LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2010

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Unitholder Returns

	Three Months Ended March 31, 2010 (Per unit)	Year Ended December 31, 2009 (Per unit)
Cash distribution	-	$0.09
Unit distribution	-	$1.09
Opening price	$0.81	$2.30
Closing price	$0.63	$0.81

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

Foreword

The operating results and cash flows of LREIT's portfolio of income-producing properties are disclosed under "continuing operations" in the financial statements of LREIT. As of March 31, 2010, the portfolio of income-producing properties consists of 21 properties, 13 of which are located in Fort McMurray, Alberta.

The operating results and cash flows for properties which were sold or classified as "held for sale" are disclosed under "discontinued operations" in the financial statements of LREIT. The 2009 first quarter results for all sold or "held for sale" properties are also restated under "discontinued operations", for comparative purposes.

PRESIDENT'S MESSAGE

Continuing Operations

During the first quarter of 2010, LREIT incurred a loss from continuing operations before income taxes of $3,969,922, compared to a loss from continuing operations of $4,334,894 during the first quarter of 2009.

The improvement in the loss from continuing operations before income taxes in the first quarter of 2010, mainly reflects a decrease in financing expense of approximately $3.6 million, largely offset by a decrease in operating income of approximately $3.3 million. The decrease in operating income is mainly attributable to the continuation of weak rental market conditions in Fort McMurray, Alberta, while approximately $2.8 million of the decrease in financing expense is due to a quarterly adjustment to the carrying value of interest rate swap agreements. After excluding the adjustment to the carrying value of the interest rate swap agreements, financing expense decreased by approximately $800,000 during the first quarter of 2010, compared to the first quarter of 2009.

In regard to operating cash flows, LREIT completed the first quarter of 2010 with a cash outflow from the operating activities of continuing operations of $691,235, compared to a cash inflow from the operating activities of continuing operations of $1,231,030, during the first quarter of 2009, representing a net decrease in operating cash flow of approximately $1.9 million. The decrease mainly reflects the decrease in operating income of $3.3 million, partially offset by the decrease in financing expense, excluding the adjustment to the carrying value of the interest rate swap agreements.

Discontinued Operations

During the first quarter of 2010, the cash inflow from the discontinued operations of LREIT amounted to $8,285,819, compared to $583,494 during the first quarter of 2009. Income from discontinued operations was $7,547,136 during the first quarter of 2010, compared to a loss of $1,497,021 during the first quarter of 2009.

The extent of the increase in cash flow and income from discontinued operations mainly reflects the gain on sale and net proceeds which were derived during the first quarter of 2010 from the sale of properties under LREIT's divestiture program. In total, LREIT generated net cash proceeds of $6,445,841 from the sale of two properties during the first quarter of 2010, after accounting for expenses, the repayment of mortgage debt and the provision of $3 million of second mortgage loan financing on one of the property sales.

Bottom-Line Results and Overall Operational Funding

After accounting for income taxes, LREIT completed the first quarter of 2010 with net income of $3,577,214, compared to a net loss of $8,530,719 during the first quarter of 2009.

During the first quarter of 2010, the sale of properties under the divestiture program, combined with the completion of a $6.78 million second mortgage bond and warrant offering and the existing cash reserves, provided LREIT with sufficient cash resources to meet all of its funding requirements, including the repayment of $11.95 million of convertible debenture debt and the supplemental funding of the net cash outflow from operational, investing and financing activities in continuing operations.

2010 Outlook

In addition to the impact on operating income, the decline in market conditions in Fort McMurray has resulted in an ongoing delay in the closing of a 160 suite apartment development in Fort McMurray (Parsons Landing) and prevented LREIT from achieving debt service coverage requirements on approximately $123,615,262 of mortgage loan debt for the Fort McMurray properties. (A first mortgage loan of $5,069,735 for a "held for sale" property in Moose Jaw is also in breach of its debt service coverage requirements for 2009.)

Although the delay in the closing of Parsons Landing and the inability to achieve debt service coverage requirements have created additional funding demands, in terms of increased loan deposit or interest payment requirements, the two issues have not impaired the ability of LREIT to carry-on with normal operations. Management continues to believe that the Parsons Landing and debt service coverage issue will be satisfactorily resolved.

Notwithstanding the decrease in operating income, the overall financial results for the first quarter of 2010 reflect LREIT's ongoing ability to deal with significant challenges, as highlighted by the repayment of $11.95 million of debenture debt. It is anticipated that the sale of additional properties and improving operating results, will continue to provide LREIT with sufficient cash resources to meet all of its funding requirements.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 12, 2010

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 year ended December 31, 2009.

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 proposed 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 quarter of 2010, LREIT sold 2 properties under its divestiture program, while an additional 8 properties are classified as "properties held for sale" as of March 31, 2010. The operating results for the "sold" and "held for sale" properties, as well as the sale results for the "sold" properties are reported separately in the consolidated financial statements under "discontinued operations", in accordance with generally accepted accounting principles (refer to Note 6 to the consolidated financial statements). The carrying value of "properties held for sale", as reported in accordance with generally accepted accounting principles in the consolidated financial statements, differ from the projected sale price of the properties as disclosed in the MD&A. The number of properties actually sold by LREIT may differ from the number of properties which are classified as "held for sale".

LREIT did not sell any properties during the first quarter of 2009.

The operating results for the 21 income-producing properties of LREIT are reflected in the consolidated financial statements under continuing operations. Assets, liabilities, revenues, expenses and cash flows reflected in this MD&A are in regard to continuing operations, unless otherwise indicated.

FINANCIAL SUMMARY

	March 31 2010	December 31 2009
BALANCE SHEET		
Total assets	$ 525,474,894	$ 537,144,566
Total long-term financial liabilities **(1)**	$ 402,280,072	$ 434,576,262

	Three Months Ended March 31 2010	2009
DISTRIBUTIONS		
Distributions paid in cash	$ -	$ 1,530,736
Value of trust units issued under DRIP	-	104,343
Distributions paid on LP units	-	33,285
	$ -	$ 1,668,364
Per unit	$ -	$ 0.09
KEY FINANCIAL PERFORMANCE INDICATORS (2)		
Operating Results		
Total revenue	$ 9,072,007	$ 12,477,321
Net operating income *	$ 5,385,714	$ 8,665,493
Loss from continuing operations, before future income tax *	$ (3,969,922)	$ (4,334,894)
Income (loss) and comprehensive income (loss)	$ 3,577,214	$ (8,530,719)
Cash Flows		
Cash flow from operating activities, including discontinued operations	$ (100,144)	$ 3,068,814
Funds from Operations (FFO) *	$ (1,284,902)	$ (2,094,073)
Adjusted Funds from Operations (AFFO) *	$ (791,996)	$ 907,644
Distributable income (loss) *	$ (319,143)	$ 1,538,567
Per Unit		
Net operating income *		
- basic	$ 0.297	$ 0.496
- diluted	$ 0.226	$ 0.344
Loss from continuing operations, before future income tax*		
- basic	$ (0.219)	$ (0.248)
- diluted	$ (0.219)	$ (0.248)
Income (loss) and comprehensive income (loss)		
- basic	$ 0.197	$ (0.488)
- diluted	$ 0.197	$ (0.488)
Distributable income (loss) *		
- basic	$ (0.018)	$ 0.088
- diluted	$ (0.018)	$ 0.084
Funds from Operations (FFO) *		
- basic	$ (0.071)	$ (0.120)
- diluted	$ (0.071)	$ (0.120)
Adjusted Funds from Operations (AFFO) *		
- basic	$ (0.044)	$ 0.052
- diluted	$ (0.044)	$ 0.049

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of the total of the mortgage loans payable as well as convertible debentures and second mortgage bonds, at face value.

(2) Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with Canadian generally accepted accounting principles ("GAAP") or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP 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 GAAP for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust. Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

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 March 31, 2010, 15 properties have been sold under the divestiture program and 8 other properties are classified as "held for sale". The "income-producing" property portfolio is comprised of the remaining 21 properties.

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 2010 Q1 Results and Key Issues/Events

1. Operations

	Three Months Ended March 31	
	2010	2009
Income properties:		
Average vacancy loss		
Fort McMurray	31 %	10 %
Yellowknife	2 %	-
Other	9 %	2 %
Total	25 %	9 %
Average rental rate		
Fort McMurray	$2,495	$2,993
Yellowknife	$1,941	$1,810
Other	$753	$728
Total	$2,114	$2,423

2. Financial *

	Three Months Ended March 31 2010	2009	Increase (Decrease)
Net operating income from continuing operations			
Fort McMurray properties	$ 4,025,951	$ 7,343,126	$ (3,317,175)
Other properties	1,269,362	1,306,334	(36,972)
Trust	90,401	16,033	74,368
Total net operating income	$ 5,385,714	$ 8,665,493	$ (3,279,779)
Net income (loss)			
Loss from continuing operations	$ (3,969,922)	$ (7,033,698)	$ 3,063,776
Income (loss) from discontinued operations	7,547,136	(1,497,021)	9,044,157
Income (loss) and comprehensive income (loss)	$ 3,577,214	$ (8,530,719)	$ 12,107,933
Operating cash flow			
Cash provided by (used in) operating activities in continuing operations	$ (691,235)	$ 1,231,030	$ (1,922,265)

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

3. Liquidity

	March 31 2010	December 31 2009
Cash	$ 2,630,383	$ 4,287,864
Working capital deficit	$ 2,406,317	$ 10,468,086

Key events affecting liquidity

- On February 17, 2010, the 8% Series E convertible debenture debt of $11.95 Million matured. The debt was retired utilizing $5 Million from the revolving loan with 2668921 Manitoba Ltd. and $4.8 Million from the line of credit with the Royal Bank of Canada, with the balance paid from cash reserves.
- On March 1, 2010, LREIT generated net proceeds of $6,445,841 from the sale of two properties, after accounting for expenses, the repayment of mortgage debt and the provision of a $3 Million second mortgage loan to the purchaser.
- On March 9, 2010, LREIT generated gross proceeds of $6,780,000 from a public offering of investment units, with each unit consisting of a five year, 9% second mortgage bond in the principal amount of $1,000 and 1,000 trust unit purchase warrants.
- The net proceeds from the two property sales and the public offering of investment units, combined with existing cash reserves, enabled LREIT to fully repay the revolving loan with 2668921 Manitoba Ltd. and reduce the Royal Bank line of credit to a balance of $1,260,000 as of March 31, 2010.

4. Financing

Key Variables	March 31 2010	December 31 2009
Weighted average interest rate of mortgage loan debt - Income Properties		
Continuing operations	5.9 %	5.9 %
Discontinued operations	6.7 %	6.7 %
Combined operations	6.1 %	6.1 %

Key Financing Issues

Parsons Landing

Although LREIT acquired full 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 has 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. In April 2010, the payment deadline was extended for an additional two months from May 31, 2010 to July 31, 2010. Accrued interest in excess of the $300,000 monthly payments for the period from January 1, 2010 to July 31, 2010 will be forgiven by the vendor if the acquisition is completed by July 31, 2010.

