which is subject to an interest rate swap arrangement. The loan matures in 2018 and is in breach of a global debt service coverage requirement. Under IFRS, mortgages in breach of debt covenants are classified as a current liability, regardless of the maturity date. If the above chart was adjusted to reflect the mortgage loan as a current liability, the total long-term debt due in 2014 would increase to $59,412,864.

** Reflects the face value of mortgage bonds.

Summary of Mortgage Loan Debt Due in 2014

The amount due for the remainder of 2014 for mortgage loans on investment properties of $44,022,934 consists of three mortgage loans, with maturity dates in 2014, in the aggregate amount of $38,729,042, a demand loan of $4,347,564, and regular principal payments of $946,328 for other mortgage loans.

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

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

Principal Payments - Debentures and Mortgage Bonds

As of September 30, 2014, the total face value of the 9% Series G debentures is $24,873,800. At a meeting of the debenture holders on June 16, 2014, the maturity date of the Series G debentures was extended from February 28, 2015 to June 30, 2018. The terms of the debentures provide for the net proceeds from property sales to be applied to redeem the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness, if applicable, and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment. The extent of debenture repayments, if any, is dependent on the extent of property sales, the amount of mortgage loan and mortgage bond indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

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

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

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to be held in escrow to fund future capital expenditures. During the third quarter of 2014, funds in the amount of $486,700 were released from escrow following the completion of capital improvements. As of September 30, 2014, cash deposits in escrow for capital expenditures amount to $1,228,914.

Capital Expenditures

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $1.1 Million for the remainder of 2014.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan commitment and periodic credit support from Shelter, as required, will be sufficient to cover the projected funding commitments of LREIT for the remainder of 2014. As of the date of this report, $4.0 Million is available under the revolving loan commitment.

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

CAPITAL STRUCTURE

Capital Structure - September 30, 2014

	September 30, 2014		December 31, 2013	
	Amount	%	Amount	%
Long-term debt	$ 150,299,667	35.0 %	$ 154,124,845	38.1 %
Current portion of long-term debt	164,578,298	38.4 %	133,107,487	32.9 %
Equity	114,187,963	26.6 %	117,452,013	29.0 %
Total capitalization	$ 429,065,928	100.0 %	$ 404,684,345	100.0 %

Long-term Debt

The long-term debt of LREIT includes mortgage loans, mortgage bonds, debenture debt, a defeased liability, mortgage guarantee fees payable and accrued interest payable, less unamortized transaction costs. On the Statement of Financial Position, the long-term debt of investment properties is separated into current and non-current portions, while the long-term debt for the two seniors' housing complexes in discontinued operations is classified under "Liabilities classified as held for sale". The long-term debt for the seniors' housing complexes consists solely of mortgage loan debt, less unamortized transaction costs. The amount payable in regard to the acquisition of Parsons Landing was included in "Trade and other payables" on the Statement of Financial Position of LREIT at December 31, 2013.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of LREIT as of September 30, 2014 increased by $28,868,892 or 9.6% compared to the total long-term debt as of December 31, 2013. The increase mainly reflects an increase in mortgage loan debt, partially offset by a decrease in mortgage bond debt.

	September 30 2014	December 31 2013	Increase (Decrease)
Long-term debt - Investment properties			
Secured long-term debt			
Mortgages loans	$ 280,402,813	$ 244,586,398	$ 35,816,415
Interest rate swap liability	1,471,409	1,188,106	283,303
Mortgage bonds	5,735,674	14,913,008	(9,177,334)
Debentures	24,873,800	24,873,800	-
Defeased liability	2,599,815	2,644,615	(44,800)
Total secured long-term debt	315,083,511	288,205,927	26,877,584
Mortgage guarantee fees	-	91,362	(91,362)
Accrued interest payable	2,896,308	1,975,830	920,478
Unamortized transaction costs	(3,101,854)	(3,040,787)	(61,067)
Total long-term debt - Investment properties	314,877,965	287,232,332	27,645,633
Total long-term debt - Properties held for sale			
Mortgage loans	14,418,163	13,042,918	1,375,245
Unamortized transaction costs	(151,986)	-	(151,986)
Total long-term debt - Properties held for sale	14,266,177	13,042,918	1,223,259
Total long-term debt	$ 329,144,142	$ 300,275,250	$ 28,868,892

As of December 31, 2013, the amount payable in regard to the acquisition of Parsons Landing was $41,793,000, excluding the GST liability. If the acquisition payable was included in long-term debt at December 31, 2013, the chart above would reflect a decrease in the total long-term debt of investment properties of $14,147,367 during the first nine months of 2014.

