LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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Unitholder Returns

	Six Months Ended June 30, 2011 (Per unit)	Year Ended December 31, 2010 (Per unit)
Opening price	$0.44	$0.81
Closing price	$0.40	$0.44

Lanesborough Real Estate Investment Trust Units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The 5 year 9% second mortgage bonds and the trust unit purchase 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

Operating Results

Comprehensive income in the second quarter of 2011 increased by $5,740,271 compared to the same period in 2010, resulting in a net income of $4,900,921. The increase in income reflects the following major components:

- **Net operating income:** overall increase of $656,295 or 12% in 2011 Q2, compared to 2010 Q2, comprised of $783,075 increase from Fort McMurray portfolio and $126,780 decrease from other investment properties. Fort McMurray property portfolio achieved an occupancy level of 84%, compared to 70% in 2010 Q2 and 66% in 2011 Q1.
- **Interest expense:** increased by $1,528,352 or 22% in 2011 Q2, compared to 2010 Q2, including a "non-cash" component of $948,947 or 62% of the total increase.
- **Fair value gains:** amounted to $7,049,162, compared to loss of $657,506 in 2010 Q2. Gains represent increase in fair market value of investment properties during 2011 Q2. Loss in 2010 Q2 represents capital expenditures.
- **Profit on sale of investment property:** nil in 2011 Q2, compared to $1,440,074 in Q2 2010. The gain in 2010 Q2 represents a gain resulting from the unconditional sale of a property at June 30, 2010. The sale closed in Q3 2010.

The cash provided by operating activities decreased by $40,732 compared to 2010 Q2 mainly due to an increase in interest payments. Debt principal payments and capital expenditures exceeded cash provided by operating activities by $4,283,214. The shortfall was funded by interim sources of capital.

Upward Refinancing

The net upward refinancing proceeds for the first six months of 2011 were $4,450,000.

LREIT expects to generate proceeds of approximately $16 Million from the upward refinancing of Riverside Terrace in Saskatoon during the third quarter. The upward refinancing of two other properties in the fourth quarter of 2011 is expected to generate net proceeds of approximately $4 Million.

Interim Funding

Pending the completion of the upward refinancing of Riverside Terrace, Shelter Canadian Properties Limited provided LREIT with an interest-free cash advance of $2.3 Million during the second quarter of 2011 and deferred the payment of service and property management fees.

The cash advance and deferred fees, as well as the bank line of credit will be repaid from the Riverside Terrace upward refinancing proceeds. The remaining upward refinancing proceeds of approximately $7.1 Million will be used to pay down the revolving loan from 2668921 Manitoba Ltd. to the extent possible and to improve working capital. The revolving loan will be re-advanced as required in order to fund operating cash shortfalls.

Divestiture Program

During the 2009 and 2010, LREIT sold 18 properties under its divestiture program, generating net sale proceeds of $58 Million.

LREIT is actively pursuing the sale of the four seniors' housing complexes as well as three other properties. It was previously anticipated that LREIT would complete the sale of three of the seniors' housing complexes in 2011 and sell the remaining four properties in 2012. The closing of the sale of all or some of the aforementioned properties may extend to 2012. After accounting for the upward refinancing of properties which are expected to be sold, the net after tax sale proceeds from the seven property sales is projected to be approximately $41 Million.

Financing

LREIT is continuing to address the breach of debt service coverage covenants for approximately $196 Million of mortgage loan debt. The majority of the covenant breaches were initially addressed through forbearance agreements or modified loan terms and by the provision of additional cash deposits. The expectation is that all of the covenants breaches will continue to be addressed through new or extended forbearance agreements, waivers, modified loan terms or repayment from sale or refinancing proceeds.

The Series G convertible debentures in the approximate amount of $25 Million mature on December 31, 2011. LREIT intends to seek approval of the Series G debenture holders to extend the maturity date beyond December 31, 2011. LREIT also has the option to satisfy its obligation in regard to the principal amount of the Series G debentures by issuing trust units to the debenture holders.

In May 2011, the closing date of Parsons Landing was extended to September 30, 2012, subject to LREIT providing a $2 Million payment on February 1, 2012 and a $3 Million payment prior to closing.

Outlook

The substantial equity value in the property portfolio of LREIT, combined with the ongoing credit support of Shelter Canadian Properties Limited, has enabled LREIT to continue to meet the substantial financial liquidity challenges. By continuing to access equity through upward refinancings and property sales, LREIT is expected to generate sufficient capital to address all of the projected funding requirements of the Trust for the remainder of 2011 and into 2012. LREIT is also enhancing the property portfolio in order to ensure that the Trust maintains an asset base with the potential for strong growth in revenue and overall value.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 9, 2011

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 consolidated financial statements of LREIT for the six months ended June 30, 2011 and with reference to the 2010 Annual Report and the 2011 Second Quarter Report.

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 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, conversion to international financial reporting standards, 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 and additional risks associated with convertible debentures. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

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

Purchase Price Information

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

Divestiture Program

During the first six months of 2011, LREIT did not sell any properties under its divestiture program.

During the first six months of 2010, LREIT sold two properties under its divestiture program.

FINANCIAL SUMMARY

	June 30 2011	December 31 2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 550,341,074	$ 547,829,176
Total long-term financial liabilities **(1)**	$ 345,123,657	$ 354,981,731

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 10,363,052	$ 9,672,356	$ 19,513,569	$ 20,424,498
Net operating income *	$ 6,319,962	$ 5,663,667	$ 11,442,969	$ 11,569,204
Income (loss) from continuing operations, before taxes *	$ 4,103,543	$ (1,493,002)	$ (484,305)	$ (3,742,562)
Income (loss) and comprehensive income (loss)	$ 4,900,921	$ (839,350)	$ 1,154,313	$ (2,538,182)
Cash Flows				
Cash flow from operating activities	$ (1,296,849)	$ (1,256,117)	$ (525,729)	$ (1,360,841)
Funds from Operations (FFO) *	$ (2,187,543)	$ (1,713,676)	$ (5,698,433)	$ (3,308,756)
Adjusted Funds from Operations (AFFO) *	$ (2,396,826)	$ (1,858,720)	$ (5,723,273)	$ (2,978,479)
Distributable income (loss) *	$ (2,749,471)	$ (1,170,456)	$ (4,371,224)	$ (2,720,202)
Per Unit				
Net operating income *				
- basic	$ 0.343	$ 0.311	$ 0.622	$ 0.636
- diluted	$ 0.343	$ 0.238	$ 0.622	$ 0.487
Loss from continuing operations, before income tax*				
- basic	$ 0.223	$ (0.082)	$ (0.026)	$ (0.206)
- diluted	$ 0.223	$ (0.082)	$ (0.026)	$ (0.206)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.266	$ (0.046)	$ 0.063	$ (0.139)
- diluted	$ 0.266	$ (0.046)	$ 0.063	$ (0.139)
Funds from Operations (FFO) *				
- basic	$ (0.119)	$ (0.094)	$ (0.310)	$ (0.182)
- diluted	$ (0.119)	$ (0.094)	$ (0.310)	$ (0.182)
Adjusted Funds from Operations (AFFO) *				
- basic	$ (0.130)	$ (0.102)	$ (0.311)	$ (0.164)
- diluted	$ (0.130)	$ (0.102)	$ (0.311)	$ (0.164)
Distributable income (loss) *				
- basic	$ (0.149)	$ (0.064)	$ (0.237)	$ (0.150)
- diluted	$ (0.149)	$ (0.064)	$ (0.237)	$ (0.150)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, swap mortgage loans, convertible debenture debt, defeased liability and mortgage bonds, at face value.

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

Prior to 2009, the primary business strategy of LREIT was to achieve growth through the acquisition of new properties. As of December 31, 2008, the real estate portfolio of LREIT consisted of 44 properties with an acquisition cost of approximately $597 Million, including 13 properties located in Fort McMurray, Alberta.

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

As of June 30, 2011, 18 properties have been sold under the divestiture program. The property portfolio of LREIT, as of June 30, 2011 consists of the remaining 26 properties, comprised of 22 investment properties and four seniors' housing complexes. The operating results for the four seniors' housing complexes are classified under discontinued operations.

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

Highlights of 2011 Q2 Results and Key Issues/Events

1. Background Information

The revenues and expenses for the four seniors' housing complexes are disclosed under one line item titled "Income from Discontinued Operations" in the Consolidated Statement of Comprehensive Income (Loss). The following analysis of revenues and expenses does not include the revenues and expenses of the four seniors' housing complexes.

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties, including the revenues and expenses of investment properties which were sold. During the first six months of 2011, the portfolio of investment properties was comprised of 22 properties. During the first six months of 2010, the portfolio of investment properties was comprised of 27 properties from January 1, 2010 to March 1, 2010 and 25 properties to June 30, 2010.

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

2. Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Average vacancy				
Fort McMurray	16 %	30 %	26 %	25 %
Other	2 %	5 %	2 %	5 %
Sub-total	13 %	23 %	19 %	24 %
Sold properties	N/A	2 %	N/A	3 %
Total	13 %	22 %	19 %	23 %
Average rental rate				
Fort McMurray	$2,290	$2,315	$2,307	$2,405
Other	$1,065	$1,031	$1,050	$1,033
Sub-total	$1,792	$1,743	$1,791	$1,819
Sold properties	N/A	$1,004	N/A	$1,031
Total	$1,792	$1,683	$1,791	$1,725

3. Income (Loss) and Cash Flow

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net operating income				
Fort McMurray properties	$ 4,288,921	$ 3,505,846	$ 7,557,563	$ 7,530,106
Other properties	2,019,915	2,157,821	3,872,800	4,035,318
Trust	11,126	-	12,606	3,780
Total net operating income	6,319,962	5,663,667	11,442,969	11,569,204
Interest income	47,344	141,637	125,011	248,069
Interest expense	(8,651,755)	(7,123,403)	(17,367,825)	(14,537,402)
Trust expense	(661,170)	(957,471)	(1,432,915)	(1,654,261)
Profit (loss) on sale of investment properties	-	1,440,074	-	1,417,750
Fair value gains (losses)	7,049,162	(657,506)	6,748,455	(785,922)
Income (loss) before taxes and discontinued operations	4,103,543	(1,493,002)	(484,305)	(3,742,562)
Income tax expense (recovery)	(89,123)	-	(206,782)	(227,520)
Income (loss) before discontinued operations	4,192,666	(1,493,002)	(277,523)	(3,515,042)
Income from discontinued operations	708,255	653,652	1,431,836	976,860
Income (loss) and comprehensive income (loss)	$ 4,900,921	$ (839,350)	$ 1,154,313	$ (2,538,182)

	Three Months Ended June 30		Six Months Ended June 30	
Operating cash flow	2011	2010	2011	2010
Cash provided by (used in) operating activities	$ (1,296,849)	$ (1,256,117)	$ (525,729)	$ (1,360,841)

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

Comprehensive income for the second quarter of 2011 includes fair value gains of $7,049,162. After excluding fair value gains, profit on property sales, discontinued operations and income taxes, the loss for the second quarter of 2011 increased by $670,049 compared to the second quarter of 2010. The increase in the loss is mainly due to an increase in interest expense, partially offset by an increase in net operating income and a decrease in trust expense.

The increase in net operating income is mainly from the Fort McMurray property portfolio due to a decrease in the vacancy partially offset by a decrease in the average rental rate. An analysis of the increase in interest expense is provided below.

For the six months ended June 30, 2011, the loss before fair value gains, profit on property sales, discontinued operations and income taxes increased by $2,039,277, compared to the six months ended June 30, 2010, comprised of an increase in the loss of $2,188,321 during the first quarter of 2011 and an increase in the loss of $670,049 during the second quarter of 2011. The proportionately higher loss in the first quarter of 2011 is mainly due to a variance in quarterly comparatives for net operating income. During the first quarter of 2011, net operating income decreased by $782,530 compared to the first quarter of 2010, while in the second quarter of 2011 net operating income increased by $656,295 compared to the second quarter of 2010.

4. Fair Value Gains/Losses

In accordance with the IFRS accounting policies which were adopted by LREIT, the carrying value of investment properties is adjusted at the end of each quarter to reflect changes in fair value. During the second quarter of 2011, the fair value of investment properties increased by $7,049,162, resulting in a corresponding increase in the carrying value of investment properties.

The increase in the fair value of investment properties is mainly attributable to improvements in net operating income at seven properties.

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

5. Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Interest expense	$ 8,651,755	$ 7,123,403	$ 17,367,825	$ 14,537,402

Key Variables	June 30 2011	December 31 2010
Weighted average interest rate of total mortgage loan debt		
Investment properties	6.9 %	6.4 %
Seniors' housing complexes in discontinued operations	6.7 %	6.3 %
Combined operations	6.9 %	6.3 %

Key Events Affecting Interest Expense

Interest expense increased by $1,528,352 during the second quarter of 2011 compared to the second quarter of 2010 as a result of the following factors:

- an increase in mortgage loan interest of $654,709;
- an increase in non-cash interest charges (amortization charges pertaining to transaction costs, accretion and the change in value of interest rate swaps) of $948,947.

The increase in mortgage loan interest is mainly due to an increase in the interest rate for variable rate mortgage loans partially offset by a decrease in the balance of mortgage loans payable.

Total interest expense increased by $2,830,423 or 19.5% during the first six months of 2011 compared to the first six months of 2010. In total, 54% of the six month increase pertains to the second quarter of 2011. The proportionately higher increase in financing expense in the second quarter is primarily related to the relative change in the value of interest rate swaps and to a proportionately higher increase in mortgage loan interest.

6. Financing

Parsons Landing

Although LREIT obtained possession of Parsons Landing on September 1, 2008, the purchase agreement provided for a portion of the purchase price to be paid by February 28, 2009. As LREIT has experienced delays in completing financing, the vendor agreed to multiple extensions of the payment deadline, subject to certain conditions, including the remittance of monthly interest payments of $300,000 and a lump-sum principal payment of $500,000. As of April 30, 2011, the payment deadline was extended to September 30, 2012, subject to LREIT remitting additional payments of $2 Million on February 1, 2012 and $3 Million prior to closing.

On closing, the vendor has also agreed to forgive accrued interest in excess of the $300,000 monthly payments for the period from January 1, 2010 to September 30, 2012. The financial statements for 2011 reflect the forgiveness of excess interest for the six months ended June 30, 2010 in the amount of $3,411,966. The vendor has also agreed to provide second mortgage loan financing of up to $12 Million to complete the purchase of the property.

More specific details regarding the acquisition of Parsons Landing are provided in the following sections of the MD&A.

Debt Covenants

As of June 30, 2011, twelve investment properties have mortgage loans or swap mortgage loans which are in breach of net operating income achievement, debt service coverage requirements, covenants restricting secondary financing or reporting requirements (the "covenant breaches") including eleven of the investment properties in Fort McMurray. In total, the mortgage loans payable debt with covenant breaches for the eleven properties in Fort McMurray amounts to $179,017,250, representing 59% of the total of mortgage loan and swap mortgage loan debt for investment properties.

As at June 30, 2011, the Trust was not in compliance with one mortgage loan in the amount of $4,914,896 as a result of a debt service coverage covenant on a seniors' housing complex and a covenant to obtain an undertaking to insure from Canada Mortgage and Housing Corporation by April 15, 2011 was not satisfied by the due date in regard to a $12,548,704 mortgage loan on another seniors' housing complex.

Management believes the default for all of the mortgage loans and swap mortgage loans with covenant breaches will be waived or satisfactorily resolved through forbearance agreements, modified loan terms or repayment from sale or refinancing proceeds.

Convertible Debentures

As of June 30, 2011, the long term debt of LREIT includes $25,492,000 of Series G convertible debentures with a maturity date of December 31, 2011. LREIT has the option to satisfy its obligation in regard to the repayment of the Series G debentures by issuing trust units, in whole or in part, to the debenture holders. LREIT intends to seek approval from the debtholders to extend the maturity date beyond December 31, 2011.