The vendor has also extended its agreement to provide second mortgage loan financing of $12 Million and forgive interest in excess of $300,000 for the period subsequent to April 30, 2010. The current extension agreement is effectively terminated in the event that LREIT does not obtain a commitment by June 30, 2010, for sufficient mortgage loan funding to complete the purchase of the property on July 31, 2010.

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

Debt Covenants

As of March 31, 2010, eleven properties have mortgage loans which are in breach of debt service coverage requirements including the "held for sale" property in Moose Jaw and ten of the income-producing properties in Fort McMurray. In total, the mortgage loan debt which is in breach of debt service coverage requirements amounts to $123,615,262.

Management believes the default situation for all of the mortgage loans which are in breach of the debt service coverage requirements will be satisfactorily resolved. The anticipated sale of the Moose Jaw property in 2010 would effectively reduce the amount of the "defaulted" debt by approximately $5 Million.

5. Divestiture Program

	Properties Sold in 2009	Properties Sold Year to Date 2010	Total
Number of properties	13	2	15
Gross proceeds	$ 90,392,000	$ 19,170,000	$ 109,562,000
Net proceeds	$ 29,631,650	$ 6,445,841	$ 36,077,491

Net proceeds are calculated after deducting vendor "take-back" financing of $7,050,000 for properties sold in 2009 and $3,000,000 for year to date sales in 2010.

Risks and Uncertainties

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

- As disclosed in Note 1 of the first quarter financial statements, there are a number of variables and risk factors affecting the operations of LREIT including:

  - the net losses sustained by LREIT in 2009 and during the first quarter of 2010;
  - the breach of the debt service coverage requirements on five mortgage loans encompassing $123.6 Million of mortgage loan debt;
  - the working capital deficiency of the Trust;
  - the cross-default clause of the Series F convertible debentures; and
  - the impact of increased vacancy rates and reduced rental rates in Fort McMurray on the ability of the Trust to secure mortgage loan financing.

  As a result of the steps which have been taken to address the risk factors, and after considering events which have occurred during 2010, including the repayment of the Series E debentures in February 2010; completion of a public offering of investment units; the renewal or refinancing of mortgage loans which have matured to the date of this report in 2010; and the completion of additional property sales, management believes that LREIT has the financial capacity to maintain stability.

- Other key risks factors include the following:

  - the significant concentration of properties in Fort McMurray and the uncertainty regarding the timing and extent of the economic recovery in Fort McMurray;
  - successful completion of the divestiture program;
  - ability of the Trust to obtain mortgage financing for Parsons Landing and other projects; and
  - the potential breach of debt service coverage requirements for other mortgage loans due to a decline in net operating income.

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.

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. The completion of Parsons Landing occurred in two phases upon the issuance of occupancy certificates. LREIT acquired 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 subsequent extensions to July 31, 2009, October 1, 2009, December 15, 2009, May 31, 2010, and, most recently to July 31, 2010. Each payment extension date has also encompassed an extension of the deadline 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. The $300,000 monthly interest payments have been submitted by LREIT from March 2009 to April 2010, inclusive. LREIT was also required to remit a principal payment of $500,000 on May 12, 2009.

The vendor has agreed to provide a credit of $1,440,000 for furniture purchased by LREIT and also a second mortgage loan on closing, to a maximum of $12 Million, for a term of 15 months, at an interest rate of 8% per annum for the first eight months, 12% for the next four months and 24% thereafter. The current agreement to extend the payment deadline date to July 31, 2010 is conditional upon LREIT obtaining a commitment, by June 30, 2010, for sufficient mortgage loan funding to complete the purchase of the property on July 31, 2010. After providing for $12 Million of second mortgage loan financing, LREIT requires approximately $34.2 Million of funding to complete the purchase of the property. Based on anticipated mortgage loan financing of $30 Million, the balance payable in cash will be approximately $4.2 Million.

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.

Accrued interest on the balance owing for this period from January 1, 2010 to June 30, 2010 in the amount of $4,004,624 of which $1,691,586 pertains to the first quarter of 2010, will be forgiven by the vendor under the terms of the current deadline extension agreement if the acquisition is completed by July 31, 2010. Subject to the attainment of the required mortgage funding by June 30, 2010, the Vendor has also agreed to forgive interest in excess of the $300,000 monthly interest payment for the period from May 1, 2010 to July 31, 2010, in the amount of $1.8 Million.

As of March 31, 2010, the amount payable in regard to the acquisition of Parsons Landing, including GST, is $47.7 Million.

The vendor is permitted to sell the property and the Trust may list the property for sale. In the event of the sale of Parsons Landing, the Trust will be liable to the vendor for any shortfall between the net proceeds of the sale and the balance owing on the property.

Timing of Interest Forgiveness - 2009

Due to the timing of the deadline extension agreements, the total interest forgiven in 2009 was not reflected in the financial results of LREIT until the second half of the year. Accordingly, the financial results of LREIT for the third and fourth quarters of 2009, reflect $602,849 of forgiven interest which was accrued during the first quarter of 2009 and $1,740,436 of forgiven interest which was accrued during the second quarter of 2009.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

Lanesborough Real Estate Investment Trust ("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 F and Series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.F" and "LRT.DB.G", respectively. The second mortgage bonds and the trust unit purchase warrants are listed on the Toronto Stock Exchange under the symbol "LRT.NT" and "LRT.WT", respectively.

The primary 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 asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter Canadian is also responsible for the property management function for the 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 March 31, 2010, the real estate portfolio of LREIT consists of 20 multi-family residential properties and one commercial property (the "income properties"), as well as eight properties which are classified as "held for sale". Rental revenue from the leasing of the income 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 by acquiring income-producing 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 income-producing 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. The decline in economic conditions in Fort McMurray in 2009 has resulted in a reduction in the profitability of the Fort McMurray property portfolio and decrease in the overall investment returns of the Trust.

The financial statements of LREIT provide segmented results for the income properties, with "Fort McMurray", "Yellowknife" 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, although 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. In March 2010, LREIT raised additional capital from a public offering of investment units, comprised of second mortgage bonds and trust unit purchase warrants.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of March 31, 2010, the total mortgage indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income, to mortgage loan debt service costs, is one of the measures utilized to assess the overall financial position of the Trust. During the first quarter of 2010, the mortgage loan debt service coverage ratio for continuing properties was 0.85, compared to 1.38 during 2009.

Divestiture Program

LREIT is pursuing a divestiture program targeting the sale of assets, with estimated proceeds in excess of $250 Million, by early 2011. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular, higher cost interim mortgage loan financing.

In addition to generating funds for the repayment of debt, the projected sale of properties under the divestiture program will enable LREIT to improve its working capital position.

During 2009, LREIT sold 13 properties at a combined gross selling price of $90.4 Million. The total net proceeds from sale were approximately $29.6 Million, after accounting for expenses, the repayment or assumption of debt and the provision of take-back financing to some purchasers. The net proceeds permitted the repayment of $17.1 Million of interim financing.

During the first quarter of 2010, LREIT sold two additional properties at a combined gross selling price of $19.2 Million. The total net proceeds from sale were approximately $6.4 Million, after accounting for expenses, the repayment or assumption of mortgage debt and the provision of take-back financing to a purchaser. The net proceeds, combined with other cash resources, enabled LREIT to repay $11.95 Million of convertible debenture debt during the first quarter of 2010.

Distributions

In March 2009, after paying a distribution of $0.04667 per unit for January 2009 and February 2009, LREIT implemented a change in its distribution policy from monthly distributions to quarterly distributions. Under the revised distribution policy, The Trust planned to pay quarterly distributions of $0.06 per unit ($0.24 per unit annualized) on July 15, October 15 and December 31 to the Unitholders of record as of June 30, September 30 and December 15, respectively. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT did not proceed with the planned distribution for the second quarter of 2009 and since then cash distributions have been suspended.

As a result of the extent of property sales, LREIT incurred significant taxable capital gains in 2009, 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, 2009. 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, 2009. 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 is planned for 2010.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2010

As of March 31, 2010, the property portfolio of LREIT consists of 21 income-producing properties, and 8 properties which are classified as "held for sale". (The 8 "held for sale" properties are disclosed under "Assets held for sale" on the balance sheet of the Trust.) The entire property portfolio, including "held for sale" properties, has a total purchase price of approximately $513 Million and encompasses 2,806 suites and 139,243 square feet of leasable area.

There was no change in the portfolio of "income-producing" properties during the first quarter of 2010. Two properties which were classified as "held for sale" as of December 31, 2009 were sold during the first quarter of 2010.

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

Composition of Income-Producing Property Portfolio

The 21 properties which are classified as income-producing properties in continuing operations consist of 13 multi-family residential properties in Fort McMurray, Alberta, three multi-family properties in Yellowknife, Northwest Territories, four multi-family properties located in Thompson, Manitoba; Moose Jaw, Saskatchewan; Edson, Alberta and Peace River, Alberta and a commercial property located in Burlington, Ontario.

After considering reclassifications, the income-producing property portfolio consisted of the same 21 properties in both the first quarter of 2009 and 2010.

Properties Sold During 2010

As previously disclosed, LREIT sold 2 properties during the first quarter of 2010 at a combined gross selling price of $19.2 Million. Chancellor Gate, a 48-suite apartment property in Winnipeg, Manitoba was sold, effective March 1, 2010. McIvor Mall, a 65,283 square foot shopping centre property in Winnipeg, Manitoba was sold on March 1, 2010.

After accounting for expenses, the repayment or assumption of mortgage debt and the provision of "take-back" financing to purchasers, the sales resulted in net cash proceeds of approximately $6.4 Million.

Properties Held for Sale

A property is classified by the Trust as held for sale 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. As of March 31, 2010, the following 8 properties are classified as "held for sale".

Property	Location
Chateau St. Michael's	Moose Jaw
Clarington Seniors Residence	Bowmanville
Colony Square	Winnipeg
156 / 204 East Lake Blvd.	Airdrie
Elgin Lodge	Port Elgin
Nova Manor	Edmonton
Riverside Terrace	Saskatoon
Willowdale Gardens	Brandon

Analysis of Operating Results for Properties Held For Sale

The operating results for all properties which are being held for sale as of March 31, 2010 are disclosed separately on the Consolidated Statements of Income (Loss) under the line "Income (loss) from discontinued operations".

Accordingly, in this report, the analysis of operating results excludes the revenues and expenses of the properties which are being held for sale, except where noted.

Mortgage Loans Receivable

As of March 31, 2010, the mortgage loans receivable of LREIT amounted to $10,050,000, comprised of a 5% second mortgage loan of $500,000, due October 1, 2014, which was provided on a property sale on October 1, 2009, a 3% second mortgage loan in the amount of $6.55 Million, due June 1, 2011, which was provided on a property sale on December 1, 2009 and a 5.5% second mortgage loan of $3 Million, due July 1, 2014, which was provided on a property sale on March 1, 2010.