Mortgage Bonds

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

Debentures

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

Mortgage Loans

Change in Total Mortgage Loan Debt

As of September 30, 2014, the total mortgage loan debt of LREIT increased by $37,191,660 compared to the amount payable as of December 31, 2013. As disclosed in the following chart, the increase is largely attributable to an increase in mortgage loan financing for investment properties, partially offset by regular repayments of principal.

	Nine Months Ended September 30, 2014		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 50,000,000	$ 40,000,000	$ 10,000,000
Repayment of mortgage loans on refinancing	(8,104,208)	-	(8,104,208)
Net proceeds	41,895,792	40,000,000	1,895,792
Regular repayment of principal on mortgage loans	(4,252,977)	(3,732,430)	(520,547)
Reduction of mortgage loans on sale of properties	(451,155)	(451,155)	-
Increase (decrease) in mortgage loans	37,191,660	35,816,415	1,375,245
Total mortgage loans - December 31, 2013	257,629,316	244,586,398	13,042,918
Total mortgage loans - September 30, 2014	$ 294,820,976	$ 280,402,813	$ 14,418,163

If the acquisition payable on Parsons Landing of $41,793,000, excluding the GST liability, was included in mortgage loan payable at December 31, 2013, the chart above would reflect a decrease in mortgage loan debt of $4,601,340 during the first nine months of 2014.

Net Proceeds (Repayment) of Mortgage Loan Financing

Investment Properties

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

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

Discontinued Operations (Seniors' Housing Complexes)

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

After accounting for transaction costs and including the payment of the acquisition payable on Parsons Landing, the net cash outflow from mortgage financing activities for investment properties and discontinued operations was $4.8 Million during the first nine months of 2014.

Regular Repayments of Principal

During the first nine months of 2014, the cash outflow for regular repayments of mortgage loan principal for both investment properties and discontinued operations amounted to $4,252,977, compared to $6,054,544 during the first nine months of 2013.

Revolving Loan

As of September 30, 2014, the amount drawn on the revolving loan was $10,000,000, compared to $905,000 as of December 31, 2013, representing an increase of $9,095,000. During the first quarter of 2014, the revolving loan was increased by $14.1 Million in order to redeem $10 Million of mortgage bonds related to the sale of Nova Court in 2013, to fund a portion of the cash payment on the completion of the acquisition of Parsons Landing and for general working capital purposes. During the second quarter of 2014, the balance of the revolving loan was reduced by $6.7 Million as a result of the collection of mortgage loans receivable. During the third quarter of 2014, the revolving loan was increased by $1.7 Million for several working capital purposes.

During 2013 and the first nine months of 2014, the interest rate on the revolving loan was 12%. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan commitment is included in mortgage loan interest.

Composition of Mortgage Loan Debt - September 30, 2014

Summary of Mortgage Loans Payable

Year of Maturity (Note 1)	Weighted Average Interest Rate (Note 2)	Amount September 30, 2014	Percentage of Total
Investment Properties			
Fixed rate			
2014	3.3 %	$ 25,729,042	8.7 %
2015	3.6 %	17,399,695	5.9 %
2016	9.2 %	7,668,327	2.6 %
2017	5.7 %	19,399,040	6.6 %
2018	4.5 %	76,480,391	25.9 %
2019	5.0 %	30,520,031	10.4 %
	4.7 %	177,196,526	60.1 %
Demand/variable rate	7.5 %	103,206,287	35.0 %
Principal amount		280,402,813	95.1 %
Discontinued Operations			
Fixed rate	7.3 %	10,000,000	3.4 %
Demand/variable rate	5.0 %	4,418,163	1.5 %
Principal amount		14,418,163	4.9 %
Total		$ 294,820,976	100.0 %

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

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

Mortgage Loan Debt Summary

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

	2013			2012
	Q 3	Q 2	Q 1	Q 4
Weighted average interest rate				
Investment properties				
Fixed rate mortgage loans	4.5%	4.6%	4.9%	5.0%
Variable rate mortgage loans	7.7%	7.7%	8.5%	9.0%
Investment properties and discontinued operations				
Mortgage loans, mortgage bonds, debentures, defeased liability and revolving loan	6.2%	6.2%	7.0%	7.4%
Ratio of mortgage loans compared to carrying value of income-producing properties and discontinued operations **	64%	66%	67%	68%
Ratio of mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations **	73%	76%	77%	78%