7. Liquidity

	June 30 2011	December 31 2010
Unrestricted cash	$ 2,039,277	$ 925,046
Restricted cash	$ 13,601,648	$ 21,478,638
Working capital deficit	$ 18,448,189	$ 11,261,492

Key events affecting liquidity - First six months of 2011

- Mortgage bond proceeds: During the first six months of 2011, the cash inflow of LREIT included mortgage bond proceeds of $11,209,646, comprised of $3,363,000 from the second closing of the December 2010 mortgage bond offering and $7,846,646 of proceeds from the first closing of the December 2010 mortgage bond offering.
- Additional mortgage loan financing: During the first six months of 2011, the net proceeds from additional mortgage loan financing amounted to $4,450,000, after retiring $12,250,000 of 12.5% interim loans.
- Repayment of convertible debenture debt: On March 11, 2011, the 7.5% Series F convertible debenture debt of $13,598,000 was fully retired. The retirement of the Series F debentures was primarily funded from the proceeds of the mortgage bond offering.
- Line of credit and revolving loan: During the first six months of 2011 utilization of the bank line of credit and revolving loan provided net proceeds of $1,905,000 and $4,650,000, respectively.
- Transaction costs: During the first six months of 2011, expenditures on transaction costs associated with mortgage loan financing and mortgage bond and warrant offerings, amounted to $1,288,989 including $377,735 fees associated with mortgage loans with covenant breaches.

Liquidity summary

During the first six months of 2011, the repayment of the Series F convertible debentures, the completion of the second closing of the December 2010 mortgage bond offering and the upward refinancing of mortgage loans, represented the main financing activities of LREIT. The net proceeds from revolving loan and line of credit, combined with cash from operating activities and the deferred payment of service and property management fees were sufficient to enable LREIT to meet all of its other funding commitments. As the revolving loan, line of credit and deferred fees are considered to be sources of working capital, the working capital deficiency of LREIT increased by $7,186,697 during the first six months of 2011.

8. Divestiture Program

	Properties Sold in 2009	Properties Sold in 2010	Properties Sold First Six Months 2011	Total
Number of properties	13	5	-	18
Gross proceeds	$20,392,000	$10,835,000	$ -	$31,227,000
Net proceeds at closing	$29,631,650	$17,563,501	$ -	$47,195,151
Vendor take-back financing received	7,050,000	3,790,650	-	10,840,650
Total proceeds	$36,681,650	$21,354,151	$ -	$58,035,801

LREIT did not complete any property sales under its divestiture program during the first six months of 2011 and, although LREIT is actively pursuing the sale of seven properties, there may not be any property sales during the second half of 2011. If completed, the sale of four seniors' housing complexes and three other properties is expected to generate net after tax sales proceeds of approximately $41 Million.

9. Risks and Uncertainties

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

- the net losses sustained by LREIT during the first six months of 2011 and in 2010 and 2009;
- the breach of covenants on nine mortgage loans (relating to 14 properties) encompassing $196.5 Million of mortgage loan and swap mortgage loan debt;
- the working capital deficiency of the Trust;
- the significant concentration of properties in Fort McMurray;
- the impact of the timing of the increase in occupancy and rental rates of the six small Fort McMurray properties on the ability of the Trust to meet the minimum debt service coverage requirements;
- the impact of the timing of the increase in rental rates in Fort McMurray on the ability of the Trust to meet minimum debt service coverage requirements and to renew mortgage loan financing;
- successful completion of the divestiture program; and
- ability of the Trust to obtain mortgage financing for Parsons Landing and complete the acquisition of the property.

As a result of the substantial improvement in the occupancy level of the Fort McMurray portfolio in the second quarter of 2011, the repayment of the Series E debentures and the Series F debentures; the completion of two public offerings of secured mortgage bonds and warrants; the renewal or refinancing of mortgage loans and/or generally positive ongoing discussions with lenders for mortgages which have matured to the date of this report; and the completion of 18 property sales in 2009 and 2010, management believes that LREIT has the financial capacity to continue operations in 2011 and beyond.

The financial capacity of LREIT to continue operations is contingent upon improving cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio; the completion of property sales, the completion of upward refinancing and the continued ability of the Trust to renew or refinance debt at maturity, including the Series G debentures due December 31, 2011. In the event that the net proceeds from property sales or upward refinancing are less than anticipated, LREIT may not have the ability to fund all of its debt obligations, including regular monthly payments of mortgage loan principal.

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

CONTINUING OPERATIONS AND LIQUIDITY

The financial statements have been prepared using the going concern assumption.

The "going concern" basis of accounting is appropriate due to management's expectation of maintaining adequate liquidity, renewing maturing mortgage debt, meeting all mortgage principal and interest payment obligations, obtaining forbearance letters, waivers or modified loan terms from lenders, completing upward financing, completing property divestitures and reducing high interest debt and generating additional capital through the completion of property divestitures.

The main variables affecting the liquidity of LREIT for the remainder of 2011 are as follows:

Funding Requirements

Working Capital Deficiency

As at June 30, 2011, LREIT has a working capital deficiency of approximately $18.4 Million, excluding the amount payable on Parsons Landing, representing an increase of approximately $7.2 Million, compared to the working capital deficiency as of December 31, 2010. The working capital deficiency consists primarily of the amount drawn on the revolving loan commitment of $12 Million, accounts payable and other liabilities of approximately $7 Million, bank indebtedness net of cash, of approximately $2.8 Million less rent and other receivables of approximately $2.0 Million. The maturity date of the revolving loan commitment is December 31, 2011. Accounts payable includes deferred service and property management fees of approximately $1.6 Million.

The increase in the working capital deficiency from December 31, 2010 is comprised of a $5.6 Million increase during the first quarter of 2011 and a $1.5 Million increase during the second quarter of 2011. The increase in the first quarter is mainly due to amounts drawn on the revolving loan commitment and bank line of credit of $2,650,000 and $1,915,000, respectively. The increase in the second quarter is mainly due to an additional draw on the revolving loan commitment of $2 Million.

Cash from Operations

During the first six months of 2011, the cash outflow from operating activities was approximately $3.5 Million, before working capital adjustments, and approximately $0.5 Million, after working capital adjustments. The working capital adjustments mainly consist of an increase in accounts payable and other liabilities. Cash from operating activities, including working capital adjustments, increased by $0.8 Million during the first six months of 2011 compared to the six months of 2010.

Net operating income is the main cash inflow in regard to the cash flows from operating activities, with the Fort McMurray property portfolio being the main contributor to net operating income. Although net operating income is expected to improve during the remainder of 2011, the rate and extent of the anticipated improvement in net operating income is subject to uncertainty.

"Interest paid" is the main cash outflow in regard to cash flows from operating activities. "Interest paid" is not expected to change significantly during the second half of 2011.

Overall, cash from operating activities, including working capital adjustments is expected to decrease during the second half of 2011, as a result of the use of upward refinancing proceeds to reduce the extent of the working capital deficiency.

Ongoing Funding Commitments

The ongoing funding commitments of LREIT include regular payments of mortgage loan principal and capital improvements. Cash from operating activities serves as a partial funding source for these ongoing funding commitments. During the first six months of 2011, the shortfall between cash from operating activities and regular payments of mortgage loan principal and capital improvements was $5.9 Million.

For the remainder of 2011, there is expected to be a continued shortfall between cash from operating activities and regular repayments of mortgage loan principal and capital improvements.

Series G Convertible Debentures

The 7.5% Series G convertible debentures mature on December 31, 2011. The face value of the debenture is $25,492,000 as of June 30, 2011. LREIT has the option to satisfy its obligation in regard to the repayment of the principal amount of Series G debentures by issuing trust units, in whole or in part, to the debenture holders; however, LREIT intends to seek approval from the debenture holders to extend the maturity date beyond December 31, 2011.

Lump sum payment for Parsons Landing

LREIT is required to remit a lump sum payment of $2 Million on February 1, 2012 as partial payment of the amount due on Parsons Landing.

Sources of Capital

Upward Refinancing and Property Sales

Upward Financing Proceeds

During the third quarter of 2011, LREIT expects to generate net proceeds of approximately $16 Million from the upward refinancing of Riverside Terrace, before repayment of the bank line of credit of $5 Million.

The upward refinancing of two other properties in the fourth quarter of 2011 is expected to generate net proceeds of $4 Million.

Property Sales

It was previously anticipated that LREIT would complete the sale of three of the seniors' housing complexes in 2011 and sell the fourth seniors' housing complex and three other properties in 2012.

The closing of the sale of some or all the aforementioned properties may extend to 2012. After accounting for the upward refinancing of properties which are expected to be sold, the net after tax sale proceeds from the seven property sales is projected to be approximately $41 Million. There is no assurance that LREIT will sell its seniors' housing complexes or other properties proposed to be sold on terms expected by management or at all.

Sources of Capital

Revolving Line of Credit

The Trust utilizes a revolving line of credit from a Canadian chartered bank with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate plus 3.5%. As at June 30, 2011 the line of credit was fully utilized. A portion of the line of credit is used to secure a $125,000 letter of credit. The line of credit is secured by a second mortgage loan registered against Riverside Terrace.

The line of credit is to be fully repaid from the proceeds from the upward refinancing of Riverside Terrace. On repayment, the bank line of credit will expire.

Revolving Loan Commitment

The Trust has a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). During the second quarter of 2011, the maximum amount of the loan commitment was increased from $10 Million to $12 Million. During the second quarter of 2011, LREIT received an additional $2 Million on the revolving loan, resulting in an outstanding balance at the maximum amount of $12 Million as of June 30, 2011. Effective July 1, 2011, the revolving loan was renewed at an interest rate of 11% with a maturity date of December 31, 2011. If required, the revolving loan will be continued in 2012. 2668921 Manitoba Ltd. has also agreed to maintain the loan amount at a minimum of $8.8 Million until the closing date of the Parsons Landing sale.

Deferred Fees

As of June 30, 2011, the liabilities of LREIT include approximately $1.6 Million of service and property management fees payable to Shelter Canadian Properties Limited, representing the total fees payable for the first six months of 2011. Shelter Canadian Properties Limited has allowed the payment of the fees to be deferred, pending the upward refinancing of Riverside Terrace.

Advance from Shelter Canadian Properties Limited

In July 2011, Shelter Canadian Properties Limited advanced $2.3 Million to LREIT in order to fund the partial pay down of the mortgage loan debt of the Clarington Seniors' Residence and enable LREIT to proceed with replacement financing for the property. The cash advance was provided on an interest-free basis and is to be repaid from the proceeds from the upward refinancing of Riverside Terrace.

Summary

The net proceeds from the upward refinancing of Riverside Terrace of approximately $16 Million will be used to repay the bank line of credit, the interest free advances from Shelter Canadian Properties Limited in the amount of $2.3 Million and amounts payable to Shelter Canadian Properties Limited in the combined total amount of approximately $1.6 Million. The remaining proceeds of approximately $7.1 Million will be used to repay the revolving loan from 2668921 Manitoba Ltd. to the extent possible and to improve working capital. The revolving loan is available as required for the funding of the projected operating cash shortfalls.

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

Other Factors

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

Mortgage Loans in Breach of Covenant Requirements

As of June 30, 2011, there were twelve investment properties in the LREIT portfolio that have mortgage debt which is in breach of NOI achievement, debt service coverage requirements, restriction on secondary financing and reporting requirements, comprised of eleven properties in Fort McMurray and Colony Square in Winnipeg. In addition, there are two seniors' housing complexes that have mortgage loan debt which is in breach of debt service coverage requirements or a covenant to obtain mortgage insurance. The willingness of the mortgage lenders to continue to forbear under the mortgage loans is subject to uncertainty. The inability of LREIT to maintain mortgage loan financing for the indebted properties may have adverse consequences on operations.

To date, the breach of covenants have been addressed through forbearance agreements and the provision of additional cash deposits or guarantees and management believes the lenders will continue to negotiate the covenant breaches.

Management of LREIT does not anticipate any lenders of mortgage loans where it is in breach of covenant requirements to demand repayment of such mortgage loans, provided that LREIT continues to be current with its scheduled payments of principal and interest. Management of LREIT expects LREIT to remain current with its scheduled payments of principal and interest. There can be no assurance, however, that lenders will not accelerate mortgage loan repayment. Notwithstanding that there has been a substantial improvement in the occupancy rate in the properties of the Trust in Fort McMurray, all or some of the breaches may continue for the next twelve months.

Maturing Debt

All of the mortgage loans which have matured to August 9, 2011 have been renewed or refinanced with the exception of two mortgage loans which are in breach of debt service coverage requirements and under a forbearance agreement. The mortgage loans which are in breach of debt service coverage requirements are expected to remain as payable on demand until the breaches are remedied.

Acquisition of Parsons Landing

Management of LREIT expects that first mortgage financing will be obtained and the acquisition of Parsons Landing will be completed in 2012.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

The core business activities of LREIT includes acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada. As of June 30, 2011, the real estate portfolio of LREIT consists of 20 multi-family residential properties and 2 commercial properties (the "investment properties"), as well as four seniors' housing complexes which are classified as "discontinued operations" under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

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

The new investment properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. Subsequent to 2008, the decline in economic conditions in Fort McMurray has resulted in a reduction in the profitability of the Fort McMurray property portfolio and a decrease in the overall investment returns of the Trust.

The financial statements of LREIT provide segmented results for investment properties, with "Fort McMurray" and "Other" representing the segments. Operating results pertaining to general Trust operations are disclosed separately in the segmented financial information.

Operations

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

Financing

The purchase price of new property acquisitions is typically funded from the proceeds of mortgage loans with the remaining balance, or the equity component, 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 second mortgage loans, bridge financing and an operating line of credit as a source of investment capital. The upward refinancing of mortgage loan debt has also served as a source of investment capital.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of June 30, 2011, 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 second quarter of 2011, the mortgage loan debt service coverage ratio was 0.93, compared to 0.85 for the first quarter of 2011 and 1.01 for the entire year in 2010. The mortgage loan debt service coverage ratio excludes net operating income and mortgage loan debt service costs for discontinued operations and Parsons Landing.

Divestiture Program

LREIT initiated a divestiture program in 2009 targeting the sale of assets, with estimated proceeds in excess of $250 Million. The objective of the divestiture program is to fund operations and particularly the operating losses in Fort McMurray, to reduce total debt, including convertible debenture debt and higher cost mortgage loan financing, and to enable LREIT to improve its working capital position.

During 2009 and 2010, LREIT sold 18 properties at a combined gross selling price of $130.8 Million. The total net proceeds from sale were approximately $58.0 Million, after accounting for expenses, the repayment or assumption of debt and the subsequent receipt of take-back financing provided to purchasers. The 2010 Annual Report provides a report on the disbursement of divestiture program proceeds.

During the first half of 2011, LREIT did not sell any properties.

Distributions

Due to the continued weakness of rental market conditions in Fort McMurray, LREIT suspended cash distributions subsequent to the payment of the cash distribution which was declared for the month of February 2009.

As a result of the extent of property sales, LREIT incurred significant taxable capital gains in 2010, which resulted in a corresponding increase in taxable income, before deducting distributions. As a result of its taxable income position, LREIT paid a "special" distribution in the form of additional trust units on December 31, 2010. The distribution was intended to reduce the taxable income of LREIT to nil, based on the best estimates of the income tax position of LREIT as of December 31, 2010. The distribution was followed by an immediate consolidation of units, resulting in Unitholders holding the same number of units after the distribution as were held prior to the distribution.

A similar "special" distribution was also paid on December 31, 2009.

IMPACT OF INCOME TAX CHANGES ON NET SALE PROCEEDS

As noted above, LREIT incurred significant taxable capital gains on property sales in 2010, which resulted in a corresponding increase in taxable income. The taxable income was reduced to nil by declaring a "special" distribution, payable in the form of units. From the perspective of the Unitholders, the special distribution represented a taxable capital gain.

Effective January 1, 2011, in accordance with the federal income taxation policy for SIFT's ("specified investment flow-through" trusts), the distributions of LREIT will generally no longer be deductible for purposes of determining the taxable income of LREIT, with certain exceptions*, until such time as the Trust qualifies as a qualifying REIT in accordance with the Income Tax Act.