CAPITAL STRUCTURE

Capital Structure - March 31, 2010

	March 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	$ 280,994,072	65.1 %	$ 282,552,251	64.9 %
Mortgage bonds - face value	6,780,000	1.6 %	-	-
Convertible debentures - face value	39,409,000	9.1 %	51,362,000	11.8 %
Trust units (net of issue costs)	104,411,364	24.2 %	101,503,281	23.3 %
Total capitalization	$ 431,594,436	100.0 %	$ 435,417,532	100.0 %

Mortgage Loans Payable

Change in Total Mortgage Loan Debt during 2010 Q1

The mortgage loans payable of LREIT are comprised of two components, namely mortgage loans payable for continuing operations and mortgage loans payable for properties "held for sale". The mortgage loans payable for continuing operations are disclosed on the balance sheet of LREIT as "Mortgage Loans Payable", while the mortgage loans payable for properties "held for sale" are included in "Liabilities of properties held for sale" on the balance sheet. The mortgage loans payable component of "Liabilities of properties held for sale" is disclosed in note 6 of the financial statements.

In total, the mortgage loan debt of LREIT was reduced by $11.1 Million during the first quarter of 2010, of which $1.4 Million pertains to continuing operations. An analysis of the total debt reduction in the first quarter of 2010 is included in the following chart.

	2010 Q1		
	Total	Continuing Operations	Discontinued Operations
Repayment of principal on mortgage loans	(1,915,961)	(1,558,183)	(357,778)
Mortgage loans retired or assumed by purchasers	(9,333,710)	-	(9,333,710)
Total debt repaid/eliminated	(11,249,671)	(1,558,183)	(9,691,488)
Transaction cost/market interest rate adjustments*	134,457	145,223	(10,766)
Total debt reduction	(11,115,214)	(1,412,960)	(9,702,254)
Total mortgage and interim loans payable - December 31, 2009	381,844,877	281,374,398	100,470,479
Total mortgage and interim loans payable - March 31, 2010	$ 370,729,663	$ 279,961,438	$ 90,768,225

* Consists of the change in unamortized transaction costs and the change in the difference between contractual and market interest rates on mortgage loans assumed.

Summary of Mortgage Loans Payable - Continuing Operations

Year of Maturity	Weighted Average Interest Rate	Amount March 31, 2010	Percentage of Total
Fixed rate			
2010	5.6 %	$ 27,443,693	9.9 %
2011	12.0 %	4,500,000	1.6 %
2012	5.6 %	32,668,169	11.6 %
2013 *	5.8 %	43,717,578	15.6 %
2014	6.3 %	35,423,239	12.6 %
2015	4.9 %	7,088,692	2.5 %
2016	5.2 %	35,486,435	12.6 %
2018 *	5.8 %	22,036,307	7.8 %
		208,364,113	74.2 %
Demand/variable rate	5.9 %	72,629,959	25.8 %
Principal amount		280,994,072	100.0 %
Unamortized transaction costs		(1,032,634)	
		$ 279,961,438	

* Includes floating interest rate mortgages of $22,036,307 and $20,018,266, with interest rates fixed at 5.82% and 5.74% respectively by use of interest rate swap arrangements.

Mortgage Loan Debt Summary *

	2010	2009			
	Q 1	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate					
Fixed rate mortgage loans	5.8%	5.8%	5.9%	5.9%	5.9%
Variable rate mortgage loans	5.9%	5.9%	3.7%	3.7%	4.0%
Ratio of mortgage loans payable, compared to:					
Purchase price of income-producing properties *	84%	85%	84%	85%	85%
Ratio of mortgage loans payable, convertible debenture debt (at face value) and mortgage bonds (at face value) compared to acquisition cost of income-producing properties *	98%	100%	99%	100%	101%

* Excludes debt and property values for "held for sale" properties and Parsons Landing.

Debt Maturities

All of the mortgage loans which matured to May 12, 2010 were renewed, refinanced or repaid/eliminated on sale.

As of March 31, 2010, the mortgage loan debt of LREIT included $185.2 Million of debt which are payable on demand or mature in 2010, of which $146.7 Million of mortgage loans are payable on demand or mature during the second quarter of 2010. The following schedule provides an analysis of the 2010 mortgage maturities.

	Continuing Operations		Discontinued Operations	Total	
Mortgages					
Demand loans	$ 72,679,959	(1)	$ 18,335,570	$ 91,015,529	
Fixed term mortgages subject to debt service covenant breaches	45,915,568		5,069,735	50,985,303	(1)
Fixed term mortgages which mature in the second quarter	4,733,929		-	4,733,929	(2)
	123,329,456		23,405,305	146,734,761	
Fixed term mortgages which mature in the third and fourth quarters	22,591,587		15,872,605	38,464,192	
	145,921,043		39,277,910	185,198,953	
Principal repayments	2,975,746		778,263	3,754,009	
	$ 148,896,789		$ 40,056,173	$ 188,952,962	

(1) Mortgage loans which are in breach of debt service covenants is comprised of $50,985,303 of fixed term mortgages and $72,679,959 of demand loans or $123,615,262 in total.

(2) As of May 12, 2010, all mortgages which mature in the second quarter have been renewed or refinanced.

A more detailed analysis of the mortgage loan debt obligations of LREIT is provided in the section of this report titled "Capital Resources and Liquidity".

Debt Service Coverage Covenants

There are 13 income-producing properties in Fort McMurray, 12 of which are encumbered by mortgage loan debt. The only exception is Parsons Landing.

Of the 12 properties in Fort McMurray which are encumbered by mortgage loan debt, ten of the properties have mortgage loans which are in breach of the debt service coverage requirements. The breach of the debt service coverage requirement for the ten Fort McMurray properties is a result of the negative impact of the slow down of development activity in the oil sands industry and the associated decline in rental market conditions in Fort McMurray.

The first mortgage loan for the property in Moose Jaw, Saskatchewan was in breach of the debt service coverage requirement for the year ended December 31, 2009. The Moose Jaw property is classified as "held for sale".

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

Property	Debt Service Coverage Requirement	Type of Mortgage	Mortgage Balance March 31, 2010	Status
Fort McMurray				
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	1.4	First	$ 22,036,307	(1)
Millennium Village	1.4	First	23,879,261	(1)
			45,915,568	
Laird's Landing	1.2	First	55,000,000	(2)
Woodland Park, Nelson Ridge Estates	1.2	Second	17,629,959	(2)
			72,629,959	
Moose Jaw				
Chateau St. Michael's	1.3	First	5,069,735	(3)
			$ 123,615,262	

(1) Notice received from lender that breach must be cured.
(2) Forbearance agreement under negotiation.
(3) Forbearance agreement has been requested from lender.

As noted above, the debt service coverage breach for three of the properties was temporarily resolved under the terms of a forbearance agreement which expired on April 20, 2010. LREIT is negotiating with the lenders and management believes that all of the covenant breaches will be resolved. As rental market conditions in Fort McMurray may not improve substantially in the near future, all of the affected properties may not attain income levels in 2010 which satisfy the existing debt service coverage requirements. LREIT intends to sell the Moose Jaw property in 2010.

The breach of the debt service covenant requirements has not resulted in an acceleration of the repayment of the mortgage loans. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

In general terms, the cross-default clause of the Trust indentures relating to the Series F secured convertible debentures provide that, if any debt of LREIT is in default for more than ten days and the default results in an amount in excess of $200,000 becoming due and payable and if the default pertains to debt which has a term in excess of 18 months, the Series F convertible debentures may become payable, on demand.

Based on the above, there is a risk that the Series F convertible debentures, due March 11, 2011, with a face value of $13,677,000, will become payable on demand in the event that the lender demands the repayment of any of the first mortgage loans which are in breach of the debt service coverage requirement, unless the breach is forestalled under a forbearance agreement.

The Bond Indenture which governs the five year 9% second mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series F or Series G debentures or any of the first mortgages on Beck Court, Nova Court, Norglen Terrace, Three Lakes Village or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments. Accordingly, there is a risk that the five year 9% second mortgage bonds, with a face value of $6,780,000, will become payable on demand in the event that the existing debt service coverage breaches result in the acceleration of repayments for the Series F debentures.

Additional Deposits Required by Lender

In conjunction with the forbearance agreements for the first and second mortgage loans for Laird's Landing, Woodland Park and Nelson Ridge Estates, the lender required LREIT to provide cash deposits of $2,538,000 as additional security under the loans. The cash deposits, which accrue interest at a rate of 0.75%, were provided to the lender in March 2010.

Discontinued Operations - Composition of Debt as of March 31, 2010

As disclosed in the analysis at the beginning of the "mortgage loans payable" section of this report, the mortgage loan debt for discontinued operations was reduced by $9,702,254 during the first quarter of 2010, resulting in a balance of $90,768,225 as of March 31, 2010.

The total balance of $90,768,225 is comprised of first and second mortgage loan debt with a face value of of $75,097,918 and interim loans payable with a face value of $15,872,605 net of transaction costs of $202,298. The first and second mortgage loan debt has a weighted average interest rate of 7.5% as of March 31, 2010.

The face value of the interim loans payable is comprised of the following loans:

Approximate Amount	Maturity Date	Interest Rate
$2.0 Million	September 1, 2010	11.50%
$12.0 Million	October 30, 2010	11.00%
$1.9 Million	November 1, 2010	11.75%
$15.9 Million		

The interim mortgage loans are secured by charges registered against two or more income properties, aside from the $2 Million loan which is registered against one income property. All of the interim mortgage loans require monthly payments of interest only. The weighted average interest rate of the interim mortgage loan debt for discontinued properties is 11.2%.

Acquisition Payable

As previously advised, 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. Interest charges for the period from January 1, 2010 to July 31, 2010 in the amount of $4,004,624 will be forgiven by the vendor if the acquisition is completed by July 31, 2010. Interest charges of $300,000 per month represent an effective interest rate of 8%.

Vendor Take-Back Mortgages

Mortgage loans payable include a $4 Million interest-only vendor take-back mortgage, bearing interest at a rate of 5%, which was obtained upon the acquisition of Siena Apartments in July 2008. The loan matures on August 2, 2010.

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%. The amount available under the line of credit at March 31, 2010 was $3,615,000. The line of credit is reduced by a $125,000 amount which is securing a letter of credit.

Financing from 2668921 Manitoba Ltd.

Second Mortgage Loan

On June 30, 2009, LREIT obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd, the parent company of Shelter Canadian. The loan bears interest at 7.5%, is due on June 1, 2010 and is secured by a second mortgage charge on an income property. The loan is included in mortgage loans payable at March 31, 2010.

The proceeds of the loan were used to reduce the first mortgage loan of an income property in conjunction with the renewal of the loan in June 2009.

Revolving Loan

In March 2010, the maturity date of the 7.5% $5 Million revolving loan commitment from 2668921 Manitoba Ltd. was extended to December 31, 2010. LREIT also agreed to provide security for the loan in the form of a $6 Million third mortgage charge on Beck Court and the assignment of a $500,000 mortgage loan receivable.

As of March 31, 2010, the full amount of the revolving loan was available to the Trust.

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

Weighted Average Interest Rates

As of March 31, 2010, the weighted average interest rate of the mortgage loan debt for continuing operations, discontinued operations and combined operations is 5.9%, 6.7% and 6.1%, respectively.

Mortgage Bonds and Warrants

On March 9, 2010, LREIT completed a public offering of investment units, under which 6,780 investment units were sold at a price of $1,000 per Unit for aggregate gross proceeds of $6.78 Million. Each unit is comprised of one five year 9% second mortgage bond in the principal amount of $1,000 and 1,000 trust unit purchase warrants. Each warrant entitles the holder thereof to purchase one trust unit of LREIT at a price of $1.00 per trust unit at any time for a period of five years from March 9, 2010.