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

** Excludes the revolving loan.

Long-term Debt Maturities

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

Debt Covenants

One mortgage loan, for a property in Fort McMurray, with a principal balance of $15,494,688 and a related interest rate swap liability of $1,471,409 is in breach of a debt service coverage requirement as of September 30, 2014. The covenant breach was expected to be eliminated by the refinancing of the mortgage loan and interest rate swap liability in the third quarter of 2014. Although the refinancing has been delayed, management expects the refinancing will be completed in the fourth quarter of 2014.

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2013	19,423,011
- September 30, 2014	20,252,386
- November 10, 2014	20,252,386

As of September 30, 2014, LREIT had 20,252,386 units outstanding, representing an increase of 829,375 units or 4.27%, compared to the number of units outstanding as of December 31, 2013.

The increase in the number of units outstanding mainly reflects the exercise of 762,375 warrants during the first nine months of 2014 for cash proceeds of $591,624.

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

RELATED PARTY TRANSACTIONS

Shelter

Asset and Property Management

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

Shelter currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. In May 2014, the independent trustees of LREIT approved an extension of the term of the Services Agreement to December 31, 2024.

Shelter is also the Property Manager for LREIT, pursuant to a Property Management Agreement. Shelter has a direct involvement in the management of all of the investment properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, where LREIT has retained third party managers to provide on site management services due to the nature of the operations. In accordance with the terms of the Property Management Agreement, Shelter receives a property management fee equal to 4% of gross receipts from the investment properties where it acts as Property Manager. In regard to commercial properties, Shelter is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. In May 2014, the independent trustees of LREIT approved an extension of the term of the Property Management Agreement to December 31, 2024.

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

During the first nine months of 2014, the fees payable to Shelter for investment properties included service fees of $1,005,458 and property management fees of $1,212,373.

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

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

Loans

Revolving Loan

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

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

Revolving Loan Term				Maximum	Maximum Loan
From	**To**	**Renewal Fees**	**Interest Rate**	**Interest Charge**	**Commitment**
January 1, 2013	June 30, 2013	$ 25,000	12.00%	$ 379,916	$ 12,000,000
July 1, 2013	December 31, 2013	25,000	12.00%	872,637	15,000,000
January 1, 2014	September 30, 2014	25,000	12.00%	1,181,357	15,000,000
October 1, 2014	June 30, 2015	25,000	12.00%	1,375,000	15,000,000

The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT. Interest on the revolving loan is included in interest expense and categorized under "mortgage loan interest". Renewal and extension fees are included in transaction costs.

Approval

The terms of the revolving loan and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the loans. All necessary regulatory approvals were obtained for the revolving loan and all renewals.

During the first nine months of 2014, interest on the loan commitment amounted to $1,021,422, compared to $789,098 during the first nine months of 2013.

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors which are considered in assessing whether LREIT has the ability to continue to operate, including: (i) multiple years of sustaining a cash deficiency from operations, (ii) the breach of debt covenant requirements which, as of the date of this report, remains on one mortgage loan and the related interest rate swap liability in the aggregate amount of $16,966,097, (iii) the impact of rental market conditions in Fort McMurray on rental rates and occupancy levels and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit, (v) the reliance on Shelter and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) the successful completion of additional property sales under the divestiture program, and (viii) the ability to complete upward refinancings to generate additional funds.

The financial capacity of LREIT to continue operations is dependent on improving cash flows from operations and, in particular, the net operating income cash flow contribution from the Fort McMurray portfolio, the completion of property sales and/or upward refinancings, the continued ability of the Trust to repay, renew or refinance debt at maturity, the renewal of the revolving loan commitment from 2668921 Manitoba Ltd., and/or the continued availability of interim funding from Shelter. In the event that the net proceeds from property sales are less than anticipated, or in the absence of additional upward refinancing and/or continued interim funding from Shelter and its parent company 2668921 Manitoba Ltd., LREIT may not have the ability to fund all of its debt obligations.