As a result, for the 2011 and 2012 taxation years the income tax liability on capital gains from property sales will be payable by LREIT for all future property sales. The income tax liability associated with a capital gain will serve to reduce the net proceeds from a property sale to the extent that the property sale results in a capital gain. As a result of the direct payment of the tax liability on capital gains by LREIT on all future property sales, it is anticipated that it will not be necessary for LREIT to declare a special distribution.

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

PARSONS LANDING FINANCING

Parsons Landing is an apartment property in the Timberlea area of Fort McMurray, Alberta, consisting of a four-storey apartment building, with a total of 160 suites. LREIT obtained possession of Phase I on May 14, 2008 and possession of Phase II effective September 1, 2008.

The purchase price of Parsons Landing was $63.2 Million, including GST, of which $15 Million was paid as of December 31, 2008. The purchase agreement for Parsons Landing allowed for the remaining balance of $48.2 Million to be paid by February 28, 2009. The intent of LREIT was to fund the balance owing with new mortgage loan financing.

As the new mortgage loan financing arrangements were delayed, the vendor agreed to extend the deadline for payment of the balance owing until May 29, 2009, with several subsequent extensions, with the most recent deadline date set at September 30, 2012. Each payment extension date has also encompassed an extension of the date for LREIT to obtain a commitment for the mortgage loan financing for the property and a condition that LREIT submit payments of $300,000 per month on account of interest. A principal payment of $500,000 occurred on May 12, 2009.

Subject to LREIT remitting additional payments of $2 Million on February 1, 2012 and $3 Million prior to closing, the vendor has agreed to provide a second mortgage loan on closing, to a maximum of $12 Million, for a term of 3 years, at an interest rate of 8% per annum for the first 30 months, 12% for the next four months and 24% thereafter. The Vendor has also agreed to provide a credit of $1,440,000 for furniture purchased by LREIT, on closing. After providing for $12 Million of second mortgage loan financing, the payment of $5 Million to the vendor and a $1.44 Million furniture credit, LREIT will require approximately $29.3 Million of funding to complete the purchase of the property. In addition, 2668921 Manitoba Ltd. has agreed to maintain the revolving loan with the Trust, in the amount of $8,800,000, until closing.

Although accrued interest on the balance owing amounted to $9,918,409 during 2009, all interest in excess of the $300,000 monthly interest payments for the period from March 1, 2009 to December 31, 2009 was forgiven by the vendor. In total, $5,841,638 of interest was forgiven during 2009, resulting in interest charges on the balance owing being reduced to $4,076,771.

The vendor has agreed to forgive interest in excess of the $300,000 monthly interest payment for the period from January 1, 2010 to September 30, 2012, on closing. Accrued interest on the balance owing for the period from January 1, 2010 to September 30, 2012 amounts to $28,910,579 of which $7,889,939 relates to the nine months ending September 30, 2012, $10,510,317 relates to the year ending December 31, 2011 and $10,510,317 relates to the year ending December 31, 2010. Management expects that the entire amount of the interest in excess of the $300,000 monthly interest payments will be forgiven and, as such, the financial statements for the six months ended June 30, 2011 reflect the forgiveness of interest in the amount of $3,411,966.

As of June 30, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47.7 Million.

In addition, LREIT has the right to surrender possession of Parsons Landing, along with the furniture, to the Vendor for the amount of $1.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

LREIT has adopted International Financial Reporting Standards effective for the 2011 fiscal year, commencing with the first quarter financial statements for 2011. In the quarterly financial statements for 2011, comparative financial information for 2010 is restated to reflect the retrospective application of IFRS. The retrospective application of IFRS also encompassed the restatement of the Statement of Financial Position of LREIT, as at January 1, 2010.

The main change in accounting policy that has occurred as a result of the adoption of IFRS is that all of the rental properties of LREIT, with the exception of the four seniors' housing complexes, are considered to be investment properties and are disclosed in the financial statements using the fair value method of presentation. The restatement of the Statement of Financial Position of LREIT as at January 1, 2010, to reflect the retrospective application of IFRS, encompassed the disclosure of investment properties at fair value as at January 1, 2010.

Under IFRS, the income from discontinued operations consists solely of the revenues and expenses of the four seniors' housing complexes, as the four seniors' housing complexes comprise a separate line of business and as LREIT is actively pursuing a sale of all of the seniors' housing complexes. Income from held for sale properties is included in continuing operations. Under GAAP, income from discontinued operations included the revenues and expenses of the four seniors' housing complexes as well as the revenues, expenses, and gain on sale of "held for sale" investment properties.

The main adjustments to restate 2010 comparative income/loss results from GAAP to IFRS are as follows:

General

- amortization expense on investment properties was eliminated.
- the gain on sale of properties was significantly reduced as a result of the restatement of the carrying value of the sold properties to fair value as at January 1, 2010.

Comparative results for the second quarter 2010

- the elimination of amortization charges on investment properties of approximately $2.3 Million, resulted in an increase in income of approximately $2.3 Million.
- after considering other adjustments, the comparative results for the second quarter of 2010, as restated under IFRS, reflect a net loss of $839,350 compared to net loss of $3,948,504, as previously reported under GAAP.

Comparative results for the first six months of 2010

- the elimination of the gain on sale, in regard to the two properties which were sold in March 2010, of approximately $7.6 Million net of a gain on sale of $1.44 Million for one property which was sold in the third quarter of 2010, and the elimination of amortization charges on investment properties of approximately $4.5 Million, resulted in a decrease in income of approximately $3.1 Million.
- after considering other adjustments, the comparative results for the first six months of 2010, as restated under IFRS, reflect a net loss of $2,538,182 compared to net loss of $301,214, as previously reported under GAAP.

Discontinued Operations

- net operating income from investment properties which were sold or classified as "held for sale" during 2010 is included in the net operating income from continuing operations. After considering the reclassification of revenues and expenses, as well as the elimination of the gain on property sales, income from discontinued operations as restated under IFRS is $208,716 higher in the second quarter of 2010, compared to the income from discontinued operations which was previously reported under GAAP, and $7,068,018 lower for the six months ended June 30, 2010.

A complete explanation of the change in accounting policies related to the adoption of IFRS, including an explanation of the financial statement impact of specific accounting policies, is included in the MD&A under the title "Changes in Accounting Policies".

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2011

As of June 30, 2011, the property portfolio of LREIT consists of 26 rental properties, 22 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust. The remaining four properties consist of the four seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Non-current assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 26 properties has a total purchase price of approximately $495.4 Million and encompasses 2,616 suites and 139,243 square feet of leasable area.

There were not any changes to the property portfolio during the first six months of 2011. (During the first six months of 2010, LREIT sold two properties with both sales occurring on March 1, 2010.)

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

Composition of Portfolio of Investment Properties

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

After considering reclassifications, the properties in "discontinued operations" consist of the same four seniors' housing complexes during the first six months of 2010 and 2011.

Properties Held for Sale

A property is classified by the Trust as "held for sale" under the following circumstances:

(i) when the property has been sold under an unconditional sales agreement with a closing date which occurs subsequent to the end of the current accounting period,
(ii) when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to current fair value of the asset; and the sale is probable and expected to be completed within a one-year period or
(iii) when the property is part of the "discontinued operations" segment of Trust operations.

The carrying value of investment properties classified as "held for sale" are disclosed separately and included with "Non-current assets classified as held for sale" on the Statement of Financial Position of the Trust.

All other assets, all liabilities, revenues and expense of investment properties disclosed as "held for sale" are disclosed with all other assets, all liabilities, revenues and expenses of other investment properties.

Discontinued Operations

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

Income from properties in discontinued operations is disclosed separately on the statement of comprehensive income of LREIT. Income from "held for sale" investment properties is included with other investment properties.

The cash inflows and outflows from properties in discontinued operations and for "held for sale" investment properties are included with other investment properties and deducted in a total amount on the statement of cash flows.

All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Non-current assets or liabilities classified as held for sale" properties. For "held for sale" investment properties, the carrying value of the property is the only component which is included in the "Non-current assets or liabilities classified as held for sale" classification.

Analysis of Operating Results for Properties Held For Sale

The operating results for all of the properties which are classified as "held for sale" at the end of the reporting period, are included in continuing operations, with the exception of the four seniors' housing complexes which are classified as "discontinued operations". In this report, the analysis of operating results excludes the operating results from discontinued operations, except where noted.

In 2010, the operating results for continuing operations include the operating results of five properties, of which two were sold during the first six months of the year and three were sold during the second half of the year. As of June 30, 2011 and December 31, 2010, there were no investment properties classified as "held for sale". As a result, operating results for 2011 only reflect the operating results of properties which are included in continuing operations.

Loans and Receivables

As of June 30, 2011, "Loans and receivables" consisted of a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a $250,000 note receivable from a previous tenant which is due on demand.

CAPITAL STRUCTURE

Capital Structure - June 30, 2011

	June 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Long-term debt	$ 107,266,811	25.4 %	$ 128,457,486	29.9 %
Current portion of long-term debt	237,671,506	56.4 %	225,526,496	52.6 %
Equity	76,583,769	18.2 %	75,052,787	17.5 %
Total capitalization	$ 421,522,086	100.0 %	$ 429,036,769	100.0 %

LONG-TERM DEBT

The "long-term debt" of LREIT as disclosed on the Statement of Financial Position includes mortgage loans, mortgage bonds, convertible debenture debt, swap mortgage loans, a defeased liability, mortgage guarantee fees, construction costs payable and accrued interest payable, less unamortized transaction costs. "Long-term debt" encompasses debt for "held for sale" investment properties and excludes long-term debt for the four seniors' housing complexes in discontinued operations. Long-term debt for the four seniors' housing complexes in discontinued operations is classified under "Non-current liabilities classified as held for sale" on the Statement of Financial Position of the Trust. The amount payable in regard to the acquisition of Parson's Landing is included in trade and other payables.

The current portion of long-term debt is disclosed separately on the Statement of Financial Position of LREIT.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of the investment properties of LREIT as of June 30, 2011, before accrued interest payable and unamortized transaction costs, decreased by $9,570,289 or 2.7% compared to the long-term debt as of December 31, 2010. The decrease mainly reflects a decrease in convertible debenture debt, partially offset by an increase in mortgage bond debt.

	June 30 2011	December 31 2010	Increase (Decrease)
Secured debt			
Mortgages loans	$ 260,176,786	$ 259,104,483	$ 1,072,303
Mortgage bonds	13,875,160	10,826,910	3,048,250
Convertible debentures	-	13,464,400	(13,464,400)
Swap mortgage loans	43,895,711	44,832,599	(936,888)
Defeased liability	2,781,128	2,806,222	(25,094)
Total secured debt	320,728,785	331,034,614	(10,305,829)
Unsecured debt			
Convertible debentures	24,693,439	23,948,528	744,911
Mortgage guarantee fees	57,026	73,074	(16,048)
Construction costs payable	340,508	333,831	6,677
Total unsecured debt	25,090,973	24,355,433	735,540
Total secured and unsecured debt	345,819,758	355,390,047	(9,570,289)
Accrued interest payable	1,758,060	1,666,375	91,685
Unamortized transaction costs	(2,639,501)	(3,072,440)	432,939
Current portion of long-term debt	(237,671,506)	(225,526,496)	(12,145,010)
Total long-term debt	$ 107,266,811	$ 128,457,486	$ (21,190,675)

The decrease in long-term debt of $9,570,289 is comprised of a decrease of $11,893,649 in the first quarter of 2011 (mainly due to the retirement of the Series F convertible debentures) and an increase of $2,323,360 in the second quarter of 2011 (mainly due to the upward refinancing of Colony Square, net of the associated repayment of interim mortgage loan debt).

Discontinued Operations - Long-term Debt

As of June 30, 2011, the long-term debt for discontinued operations consisted of the mortgage loan debt for the four seniors' housing complexes in the amount of $46,403,101, plus mortgage guarantee fees of $303,053, less unamortized transaction costs of $4,650. An analysis of the mortgage loan debt for discontinued operations is provided in the following section of this report.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of June 30, 2011, the mortgage loan debt of LREIT increased by $450,914 compared to the amount payable as of December 31, 2010. As disclosed in the following chart, the increase is comprised of an increase in the mortgage loan debt for investment properties in continuing operations, partially offset by a decrease in mortgage loan debt for the four seniors' housing complexes in discontinued operations.

	Six Months Ended June 30, 2011		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 16,700,000	$ 16,700,000	$ -
Repayment of mortgage loans on refinancing	(12,250,000)	(12,250,000)	-
Net proceeds (repayment)	4,450,000	4,450,000	-
Regular repayment of principal on mortgage loans	(3,999,086)	(3,377,697)	(621,389)
Increase (decrease) in mortgage loans	450,914	1,072,303	(621,389)
Total mortgage loans - December 31, 2010	306,128,973	259,104,483	47,024,490
Total mortgage loans - June 30, 2011	$ 306,579,887	$ 260,176,786	$ 46,403,101

Composition of Mortgage Loan Debt - June 30, 2011

Summary of Mortgage Loans Payable - Investment Properties

Year of Maturity (Note 1)	Weighted Average Interest Rate	Amount June 30, 2011	Percentage of Total
Fixed rate			
2011 (Note 2)	7.5 %	$ 2,428,843	0.9 %
2012	6.1 %	31,720,966	12.2 %
2013	6.8 %	38,871,141	14.9 %
2014	6.3 %	34,499,085	13.4 %
2015	5.3 %	26,553,277	10.2 %
2016	5.2 %	34,987,296	13.4 %
2017	5.5 %	1,599,526	0.6 %
		170,660,134	65.6 %
Demand/variable rate	8.6 %	89,516,652	34.4 %
Principal amount		$ 260,176,786	100.0 %

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

(2) Mortgage loans payable include a 7.5% second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd., the parent company of Shelter Canadian, with a due date of June 30, 2011.

Mortgage Loan Debt Summary *

	2011		2010			
	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate						
Fixed rate mortgage loans	6.0%	6.3%	6.2%	6.0%	6.2%	6.2%
Variable rate mortgage loans	8.6%	8.6%	6.7%	6.7%	6.7%	5.9%
Ratio of mortgage loans and swap mortgage loans, compared to purchase price of income-producing properties *	83%	82%	83%	83%	85%	85%
Ratio of mortgage loans payable, swap mortgage loans, convertible debenture debt (at face value) and mortgage bonds (at face value) compared to purchase price of income-producing properties *	94%	94%	97%	95%	97%	98%

* Excludes debt and property values for discontinued operations and Parsons Landing.

Discontinued Operations

As disclosed in the analysis at the beginning of the "mortgage loans payable" section of this report, the mortgage loans payable debt for discontinued operations amounted to $46,403,101 as of June 30, 2011.

The total balance of $46,403,101 is comprised of first and second mortgage loans. The first and second mortgage loans payable debt have a weighted average interest rate of 6.65% as of June 30, 2011.

Debt Maturities

Investment properties

The mortgage loan debt of Norglen Terrace was upward financed by $530,000 from the proceeds of a new 4.92% $3.2 Million mortgage loan in July 2011.

With the exception of two mortgage loans in breach of debt service coverage requirements, all of the mortgage loans on the investment properties have been renewed or refinanced. The two matured loans in breach of debt service coverage requirements consist of the 8.25% first mortgage loan of $18,251,093 for the Lakewood Townhouses which matured on July 18, 2010 and the 8.50% second mortgage loan of $17,274,598 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010. The loans are repayable on demand. A forbearance agreement was obtained from the lender in regard to the covenant breaches for both of the loans with an expiry date of June 30, 2011. It is expected that extensions of forbearance will be obtained.

As of June 30, 2011, the amount of mortgage loan principal which is classified as "current", as disclosed in the financial statements in accordance with IFRS, includes all mortgage loans which are payable on demand and all mortgage loans which are in default of debt service covenant breaches, as well as fixed term mortgages which mature on or before June 30, 2012. The long-term debt for seniors' housing complexes is included in the "Non-current liabilities classified as held for sale" classification in current liabilities under IFRS. An analysis of the total mortgage loan principal which is classified as "current" for financial statement reporting purposes is provided in the "Capital Resources and Liquidity" section of the MD&A.