The Bonds mature on March 10, 2015. Interest is payable semi-annually in arrears on May 31 and November 30 in each year, as well as on the maturity date, with the first interest payment occurring on May 31, 2010. Interest is based on the face value of the mortgage bonds of $6,780,000. The bonds are secured by second mortgages registered against five income properties.

For financial statement purposes, the initial book value of the warrants and second mortgage bonds was determined to $4,668,016 and $2,111,984, respectively, based on valuation methodology as established under GAAP. See Note 8 in the first quarter financial statements for additional details.

The carrying value of the second mortgage bonds, as of March 31, 2010, of $3,784,133 is based on the initial book value, net of accretion and transaction costs. The second mortgage bonds are disclosed on the Consolidated Balance Sheet of LREIT. The warrants are disclosed in the Consolidated Statement of Equity.

The Bond Indenture which governs the five year 9% second mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series F or Series G debentures or any of the first mortgages on Beck Court, Nova Court, Norglen Terrace, Three Lakes Village or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments. Accordingly, there is a risk that the five year 9% second mortgage bonds, with a face value of $6,780,000, will become payable on demand in the event that the existing debt service coverage breaches result in the acceleration of repayments for the Series F debentures.

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 March 31, 2010.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions: Three Months Ended March 31 2010	Repayments/Unit Conversions: As of December 31 2009	Net Amount Outstanding March 31 2010
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	(11,950,000)	(50,000)	-
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	(3,000)	-	13,677,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
Face value			$ 69,543,000	$ (11,953,000)	$ (18,181,000)	39,409,000
Net accumulated accretion						6,550,292
Unamortized transaction costs						(855,777)
Book value, March 31, 2010						$ 45,103,515
Allocation of book value						
Debt component						$ 35,691,127
Equity component						10,268,165
Unamortized transaction costs						(855,777)
						$ 45,103,515

As disclosed in the preceding chart, the Series E convertible debentures in the amount of $11,950,000 were paid in full in March 2010.

The Series F debentures provide for the outstanding amount of the debentures to become payable on demand, upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. As previously disclosed in this report, the Series F debentures may become payable on demand in the event that the lender demands repayment of the five mortgage loans which are in default of the debt service coverage covenant. See "Debt Service Coverage Covenants".

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- March 31, 2010	17,893,767
- May 12, 2010	17,893,767

As of March 31, 2010, LREIT had 17,893,767 units outstanding, which was unchanged from December 31, 2009.

	Units		Amount
Units outstanding, December 31, 2009	17,893,767	$	101,503,281
Maturity of Series E debentures	-		2,835,690
Issue costs	-		(12)
Unit-based compensation	-		72,405
Units outstanding, March 31, 2010	17,893,767	$	104,411,364

Details of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB) and LREIT Village West Limited Partnership, as well as the Unit Option Plan and Deferred Unit Plan are provided on Schedule II.

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Income (Loss)

	Three Months Ended March 31		Increase (decrease)	
	2010	2009	Amount	%
Rental revenue	$ 8,863,379	$ 12,271,439	$ (3,408,060)	(27.8)%
Interest and other income	208,628	205,882	2,746	1.3 %
Property operating costs	3,686,293	3,811,828	(125,535)	(3.3)%
Net operating income (NOI) *	5,385,714	8,665,493	(3,279,779)	(37.8)%
Trust expense	696,790	744,190	(47,400)	(6.4)%
Income before financing expense, amortization, and taxes (EBITDA) *	4,688,924	7,921,303	(3,232,379)	(40.8)%
Financing expense	6,431,439	10,058,947	(3,627,508)	(36.1)%
Income before amortization and taxes *	(1,742,515)	(2,137,644)	395,129	(18.5)%
Amortization	2,227,407	2,197,250	30,157	1.4 %
Loss before future income tax *	(3,969,922)	(4,334,894)	364,972	(8.4)%
Future income tax expense (recovery)	-	2,698,804	(2,698,804)	(100.0)%
Income (loss) from continuing operations	(3,969,922)	(7,033,698)	3,063,776	(43.6)%
Income (loss) from discontinued operations	7,547,136	(1,497,021)	9,044,157	(604.1)%
Income (loss) and comprehensive income (loss)	$ 3,577,214	$ (8,530,719)	$ 12,107,933	(141.9)%

* The analysis of loss for the year represents the re-formatting of balances from the Consolidated Statements of Operations in order to provide a summarized analysis of the financial performance of the Trust. All of the lines in the analysis agree to amounts in the financial statements. Accordingly, the analysis consists entirely of GAAP measurements, aside from the four sub-totals (see asterisks).

Continuing Operations

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations before taxes of $3,969,922 during the first quarter of 2010, compared to a loss from continuing operations before taxes of $4,334,894 during the first quarter of 2009, representing a decrease in the loss from continuing operations before taxes of approximately $0.4 Million. The decrease in the loss mainly reflects a decrease in financing expense of approximately $3.6 Million, largely offset by a decrease in operating income of $3.3 Million

The decrease in operating income mainly reflects the decrease in operating income from the property portfolio in Fort McMurray.

The decrease in financing expense is mainly due to a decrease in financing charges related to the change in the market value of interest rate swap agreements and a decrease in interest expense associated with the amount payable for Parsons Landing, the majority of which relates to the timing of the forgiveness of accrued interest in excess of the required monthly payments.

After including income from discontinued operations and future income tax expense, LREIT generated income of $3,577,214 during the first quarter of 2010, compared to a loss of $8,530,719 during the first quarter of 2009.

Discontinued Operations

As disclosed in the preceding chart, LREIT generated income from discontinued operations of $7,547,136 during the first quarter of 2010, compared to a loss of $1,497,021 during the first quarter of 2009. The income from discontinued operations includes revenues, operating costs, financing expenses, and amortization charges for all properties which are held for sale as of March 31, 2010; revenues, operating costs, financing expenses, and amortization charges for the two properties which were sold during the first quarter of 2010, and the total gain on sale in regard to the two properties which were sold during the first quarter of 2010.

Amortization charges for a specific property are discontinued, effective on the date in which the property was classified as held for sale. As the majority of "held for sale" reclassifications occurred subsequent to the first quarter of 2009 and before the first quarter of 2010, amortization charges have a significant effect on the comparative results for discontinued operations.

In total, the income from discontinued operations for the first quarter of 2010 includes amortization charges of $423,917, compared to amortization charges of $1,419,403 during the first quarter of 2009. Excluding amortization charges and the gain on sale of approximately $7.6 Million, the Trust generated income from discontinued operations of $378,934 during the first quarter of 2010, compared to a loss of $77,618 during the first quarter of 2009.

Revenue

Market Conditions

Fort McMurray (13 properties)

Accounting for approximately 67% of the total available rental units, 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 a reduction in occupancy levels of LREIT's property portfolio in Fort McMurray and affected the leasing of vacant suites and the retention of existing tenants.

Although development activity in the oil sands industry is improving, the expectation is that the economic recovery in Fort McMurray may occur gradually.

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

Yellowknife (Three Properties)

The demand for rental accommodation in Yellowknife has also declined since 2008 due to slower economic activity. Although the reduced demand has resulted in an increase in the overall vacancy rate, the average overall monthly rental rate for the Yellowknife rental market has increased since 2008.

Other Locations (Five Properties)

The five "other" properties consist of four residential rental properties and one commercial property. The commercial property is 100% leased to a single tenant until February 28, 2022. The overall vacancy loss for the four residential rental properties has gradually declined since the beginning of 2009, primarily due to an increase in the vacancy loss for the rental property in Edson, Alberta.

Total Revenue

Analysis of Total Revenue

	Total Revenues			
	Three Months Ended March 31		Increase (decrease)	
	2010	2009	Amount	% of Total
Income Properties:				
Rental revenue	$ 8,863,379	$ 12,271,439	$ (3,408,060)	100 %
Interest and other income	118,227	189,849	(71,622)	2 %
Sub-total	8,981,606	12,461,288	(3,479,682)	102 %
Trust: interest and other income	90,401	16,033	74,368	(2)%
Total	$ 9,072,007	$ 12,477,321	$ (3,405,314)	100 %

The revenue of LREIT consists of "rental revenue" and "interest and other income". All of the revenue is generated from the portfolio of income properties, with the exception of a minor component of revenue which is derived from general trust operations.

As disclosed in the chart above, the total revenue of LREIT decreased by $3,405,314, during the first quarter of 2010, compared to the first quarter of 2009, comprised of a $3,479,682 decrease in revenue from income properties and $74,368 increase in revenue from Trust operations. The decrease in revenue from income properties is comprised of a $3,408,060 decrease in rental revenue and a $71,622 decrease in interest and other income.

Trust Operations

Revenue from Trust operations is comprised almost exclusively of interest income on mortgage loans receivable and cash. The revenue is classified as "interest and other income" and represents a minor component of the overall revenues of the Trust.

As noted above, revenue from Trust operations increased by $74,368 during the first quarter of 2010, almost entirely due to an increase in interest income on mortgage loans receivable. During the first quarter of 2009, LREIT did not have any mortgage loans receivable, whereas during the first quarter of 2010, LREIT had $10.05 Million of investments in mortgage loans receivable.

Rental Revenue

Analysis of Total Revenue from Income Properties

	Three Months Ended March 31					
			Increase (decrease)		Percentage of Total	
	2010	2009	Amount	%	2010	2009
Fort McMurray	$ 6,690,323	$ 10,223,673	$ (3,533,350)	(35)%	74 %	82 %
Yellowknife	1,619,866	1,535,815	84,051	5 %	18 %	12 %
Other	671,417	701,800	(30,383)	(4)%	7 %	6 %
Total	$ 8,981,606	$ 12,461,288	$ (3,479,682)	(28)%	100 %	100 %

As disclosed in the chart above, the total revenue from income properties decreased by $3,479,682 during the first quarter of 2010, comprised of a decrease in revenue from the income properties in Fort McMurray of $3,533,350, an increase in revenue from the Yellowknife portfolio of $84,051 and a decrease in revenue from the Other portfolio of $30,383.

The decrease in revenue from the Fort McMurray portfolio reflects an increase in the vacancy loss and a decrease in the average rental rate. As disclosed in the chart below, the vacancy loss for the Fort McMurray portfolio increased from 10% during the first quarter of 2009, to 31% during the first quarter of 2010, while the average monthly rental rate decreased by $498 or 16.6%.

Due to a number of factors, including the timing of lease expiry dates and the time lag between the decline in general economic conditions and the slowdown of new construction activity in the oil sands industry, the increase in the vacancy loss for the Fort McMurray property portfolio occurred on a gradual basis in 2009. As disclosed in the chart below, the vacancy loss for the Fort McMurray property portfolio increased from 10% in the first quarter of 2009 to 31% in the fourth quarter of 2009. Although the vacancy loss remained at 31% during the first quarter of 2010, the vacancy loss results reflect a degree of stabilization in rental market conditions in 2010. As with the decline in the vacancy loss, the anticipated improvement in the vacancy loss is expected to occur on a gradual basis.