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray resulted in improved occupancy levels, rental rate increases in 2013 and, notwithstanding the decrease in occupancy levels in the first three months of 2014, occupancy levels have improved and stabilized during the second and third quarters of the year. In addition, the Trust has sold 23 properties under its divestiture program, renewed or refinanced all mortgage loans which have matured as of the date of this report, obtained approval from the debenture holders for the extension of the maturity date for the Series G debentures to June 30, 2018 and eliminated all covenant breaches on mortgage loan debt, with the exception of one mortgage loan which is in breach of a debt service coverage requirement. The covenant breach is expected to be eliminated as a result of refinancing the mortgage loan in the fourth quarter of 2014. The continuation of development activity in the oil sands industry is also expected to provide an opportunity for future revenue growth for the Fort McMurray portfolio.

The 2014 decline in oil prices has created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity. The delay or slowdown of development activity in the oil sands industry could adversely affect values for the Fort McMurray property portfolio.

Real Property Ownership

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

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

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand or the perceived desirability of such investments. Such illiquidity may tend to limit LREIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If LREIT were to be required to liquidate its real property investments, the proceeds to LREIT might be significantly less than the aggregate carrying value of its properties.

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

Revolving Loan Commitment From 2668921 Manitoba Ltd.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan commitment from 2668921 Manitoba Ltd. which is subject to ongoing regulatory approval. The periodic deferral of interest payments on the revolving loan by LREIT may be necessary depending on the timing of upward refinancings or property sales.

Credit Support from Shelter

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

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

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Completion of Divestiture Program

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

From January 1, 2009 to September 30, 2014, LREIT sold 23 properties and 17 condominium units at Lakewood Townhomes for a combined gross selling price of $261.3 Million.

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

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

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

Concentration of the Portfolio of LREIT in One Market

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

At September 30, 2014, there were 22 properties in the real estate portfolio of LREIT comprised of 20 properties in the investment property portfolio and two seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of one commercial property, 18 residential properties and one mixed residential/commercial property, comprising a total of 1,917 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, including Parsons Landing. The 13 properties in Fort McMurray comprise a total of 1,084 suites, or 57% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate carrying value of $315.0 Million, which represents approximately 75% of the total aggregate carrying value of the investment property portfolio.

The Fort McMurray properties accounted for 60% of investment property revenue during the first nine months of 2014 and 62% of the net operating income. Parsons Landing did not achieve its full revenue and net operating income potential during the first nine months of 2014 as the property commenced the year under lease-up. The lease-up phase was essentially completed in May 2014.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio. As a result, fluctuations in the activity of the oil sands industry can have a significant impact on rental market conditions including the average rental rate and the overall occupancy level of the Fort McMurray portfolio. Although management expects that there will be continued development activity and production growth in the oil sands industry into the foreseeable future, there can be no assurance that this will be the case and it is possible that industry activity may decline. The 2014 decline in oil prices has also created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity.

Financing

General

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

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

The 2014 decline in oil prices has created a tightening of mortgage lending conditions for properties in Fort McMurray; however, management does not anticipate that this will affect LREIT's ability to renew or refinance mortgage loan debt. The upward refinancing potential of LREIT's mortgage loan portfolio could potentially be reduced by the tightening of lending conditions if the price of oil does not stabilize or improve.

Mortgage Maturities

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

Debt Covenants

On September 30, 2014, LREIT was in breach of a debt service covenant requirement associated with one mortgage loan and a related interest rate swap liability in the aggregate amount of $17.0 Million.

The covenant breach was expected to be eliminated by the refinancing of the mortgage loan and interest rate swap liability in the third quarter of 2014. Although, the refinancing has been delayed, management expects the refinancing will be completed in the fourth quarter of 2014.

Payment of Cash Distributions

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

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

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

Tax Treatment of LREIT

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

Legal Claims

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

Relationship with Shelter

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

Conflicts of Interest

There are potential conflicts of interest to which Trustees and officers of LREIT are, or may become, subject to in connection with the operations of LREIT. Arni Thorsteinson, a Trustee and Chief Executive Officer of LREIT, is also a director and officer of Shelter and the director and the President of 2668921 Manitoba Ltd., the parent company of Shelter. Shelter provides Asset and Property Management services to LREIT and is also engaged in a wide range of real estate and other business activities, including the development and management of real estate. Gary Benjaminson, the Chief Financial Officer and Secretary of LREIT, is also an employee of Shelter. Mr. Benjaminson was appointed to the position on August 26, 2014, replacing Kenneth Dando effective August 31, 2014.