The first mortgage loan for Laird's Landing in the amount of $53,990,960 matures October 1, 2011.

There are no other mortgage loans that mature during the balance of 2011.

Seniors' Housing Complexes Classified as Discontinued Operations

On March 1, 2011, a mortgage loan for a Chateau St. Michael's in the amount of $4,914,896 with an interest rate of 5.7% became due and was renewed at a variable interest rate of prime plus 2%.

On March 27, 2011, two mortgage loans for Clarington Seniors' Residence in the total amount of $16,870,000, with a weighted average interest rate of 7% became due. Subsequent to June 30, 2011, the mortgage debt was paid down by $2,170,000 and the remaining balance of $14,750,000 was replaced with a new first mortgage loan bearing interest at 8.5% per annum for the first 24 months and 10.5% per annum thereafter. The principal pay down of $2,170,000 was funded by an interest free advance from Shelter Canadian Properties Limited.

On June 30, 2011, a mortgage loan for Elgin Lodge in the amount of $12,548,704 matured and is payable on demand.

Debt Covenants

There are 13 investment properties in Fort McMurray, 12 of which are encumbered by mortgage loan debt. The exception is Parsons Landing which is under contract to purchase.

Of the 12 properties in Fort McMurray which are encumbered by a mortgage loans payable or swap mortgage loans, 11 of the properties have mortgage loans or swap mortgage loans which are in breach of the net operating income achievement, debt service coverage requirements or reporting requirements. The debt for the properties consists of four first mortgage loans, one second mortgage loan and one swap mortgage loan, including the two mortgage loans which matured in 2010 and are payable on demand, as discussed in the preceding section of this report. The covenant breaches for the 11 Fort McMurray properties were a result of the negative impact of the slow down of development activity in the oil sands industry experienced in 2009 and the associated decline in rental market conditions in Fort McMurray.

The first mortgage loan for a mixed residential/commercial property in Winnipeg, Manitoba is in breach of a covenant which restricts second mortgage financing.

As of March 31, 2011, the 5.7% first mortgage loan for the seniors' housing complex in Moose Jaw, Saskatchewan was in breach of the debt service coverage requirement for the years ended December 31, 2009 and December 31, 2010. Subsequent to March 31, 2011, the mortgage was renewed for a two year term at an interest rate of prime plus 2%. The renewal of the mortgage provided forbearance of the December 31, 2009 breach of the debt service covenant and forbearance of the December 31, 2010 breach is also expected.

The first mortgage loan for the seniors' housing complex in Port Elgin, Ontario is in breach of a covenant which required the Trust to obtain an undertaking to insure from Canada Mortgage and Housing Corporation by April 15, 2011. The undertaking to insure was not obtained and the property has been listed for sale.

The status of the mortgage loans which are in breach of the debt service coverage requirements is provided below.

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance June 30, 2011	Maturity Date	Status
Investment Properties					
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	NOI achievement	First	$ 23,047,291	September 1, 2016	(1)
Lakewood					
Apartments	1.2	First	25,133,822	July 17, 2014	(2)
Townhouses	1.1	First	18,251,093	July 18, 2010	(3)
			66,432,206		
Laird's Landing	1.2	First	53,990,960	October 1, 2011	(3)
Woodland Park, Nelson Ridge Estates	1.2	Second	17,274,598	October 31, 2010	(3)
			71,265,558		
Winnipeg					
Colony Square		First	19,863,771	April 1, 2015	(4)
Subtotal			157,561,535		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(7)	First	21,455,715	May 1, 2018	(1)
			179,017,250		
Seniors' Housing Complexes in Discontinued Operations					
Moose Jaw					
Chateau St. Michael's	1.3	First	4,914,896	March 1, 2013	(5)
Port Elgin					
Elgin Lodge		First	12,548,704	June 30, 2011	(6)
Subtotal			17,463,600		
			$ 196,480,850		

(1) The lender has been notified of the breach and is being provided with operating information on a monthly basis.
(2) The terms of the forbearance are under negotiation.
(3) The lender provided a forbearance agreement to June 30, 2011.
(4) The lender has issued a notice regarding the breach demanding that secondary financing be removed from the title to the property. The property is listed for sale.
(5) Management expects that forbearance in respect of the December 31, 2010 covenant breach will be provided.
(6) The lender has been advised of the breach in the requirement to obtain mortgage insurance. The property is listed for sale.
(7) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

Management believes that all of the covenant breaches will be satisfactorily resolved through improved operations, modified loan agreements or extensions of forbearance agreements. During the first six months of 2011, the total fees related to covenant breaches and forbearance agreements amounted to $377,735, of which $208,536 were incurred in the second quarter of 2011. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first six months of 2011, interest expense includes amortization charges related to fees on covenant breaches of $691,158, compared to nil during the first six months of 2010.

During 2010, LREIT provided cash deposits of $7,926,000 relating to four of the mortgage loans with covenant breaches, including $1,177,300 that was provided on one of the loans which matured in 2010. There were not any cash deposits provided during the first six months of 2011.

Notwithstanding the fact that the Fort McMurray property portfolio achieved improved occupancy and operating income levels in the second quarter of 2011, the properties are not expected to reach income levels in 2011 which satisfy the existing covenant requirements. LREIT intends to sell the seniors' housing complexes in Moose Jaw, Saskatchewan and Port Elgin, Ontario

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

Weighted Average Interest Rates

As of June 30, 2011, the weighted average interest rate of the mortgage loan debt for continuing operations, discontinued operations and combined operations is 6.9%, 6.7% and 6.9%, respectively.

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

Acquisition Payable

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

The amount payable in regard to the acquisition of Parsons Landing is $45.2 Million, excluding GST. The amount payable was originally due on February 28, 2009. During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor in regard to the amount payable. In total, $5,841,638 of interest was forgiven during 2009.

Interest charges for the period from January 1, 2010 to September 30, 2012, amount to $28,910,579 of which $10,510,317 pertains to 2010 and $5,211,966 pertains to the first six months of 2011. Based on the actual events which have occurred since the initial payment deadline date, management expects that the entire amount of the "excess interest" which has accrued since January 1, 2010 will be forgiven and, as such, the financial statements for the six month period ended June 30, 2011 reflect the forgiveness of interest in the amount of $5,211,966. The recognition of the forgiveness of interest has also resulted in the reduction of accrued interest payable by $10,322,287 for the 18 month period ended June 30, 2011. "Excess interest" represents the interest charges in excess of the $300,000 monthly interest payments which are required by the vendor. The interest payments of $300,000 per month represent an effective interest rate of 8%.

Revolving Loan Commitment

The liabilities of LREIT include a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). During the second quarter of 2011, the maximum amount of the loan commitment was increased from $10 Million to $12 Million. During the second quarter of 2011, LREIT drew an additional $2 Million on the revolving loan, resulting in an outstanding balance at the maximum amount of $12 Million as of June 30, 2011.

The revolving loan was issued in 2009 at an interest rate of 7.5%, with a maximum balance of $7.5 Million. Effective January 1, 2011, the interest rate was increased to 14% in conjunction with the increase in the maximum amount of the loan to $10 Million and an extension of the maturity date for a six month period to June 30, 2011. The loan was extended to December 31, 2011 at an interest rate of 11% effective July 1, 2011.

During the first six months of 2011, the total interest expense associated with the revolving loan commitment was $767,004, compared to $19,133 during the first six months of 2010. The revolving loan is included in "Trade and other payables" on the Consolidated Statement of Financial Position of LREIT. Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. are provided in the section of this report titled "Related Party Transactions".

Mortgage Bonds and Warrants

On December 23, 2010, LREIT completed the initial closing of a public offering (the "December 2010 Bond Offering") of investment units. Pursuant to the initial closing, 12,637 units were sold at a price of $1,000 per Unit for aggregate gross proceeds of $12,637,000. Each unit was comprised of one five year 9% mortgage bond in the principal amount of $1,000 due December 24, 2015 and 1,000 unit purchase warrants. Each warrant entitles the holder thereof to purchase one unit of LREIT at a price of $0.75 per unit at any time for a period of five years ending December 23, 2015.

In December 2010, approximately $2.6 Million of the proceeds from the initial closing of the December 2010 Bond Offering were used to repay the remaining principal balance of the 5 year, 9% mortgage bonds due March 10, 2015 which were issued by the Trust under a public offering of investment units in March 2010 (The mortgage bonds due March 10, 2015 were originally issued on March 9, 2010 in the total amount of $6.78 Million. Approximately $4.15 Million of the principal amount of the March 2010 mortgage bonds were repaid in November 2010 from the net proceeds from the sale of Three Lakes Village). The remaining proceeds from the initial closing were held in escrow as of December 31, 2010.

On January 28, 2011, the second closing of the December 2010 Bond Offering occurred, in which an additional 3,363 investment units were sold at $1,000 per Unit for aggregate gross proceeds of $3,363,000. The proceeds from the second closing, combined with the mortgage bond funds held in escrow, the additional mortgage loan financing of $400,000 and additional draws on the revolving loan, were used to repay the 7.5% Series F convertible debentures in March 2011.

The mortgage bonds mature on December 24, 2015. Interest is payable semi-annually on May 31 and November 30 in each year, as well as on the maturity date . The first interest payment occurred on May 31, 2011. Interest is based on the aggregate face value of the mortgage bonds of $16,000,000. The bonds are secured by second mortgages registered against five investment properties.

For financial statement purposes, the initial book value of the second mortgage bonds was determined to be $13,730,562 based on the valuation methodology as established under IFRS. The carrying value of the second mortgage bonds, as of June 30, 2011, of $12,501,487 is based on the initial book value net of unamortized transaction costs plus accretion from the date of issue to June 30, 2011. The initial book value of the warrants of $1,681,156 is recognized in equity and a deferred tax liability of $588,282 which was recognized on the issue date was charged to income tax recoveries. See Note 12 in the first quarter financial statements for additional details.

As noted above, the December 2010 Bond Offering was completed in January 2011. The offering encompassed the issuance of 16,000,000 unit purchase warrants. Each warrant entitles the holder to purchase one unit of LREIT at a price of $0.75 per unit at any time for a period of five years expiring December 24, 2015.

In addition, 6,780,000 unit purchase warrants were issued on March 9, 2010. Each warrant entitles the holder to purchase one unit of LREIT at a price of $1.00 per unit at any time for a period of five years expiring March 9, 2015.

Convertible Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of June 30, 2011.

Summary of Debenture Offerings

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Six Months Ended June 30 2011	As of December 31 2010	Net Amount Outstanding June 30 2011
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(12,000,000)	-
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	(13,601,000)	(79,000)	-
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	(103,000)	(137,000)	25,492,000
Face value			$ 69,543,000	$ (13,704,000)	$ (30,347,000)	25,492,000
Net accumulated accretion						5,843,477
Deferred tax liability charged to equity						(427,347)
Unamortized transaction costs						(186,457)
Book value, June 30, 2011						$ 30,721,673
Allocation of book value						
Debt component						$ 24,693,439
Equity component						6,214,691
Unamortized transaction costs						(186,457)
June 30, 2011						$ 30,721,673

The debt component of convertible debenture is included in "Long-term debt" in the Statement of Financial Position of LREIT.

As disclosed in the preceding chart, the Series F convertible debentures in the amount of $13,601,000 were repaid in full in the first quarter of 2011.

The Series G debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at $7.00 per unit. The debentures are redeemable by LREIT, in years four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions.

In accordance with the terms of the trust indenture for the Series G debentures, the Trust has the option at the maturity of the Series G debentures to retire the debentures, in whole or in part, by issuing units. The number of units issued at redemption is determined by dividing the principal of debentures redeemed by 95% of the then current market price of the units. LREIT intends to seek approval from the debenture holders to extend the maturity date beyond December 31, 2011.

Swap Mortgage Loans

The swap mortgage loans of LREIT consist of two floating rate mortgage loans which are hedged under interest rate swap arrangements. During the first six months of 2011, the carrying value of the swap mortgage loans decreased by $20,856, comprised of principal payments on the mortgage loans of $564,283 and an decrease in the fair value of the interest rate swaps of $372,605, net of a $16,032 reduction of unamortized transaction costs.

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- June 30, 2011	17,988,339
- August 9, 2011	17,988,339

As of June 30, 2011, LREIT had 17,988,339 units outstanding, which was unchanged from December 31, 2010.

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

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Rentals from investment properties	$ 10,363,052	$ 9,672,356	$ 19,513,569	$ 20,424,498
Property operating costs	4,043,090	4,008,689	8,070,600	8,855,294
Net operating income	6,319,962	5,663,667	11,442,969	11,569,204
Interest income	47,344	141,637	125,011	248,069
Interest expense	(8,651,755)	(7,123,403)	(17,367,825)	(14,537,402)
Trust expense	(661,170)	(957,471)	(1,432,915)	(1,654,261)
Loss before the following	(2,945,619)	(2,275,570)	(7,232,760)	(4,374,390)
Profit (loss) on sale of investment property	-	1,440,074	-	1,417,750
Fair value gains (losses)	7,049,162	(657,506)	6,748,455	(785,922)
Income (loss) before taxes and discontinued operations *	4,103,543	(1,493,002)	(484,305)	(3,742,562)
Income tax expense (recovery)	(89,123)	-	(206,782)	(227,520)
Income (loss) before discontinued operations	4,192,666	(1,493,002)	(277,523)	(3,515,042)
Income from discontinued operations	708,255	653,652	1,431,836	976,860
Income (loss) and comprehensive income (loss)	$ 4,900,921	$ (839,350)	$ 1,154,313	$ (2,538,182)

During the second quarter of 2011, the loss of LREIT, before fair value gains/losses, profit on property sales and income taxes, increased by $615,446 compared to the second quarter of 2010. The increase in the loss mainly reflects an increase in interest expense, partially offset by an increase in net operating income and a decrease in trust expense.

After accounting for fair value gains/losses, profit on property sales and income taxes. LREIT completed the second quarter of 2011 with comprehensive income of $4,900,921 compared to a comprehensive loss of $839,350 during the second quarter of 2010.

For the six months ended June 30, 2011, the loss before fair value gains, profit on property sales, income taxes and discontinued operations increased by $2,858,370, compared to the six months ended June 30, 2010, comprised of an increase in the loss of $2,188,321 during the first quarter of 2011 and an increase in the loss of $670,049 during the second quarter of 2011.

The proportionately higher loss in the first quarter of 2011 is mainly due to a variance in quarterly comparatives for net operating income. During the first quarter of 2011, net operating income decreased by $782,530 compared to the first quarter of 2010, while in the second quarter of 2011 net operating income increased by $656,295 compared to the second quarter of 2010.

After accounting for fair value gains/losses, profit on property sales and income taxes, the comprehensive income of LREIT increased by $3,692,495 during the six months ended June 30, 2011, compared to the six months ended June 30, 2011.

Net Operating Income

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

Rental Revenue

Market Conditions

Fort McMurray (Thirteen properties)

Accounting for approximately 55% of the residential suites in the portfolio of investment properties, the Fort McMurray property portfolio represents the most significant revenue component in LREIT's overall operations.

As a result of the downturn in the global economy in October 2008, there was a reduction in the level of activity in the oil sands construction industry resulting in a weakening of rental market conditions in Fort McMurray. The decline in rental market conditions has resulted in lower rental rates and a reduction in the occupancy level of LREIT's property portfolio in Fort McMurray.

Given the recent significant increase in activity in the oil sand industry, occupancy levels of the investment properties in Fort McMurray improved substantially during the second quarter of 2011. The improvement is expected to continue in the Fort McMurray portfolio for the balance of 2011. Rental rates are expected to rise gradually as the demand for rental housing in Fort McMurray continues to grow.

Other Locations (Nine Properties)

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

The property portfolio also includes four seniors' housing complexes which are classified under discontinued operations. The revenue and expenses of the four seniors' housing complexes are not included in the following analyses.

An analysis of the average monthly rents and vacancy for the Fort McMurray portfolio and the other property portfolios of LREIT is provided in the following sections of this report.