The modest change in revenue for the "Yellowknife" and "Other" portfolio reflects an increase in the vacancy loss fully or partially offset by an increase in the average rental rate. The vacancy loss for three rental properties in Yellowknife increased from nil during the first quarter of 2009 to 2% during the first quarter of 2010, while the average rental rate increased by $131 or 7.2% during the first quarter of 2010. For the five other properties, the combined vacancy loss increased from 2% during the first quarter of 2009 to 9% during the first quarter of 2010, and the average monthly rental rate increased by $25 or 3%.

Analysis of Average Monthly Rents and Vacancy Loss for Income Properties

	Vacancy Loss						
	2010	2009					2008
	Q1	Q1	Q2	Q3	Q4	12 Month Average	12 Month Average
Fort McMurray	31 %	10 %	18 %	30 %	31 %	22 %	4 %
Yellowknife	2 %	- %	1 %	1 %	1 %	1 %	3 %
Other	9 %	2 %	5 %	5 %	6 %	4 %	2 %
Total	25 %	9 %	15 %	25 %	25 %	18 %	3 %

	Average Monthly Rents						
	2010	2009					2008
	Q1	Q1	Q2	Q3	Q4	12 Month Average	12 Month Average
Fort McMurray	$2,495	$2,993	$2,904	$2,733	$2,595	$2,806	$2,913
Yellowknife	$1,941	$1,810	$1,828	$1,960	$1,854	$1,863	$1,776
Other	$753	$728	$739	$740	$743	$738	$686
Total	$2,114	$2,423	$2,368	$2,274	$2,166	$2,308	$2,357

Operating Costs

Analysis of Operating Costs

	Three Months Ended March 31		Increase (decrease)	
	2010	2009	Amount	%
Fort McMurray	$ 2,664,372	$ 2,880,549	$ (216,177)	(8)%
Yellowknife	680,727	632,647	48,080	8 %
Other	341,194	298,632	42,562	14 %
Total	$ 3,686,293	$ 3,811,828	$ (125,535)	(3)%

During the first quarter of 2010, property operating costs for the portfolio decreased by $125,535 or 3%, compared to the first quarter of 2009. The decrease is comprised of a $216,177 decrease in the operating costs of the Fort McMurray portfolio and an increase of $48,080 and $42,562 in the "Yellowknife" and "Other" property portfolios, respectively. The decrease in operating costs for the Fort McMurray portfolio is mainly due to decreased utility expenses and property management fees, both of which decreased primarily due to the increase in the vacancy rate in the Fort McMurray portfolio.

Net Operating Income and Operating Margin

Analysis of Net Operating Income - Income Properties

	Net Operating Income							
	Three Months Ended March 31		Increase (decrease)		Percent of Total		Operating Margin	
	2010	2009	Amount	%	2010	2009	2010	2009
Fort McMurray	$ 4,025,951	$ 7,343,126	$ (3,317,175)	(45)%	76 %	85 %	60 %	72 %
Yellowknife	939,139	903,168	35,971	4 %	18 %	10 %	58 %	59 %
Other	330,223	403,166	(72,943)	(18)%	6 %	5 %	49 %	57 %
Total	$ 5,295,313	$ 8,649,460	$ (3,354,147)	(39)%	100 %	100 %	59 %	69 %

After considering the revenue and operating cost increases as analyzed in the preceding sections of this report, the NOI for the portfolio of income properties decreased by $3,354,147 or 39% during the first quarter of 2010.

As with the decrease in revenue from income properties, the decrease in NOI is almost entirely attributable to a decrease in the NOI of the Fort McMurray portfolio. As disclosed in the chart above, the NOI of the Fort McMurray portfolio decreased by $3,317,175 during the first quarter of 2010.

Overall, the operating margin for the property portfolio decreased from 69% during the first quarter of 2009, to 59% during the first quarter of 2010. The decline in the operating margin is primarily due to a decline in the profitability of the Fort McMurray property portfolio.

Financing Expense

Total Financing Expense

Financing expense decreased by $3,627,508 or 36% during the first quarter of 2010, compared to the first quarter of 2009. As disclosed in the following chart, the decrease is comprised of $53,786 of financing charges related to the mortgage bonds, a $86,822 decrease in convertible debenture financing expense, a $1,079,621 decrease in interest expense on acquisition payable, and a $2,514,851 decrease in mortgage loan financing expense. The decrease in mortgage loan financing expense includes a decrease in financing charges of $2,823,272 related to the change in value of interest rate swap agreements.

Financing expense encompasses mortgage loan interest, convertible debenture interest, mortgage bond interest, interest expense on acquisition payable, as well as 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 first quarter of 2010, "non-cash" expenses represented 10% of the total financing expenses, compared to 34% during the first quarter of 2009. The decrease in the "non-cash" component of financing expense is mainly related to the change in value of the interest rate swap agreements.

Analysis of Financing Expense

	Three Months Ended March 31		Increase (decrease)	
	2010	2009	Amount	%
Mortgage Loans				
Mortgage loan interest	$ 4,009,204	$ 3,705,852	$ 303,352	8 %
Amortization of transaction costs	134,176	129,107	5,069	4 %
Change in value - interest rate swaps	(379,298)	2,443,974	(2,823,272)	(116)%
Total - mortgage loans	3,764,082	6,278,933	(2,514,851)	(40)%
Mortgage Bonds				
Mortgage bond interest	36,780	-	36,780	- %
Accretion of debt component	17,006	-	17,006	- %
Total - mortgage bonds	53,786	-	53,786	- %
Acquisition Payable				
Interest on acquisition payable	900,000	1,979,621	(1,079,621)	(55)%
Total - acquisition payable	900,000	1,979,621	(1,079,621)	(55)%
Debentures				
Interest on convertible debentures	856,495	977,975	(121,480)	(12)%
Accretion of debt component	710,009	666,355	43,654	7 %
Amortization of transaction costs	147,067	156,063	(8,996)	(6)%
Total - debentures	1,713,571	1,800,393	(86,822)	(5)%
Total - financing expense	$ 6,431,439	$ 10,058,947	$ (3,627,508)	(36)%

Interest Expense

Interest Expense - Mortgage Loans

Mortgage loan interest increased by $303,352 or 8% during the first quarter of 2010, compared to the first quarter of 2009. The increase mainly reflects an increase in the weighted average interest rate for floating rate mortgage loans compared to the first quarter of 2009.

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

Interest on Acquisition Payable

During the first quarter of 2010, interest on acquisition payable decreased by $1,079,621. The decrease is mainly due to the timing of the forgiveness of accrued interest in excess of monthly payments. During the first quarter of 2010, interest on acquisition payable reflects payments of $300,000 per month and net of interest forgiven of $1,691,585. During the first quarter of 2009, interest on acquisition payable includes $602,849 of accrued interest which was subsequently forgiven. After excluding interest which was subsequently forgiven, interest on acquisition payable decreased by $476,772 during the first quarter of 2010.

Interest Expense - Mortgage Bonds

During the first quarter of 2010, interest on the mortgage bonds amounted to $36,780, representing interest for the period from March 9, 2010 to March 31, 2010.

Interest Expense - Debentures

During the first quarter of 2010, interest on convertible debentures decreased by $121,480 or 12%, compared to the first quarter of 2009. The decrease mainly reflects the retirement of $11.95 Million of Series E Convertible Debentures in February 2010.

Total Interest Expense

During the first quarter of 2010, total interest expense decreased by $860,969 or 13%, compared to the first quarter of 2009. After excluding interest which was subsequently forgiven, total interest expense decreased by $258,120 or 4%.

Interest Expense Ratio

As a percentage of operating income from continuing operations, total interest in regard to mortgage loans and acquisition payable, excluding interest of $602,849 which was subsequently forgiven, increased from 59% during the first quarter of 2009 to 91% during the first quarter of 2010.

The increase in the ratio of mortgage loan and acquisition payable interest, relative to operating income from continuing operations reflects the decrease in net operating income during the first quarter of 2010, as well as the increase in interest on mortgage loans and acquisition payable.

After including interest on convertible debentures and mortgage bonds, the ratio of interest expense, relative to operating income, excluding interest of $602,849 which was subsequently forgiven, is 108% for the first quarter of 2010, compared to 70% for the first quarter of 2009.

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in financing expense includes a decrease in the amount related to the change in value of the "interest rate swaps" of $2,823,272.

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 GAAP, the interest rate swap agreements are derivative financial instruments and are recorded at "fair value" on the balance sheet of the Trust. Changes in fair value are recognized as earnings/losses through charges to financing expense. Increases in fair value serve to decrease financing expense, while decreases in fair value serve to increase financing 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. As a result of the decline in market interest rates, the fair value of the interest rate swap arrangements decreased by $2,443,974 during the first quarter of 2009. During the first quarter of 2010, the fair value of the interest rate swap arrangements increased by $379,298, as a result of an increase in market interest rates between December 31, 2009 and March 31, 2010.

Although the change in the fair value of the interest rate swaps has served to decrease financing expense in the first quarter of 2010, 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.

Trust Expense

Trust expense decreased by $47,400 during the first quarter of 2010, compared to the first quarter of 2009. The decrease is comprised of a number of variables, including a $26,516 increase in professional fees and a $56,976 decrease in the service fee of Shelter Canadian.

The service fee of Shelter Canadian is in regard to administrative and asset management services and the fee is equal to 0.3% of the gross book value of the assets of LREIT, excluding cash, as of the date of the most recently issued financial statements. The decrease in the fee reflects a net book asset value which, on a monthly average basis, was lower in the first quarter of 2010 than in the first quarter of 2009.

Please refer to "Related Party Transactions" for additional information in regard to the administrative, asset management and property management services which are provided to LREIT by Shelter Canadian Properties Limited and the associated remuneration.

Trust expense also includes unit-based compensation expense pertaining to the Unit Option Plan and the Deferred Unit Plan. Additional information regarding the Unit Option Plan and the Deferred Unit Plan is provided on Schedule II of this report.

Amortization Expense

During the first quarter of 2010, amortization expense increased by $30,157 or 1%, compared to the first quarter of 2009. The increase is mainly due to improvements to income properties on which amortization has commenced. Amortization charges for transaction costs are recorded as financing expenses on the Consolidated Statement of Loss.

Future Income Taxes

LREIT currently qualifies as a "Mutual Fund Trust" for income tax purposes whereby distributions are deductible for purposes of calculating the taxable income of the Trust. The deductibility of distributions serves to reduce the taxable income of the Trust to nil.

In 2011, LREIT may no longer qualify as a Mutual Fund Trust and, as such, distributions would no longer be deductible for income tax purposes. In accordance with generally accepted accounting principles, LREIT has recorded a future income tax asset based on the temporary difference between the accounting and tax basis of assets held by the Trust, net of a valuation allowance to recognize the uncertainty of the future income tax asset. During 2009 and 2010, the valuation allowance served to reduce the change in the tax asset for the quarter ended March 31, 2009 and 2010, to nil.

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

As of March 31, 2010, a valuation allowance of $1,246,504 has been recorded in recognition of the uncertainty of realization of the future income tax asset, which arises from the temporary differences between the accounting and tax basis held in the Trust, which are expected to reverse after 2010.