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

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

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

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of LREIT, in accordance with IFRS, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial Statement items which encompass estimates include the following:

- determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates of future cash flows from assets (considering the implication of lease terms, tenant profiles, upcoming 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 the "fair value" of the interest rate swap liability: the fair value of the interest rate swap arrangement is based on the difference between the market rental rates for a fixed term mortgage loan with same maturity and the variable interest rate payable under the mortgage;

- the determination of the "fair value" of the mortgage bond: at inception, the fair value of the mortgage bond was based on market interest rates with the residual value used to value the trust unit purchase warrants;

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

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

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

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

TAXATION

Taxation of LREIT

LREIT qualifies as a closed-end mutual fund trust for income tax purposes. Prior to the enactment of legislation relating to the federal income taxation of publicly listed or traded trusts, LREIT was not subject to taxation on its income for a year to the extent that such income was distributed to the unitholders of LREIT, and those unitholders were, and would have been, subject to taxation as appropriate on such distributed income.

Legislation relating to the taxation of specified investment flow-through trusts ("SIFT" trusts) was enacted on June 22, 2007. The legislation and amendments which have been enacted or substantively enacted on or before December 31, 2013, are referred to as the "SIFT Rules". LREIT became a SIFT trust and subject to the SIFT Rules following a transition period on January 1, 2011. Under the SIFT Rules, subject to the REIT Exception (discussed below), distributions of income from a SIFT trust are not deductible in computing a SIFT trust's taxable income, and a SIFT trust is subject to taxation at a rate that is substantially equivalent to the general income tax rate applicable to a taxable Canadian corporation.

The SIFT Rules do not apply to a "real estate investment trust" that meets certain conditions relating to the nature of its property and revenue (the "REIT Exception"). The REIT Exception contains a number of technical tests related to the property and revenue of a trust which must be monitored on an ongoing basis.

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

Management has reviewed the SIFT Rules and the REIT Exception and assessed their application to the property and revenue of LREIT. The determination as to whether LREIT qualifies for the REIT Exception in any year can only be made after the end of that year. While there are uncertainties in the interpretation and application of the SIFT Rules and the REIT Exception, management believes that LREIT will qualify for the REIT Exception in 2014 and subsequent years. There can be no assurance that LREIT will qualify for the REIT Exception and that LREIT will not be subject to income taxes imposed by the SIFT Rules in 2014 or any subsequent year.

If LREIT qualifies for the REIT Exception in a particular year, the SIFT Rules will not apply to LREIT during that year, and LREIT shall not be subject to taxation on its income for that year to the extent that such income is distributed to the unitholders of LREIT. Under such circumstances, LREIT intends to make sufficient distributions to its unitholders so that LREIT will not be subject to taxation.

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

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. If LREIT qualifies for the REIT Exception in a taxation year, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year, if any. Distributions (if any) in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions (if any) not included in income.

The cash distributions paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions paid by LREIT since inception, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009, December 2010 and December 2013.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2014 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 10, 2014

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
2014 THIRD QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of September 30, 2014

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2014
INVESTMENT PROPERTIES					
RESIDENTIAL					
Alberta					
Nelson Ridge Estates	Fort McMurray	$ 40,575,000	April 2005	225	95 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	81 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	79 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	83 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	69 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	85 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	76 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	94 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	78 %
Lakewood Apartments	Fort McMurray	34,527,719	July 2007	111	91 %
Lakewood Townhomes (1)	Fort McMurray	18,632,769	July 2007	47	82 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	86 %
Parsons Landing	Fort McMurray	60,733,000	September 2008	160	92 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	92 %
Westhaven Manor	Edson	4,050,000	May 2007	48	90 %
Manitoba					
Highland Tower (2)	Thompson	5,700,000	January 2005	77	86 %
Colony Square (3)	Winnipeg	29,907,700	October 2008	428	93 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	95 %
Total - Residential		**360,822,188**	Total suites	**1,917**	
COMMERCIAL					
Retail and Office					
Colony Square (3)	Winnipeg, MB	7,931,600	October 2008	83,190	96 %
Light Industrial					
156 / 204 East Lake Blvd. (4)	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Total - Commercial		**9,531,600**	Total leasable area	**123,126**	
Total investment properties		**370,353,788**			
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	7,600,000	June 2006	93	95 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	115	67 %
Total seniors' housing complexes		**25,722,000**	Total suites	**208**	
Total real estate portfolio		**$ 396,075,788**			

Notes to the Property Portfolio:

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

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

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

(4) A long-term commercial lease for the entire building was executed during the third quarter with a commencement date of September 1, 2014.