Sources of Rental Revenue

All of the rental revenue of LREIT is derived from the leasing of residential units or commercial space. Rental revenue includes revenue from all investment properties, including a portion of the rental revenue in 2010 which is attributable to "held for sale" investment properties. Rental revenue does not include revenue from the four seniors' housing complexes which are classified under discontinued operations.

Rental Revenue Results

Analysis of Total Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	$ 6,869,514	$ 5,739,350	$ 1,130,164	$ 12,538,210	$ 12,426,927	$ 111,283
Other	3,493,538	3,933,006	(439,468)	6,975,359	7,997,571	(1,022,212)
Total	$ 10,363,052	$ 9,672,356	$ 690,696	$ 19,513,569	$ 20,424,498	$ (910,929)

As disclosed in the chart above, the total revenue from the investment properties of LREIT increased by $690,696 during the second quarter of 2011 compared to the second quarter of 2010. The increase is comprised of an increase in revenue from the investment properties in Fort McMurray of $1,130,164, partially offset by a decrease in revenue from the other investment properties of $439,468.

The increase in revenue from the Fort McMurray property portfolio reflects an a decrease in the vacancy, partially offset by a decrease in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio decreased from 30% during the second quarter of 2010, to 16% during the second quarter of 2011, while the average monthly rental rate decreased by $25 or 1.1%. Rental revenue for the Fort McMurray portfolio was also comparatively low during the second quarter of 2010, as a result of the $1 Million revenue reduction in regard to the rental abatement and rent credit for Lakewood Manor.

The decrease in revenue for the "Other" property portfolio is mainly due to a reduction in the number of revenue-generating investment properties. During the second quarter of 2010, 25 investment properties contributed to the revenue results, compared to 22 properties during the second quarter of 2011.

During the six month period ended June 30, 2011, the total revenue from investment properties decreased by $910,929, compared to the six month period ended June 30, 2010. The decrease in total revenue for the six month period is comprised of a $1,601,625 decrease in the first quarter of 2011 and a $690,696 increase in the second quarter of 2011. The variance between the first and second quarter comparative results mainly reflects a variance in the quarterly comparatives for rental revenue from the Fort McMurray property portfolio. During the first quarter of 2011, rental revenue from the Fort McMurray portfolio decreased by $1,018,881 compared to the first quarter of 2010, primarily due to a higher vacancy.

Vacancy, by Quarter

	2011		
	Q1	Q2	6 Month Average
Fort McMurray	34 %	16 %	26 %
Other	2 %	2 %	2 %
Sub-total	25 %	13 %	19 %
Sold properties	N/A	N/A	N/A
Total	25 %	13 %	19 %

	2010					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	30 %	30 %	30 %	33 %	33 %	32 %
Other	6 %	5 %	5 %	4 %	3 %	5 %
Subtotal	24 %	23 %	24 %	25 %	24 %	24 %
Sold properties	5 %	2 %	3 %	2 %	2 %	3 %
Total	23 %	22 %	23 %	24 %	24 %	23 %

Vacancy represents the revenue potential of vacant suites.

Average Monthly Rents, by Quarter

	2011		
	Q1	Q2	6 Month Average
Fort McMurray	$2,323	$2,290	$2,307
Other	$1,034	$1,065	$1,050
Sub-total	$1,790	$1,792	$1,791
Sold properties	N/A	N/A	N/A
Total	$1,790	$1,792	$1,791

	2010					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	$2,495	$2,315	$2,405	$2,380	$2,338	$2,382
Other	$1,037	$1,031	$1,033	$1,037	$1,025	$1,033
Sub-total	$1,895	$1,743	$1,819	$1,781	$1,753	$1,793
Sold properties	$1,060	$1,004	$1,031	$904	$978	$986
Total	$1,767	$1,683	$1,725	$1,711	$1,735	$1,724

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30		Increase	Six Months Ended June 30		Increase
	2011	2010	(Decrease)	2011	2010	(Decrease)
Fort McMurray	$ 2,580,593	$ 2,233,504	$ 347,089	$ 4,980,647	$ 4,896,821	$ 83,826
Other	1,462,497	1,775,185	(312,688)	3,089,953	3,958,473	(868,520)
Total	$ 4,043,090	$ 4,008,689	$ 34,401	$ 8,070,600	$ 8,855,294	$ (784,694)

During the second quarter of 2011, property operating costs for the entire portfolio of investment properties increased by $34,401 or 1%, compared to the second quarter of 2010. The increase is comprised of a $347,089 increase in the operating costs of the Fort McMurray portfolio largely offset by a decrease of $312,688 in the operating costs of the "Other" property portfolio. The increase in operating costs for the Fort McMurray portfolio is mainly due to an increase in advertising expenses and site salary costs. The decrease in operating costs for the "Other" property portfolio is mainly due to the reduction in the number of properties in the portfolio.

During the six month period ended June 30, 2011, property operating costs decreased by $784,694 or 9%, comprised of an increase of $83,826 or 2% for the Fort McMurray portfolio and a decrease of $868,520 or 22% for the "Other" property portfolio.

Summary of Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	$ 4,288,921	$ 3,505,846	$ 783,075	$ 7,557,563	$ 7,530,106	$ 27,457
Other	2,031,041	2,157,821	(126,780)	3,885,406	4,039,098	(153,692)
Total	$ 6,319,962	$ 5,663,667	$ 656,295	$11,442,969	$11,569,204	$ (126,235)

After considering the decrease in rental revenue and property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties increased by $656,295 or 12% during the second quarter of 2011, compared to the second quarter of 2010.

The increase in net operating income is comprised of an increase in the net operating income of the Fort McMurray portfolio, partially offset by a decrease in net operating income from the "Other" property portfolio. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by $783,075 during the second quarter of 2011, compared to the second quarter of 2010, while the net operating income of the "Other" property portfolio decreased by $126,780.

For the six month period ended June 30, 2011, the net operating income from investment properties decreased by $126,235 or 1% compared to the same period in 2010. The six month decrease is comprised of a decrease of $780,230 in the first quarter of 2011 and an increase of $656,295 in the second quarter of 2011.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Fort McMurray	62 %	61 %	60 %	61 %
Other	58 %	55 %	56 %	50 %
Total	61 %	59 %	59 %	57 %

Overall, the operating margin for the property portfolio increased from 59% during the second quarter of 2010, to 61% during the second quarter of 2011. The increase in the overall operating margin reflects an improvement in the profit margin for both the Fort McMurray property portfolio and the "Other" property portfolio. For the six month period ended June 30, 2011, the portfolio of investment properties achieved a profit margin of 59% compared to 57% for the six month period ended June 30, 2010.

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

Trust Expense

Trust expense decreased by $296,301 during the second quarter of 2011, compared to the second quarter of 2010. The decrease reflects a $210,000 prepayment discount on the settlement of a mortgage loan receivable in the second quarter of 2010.

For the six month period ended June 30, 2011, Trust expense decreased by $221,346, compared to the six month period ended June 30, 2010.

Profit (Loss) on Sale of Investment Properties

The profit/loss on sale of investment property represents the extent to which the net proceeds from the sale of an investment property exceeds (is less than) the carrying value of the property as determined at the end of the preceding quarter.

During the first six months of 2011, LREIT did not complete any property sales. During the first quarter of 2010 LREIT sold two properties and recognized a loss on sale of $22,324. The loss on the property sales is marginal as the carrying value of the properties, was adjusted as at January 1, 2010 to reflect a fair value which was essentially equal to the selling price of the properties.

In the second quarter of 2010, the Trust recognized a profit on sale of investment properties in the amount of $1,440,074. The profit is mainly comprised of the difference between the sales price, net of sales expenses, of $6,450,000 for Woodlily Courts and the carrying value of $5,000,000 as at March 31, 2010. The sale was unconditional as of June 30, 2010 and closed on September 1, 2010.

Fair Value Gains (Losses)

The valuation gain of $6,748,455 for the six months ended June 30, 2011 is comprised of valuation losses of $300,707 for the first quarter of the year and a valuation gain of $7,049,162 for the second quarter of the year. When capital expenditures of $487,890 are added to the valuation gain of $7,049,162, the carrying value of investment properties increased by $7,537,052 during the second quarter of 2011.

Approximately 62% of the increase in fair value pertains to one property in Fort McMurray (Lakewood Manor), approximately 18% of the increase in fair value pertains to three other Fort McMurray properties and approximately 16% of the increase in fair value pertains to three investment properties located in other areas. The increase in fair value is mainly due to an increase in the market yield rates applied in the valuations.

To assist in the determination of fair value at June 30, 2011, external appraisals were obtained in 2011 for eight properties having an aggregate appraised value of $277.7 Million representing 59% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $62 Million representing 14% of the total carrying value of investment properties and in 2009 for two properties having an aggregate appraised value of $15.9 Million representing 4% of the total carrying value of investment properties.

Interest Income

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

During the second quarter of 2011 interest income decreased by $94,293 compared to the second quarter of 2010, almost entirely due to an decrease in interest income on mortgage loans receivable partially offset by an increase in income on defeasance assets. During the second quarter of 2011, LREIT had $0.5 Million of mortgage loans receivable, whereas during the second quarter of 2010, mortgage loans receivable ranged from $7.05 Million to $10.05 Million. During the second quarter of 2011, LREIT had $3.2 Million of defeasance assets compared to nil during the second quarter of 2010.

During the six month period ended June 30, 2011, interest income decreased by $123,058 compared to the six month period ended June 30, 2010.

Interest Expense

Second Quarter Comparatives

Total Interest Expense

Interest expense increased by $1,528,352 or 21% during the second quarter of 2011, compared to the second quarter of 2010. As disclosed in the following chart, the increase is comprised of a $1,752,929 increase in interest expense related to mortgage loans and swap mortgage loans and a $234,879 increase in interest expense related to the mortgage bonds, partially offset by a $459,456 decrease in interest expense related to convertible debentures.

Interest expense encompasses a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the second quarter of 2011, "non-cash" expenses accounted for $948,947 or 62% of the total increase in interest expense.

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Mortgage Loans						
Mortgage loan interest	$ 5,135,156	$ 4,480,447	$ 654,709	$ 9,996,713	$ 8,790,688	$ 1,206,025
Swap mortgage loan interest	597,046	618,685	(21,639)	1,182,496	1,222,438	(39,942)
Amortization of transaction costs	704,522	200,845	503,677	1,401,604	420,767	980,837
Change in value - interest rate swaps	(182,736)	(798,918)	616,182	(372,605)	(1,178,216)	805,611
Total - mortgage loans	6,253,988	4,501,059	1,752,929	12,208,208	9,255,677	2,952,531
Mortgage Bonds						
Mortgage bond interest	360,000	152,549	207,451	720,000	189,338	530,662
Accretion of debt component	84,732	66,546	18,186	137,783	75,576	62,207
Amortization of transaction costs	44,460	35,218	9,242	75,253	35,218	40,035
Total - mortgage bonds	489,192	254,313	234,879	933,036	300,132	632,904
Acquisition Payable						
Interest on acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Total - acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Debentures						
Interest on convertible debentures	477,975	739,091	(261,116)	1,210,561	1,605,386	(394,825)
Accretion of debt component	426,076	592,159	(166,083)	977,149	1,292,359	(315,210)
Amortization of transaction costs	104,524	136,781	(32,257)	238,871	283,848	(44,977)
Total - debentures	1,008,575	1,468,031	(459,456)	2,426,581	3,181,593	(755,012)
Total - interest expense	$ 8,651,755	$ 7,123,403	$ 1,528,352	$ 17,367,825	$ 14,537,402	$ 2,830,423

Cash and Non-cash Component

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Non-cash component						
Accretion	$ 510,808	$ 658,705	$ (147,897)	$ 1,114,932	$ 1,367,935	$ (253,003)
Amortization of transaction costs	853,506	372,844	480,662	1,715,728	739,833	975,895
Change in value - interest rate swaps	(182,736)	(798,918)	616,182	(372,605)	(1,178,216)	805,611
Total non-cash component	1,181,578	232,631	948,947	2,458,055	929,552	1,528,503
Total cash component	7,470,177	6,890,772	579,405	14,909,770	13,607,850	1,301,920
Total - interest expense	$ 8,651,755	$ 7,123,403	$ 1,528,352	$ 17,367,825	$ 14,537,402	$ 2,830,423

Cash Component of Interest Expense

The cash component of interest expense consists of mortgage loan interest, swap mortgage interest, convertible debenture interest, mortgage bond interest and interest expense on acquisition payable.

"Interest paid" on the Consolidated Statements of Cash Flows of $9,055,528 includes the cash component of interest expense of $7,470,177, plus the cash component of interest expense pertaining to the four seniors' housing complexes in discontinued operations of $709,563, plus the change in accrued interest between March 31, 2011 and June 30, 2011 of $875,788.

Mortgage Loan Interest

Mortgage loan interest increased by $654,709 or 15% during the second quarter of 2011, compared to the second quarter of 2010. The increase mainly reflects an increase in the weighted average interest rate for variable rate mortgage loans compared to the second quarter of 2010, partially offset by a decrease in the balance of mortgage loans payable.

Interest expense associated with Parsons Landing is reflected in "interest on acquisition payable", as noted below.

Mortgage Bond Interest

During the second quarter of 2011, interest on the mortgage bonds increased by $207,451, compared to the second quarter of 2010. The increase in mortgage bond interest reflects the increase in the face value of mortgage loans payable from $6,780,000 during the second quarter of 2010 to $16,000,000 during the second quarter of 2011.

Interest on Acquisition Payable

After deducting the forgiveness of interest, interest on acquisition payable was equal to $900,000 for both the second quarter of 2011 and 2010.

Convertible Debenture Interest

During the second quarter of 2011, interest on convertible debentures decreased by $261,116 or 35%, compared to the second quarter of 2010, due to the retirement of the Series F convertible debentures on March 11, 2011.

Total Cash Component of Interest Expense

During the second quarter of 2011, the total cash component of interest expense increased by $579,405 or 8%, compared to the second quarter of 2010.

Ratio of Cash Component of Interest Expense

As a percentage of net operating income, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, decreased from 106% during the second quarter of 2010 to 105% during the second quarter of 2011.

The decrease in the ratio of the cash component mortgage loans, swap mortgage loans and acquisition payable interest, relative to net operating income mainly reflects the fact that the comparative increase in net operating income exceeded the comparative increase in the cash component of interest expense.

After including the cash component of interest on convertible debentures and mortgage bonds, the ratio of the cash component of interest, relative to net operating income, is 118% for the second quarter of 2011, compared to 122% for the second quarter of 2010.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense increased from $232,631 during the second quarter of 2010 to $1,181,578 during the second quarter of 2011. The increase is comprised of an increase in amortization of transaction costs expenses of $480,662 and a decrease in the fair value of interest rate swaps of $616,182, partially offset by a decrease in accretion of $147,897.

Accretion

Accretion relates to the convertible debentures and mortgage bonds. The decrease in accretion expense is mainly attributable to the repayment of the Series F Convertible Debentures.

Amortization of Transaction Costs

Transaction costs related to mortgage loan debt, mortgage bond debt, convertible debenture debt and certain other financial instruments are capitalized and expensed through amortization charges.

The increase in amortization of transaction costs is mainly attributable to the amortization of transaction costs which were incurred in the fourth quarter of 2010 in regard to mortgage loans with covenant breaches.

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in interest expense for the second quarter of 2011 includes a decrease in fair value of the "interest rate swaps" of $616,182.

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

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the second quarter of 2011, the fair value of the interest rate swaps decreased by $182,736 due to a marginal increase in interest rates during the quarter. During the second quarter of 2010, the fair value of the interest rate swaps decreased by $798,918, as a result of a more substantive increase in interest rates between March 31, 2010 and June 30, 2010.

As the decrease in value in the second quarter of 2011 was less than the decrease in value in the second quarter of 2010, the change in value of the interest rate swaps resulted in an increase in interest expense in the second quarter of 2011 of $616,182, compared to the second quarter of 2010.

Although the change in the fair value of the interest rate swaps has served to increase interest expense during the second quarter of 2011, the change in value is a non-cash transaction which is excluded from the determination of the operating cash flow of the Trust. As a result of fluctuations in market interest rates, the fair value of the interest rate swaps may change significantly in the future, however, the change in value has no impact on cash outflows throughout the entire term of the swap agreements. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time.