As a result, the future income tax asset and future income tax expense are reflected as nil.

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

Comparison to Preceding Quarter

Analysis of Loss - First Quarter 2010 vs. Fourth Quarter 2009

	Three Months Ended		Increase (decrease)	
	March 31, 2010	December 31, 2009	Amount	%
Rental revenue	$ 8,863,379	$ 8,852,092	$ 11,287	0.1 %
Interest and other income	208,628	54,245	154,383	284.6 %
Property operating costs	3,686,293	3,173,645	512,648	16.2 %
Net Operating Income (NOI)	5,385,714	5,732,692	(346,978)	(6.1)%
Trust expense	696,790	643,461	53,329	8.3 %
Income before financing expense, amortization, and taxes (EBITDA)	4,688,924	5,089,231	(400,307)	(7.9)%
Financing expense	6,431,439	4,276,964	2,154,475	50.4 %
Income (loss) before amortization, and taxes	(1,742,515)	812,267	(2,554,782)	(314.5)%
Amortization	2,227,407	2,225,574	1,833	0.1 %
Loss from continuing operations for the period	(3,969,922)	(1,413,307)	(2,556,615)	180.9 %
Income from discontinued operations for the period	7,547,136	20,544,425	(12,997,289)	(63)%
Income (loss) and comprehensive income (loss) for the period	$ 3,577,214	$ 19,131,118	$ (15,553,904)	(81.3)%

Overview

During the first quarter of 2010, LREIT incurred a loss from continuing operations, before taxes, of $3,969,922, compared to a loss from continuing operations, before taxes, of $1,413,307 during the fourth quarter of 2009. The increase in the loss from continuing operations mainly reflects an increase in financing expense, and, to a much lesser extent, a decrease in net operating income.

Financing expense in the fourth quarter of 2009 includes a deduction of approximately $2.5 Million in regard to the forgiveness of interest which was accrued in prior periods on the amount payable for Parsons Landing. The increase in financing expense mainly reflects the fact that financing expense was comparatively low during the fourth quarter of 2009 due to the interest forgiveness deduction in regard to prior periods.

The decrease in net operating income mainly reflects a decrease 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 decreased by $392,774 during the first quarter of 2010, representing 113% of the total decrease in NOI.

The decrease in the NOI for the Fort McMurray portfolio is mainly due to a decrease in revenues as a result of a reduction in the monthly average rental rate.

After providing for income from discontinued operations, LREIT completed the first quarter of 2010 with income of $3,577,214, compared to income of $19,131,118 during the fourth quarter of 2009. The bottom-line results for the first quarter of 2010 reflect income from discontinued operations of $7,547,136, compared to $20,544,425 during the fourth quarter of 2009. Income from discontinued operations for the first quarter of 2010 includes $7,592,119 relating to gains on sale, compared to $21,063,885 in the fourth quarter of 2009.

Revenue and NOI Analysis

The following analysis provides comparative results for the first quarter of 2010, compared to the fourth quarter of 2009, for the income-producing properties of LREIT. The analysis excludes interest and other income pertaining to "Trust" operations.

	Three Months Ended March 31 2010	Three Months Ended December 31 2009	Increase (decrease) Amount	Increase (decrease) %
Revenue				
Fort McMurray	$ 6,690,323	$ 6,656,762	$ 33,561	0.5%
Yellowknife	1,619,866	1,555,965	63,901	4.1%
Other	671,417	685,782	(14,365)	(2.1)%
Total revenue	$ 8,981,606	$ 8,898,509	$ 83,097	0.9%
Net operating income				
Fort McMurray	$ 4,025,951	$ 4,418,725	$ (392,774)	(8.9)%
Yellowknife	939,139	900,909	38,230	4.2%
Other	330,223	405,230	(75,007)	(18.5)%
Total net operating income	$ 5,295,313	$ 5,724,864	$ (429,551)	(7.5)%

Summary of Quarterly Results

Quarterly Analysis

	2010 Q1	2009 Q4	2009 Q3	2009 Q2
Total revenue	$ 9,072,007	$ 8,906,337	$ 9,404,600	$ 11,023,747
Net operating income	$ 5,385,714	$ 5,732,692	$ 6,170,894	$ 7,860,182
Loss from continuing operations for the period, before future income tax	$ (3,969,922)	$ (1,413,307)	$ (3,397,681)	$ (3,439,091)
Income (loss) and comprehensive income (loss) for the period	$ 3,577,214	$ 19,131,118	$ (3,146,599)	$ (3,956,727)
PER UNIT				
Net operating income				
- basic	$ 0.297	$ 0.321	$ 0.350	$ 0.450
- diluted	$ 0.226	$ 0.228	$ 0.242	$ 0.311
Loss from continuing operations for the period, before future income tax				
- basic	$ (0.219)	$ (0.079)	$ (0.193)	$ (0.197)
- diluted	$ (0.219)	$ (0.079)	$ (0.193)	$ (0.197)
Income (loss) and comprehensive income (loss) for the period				
- basic	$ 0.197	$ 1.072	$ (0.179)	$ (0.227)
- diluted	$ 0.197	$ 1.072	$ (0.179)	$ (0.227)

Quarterly Analysis

	2009	2008		
	Q1	Q4	Q3	Q2
Total revenue	$ 12,477,321	$ 13,316,263	$ 12,168,436	$ 9,257,322
Net operating income	$ 8,665,493	$ 9,746,256	$ 8,982,171	$ 6,472,324
Income (loss) from continuing operations for the period, before future income tax	$ 4,334,894	$ (5,430,702)	$ 905,148	$ (513,168)
Loss and comprehensive loss for the period	$ (8,530,719)	$ (2,185,348)	$ (2,433,198)	$ (4,988,811)
PER UNIT				
Net operating income				
- basic	$ 0.496	$ 0.559	$ 0.513	$ 0.369
- diluted	$ 0.344	$ 0.382	$ 0.352	$ 0.253
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.248)	$ (0.312)	$ 0.052	$ (0.029)
- diluted	$ (0.248)	$ (0.312)	$ 0.050	$ (0.029)
Loss and comprehensive loss for the period				
- basic	$ (0.488)	$ (0.125)	$ (0.139)	$ (0.284)
- diluted	$ (0.488)	$ (0.125)	$ (0.139)	$ (0.284)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Three Months Ended March 31		Change	
	2010	2009		
Income (loss) and comprehensive income (loss)				
- basic	$ 0.197	$ (0.488)	$ 0.685	140 %
- diluted	$ 0.197	$ (0.488)	$ 0.685	140 %
Income (loss) from continuing operations, before future income tax				
- basic	$ (0.219)	$ (0.248)	$ 0.029	12 %
- diluted	$ (0.219)	$ (0.248)	$ 0.029	12 %

Excluding future income tax, LREIT incurred a loss of $0.219 per unit during the first quarter of 2010, compared to a loss of $0.248 per unit during the first quarter of 2009. As the weighted average number of units has only increased by 3.8% since March 31, 2009, the increase in the loss per unit mainly reflects the increase in the overall loss of the Trust before future income tax.

ANALYSIS OF CASH FLOWS

Operating Activities

First Quarter Comparatives

Cash from Operating Activities

	Three Months Ended March 31		Increase
Continuing Operations	2010	2009	(decrease)
Rental revenue	$ 8,863,379	$ 12,271,439	$ (3,408,060)
Interest and other income	208,628	205,882	2,746
Property operating costs	3,686,293	3,811,828	(125,535)
Net operating income (NOI)	5,385,714	8,665,493	(3,279,779)
Less:			
Financing expense	6,431,439	10,058,947	(3,627,508)
Non-cash component of financing expense	628,960	3,395,499	(2,766,539)
	5,802,479	6,663,448	(860,969)
Trust expense	696,790	744,190	(47,400)
Non-cash component of trust expense	72,405	88,331	(15,926)
	624,385	655,859	(31,474)
Cash provided by (used in) operating activities, before changes in non-cash operating activities	(1,041,150)	1,346,186	(2,387,336)
Changes in non-cash operating items	349,915	(115,156)	465,071
Cash provided by (used in) operating activities - continuing operations	$ (691,235)	$ 1,231,030	$ (1,922,265)
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items	$ 707,527	$ 272,773	$ 434,754
Cash used in leasing activities	-	(110,694)	110,694
Cash provided by operating activities, before changes in non-cash operating items	707,527	162,079	545,448
Changes in non-cash operating items	(116,436)	1,675,705	(1,792,141)
Cash provided by operating activities	$ 591,091	$ 1,837,784	$ (1,246,693)
Summary			
Cash provided by (used in) operating activities, before changes in non-cash operating items			
-continuing operations	$ (1,041,150)	$ 1,346,186	$ (2,387,336)
-discontinued operations	707,527	162,079	545,448
Total - continuing and discontinued operations	$ (333,623)	$ 1,508,265	$ (1,841,888)
Cash provided by (used in) operating activities			
-continuing operations	$ (691,235)	$ 1,231,030	$ (1,922,265)
-discontinued operations	591,091	1,837,784	(1,246,693)
Total - continuing and discontinued operations	$ (100,144)	$ 3,068,814	$ (3,168,958)

Continuing Operations

During the first quarter of 2010, the operating activities from the continuing operations of LREIT resulted in a net cash outflow of $691,235. After excluding changes in non-cash operating items, cash from operating activities decreased by $2,387,336 during the first quarter of 2010, compared to the first quarter of 2009. The decrease in cash flow mainly reflects a decrease in net operating income, on a cash basis, partially offset by a decrease in financing expense, on a cash basis.

The cash component of financing expense reflects mortgage loan interest, convertible debenture and mortgage bond interest, as well as interest on the amount payable for Parsons Landing, and is calculated by excluding amortization charges for transaction costs, the change in value of interest rate swaps and the accretive portion of the debt component of convertible debentures and mortgage bonds.

An analysis of the cash component of financing expense (i.e., "total interest expense") is provided in the preceding analysis of "Financing Expense".

Discontinued Operations

During the first quarter of 2010, "operating" cash flow from discontinued operations, before changes in non-cash operating items, increased by $545,448, compared to the first quarter of 2009. The increase mainly reflects a decrease in mortgage loan interest for "held for sale" properties and an increase in the cash component of operating income for "held for sale" properties.