Six Month Comparatives

Total interest expense increased by $2,830,423 or 19.5% during the first six months of 2011 compared to the first six months of 2010. In total, 54% of the six month increase pertains to the second quarter of 2011. The proportionately higher increase in financing expense in the second quarter is primarily related to the relative change in the value of interest rate swaps and to a proportionately higher increase in mortgage loan interest.

Discontinued Operations

During the second quarter of 2011 LREIT generated income from discontinued operations of $708,255 compared to income of $653,652 during the second quarter of 2010, representing an increase of $54,603. The income from discontinued operations includes the net operating income, interest expense and income tax for the four seniors' housing complexes which are classified under discontinued operations as follows:

Analysis of Income from Discontinued Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Rental income	$ 3,772,148	$ 3,382,540	$ 7,476,035	$ 6,622,897
Property operating costs	2,185,412	2,025,149	4,243,949	4,030,769
Net operating income	1,586,736	1,357,391	3,232,086	2,592,128
Interest expense	716,210	770,602	1,528,310	1,607,362
Current tax	43,813	(37,495)	100,812	7,906
Deferred tax	118,458	(29,368)	171,128	-
Income from discontinued operations	$ 708,255	$ 653,652	$ 1,431,836	$ 976,860

The increase in income from discontinued operations during the second quarter of 2011 reflects a $229,345 increase in net operating income and a $54,392 decrease in interest expense, largely offset by a $229,134 increase in income taxes.

For the six month period ended June 30, 2011, income from discontinued operations increased by $454,976, compared to the six month period ended June 30, 2010.

Deferred Taxes

In accordance with International Financial Reporting Standards, LREIT has recorded a deferred income tax asset based on the temporary difference between the accounting and tax basis of assets held by the Trust.

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

In determining the deferred tax asset, the Trust considers the likelihood of realizing the deferred tax asset and if the likelihood that a tax asset will not be realized is high, the deferred tax asset is not recorded. As noted in Note 12 to the financial statements, deferred tax assets of $68,258 relating to unused tax loss carry forward are not recorded.

As of June 30, 2011, a deferred tax asset of $298,707 has been recorded on the consolidated statements of financial position, which arises from the temporary differences between the accounting and tax basis of assets held in the Trust. A $206,782 deferred tax recovery has been recorded on the consolidated statement of comprehensive income (loss) for the six month period ended June 30, 2011.

Assets and liabilities of properties held for sale reflect deferred tax assets and liabilities using the considerations outlined in the preceding paragraph.

A discussion on the change in tax treatment is disclosed in this report under "Taxation".

Comparison to Preceding Quarter

Analysis of Loss Second Quarter 2011 vs. First Quarter 2011

	Three Months Ended		Increase (Decrease)	
	June 30, 2011	March 31, 2011	Amount	%
Rentals from investment properties	10,363,052	9,150,517	1,212,535	13.3 %
Property operating costs	4,043,090	4,027,510	15,580	0.4 %
Net operating income	6,319,962	5,123,007	1,196,955	23.4 %
Interest income	47,344	77,667	(30,323)	(39.0)%
Interest expense	(8,651,755)	(8,716,070)	(64,315)	(0.7)%
Trust expense	(661,170)	(771,745)	(110,575)	(14.3)%
Fair value gains (losses)	7,049,162	(300,707)	7,349,869	n/r
Loss for the period before taxes and discontinued operations	4,103,543	(4,587,848)	8,691,391	189.4 %
Income tax expense (recovery)	(89,123)	(117,659)	(28,536)	(24.3)%
Loss for the period before discontinued operations	4,192,666	(4,470,189)	8,662,855	193.8 %
Income from discontinued operations	708,255	723,581	(15,326)	(2.1)%
Comprehensive income (loss)	$ 4,900,921	$ (3,746,608)	$ 8,647,529	230.8 %

Overview

During the second quarter of 2011, the loss of LREIT, before fair value gains/losses and income taxes, decreased by $1,341,522 compared to the first quarter of 2011. The decrease in the loss mainly reflects an increase in net operating income of $1,196,955.

The increase in net operating income reflects an increase in the net operating income of the Fort McMurray property portfolio. As disclosed in the analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio increased by $1,018,801 during the second quarter of 2011, while the net operating income from the Other portfolio increased by $167,028.

The increase in the net operating income for the Fort McMurray portfolio and the Other property portfolio is mainly due to a decrease in vacancy.

After accounting for an increase in fair value gains/losses of $7,349,869 and an decrease in income tax recovery of $28,536, LREIT completed the second quarter of 2011 with comprehensive income of $4,900,921, compared to a comprehensive loss of $3,746,608 during the first quarter of 2011.

Revenue and Net Operating Income Analysis

The following analysis provides comparative results for the second quarter of 2011, compared to the first quarter of 2011 and the fourth quarter of 2010 for the investment properties of LREIT, as well as the four seniors' housing complexes in discontinued operations.

	2011			2010	
	Q2	Q1	Increase (Decrease)	Q4	Increase (Decrease)
Revenue					
Fort McMurray	$ 6,869,514	$ 5,670,174	$ 1,199,340	$ 5,743,101	$ 1,126,413
Other	3,482,412	3,480,343	2,069	3,580,708	(98,296)
Total revenue	$ 10,351,926	$ 9,150,517	$ 1,201,409	$ 9,323,809	$ 1,028,117
Net operating income					
Fort McMurray	$ 4,288,921	$ 3,270,120	$ 1,018,801	$ 3,383,231	$ 905,690
Other	2,019,915	1,852,887	167,028	2,023,114	(3,199)
Total net operating income	$ 6,308,836	$ 5,123,007	$ 1,185,829	$ 5,406,345	$ 902,491
Discontinued operations					
Income	$ 708,255	$ 723,581	$ (15,326)	$ 562,531	$ 145,724
Add: Interest expense	716,210	812,100	(95,890)	779,392	(63,182)
Income tax	162,271	109,669	52,602	44,946	117,325
Net operating income	$ 1,586,736	$ 1,645,350	$ (58,614)	$ 1,386,869	$ 199,867

Summary of Quarterly Results

Quarterly Analysis

	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 10,363,052	$ 9,150,517	$ 9,323,809	$ 9,865,921	$ 9,672,356	$ 10,752,142
Net operating income	$ 6,319,962	$ 5,123,007	$ 5,406,345	$ 6,097,309	$ 5,663,667	$ 5,905,537
Loss for the period before taxes and discontinued operations	$ 4,103,543	$ (4,587,848)	$ (6,536,242)	$ (1,505,908)	$ (1,493,002)	$ (2,249,560)
Comprehensive income (loss)	$ 4,900,921	$ (3,746,608)	$ (5,730,711)	$ (1,054,753)	$ (839,350)	$ (1,698,832)
PER UNIT						
Net operating income						
- basic	$ 0.343	$ 0.279	$ 0.295	$ 0.333	$ 0.311	$ 0.326
- diluted	$ 0.286	$ 0.232	$ 0.227	$ 0.256	$ 0.238	$ 0.247
Loss for the period before taxes and discontinued operations						
- basic	$ 0.223	$ (0.250)	$ (0.356)	$ (0.082)	$ (0.082)	$ (0.124)
- diluted	$ 0.223	$ (0.250)	$ (0.356)	$ (0.082)	$ (0.082)	$ (0.124)
Comprehensive income (loss)						
- basic	$ 0.266	$ (0.204)	$ (0.312)	$ (0.058)	$ (0.046)	$ (0.094)
- diluted	$ 0.266	$ (0.204)	$ (0.312)	$ (0.058)	$ (0.046)	$ (0.094)

Quarterly Analysis *

	2009			
	Q4	Q3	Q2	Q1
Total revenue	$ 8,460,620	$ 8,966,037	$ 10,589,265	$ 12,038,750
Net operating income	$ 5,470,624	$ 5,882,898	$ 7,580,670	$ 8,393,134
Income (loss) from continuing operations, before taxes	$ (1,445,050)	$ (3,455,122)	$ (3,696,021)	$ (4,371,440)
Loss and comprehensive loss	$ 19,131,118	$ (3,146,599)	$ (3,956,727)	$ (8,530,719)
PER UNIT				
Net operating income				
- basic	$ 0.307	$ 0.334	$ 0.434	$ 0.480
- diluted	$ 0.218	$ 0.230	$ 0.300	$ 0.333
Income (loss) from continuing operations, before taxes				
- basic	$ (0.081)	$ (0.196)	$ (0.212)	$ (0.250)
- diluted	$ (0.081)	$ (0.196)	$ (0.212)	$ (0.250)
Loss and comprehensive loss				
- basic	$ 1.072	$ (0.179)	$ (0.227)	$ (0.488)
- diluted	$ 1.072	$ (0.179)	$ (0.227)	$ (0.488)

* All 2009 figures stated in preceding chart have been presented in accordance with Canadian GAAP and have not been restated under IFRS.

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Six Months Ended June 30			
	2011	2010	Change	
Income (loss) and comprehensive income (loss)				
- basic	$ 0.063	$ (0.139)	$ 0.202	145 %
- diluted	$ 0.063	$ (0.139)	$ 0.202	145 %
Income (loss) for the period before tax and discontinued operations				
- basic	$ (0.026)	$ (0.206)	$ 0.180	87 %
- diluted	$ (0.026)	$ (0.206)	$ 0.180	87 %

Excluding income taxes and discontinued operations, LREIT incurred a loss of $0.026 per unit during the first six months of 2011, compared to a loss of $0.206 per unit during the first six months of 2010. As the weighted average number of units has only increased by 1.16% since June 30, 2010, the decrease in the loss per unit mainly reflects the decrease in the overall loss of the Trust before income tax expense and discontinued operations. The decrease in the overall loss of the Trust is entirely attributable to the fair value gains of $6,748,455 ($0.367 per unit) which is recorded during the first six months of 2011.

ANALYSIS OF CASH FLOWS

Operating Activities

Second Quarter Comparatives

Cash from Operating Activities

	Three Months Ended June 30			
	2011			2010
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 6,319,962	$ 1,586,736	$ 7,906,698	$ 7,021,058
Accrued rent receivable	375,569	-	375,569	(660)
Net operating income - cash basis	5,944,393	1,586,736	7,531,129	7,021,718
Trust expense	661,170	-	(661,170)	957,471
Non-cash component of trust expense	20,792	-	20,792	49,591
Trust expense - cash basis	640,378	-	640,378	907,880
Interest paid	(8,286,253)	(769,275)	(9,055,528)	(7,111,241)
Interest received	47,344	-	47,344	141,240
Interest expense - cash basis	(8,238,909)	(769,275)	(9,008,184)	(6,970,001)
Income tax expense - current	-	(112,450)	(112,450)	226,218
Cash from operating activities, before working capital adjustments	(2,934,894)	705,011	(2,229,883)	(629,945)
Working capital adjustments, net	884,218	48,816	933,034	(626,172)
Cash provided by (used in) operating activities	$ (2,050,676)	$ 753,827	$ (1,296,849)	$ (1,256,117)

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

During the second quarter of 2011, the net cash outflow from operating activities for the portfolio of investment properties was $2,050,676. After excluding working capital adjustments, the net cash outflow from operating activities for investment properties was $2,934,894. Overall, the total cash provided by operating activities, including the cash provided by the operations of the seniors' housing complexes and excluding working capital adjustments, decreased by $1,599,938 compared to the second quarter of 2010. The decrease in cash provided by operating activities is mainly due to an increase in interest paid.

Six Month Comparatives

Cash from Operating Activities

	Six Months Ended June 30			
	2011			2010
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 11,442,969	$ 3,232,086	$ 14,675,055	$ 14,161,332
Accrued rent receivable	415,477	-	415,477	(165,596)
Net operating income - cash basis	11,027,492	3,232,086	14,259,578	14,326,928
Trust expense	1,432,915	-	1,432,915	1,654,261
Non-cash component of trust expense	41,795	-	41,795	121,996
Trust expense - cash basis	1,391,120	-	1,391,120	1,532,265
Interest paid	(14,815,144)	(1,529,701)	(16,344,845)	(15,420,102)
Interest received	125,011	-	125,011	248,069
Interest expense - cash basis	(14,690,133)	(1,529,701)	(16,219,834)	(15,172,033)
Income tax expense - current	-	(169,449)	(169,449)	331,981
Cash from operating activities, before working capital adjustments	(5,053,761)	1,532,936	(3,520,825)	(2,045,389)
Working capital adjustments, net	2,950,372	44,724	2,995,096	684,548
Cash provided by (used in) operating activities	$ (2,103,389)	$ 1,577,660	$ (525,729)	$ (1,360,841)

During the first six months of 2011, the net cash outflow from operating activities for the portfolio of investment properties was $2,103,389. After excluding working capital adjustments, the net cash outflow from operating activities for investment properties increased to $5,053,761.

Comparison to First Quarter of 2011

Cash from Operating Activities

	Three Months Ended			
	June 30, 2011			March 31, 2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 6,319,962	$ 1,586,736	$ 7,906,698	$ 6,768,357
Accrued rent receivable	375,569	-	375,569	39,908
Net operating income - cash basis	5,944,393	1,586,736	7,531,129	6,728,449
Trust expense	661,170	-	(661,170)	771,745
Non-cash component of trust expense	20,792	-	20,792	21,003
Trust expense - cash basis	640,378	-	640,378	750,742
Interest paid	(8,286,253)	(769,275)	(9,055,528)	(7,289,317)
Interest received	47,344	-	47,344	77,667
Interest expense - cash basis	(8,238,909)	(769,275)	(9,008,184)	(7,211,650)
Income tax expense - current	-	(112,450)	(112,450)	(56,999)
Cash from operating activities, before working capital adjustments	(2,934,894)	705,011	(2,229,883)	(1,290,942)
Working capital adjustments, net	884,218	48,816	933,034	2,062,062
Cash provided by (used in) operating activities	$ (2,050,676)	$ 753,827	$ (1,296,849)	$ 771,120

During the second quarter of 2011, the net cash flow from operating activities, excluding working capital adjustments, decreased by $938,941, compared to the first quarter of 2011. The decrease in cash from operating activities mainly reflects an increase in interest paid, partially offset by an increase in the cash component of net operating income.

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

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

During the first six months of 2011, FFO decreased by $2,389,677, compared to the first six months of 2010, while AFFO for the same period decreased by $2,744,794. On a basic per unit basis, FFO decreased by $0.128 per unit, while AFFO decreased by $0.147 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Comprehensive income (loss)	$ 4,900,921	$ (839,350)	$ 1,154,313	$ (2,538,182)
Add (deduct):				
Deferred taxes	(39,302)	(91,758)	(104,291)	(138,746)
Profit (loss) on sale of investment properties	-	(1,440,074)	-	(1,417,750)
Fair value gains (losses)	(7,049,162)	657,506	(6,748,455)	785,922
Funds from operations *	(2,187,543)	(1,713,676)	(5,698,433)	(3,308,756)
Add (deduct):				
Straight-line rent adjustment	(375,569)	660	(415,477)	165,596
Accretion of debt component of convertible debentures and mortgage bonds	510,807	658,705	1,114,932	1,367,935
Unit-based compensation	20,792	49,591	41,795	121,996
Change in fair value of interest rate swaps	(182,736)	(798,918)	(372,605)	(1,178,216)
Ongoing improvements	(182,577)	(55,082)	(393,485)	(147,034)
Adjusted funds from operations *	$ (2,396,826)	$ (1,858,720)	$ (5,723,273)	$ (2,978,479)
FFO per unit *				
- basic	$ (0.119)	$ (0.094)	$ (0.310)	$ (0.182)
- diluted	$ (0.119)	$ (0.094)	$ (0.310)	$ (0.182)
AFFO per unit *				
- basic	$ (0.130)	$ (0.102)	$ (0.311)	$ (0.164)
- diluted	$ (0.130)	$ (0.102)	$ (0.311)	$ (0.164)

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Cash provided by operating activities	$ (1,296,849)	$ (1,256,117)	$ (525,729)	$ (1,360,841)
Changes in non-cash operating items	(933,034)	626,172	(2,995,096)	(684,548)
	(2,229,883)	(629,945)	(3,520,825)	(2,045,389)
Add (deduct):				
Capital expenditures on investment properties	(487,890)	(651,721)	(788,597)	(536,397)
Capital expenditures on property and equipment	(31,698)	111,210	(61,802)	(138,416)
Distributable income (loss)	$ (2,749,471)	$ (1,170,456)	$ (4,371,224)	$ (2,720,202)
Per unit				
- Basic	$ (0.149)	$ (0.064)	$ (0.237)	$ (0.150)
- Diluted	$ (0.149)	$ (0.064)	$ (0.237)	$ (0.150)

Distributable income is comprised of cash from operating activities, excluding working capital adjustments, less capital expenditures. Cash from operating activities and capital expenditures includes components from both continuing 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.