Comparison to Fourth Quarter of 2009

Cash from Operating Activities

	Three Months Ended March 31 2010	Three Months Ended December 31 2009	Increase (decrease)
Continuing Operations			
Rental revenue	$ 8,863,379	$ 8,852,092	$ 11,287
Interest and other income	208,628	54,245	154,383
Property operating costs	3,686,293	3,173,647	512,646
Net operating income (NOI)	5,385,714	5,732,690	(346,976)
Less:			
Financing expense	6,431,439	4,276,962	2,154,477
Non-cash component of financing expense	628,960	795,014	(166,054)
	5,802,479	3,481,948	2,320,531
Trust expense	696,790	643,461	53,329
Non-cash component of trust expense	72,405	58,177	14,228
	624,385	585,284	39,101
	(1,041,150)	1,665,458	(2,706,608)
Changes in non-cash operating items	349,915	(2,082,074)	2,431,989
Cash provided by (used in) operating activities - continuing operations	$ (691,235)	$ (416,616)	$ (274,619)
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items	$ 707,527	$ 350,368	$ 357,159
Cash used in leasing activities	-	(482,573)	482,573
Cash provided by operating activities, before changes in non-cash operating items	707,527	(132,205)	839,732
Changes in non-cash operating items	(116,436)	(3,161,399)	3,044,963
Cash provided by operating activities	$ 591,091	$ (3,293,604)	$ 3,884,695
Summary			
Cash provided by (used in) operating activities, before changes in non-cash operating items			
-continuing operations	$ (1,041,150)	$ 1,665,458	$ (2,706,608)
-discontinued operations	707,527	(132,205)	839,732
Total - continuing and discontinued operations	$ (333,623)	$ 1,533,253	$ (1,866,876)
Cash provided by (used in) operating activities			
-continuing operations	$ (691,235)	$ (416,616)	$ (274,619)
-discontinued operations	591,091	(3,293,604)	3,884,695
Total - continuing and discontinued operations	$ (100,144)	$ (3,710,220)	$ 3,610,076

Continuing Operations

During the first quarter of 2010, cash provided by operating activities, before changes in non-cash operating items, decreased by $2,706,608, compared to the fourth quarter of 2009. The decrease mainly reflects an increase in financing expense on a cash basis which mainly reflects the approximate $2.5 Million interest forgiveness credit recorded in the fourth quarter of 2009 and a decrease in net operating income, on a cash basis.

Discontinued Operations

During the first quarter of 2010, "operating" cash flow from discontinued operations, before changes in non-cash operating items, increased by $839,732, compared to the fourth quarter of 2009. The increase mainly reflects a decrease in mortgage loan interest for "held for sale" properties and an increase in the cash component of operating income for "held for sale" properties.

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

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

During the first quarter of 2010, FFO increased by $809,171, compared to the first quarter of 2009, while AFFO decreased by $1,699,640. On a basic per unit basis, FFO increased by $0.049 per unit, while AFFO decreased by $0.096 per unit.

The operating cash flow from discontinued operations before changes in non-cash operating items is included in the calculation of FFO and AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Income (loss)	$ 3,577,214	$ (8,530,719)
Add (deduct):		
Amortization expense - continuing operations	2,227,407	2,197,250
Amortization expense - discontinued operations	423,917	1,419,403
Income tax - continuing operations	-	2,698,804
Income tax - discontinued operations	78,679	82,586
Non-controlling interest - discontinued operations	-	38,603
Gain on sale - discontinued operations	(7,592,119)	-
Funds from operations *	(1,284,902)	(2,094,073)
Add (deduct):		
Straight-line rent adjustment - discontinued operations	164,736	(3,111)
Net amortization of above/below market in-place leases - discontinued operations	-	2,309
Accretion of debt component of convertible debentures	727,015	666,355
Unit-based compensation	72,405	88,331
Change in fair value of interest rate swaps	(379,298)	2,443,974
Tenant inducement and leasing expenses - discontinued operations	-	(110,694)
Ongoing improvements to income properties - continuing operations	(69,902)	(32,728)
Ongoing improvements to income properties - discontinued operations	(22,050)	(52,719)
Adjusted funds from operations *	$ (791,996)	$ 907,644
FFO per unit *		
- basic	$ (0.071)	$ (0.120)
- diluted	$ (0.071)	$ (0.120)
AFFO per unit *		
- basic	$ (0.044)	$ 0.052
- diluted	$ (0.044)	$ 0.049

* FFO and AFFO are non-GAAP 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 GAAP.

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 GAAP 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 GAAP 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 GAAP measurement of the cash flows of LREIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash from operating activities and distributable income is provided in the chart below.

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended March 31	
	2010	2009
Cash provided by continuing operating activities	$ (691,235)	$ 1,231,030
Changes in non-cash operating items	(349,915)	115,156
	(1,041,150)	1,346,186
Add (deduct):		
Cash flow from discontinued operations - net of changes in non-cash operating items	707,527	162,079
Difference between contract/market rates	19,274	11,043
Tenant inducement and leasing expenses	-	110,694
Amortization of tenant inducement and leasing expenses	(4,794)	(91,435)
Distributable income (loss)	$ (319,143)	$ 1,538,567
Per unit		
- Basic	$ (0.018)	$ 0.088
- Diluted	$ (0.018)	$ 0.084

Changes in non-cash operating items are excluded from LREIT's calculation of distributable income as non-cash operating items are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

The operating cash flow from discontinued operations net of changes in non-cash items is included in the calculation of distributable income. For discontinued operations, lease acquisition costs are also excluded from the calculation of distributable Income, as such costs are subject to significant fluctuation based on leasing activity, while amortization charges for lease acquisition costs are deducted as amortization charges are more representative of the average annual cost of leasing acquisition activities.

During the first quarter of 2010, distributable income decreased by $1,857,710 compared to the first quarter of 2009. The decrease in distributable income generally coincides with the total decrease in cash provided by operating activities from continuing and discontinued operations, excluding changes in non-cash operating items.

Total Distribution

For the months of January and February 2009, LREIT declared a distribution of $0.04667 per unit, representing a total distribution of $0.9334 per unit. Subsequent to the payment of the distribution for February 2009, LREIT suspended distributions due to the decline in rental market conditions in Fort McMurray and the impact on operating cash flow. After considering the value of units issued under the distribution reinvestment plan ("DRIP") and distributions paid on limited partnership units, the total distributions of LREIT for the first quarter of 2009 amounted to $1,668,364.

The distributions in the first quarter of 2009 were equal to 109% of distributable income and 53% of cash from operating activities.

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 an ongoing source of cash to fund regular mortgage loan principal payments and improvements to income properties. Although there may be quarterly periods in which there is a cash deficiency from operating activities, on an annual basis, cash from operating activities effectively represents the initial source of funding for regular mortgage loan principal payments and improvements to income properties. As distributions were suspended subsequent to February 2009, the current funding requirements of LREIT do not encompass the funding of distributions.

Other non-recurring investment and financing activities, may result in a cash inflow or cash outflow, depending on specific events which occur each quarter.

LREIT also requires additional capital on a periodic basis to fund the equity component of new property acquisitions and lump-sum convertible debenture repayments.

The net cash inflow from the divestiture program and the "operation" of held for sale properties, as reflected under discontinued operations, is primarily designated for lump-sum debt repayments, including the retirement of convertible debenture debt. In addition, the net cash inflow from discontinued operations may serve as a supplemental funding source for continuing operations to the extent that there is a cash deficiency in continuing operations.

Source and Use of Funds - 2010 Q1 Summary

Continuing Operations

An analysis of the cash flows of LREIT for the first quarter of 2010, separated into "continuing operations" and "discontinued operations" is provided in the chart which follows this section of the MD&A. The analysis discloses the following:

(i) regular monthly principal payments and improvements to income properties exceeded cash from operating activities by $2,373,563.

(ii) after including other financing and investing activities, there was a net cash outflow of $9,943,300 from continuing operations. As disclosed in the Consolidated Statements of Cash Flows in the financial statements, the cash inflows and outflows for other financing and investing activities, include gross proceeds of $6.78 Million from the second mortgage bond/investment unit offering, a net draw on the line of credit of $1.26 Million, the repayment of $11.95 Million of debentures and an increase in restricted cash of approximately $2.85 Million.

Discontinued Operations

As disclosed in the cash flow analysis, the net cash inflow from discontinued operations was $8,285,819, comprised of the following components:

(i) a net cash inflow of $591,091 from the "operations" of discontinued properties;

(ii) a net cash inflow from property sales of $6,445,841. The net cash inflow from property sales is net of selling expenses and any mortgage loan debt which was discharged on sale or assumed by or provided to the Purchaser;

(iii) a net cash inflow of $1,248,887 from other financing and investing activities.

The majority of the cash inflow from discontinued operations, combined with the proceeds from the mortgage bond offering, essentially represented the primary funding source for the repayment of the Series E debentures.

Ending Cash Position

The net cash outflow from continuing and discontinued operations amounted to $1,657,481 during the first quarter of 2010. After accounting for the opening bank balance of $4,287,864, LREIT completed the first quarter of 2010 with a cash balance of $2,630,383.

Cash Flow Analysis (Note 1) - Three Months Ended March 31, 2010

CONTINUING OPERATIONS		
Cash provided by operating activities		$ (691,235)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on mortgage loans	(1,558,183)	
Improvements to income properties (Note 2)	(124,145)	(1,682,328)*
Shortfall in cash provided by operating activities		(2,373,563)*
Cash provided by (used in) other financing and investment activities		
Total cash used in financing activities	(6,275,101)	
Total cash used in investing activities	(2,976,964)	
Add back: Financing/investing cash outflows deducted above	1,682,328 *	(7,569,737)*
Net cash outflow from continuing operations		(9,943,300)
DISCONTINUED OPERATIONS		
Cash provided by (used in) operations of properties sold and held for sale		591,091
Net cash proceeds from property sales		6,445,841
Cash provided by (used in) other activities in discontinued operations		1,248,887
Net cash inflow from discontinued operations		8,285,819
Cash decrease		(1,657,481)
Cash, beginning of period		4,287,864
Cash, end of period		$ 2,630,383

Note 1 - GAAP Measurements

The preceding cash flow analysis represents the re-formatting of amounts from the Consolidated Statement of Cash Flows in the financial statements 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/outflows associated with property sales and lump-sum repayments of interim mortgage loan debt. The specific line item amounts which are disclosed in the analysis, agree to the Consolidated Statement of Cash Flows with the exception of the asterisked sub-totals and the line amount titled "cash provided by (used in) other activities in discontinued operations" which is the cumulative total of the individual amounts which are not separately disclosed in the analysis. The order of presentation of the line items differs from the Consolidated Statement of Cash Flows, as follows:

- the cash outflows for two financing activities (regular repayments of principal on mortgage loans and distributions) and one investing activity (improvements to income properties) are disclosed separately under the category of "Ongoing Financing and Investing Activities".
- the net cash outflow for the remaining financing and investment activities are disclosed under the category of "Other Financing and Investing" activities.

Note 2 - Improvements to Income Properties

Improvements to income properties 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 2010

Sources

Working Capital/Existing Cash

As of March 31, 2010, the working capital deficit of LREIT, excluding accrued liabilities for property acquisitions, was approximately $2.4 Million. Including accrued liabilities for property acquisitions of $47,720,000, the working capital deficit of LREIT was $50.1 Million as of March 31, 2010.

As of March 31, 2010, the cash balance of LREIT was $2,630,383.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

As of March 31, 2010, the full amount of the $5 Million revolving loan commitment was available to LREIT.

Line of Credit

As of March 31, 2010, the amount available under the line of credit with the Royal Bank of Canada was $3,615,000.

Cash from Operating Activities

In the 2009 Annual Report for LREIT, it was noted that the cash provided by operating activities in 2010 is dependent on four main factors. An update on each of the factors is provided below.

(i) Rental market conditions in Fort McMurray: During the first quarter of 2010, revenue from the Fort McMurray property portfolio increased by $33,561 or 0.5%, compared to the fourth quarter of 2009 while net operating income decreased by $392,774 or 8.9%. Overall, the operating income from the Fort McMurray property portfolio for 2010 is not expected to exceed the operating income for 2009, as the impact of the economic downturn in Fort McMurray was not fully reflected in the revenue results for 2009 until the second half of the year. Other factors, including the expiry of the entire property lease agreement for Lakewood Manor, may result in a reduction in operating income in 2010.