During the first six months of 2011, distributable income decreased by $1,651,022 compared to the first six months of 2010.

Distributions

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

CAPITAL RESOURCES AND LIQUIDITY

Source and Use of Funds - General

LREIT requires ongoing sources of cash to fund regular mortgage loan principal payments and capital expenditures. In addition, LREIT requires additional capital on a periodic basis to fund lump-sum convertible debenture and mortgage bond repayments. As cash distributions on units were suspended subsequent to February 2009, the current funding requirements of LREIT do not encompass the funding of cash distributions.

The net cash flow from operating activities represents the initial source of funding for principal payments and capital expenditures. To the extent that the net cash flow from operating activities is not sufficient to fund principal payments and capital expenditures, LREIT requires additional sources of cash. The net cash inflow from the sale or upward refinancing of properties, represents the primary funding source for the shortfall in cash from operations. The remaining net cash inflow from the sale or upward refinancing of properties, if any, is primarily designated for lump-sum debt repayments, including the retirement of convertible debenture debt. The revolving loan from 2668921 Manitoba Ltd. and the line of credit with the Royal Bank of Canada, are intended to serve as a supplemental or interim source of funds. The bank line of credit will expire upon repayment from the upward refinancing proceeds for Riverside Terrace.

Source and Use of Funds - 2011 Summary

An analysis of the cash flows of LREIT for the first six months of 2011 is provided in the chart which follows this section of the MD&A. The analysis discloses the following:

(i) regular monthly mortgage loan principal payments and capital expenditures exceeded the net cash flow from operating activities by $5,984,519.

(ii) after including the cash flows from other financing and investing activities, there was a net cash inflow of $1,114,231. As disclosed in the Consolidated Statements of Cash Flows, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:
- proceeds from upward refinancing of $16,700,000;
- change in restricted cash of $7,846,646, representing the release of mortgage bond proceeds held in escrow of $8,947,815, net of an increase in security deposits and loan reserves of $1,101,169;
- proceeds of mortgage bond financing of $3,363,000;
- net proceeds from the revolving loan commitment of $4,650,000; and
- net proceeds from the bank line of credit of $1,905,000.

Outflows:
- the repayment of the Series F debentures of $13,598,000;
- lump-sum repayments of mortgage loan debt of $12,250,000; and
- expenditures on transaction costs of $1,288,989.

After accounting for the cash balance at the beginning of 2011 of $925,046, LREIT completed the first six months of 2011 with a cash balance of $2,039,277.

Cash Flow Analysis (Note 1) - Six Months Ended June 30, 2011

Cash provided by (used in) operating activities		$ (525,729)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on long term debt	(4,608,391)	
Capital expenditures (Note 2)	(850,399)	(5,458,790)
Shortfall in cash provided by operating activities		(5,984,519)
Main sources of funds, net of transaction costs		
Proceeds of mortgage bond financing, including change in restricted cash (Note 1)	11,209,646	
Proceeds of mortgage loan financing	16,700,000	
Transaction costs	(1,288,989)	
	26,620,657	
Less: Lump-sum debt repayments		
Repayment of mortgage loans on refinancing	(12,250,000)	
Repayment of debentures	(13,598,000)	
	(25,848,000)	772,657
		(5,211,862)
Other sources of funds		
Net proceeds from revolving loan commitment (Note 1)	4,650,000	
Proceeds of line of credit	1,905,000	
Net cash inflow - other (Note 1)	(228,907)*	6,326,093
Cash increase		1,114,231
Cash, beginning of period		925,046
Cash, end of period		$ 2,039,277

Note 1 - IFRS Measurements

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

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

Note 2 - Capital Expenditures

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

Sources and Use of Funds - Remainder of 2011

Sources

Working Capital/Existing Cash

As of June 30, 2011, the cash balance of LREIT was $2,039,277.

As of June 30, 2011, the working capital deficit of LREIT was $18,448,189. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification.

Mortgage principal payments and convertible debenture repayments due within the twelve month period ending June 30, 2012 are not 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, excluding short-term debt. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating the working capital deficit may differ from the method which is used by other issuers. Accordingly, the working capital deficit as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd.

As of June 30, 2011, the maximum amount available under the loan of $12 Million was withdrawn by LREIT.

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

Cash from Operating Activities

During the first six months of 2011, the net cash outflow from operating activities was $525,729. The main components of cash from operating activities are net operating income, interest paid and working capital adjustments.

Cash from operating activities includes net operating income from continuing and discontinued operations with the Fort McMurray property portfolio being the main contributor to net operating income. Notwithstanding that there has been a substantial improvement in the occupancy rate in the Fort McMurray properties in the second quarter of 2011, management anticipates that the property portfolio of LREIT will achieve a limited increase in net operating income for the remainder of 2011.

Cash from operating activities is expected to decrease during the second half of 2011 as a result of the use of the net cash proceeds from upward refinancing to reduce the extent of the working capital deficiency.

As previously noted, regular payments of mortgage loan principal and capital expenditures exceeded the cash flow from operating activities by $5,984,519 during the first six months of 2011. LREIT will continue to require other sources of cash to fund regular payments of mortgage loan principal and capital improvements, during the remainder of 2011.

Sale Proceeds

It was previously anticipated that LREIT would complete the sale of three of the seniors' housing complexes in 2011 and sell the fourth seniors' housing complex and three other investment properties in 2012.

The closing of the sale of all or some of the aforementioned properties may extend to 2012. The net after tax sale proceeds from the property sales is projected to be approximately $41 Million, after repayment of mortgage financing.

Mortgage Loans Receivable

As of June 30, 2011, LREIT has a $500,000 mortgage loan receivable which matures in 2014 and provide for payments of interest only. The mortgage loan receivable arose as a result of providing vendor take-back financing on sale of an investment property in 2009.

Mortgage Loan Financing

LREIT expects to generate net proceeds of approximately $11 Million from the upward refinancing of Riverside Terrace after repayment of the line of credit in the amount of $5 Million.

The upward refinancing of two other properties in the fourth quarter of 2011 is expected to generate net proceeds of $4 Million.

Debt and/or Equity Offerings

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

Uses

Parsons Landing

As previously disclosed in this report, the deadline for payment of the balance owing for Parsons Landing was extended to September 30, 2012, subject to LREIT remitting additional payments of $2 Million on February 1, 2012 and $3 Million prior to closing.

After providing for the lump sum payments of $5 Million, $12 Million of second mortgage loan financing from the vendor and a $1.44 Million furniture credit, the balance owing at September 30, 2012 will be approximately $26.8 Million, excluding GST.

Repayment of Bank Line of Credit and Amounts Payable to Shelter Canadian

During the third quarter of 2011, a portion of the proceeds from the upward refinancing of Riverside Terrace is expected to be used to repay the following liabilities:

- the bank line of credit of $5 Million. On repayment, the bank line of credit will expire.
- interest-free cash advances of $2.3 Million which were provided by Shelter Canadian Properties Limited in July 2011
- deferred service and property management fees of $1,551,679.

Long-term Debt Principal Payments

A summary of the debt obligations of LREIT for the remainder of 2011 and for the next five years, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2011	2012/2013	2014/2015	2016 and beyond
Regular mortgage loans	$ 170,660,135	$ 72,162,852	$ 70,734,643	$ 15,587,949	$ 12,174,691
Variable rate demand loans	89,516,651	89,516,651	-	-	-
Sub-total	260,176,786	161,679,503	70,734,643	15,587,949	12,174,691
Swap mortgage loans	40,673,743	21,792,177	18,881,566	-	-
Convertible debentures and mortgage bonds	41,492,000	25,492,000	-	16,000,000	-
Total	$ 342,342,529	$ 208,963,680	$ 89,616,209	$ 31,587,949	$ 12,174,691

Summary of Mortgage Loan Debt "Due in 2011"

The amount of long-term debt which is considered to be "current" in accordance with IFRS includes all mortgage loans which are payable on demand and all mortgage loans which are in default of covenant breaches, as well as the fixed term mortgages which mature during the six month period ended December 31, 2011 and the mortgage loan debt for the seniors' housing complexes.

An analysis of the mortgage loan debt which is considered due in 2011 in the amount of $161,679,503 is provided on the following chart.

	Investment Properties	Seniors' Housing Complexes	Total	
Mortgages				
Demand loans	$ 89,516,651	$ 12,548,704	$ 102,065,355	(1)
Fixed term mortgages which matured in the first and second quarter of 2011	2,428,843	16,870,000	19,298,843	
Fixed term mortgages with debt service covenant breaches	68,044,884	4,914,896	72,959,780	(1)
	159,990,378	34,333,600	194,323,978	
Fixed term mortgages which mature in the third and fourth quarter of 2011	-	-	-	
	159,990,378	34,333,600	194,323,978	
Principal repayments	1,689,125	276,097	1,965,222	
	$ 161,679,503	$ 34,609,697	$ 196,289,200	

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

Investing Activities

Capital expenditures for investment properties and the seniors' housing complexes to June 30, 2011 were $850,399 and are expected to be approximately $1,000,000 for the remainder of 2011.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to fund future capital repairs and/or as additional security relating to breaches of debt service coverage requirements. As of June 30, 2011, cash deposits of $10,834,449 have been deposited, of which $8,248,000 pertains to mortgage loans which are in breach of debt service coverage requirements. Subsequent to January 1, 2011, the lenders have not required any additional cash deposits.

Principal Payments - Convertible Debentures and Mortgage Bonds

All of the convertible debenture debt of LREIT has been retired as of March 31, 2011 with the exception of the 7.5% Series G convertible debentures. As of June 30, 2011 the total face value of the Series G convertible debentures is $25,492,000. The debentures mature on December 31, 2011. LREIT has the option to retire the debentures by issuing units. LREIT intends to seek approval from the debenture holders to extend the maturity date beyond December 31, 2011.

The 9% second mortgage bonds of LREIT mature on December 24, 2015. As of March 31, 2011, the total face value of the mortgage bonds is $16,000,000.

The projected funding requirements of LREIT are based on the expectation that the maturity date of the Series G debentures will be extended. Under the terms of the Series G debentures, LREIT may, at its option, satisfy the payment of the principal amount of the Series G debentures through the issuance of trust units at the then current market price thereof.

Summary

The net proceeds from the upward refinancing of Riverside Terrace and two other properties are expected to be sufficient to enable LREIT to reduce the extent of the working capital deficiency and meet all of its cash funding requirements for the remainder of 2011.

Management expects that the projected proceeds from property sales and from the upward refinancing of additional mortgage loan debt, combined with improvement in operating cash flow, will be more than sufficient to enable LREIT to meet all of its cash funding requirements for 2012.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash, valuation adjustments and defeasance assets. Payment of the fee occurs on a monthly basis, on the last day of each month. In August 2011, the term of the Services Agreement was extended from December 31, 2015 to December 31, 2019. During the six months ended June 30, 2011, LREIT incurred service fees payable to Shelter Canadian of $852,532. Service fees are included in trust expense.

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

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

During the six months ended June 30, 2011, the fees payable to Shelter Canadian for continuing operations included service fees of $852,532, property management fees of $426,313, leasing commissions of $10,867 and tenant improvement and renovation fees of $7,091.

Loans

LREIT utilizes a $12 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. Effective July 1, 2011, the revolving loan commitment bears interest at 11%, is due on December 31, 2011, and is secured by a mortgage charge on nine investment properties.

As of June 30, 2011, the revolving loan was fully utilized.

The amount of the revolving loan was increased from $5 Million to $10 Million in November 2010, with an additional increase to $12 Million in June 2011. The increase in the loan in November 2010 encompassed a refinancing fee of $50,000.

If required, the revolving loan will be continued in 2012. 2668921 Manitoba Ltd. has agreed to maintain the loan amount at a minimum of $8.8 Million until the closing date of the Parsons Landing purchase.

On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bore interest at 7.5%, was due on January 1, 2011 and was secured by a second mortgage charge on an income property. The loan was extended to June 30, 2011 on the same terms and conditions, and a processing fee of $7,500 was paid to 2668921 Manitoba Ltd. in regard to the extension of the loan. The loan is included in current portion of long term debt at June 30, 2011. Interest of $9,452 for the three months ended June 30, 2011 (2010 - $9,452) and of $37,500 for the six months ended June 30, 2011 (2010 - $9,555) is included in interest expense. Subsequent to June 30, 2011, the second mortgage loan was retired from proceeds of a new first mortgage loan.

Subsequent to June 30, 2011, the Trust obtained a $2,282,000 interest free advance from Shelter Canadian Properties Limited with no fixed due date or terms of repayment.

The terms of the loans and the granting of security were approved by the independent Trustees. Mr. Arni Thorsteinson, the Chief Executive Officer of LREIT and a Trustee, is also President of Shelter Canadian Properties Limited and President of 2668921 Manitoba Ltd. and abstained from voting in regard to all matters concerning the loans.

REVENUE/INCOME AND OTHER COMMITMENTS

Siena Apartments

The acquisition of Siena Apartments was completed by LREIT, effective July 2, 2008. All of the units at the property are leased by a major oil sands company, pursuant to a lease agreement expiring May 1, 2012, under which the lessee is also responsible for all property operating costs. The net operating income of the property is approximately $2.2 Million per annum, representing the amount of gross rental revenue.

The agreement also provides the oil sands company with an option to extend the lease for an additional five years at current market rates at that time.

LREIT also has a right of first refusal to acquire Cortona Apartments. Cortona Apartments consists of 57 suites and is also 100% leased to the same major oil sands operating company on a net rent basis for a five-year term until 2013.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

Reason for Change to IFRS

Effective January 1, 2011, the accounting framework under which all publicly accountable enterprises in Canada are required to prepare financial statements, as established by the Canadian Accounting Standards Board, officially changed from "Generally accepted accounting principles" ("GAAP") to "International Financial Reporting Standards" ("IFRS").

Accordingly, LREIT adopted International Financial Reporting Standards effective January 1, 2011.

Description of New Accounting Standards

IFRS 1 - First-time adoption of International Financial Reporting Standards

The adoption of IFRS required the application of IFRS 1, "First-Time Adoption of International Financial Reporting Standards ". IFRS 1 provides guidance for an entity's initial adoption of IFRS and provides for certain exceptions and limited optional exemptions in specified areas of certain standards. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period, retrospectively, with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

IFRS 1 requires that comparative information for 2010 be restated to reflect the application of IFRS. The retrospective application of IFRS encompassed the restatement of the opening statement of balance of assets, liabilities and equity as of January 1, 2010 and the presentation of the January 1, 2010 opening Statement of Financial Position for financial statements prepared as of March 31 and December 31, 2011.

IAS 40 - Investment properties

With the exception of the four seniors' housing complexes, the real estate properties of LREIT are considered to be "Investment Properties" and are accounted for based on the accounting principles enumerated under IAS 40 "Investment Property" (IAS 40).

As with GAAP, IAS 40 requires that investment properties initially be measured at cost. Subsequent to initial recognition, IAS 40 provides an entity with two choices, as follows:

– cost method: continue with a cost valuation model with note disclosure of fair values
– fair value method: recognize the fair value of investment properties on the Statement of Financial Position with changes in fair value recognized in income.

The Trust selected the fair value method of presenting investment properties in the financial statements.

The fair value of investment properties is determined using the "valuation process" of the Trust. The valuation process encompasses the use of appraisal reports from independent third party appraisers, internal estimates of value based on capitalization and discount rates and direct sales comparisons. The fair value of "held for sale" investment properties which are under contract for sale is based on the contractual sales price, less estimated selling costs.

A discussion of the valuation process utilized by the Trust is provided in a following section of this report.

IAS 16 - Property and equipment

As the four seniors' housing complexes have a significant operating component in the form of delivery of services to residents, the four seniors' housing complexes of LREIT are classified as "Property and equipment", in accordance with IFRS 16.

Under IAS 16, "Property and equipment" is measured at cost, less accumulated amortization and any accumulated impairment losses. Amortization is not recorded for property and equipment which is classified as discontinued operations. As, the four seniors' housing complexes of LREIT are classified as discontinued operations, amortization charges are not recorded for the properties.

IFRS 1, First Time Adoption of Financial Reporting Standards provides an entity with the option on the initial transition to IFRS to record a "one-time" valuation adjustment for property and equipment whereby the carrying value or "cost" of property and equipment is adjusted to reflect "fair market value". LREIT recorded the "one-time" valuation adjustment for the property and equipment of the four seniors' housing complexes. The result of the valuation adjustment was reflected in the January 1, 2010 opening Statement of Financial Position.

IFRS 5 - Non current assets held for sale and discontinued operations

Discontinued operations

Under IAS 5, if a "component of a business", comprised of "a line of business" or "business in a geographic area", is held for sale, the component is to be treated as "discontinued operations" and disclosed as a current asset. As LREIT is actively pursuing the sale the seniors' housing complexes as part of the process to become a "Qualifying REIT" under the Income Tax Act, all of the assets and liabilities of the four seniors' housing complexes, including "property, plant equipment" are classified under discontinued operations in accordance with IFRS 5 and disclosed as current assets or current liabilities in the "held for sale" classification.

Held for sale investment properties

In accordance with IAS 5, any investment property in the LREIT portfolio which is under an unconditional sale agreement will also be classified as a "held for sale" asset under current assets.

Standing Interpretations Committee Interpretation 15 (SIC 15) - Operating Lease Incentives'

SIC 15 requires that lease incentives be reflected as a reduction to rental income over the lease term on a straight-line basis. Under GAAP, lease incentives are amortized over the lease term and reflected as a charge to amortization expense. In general terms, the adoption of SIC 15 results in a reduction in rental income and a corresponding reduction in amortization expense.

As lease incentives are primarily provided in commercial properties and given that rental income from the commercial properties of LREIT represents less than 1% of the total rental income of the Trust, the adoption of SIC 15 did not have a significant impact on the financial statements of LREIT.

Impact of New Accounting Standards

On-going

Measurement of investment properties at fair value

Income properties as reflected in the December 31, 2010 financial statements were measured at amortized cost, in accordance with GAAP.

The adoption of the fair value measurement method for investment properties under IAS 40 resulted in the elimination of amortization expense and, as noted above, changes in fair value are recognized in income. The elimination of amortization expense and the recognition of gains in fair value will result in the income of the Trust being higher than it would otherwise have been under GAAP, excluding income derived from the sale of investment properties. Income derived from the sale of investment properties will be significantly lower than it would otherwise have been under GAAP.

As noted in the following discussion on valuation processes, disclosure of investment properties at fair value has also resulted in a higher carrying value for income properties on the Statement of Financial Position of the Trust, in comparison to the carrying values which were disclosed under GAAP.

Discontinued operations

Under GAAP, the revenue and expenses of all "held for sale" properties were included in discontinued operations. Under IFRS, discontinued operations only reflects the revenues and expenses of the four seniors' housing complexes.

As noted in the following discussion on valuation processes, the "one-time" valuation adjustment for the four seniors' housing complexes has also resulted in a higher carrying value for seniors' housing complexes on the Statement of Financial Position of the Trust, in comparison to the carrying values which were disclosed under GAAP.

The valuation adjustment for the seniors' housing complexes at January 1, 2010 was based on external appraisals which were obtained in late 2009.

Prior Year Comparatives

In accordance with IAS 1 "Presentation of Financial Statements", the Trust disclosed fair values of its investment properties, as at January 1, 2010, representing the "opening" Statement of Financial Position based on the adoption of IFRS for the fiscal year beginning January 1, 2011.

The carrying value of the investment properties as at January 1, 2010 reflects the initial acquisition cost, adjusted to fair value as at January 1, 2010. The fair value adjustment is offset by an increase to the balance of retained earnings, as at January 1, 2010. The fair value as at January 1, 2010 is based on the valuation process of the Trust.

The restatement of the carrying value of investment properties at fair value, as at January 1, 2010, and for the purpose of deriving 2010 comparatives for the 2011 IFRS financial statements, has resulted in the elimination of amortization expense and the gain on sale for properties which were sold in 2010. Overall, income as restated in the 2010 comparative financial statements was less than the income as originally reported under GAAP, as the gain on property sales in 2010 was $12,673,702, while amortization expense on income properties was $8,513,147.

Statement of cash flows

The adoption of IFRS will result in a change in the "restricted", "unrestricted" and "held for sale" components of cash; however, the total amount of cash flow is the same under IFRS and GAAP.

The adoption of IFRS will also result in a change in the amounts disclosed in each of the three cash flow categories (i.e., "operating activities", investing activities" and "financing activities"). The most significant change is the disclosure of net sale proceeds as a cash inflow from investing activities, compared to a cash inflow from discontinued operations under GAAP.

Valuation Process

Valuation Methods

The Trust has created an internal valuation process to conduct ongoing valuations of its investment properties. The valuation methods and key assumptions which are encompassed in the valuation process are summarized below.

Capitalized Net Operating Income Method

Under this method, capitalization rates are applied to net operating income. The key assumption is the capitalization rate reports which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

The table below provides details of the range of capitalization rates used for valuing the investment properties of the Trust:

	June 30 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.50 %	8.00 %	7.50 %	8.00 %
Yellowknife	7.25 %	9.75 %	6.75 %	9.75 %
Major Canadian cities	5.00 %	6.75 %	5.00 %	7.50 %
Other	6.25 %	9.00 %	6.25 %	9.00 %
Commercial properties	6.50 %	9.25 %	7.00 %	9.25 %

Discounted Cash Flow Method

Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for that specific property and assumptions as to renewal and new leasing activity. The key assumption is the discount rate applied over the useful life of the investment property.

The table below provides details of the range of discount rates used for valuing the investment properties of the Trust:

	June 30 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.50 %	8.00 %	7.75 %	8.00 %
Yellowknife	7.50 %	8.50 %	7.50 %	8.50 %
Major Canadian cities	5.50 %	5.50 %	5.50 %	5.50 %
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	7.25 %	7.75 %	7.25 %	7.75 %

Direct Comparison

For properties with condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value. The key assumption is the cost of the condominium conversion and sales program.

External Appraisals

Independent valuations on all investment properties are carried out in accordance with an established timetable, as reflected in the following schedule, to ensure that the carrying amount of each Investment Property does not differ materially from its fair value:

Property Value	Number of Properties	Aggregate Value at June 30, 2011	Valuation Update Timetable
Greater than $7.5 Million	12	$ 394,629,325	Three years
Less than $7.5 Million	11	52,207,727	Five years
	23	$ 446,837,052	

The Trust utilizes capitalization and discount rates within the ranges provided by external knowledgeable property valuators. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next; or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

To assist in the determination of fair value at June 30, 2011, external appraisals were obtained in 2011 for eight properties having an aggregate fair value of $285.9 Million representing 64% of the total value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate fair value of $56.6 Million representing 13% of the total value of investment properties and in 2009 for two properties having an aggregate fair value of $13.9 Million representing 3% of the total value of investment properties.

Property Sales

The sale of properties in the divestiture program provides valuable information on market conditions. Projects which are subject to an unconditional sale agreement are valued at the sale price less estimated selling expenses.

Valuation Results

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions. The valuation process described above is reviewed by the auditors during the audit process.

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 that have been identified in regard to the assessing whether LREIT has the ability to continue to operate, including: (i) the net losses sustained by LREIT during the first six months of 2011 and prior years, (ii) the breach of debt covenant requirements on nine mortgage loans, encompassing $196.5 Million of mortgage loan and swap mortgage loan debt (iii) the impact of the timing of increased occupancy and rental rates in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, and (iv) the working capital deficit of the Trust, as of June 30, 2011 in the amount of $18,411,550.

As a result of the steps which have been taken to address the risk factors, and after considering events which have occurred during 2010 and into 2011, including the repayment of the Series E debentures in February 2010; the repayment of the Series F debentures on March 11, 2011; the completion of two public offerings of mortgage bonds; the renewal or refinancing of mortgage loans and/or generally positive ongoing discussions with lenders for mortgages which have matured to the date of this report; and the completion of 18 property sales in 2009 and 2010; and the expectation that the repayment of the Series G debentures will either be extended beyond December 31, 2011 or satisfied through the issuance of additional trust units, management believes that LREIT has the financial capacity to continue operations in 2011.

The main variable which will affect the financial capacity of LREIT to continue operations in 2011 is the timing and extent of upward refinancing and property sales. In the event that the net proceeds from upward refinancing or property sales are less than anticipated, LREIT may not have the ability to fund operating losses or debt obligations, including regular monthly payments of mortgage loan principal.

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.

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 convertible debenture debt, and in particular higher cost interim mortgage loan financing.

During 2009, LREIT sold 13 properties under the divestiture program at a combined gross selling price of $90.4 Million. During 2010, LREIT sold five additional properties at a combined gross selling price of $40.4 Million.

LREIT did not complete any property sales during the first six months of 2011. It was previously anticipated that LREIT would complete the sale of three of the seniors' housing complexes in 2011 and sell the fourth seniors' housing complex and three other properties in 2012.

The closing of the sale of all or some of the aforementioned properties may extend to 2012.

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

Completion of Parsons Landing Acquisition

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and the property may be listed for sale. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments made to the vendor. Interest charges in the amount of $10,322,283 as at June 30, 2011 which have been recorded as forgiven, may also become payable. See "Parsons Landing Financing".

Concentration of LREIT's Portfolio in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. The completion of property sales is also serving to increase the exposure of LREIT's portfolio to the Fort McMurray market.

There were 26 properties in the real estate portfolio of LREIT as of June 30, 2011, including two commercial properties, 20 residential properties and 4 seniors' housing complexes, comprising a total of 2,106 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 55% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate acquisition price of $336.8 Million, which represents approximately 86% of the total aggregate purchase price of the portfolio of the investment properties.

The 13 properties in Fort McMurray accounted for 64% of the total revenue of LREIT during the six months ended June 30, 2011 and 66% of the net operating income.

Oil Sands Industry

As disclosed above, LREIT has a high concentration of properties in the Fort McMurray, Alberta market and employees from the oil sands industry represent the primary tenant base of the Fort McMurray portfolio. As previously disclosed, all of the units at the Siena Apartments are 100% leased under a lease agreement, expiring on May 1, 2012, with the option of an extension for five years at current market rates at that time.

Based on the recent growth in the level of construction activity in the oil sands industry and the resulting substantial increase in occupancy levels of the Fort McMurray properties, the residential property market in Fort McMurray has improved, however there can be no assurance as to the extent of the improvement and there is the possibility that market conditions may decline. LREIT financial results for 2011 and future periods are subject to numerous uncertainties arising from a marked slowdown in the oil sands industry and a weak general economy.

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

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

Financing

General

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

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

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

Mortgage Maturities

With the exception of the first mortgage loan of $18,251,093 for the Lakewood Townhouses which matured on July 18, 2010 and the second mortgage loan of $17,274,598 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010 and which are in breach of the debt service coverage requirements, all of the mortgage loans for continuing operations which matured to August 9, 2011 were renewed, or refinanced. The two loans are repayable on demand. A forbearance agreement has been obtained from the lender in regard to the covenant breaches for both the loans with the expiry date of June 30, 2011 and management expects that extensions of the forbearance will be obtained.

Except for one mortgage loan in the amount of $12,548,704, all mortgage loans for discontinued operations which have matured prior to August 9, 2011 have been renewed or refinanced. The mortgage loan in the amount of $12,548,704 for Elgin Lodge matured June 30, 2011 and is payable on demand.

Covenant Breaches

As previously disclosed in this report, at the date of this report, LREIT is in breach of net operating income requirements; debt service coverage requirements; restrictions on the registration of secondary charges against the title to the property, a covenant to obtain mortgage insurance in regard to fourteen properties and reporting covenants, encompassing seven first mortgage loans, a second mortgage loan and a swap mortgage loan with a total balance of $196,480,850 as of June 30, 2011. Two of the first mortgage loans are for seniors' housing complexes classified as discontinued operations.

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

The expectation is that all of the covenants breaches will continue to be addressed through new or extended forbearance agreements, waivers, modified loan terms or repayment from sale or refinancing proceeds.

The lenders have not required any additional cash deposits during the first six months of 2011.

During 2010, LREIT was required to deposit $8.2 Million with the mortgage lenders in order to increase the cash reserve requirements for four of the mortgage loans which were in breach of debt service coverage requirements. During the first six months of 2011, fees of $377,735 were incurred in regard to mortgage loans in breach of debt covenant requirements, compared to $1.2 Million during 2010. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred.

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 during 2009, LREIT has suspended cash distributions.

Changes to Tax Treatment of Trusts

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

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

The success of LREIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on LREIT.

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

- determination of "fair value" of investment property: the determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, anticipated capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the Statement of Financial Position date;

- determination of "fair value" of swap mortgage loans: The fair value of interest rate swap arrangements is based on the difference in interest rates between the market rental rates for a fixed term mortgage loan with same maturity and the variable interest rate payable under the mortgage;

- 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. As of June 30, 2011, rent and other receivables includes an allowance for uncollectible amounts of $39,230. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for the six months of 2011 is $3,411,966. Cumulative excess interest to June 30, 2011 is $10,322,283;

- 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;

- the value of the debt component of convertible debentures is based on the estimated fair value of future interest and principal payments due under the terms of the debentures; and

- the fair value of the mortgage bond at inception is based on market interest rates with the residual value used to value the warrants.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to June 30, 2011, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010. As explained more fully in the preceding sections of this report, the special distributions were issued to reduce the taxable income of LREIT to nil.

Under the SIFT Rules, should they become applicable to LREIT as set out above, certain distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Except as noted below, no changes were made to the design of the internal controls over financial reporting during the six months ended June 30, 2011 that have materially affected, or are reasonable likely to materially affect, the effectiveness of the internal control system.

LREIT has implemented additional controls, to ensure the reliability of any financial information which is materially affected as a result of the adoption of International Financial Reporting Standards. In addition, IFRS record-keeping was implemented within the financial information system of the Trust to enable the capturing of financial information under multiple sets of accounting principles.

The additional controls enabled the Trust to maintain the effectiveness of its 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 2011 Second Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 9, 2011

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
2011 SECOND QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of June 30, 2011

Property Portfolio - June 30, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2011
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	95 %
Colony Square	Winnipeg	29,907,700	October 2008	428	99 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	93 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	89 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	89 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	63 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	17 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	93 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	38 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	78 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	96 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	97 %
Lakewood	Fort McMurray	59,900,000	July 2007	175	91 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	100 %
Parsons Landing (2)	Fort McMurray	60,733,000	September 2008	160	96 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	85 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Nova Court (3)	Yellowknife	15,000,000	March 2007	106	100 %
Total - Residential		**$ 412,561,700**	Total suites	**2,106**	
COMMERCIAL					
Retail and Office					
Colony Square	Winnipeg, MB	$ 7,931,600	October 2008	83,190	97 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 423,293,300**			

Property Portfolio - June 30, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2011
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	92 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	97 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	69 %
Clarington Seniors' Residence	Bowmanville	22,400,000	February 2007	112	90 %
Total seniors' housing complexes		**$ 72,122,000**	Total suites	**510**	
Total real estate portfolio		**$ 495,415,300**			

Notes to the Property Portfolio:

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

(2) LREIT took possession of Parsons Landing on September 1, 2008. The closing of the purchase is subject to the completion of financing arrangements.

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