(ii) Parsons Landing financing: As a result of on-going difficulties in finalizing new mortgage loan financing for Parsons Landing, the interest costs associated with the acquisition payable are expected to remain at existing levels for the second quarter of 2010.

(iii) Mortgage renewal rates: During the first quarter of 2010, $2.9 Million of mortgage loan debt matured for continuing operations. The debt had a weighted average interest rate of 7.5% and was renewed at a weighted average interest rate of 7.5%.

(iv) Property sales and the pay down of debt for continuing operations: During the first quarter of 2010, the total debt for continuing operations, including mortgage loans payable, convertible debenture debt, mortgage bonds payable and acquisition payable, decreased by $8,648,837 compared to the fourth quarter of 2009, with the net proceeds from property sales representing a significant factor in overall debt reduction equation. For the remainder of 2010, any additional net proceeds from property sales will be primarily devoted for reserves and the funding of operating cash shortfalls.

Discontinued Operations

As of March 31, 2010, 8 properties were classified as held for sale by LREIT. The estimated gross selling price and net cash proceeds of the properties is $147 Million and $57.6 Million, respectively.

Mortgage Loans Receivable

As of March 31, 2010, LREIT has $10.05 Million invested in mortgage loans receivable, comprised of three loans, all of which provide for payments of interest only. Based on the loan receivable balance as of March 31, 2010, quarterly interest income on the loans receivable for the second quarter is $113,000 and will be $145,750 in subsequent quarters.

Mortgage Loan Financing

As opportunities arise, first mortgage loans may be upward refinanced at maturity in order to raise additional capital to supplement the cash generated from operating activities.

Debt and/or Equity Offerings

LREIT has the capability of pursuing 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 of approximately $48.2 Million was extended to July 31, 2010, subject to the completion of mortgage financing arrangements by LREIT by June 30, 2010. After providing for $1.4 Million of furniture credits and $12 Million of second mortgage loan financing from the vendor, the amount required to complete the purchase of the property is approximately $34.2 Million. Based on anticipated first mortgage loan financing of $30 Million, the amount payable in cash will be approximately $4.2 Million.

Mortgage Loan Principal Payments

Continuing Operations

A summary of the debt obligations of LREIT relating to continuing operations for the remainder of 2010 and for the next five years, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	2010	2011/2012	2013/2014	2015 and beyond
Regular mortgage loans	$ 204,364,113	$ 72,216,830	$ 42,852,372	$ 72,518,383	$ 16,776,528
Variable rate demand loans	72,629,959	72,629,959	-	-	-
Vendor take-back mortgage loan	4,000,000	4,000,000	-	-	-
Total	$ 280,994,072	$ 148,846,789	$ 42,852,372	$ 72,518,383	$ 16,776,528

The total amount due during the remainder of 2010 of $148,846,789 is comprised of the following amounts:

(i) regular repayments of principal in the amount of $2,975,746;

(ii) principal of $2,866,092 in regard to one first mortgage loan and one second mortgage loan which have matured and have subsequently been renewed.

(iii) principal of $20,459,424 on first or second mortgage loans which mature during the second, third or fourth quarter of 2010. The loans are expected to be renewed under similar terms and conditions;

(iv) principal of $4,000,000 in regard to a vendor take-back loan which matures in August 2010. The loan is expected to be extended or refinanced at maturity;

(v) principal of $123,615,262 in regard to mortgage loans that are in breach of debt service coverage requirements, comprised of demand loans of $72,629,959 and first mortgage loan debt of $50,985,733 which matures subsequent to 2010. The status of the mortgage loans which are in breach of the debt service coverage requirements is discussed in detail in the section of this report titled "Mortgage Loans Payable".

Discontinued Operations

The mortgage loan debt for the eight properties which are classified as "held for sale" as of March 31, 2010, amounts to $75.1 Million, all of which matures beyond 2010.

Improvements to Existing Properties

Property improvement costs for the remainder of 2010 are not expected to exceed $1.4 Million.

Convertible Debenture/Principal Payments

A summary of the net amount outstanding as of March 31, 2010 in regard to the two remaining series of convertible debentures is provided in the following chart. As previously disclosed, the Series E convertible debenture debt of $11.95 Million matured on February 17, 2010. The debt was retired using $5 Million from the line of credit with 2668921 Manitoba Ltd. and $4.8 Million from the line of credit with the Royal Bank of Canada, with the balance paid from cash reserves.

Issue Date/Maturity Date	Series	Amount Issued	Net Amount Outstanding March 31, 2010
Mar. 10/06/Mar. 11/11	F	$ 13,677,000	$ 13,677,000
Dec. 8/06/Dec. 31/11	G	25,732,000	25,732,000
Face Value		$ 39,409,000	$ 39,409,000

The Series F debentures provide for the outstanding amount of the debentures to become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. As previously disclosed in this report, the Trust is not in compliance with four first mortgage loans and one second mortgage loan totaling $123,615,262, as a result of a violation of the debt service coverage requirement. If any of the mortgage lenders demand the repayment of the loans, the Series F debentures may become payable on demand.

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. Payment of the fee occurs on a monthly basis, on the last day of each month. The current term of the Services Agreement expires on December 31, 2015. The Services Agreement terms were extended to December 31, 2015, with all other terms and conditions remaining the same. During the first quarter of 2010, LREIT incurred service fees payable to Shelter Canadian of $437,885. 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, which are managed by third party managers who specialize in seniors' housing. 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. The current term of the Management Agreement expires on December 31, 2015.

During the first quarter of 2010, LREIT incurred property management fees on discontinued operations payable to Shelter Canadian of $79,486, as well as leasing commissions of $2,407 and tenant improvements and renovation fees of nil. Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development. Leasing commissions and tenant improvement and renovation fees are capitalized to income properties.

Loans

During 2009, LREIT obtained a $500,000 second mortgage loan and a $5 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The second mortgage loan bears interest at 7.5%, is due on June 1, 2010, and is secured by a second mortgage charge on Norglen Terrace. The second mortgage loan is expected to be repaid before maturity from the upward refinancing of the first mortgage loan of Norglen Terrace.

The revolving loan commitment also bears interest at 7.5%. In March 2010, the due date of the revolving loan commitment was extended from June 30, 2010 to December 31, 2010. In March 2010, LREIT also agreed to provide security for the loan in the form of a $6 Million third mortgage charge on Beck Court and the assignment of a $500,000 vendor take-back mortgage.

The terms of the loans and the granting of security were approved by the independent Trustees of LREIT. 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

Lakewood Manor

The acquisition of Lakewood Manor was completed by LREIT, effective July 1, 2007. All of the units at the property are leased by a major oil sands company, pursuant to a three year lease agreement, under which the lessee is also responsible for all property operating costs. The net operating income of the property is approximately $4.8 Million per annum, representing the amount of gross rental revenue.

The net operating income of Lakewood Manor is expected to decline during the second half of 2010, as a result of the expiry of the Lease agreement.

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 (formerly known as Phase II of Siena 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.

Elgin Lodge

In conjunction with the acquisition of Elgin Lodge in June 2006, LREIT retained Kingsway Arms Management Services Inc. ("Kingsway") to manage the property for a ten year term, expiring on May 31, 2016. Kingsway is an Ontario-based company, which acquires, manages and develops retirement homes, catering principally to the independent and assisted living segments. Kingsway currently manages a portfolio of nine properties, totaling 850 suites located across Ontario.

A 60-suite expansion was completed at Elgin Lodge during 2007. During the five year period from June 1, 2006, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded property exceeds the total of the cost of the property to LREIT, including the cost of the expansion and the unpaid portion of a 12% annual return on the LREIT equity investment. Consideration recorded at March 31, 2010, of $434,982 is included in the liabilities of properties held for sale, as accounts payable and accrued liabilities.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term, expiring on February 12, 2017. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the original acquisition cost to LREIT and the unpaid portion of a 8% annual return on the LREIT equity investment. Consideration recorded at March 31, 2010, of $477,901 is included in the liabilities of properties held for sale, as accounts payable and accrued liabilities.

CHANGES IN ACCOUNTING POLICIES

Future Changes to Significant Accounting Policies

International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The International Financial Reporting Standards will replace Canada's current GAAP for public companies.

Although the conceptual framework for IFRS is similar to Canadian GAAP; there are differences in certain matters of recognition, measurement and disclosure. The Trust has performed an initial assessment of the impact of IFRS and has identified differences between IFRS and Canadian GAAP in investment property; classification of Trust units; and lease incentives.

A summary of the identified differences in accounting principles are as follows:

Investment Properties

Income properties as reflected in the March 31, 2010 interim financial statements will be considered to be "Investment Properties" and the accounting principles enumerated under IAS 40 "Investment Property" (IAS 40) will apply. As with Canadian GAAP, IAS 40 provides that investment properties will initially be measured at cost. Subsequent to initial recognition, however, IAS 40 provides an entity with two choices, as follows:

- continue with a cost valuation model with note disclosure of fair values:
- recognize the fair value of investment properties on the balance sheet with valuation adjustments reflected in income.

In either option, the Trust will be required to disclose fair values as at January 1, 2010 in the opening balance sheet to be prepared under IAS 1 "Presentation of Financial Statements" (IAS 1) on the adoption of IFRS for the Trust's fiscal year beginning January 1, 2011.

The provision of fair value information under either option will require that the Trust create a valuation process with reasonable and supportable assumptions concerning cash flows from current leases and future leases and cash outflows in respect of the leases and investment properties.

Classification of Trust Units

The Declaration of Trust requires that all taxable income be distributed to its Unitholders each year. As IFRS is currently drafted and generally interpreted by the Canadian accounting profession, the units may be regarded under IFRS as a "liability" rather than "equity" with the associated distributions classified as interest expense. In order to continue to present units as equity, the Unitholders approved an amendment to the Declaration of Trust at a special meeting of Unitholders in December 2009, to remove the requirement of the Trust to distribute its taxable income and to provide that the Trustees may distribute all of the taxable income to the Unitholders

Lease Incentives

Canadian GAAP provides that lease incentives be amortized over the life of the lease with the amortization charge reflected as an amortization expense without affecting net operating income.

Under IFRS, lease incentives are governed by Standing Interpretations Committee Interpretation 15, "Operating Leases - Incentives" (SIC 15). SIC 15 requires that lease incentives be reflected as a reduction to rental income and operating income over the lease term on a straight-line basis.

First-time Adoption of International Financial Reporting Standards

The Trust's adoption of IFRS will require the application of IFRS 1, "First-Time Adoption of International Financial Reporting Standards " (IFRS 1), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. IFRS 1 also contains certain exceptions and limited optional exemptions in specified areas of certain standards.

The Trust is in the process of reviewing the impact of the adoption of IFRS, including the above changes, on the financial statements and evaluating the accounting policy alternatives for the purpose of determining the necessary changes to accounting policies, internal control procedures, disclosure control and business processes. This will be an ongoing process as new standards and recommendations are issued by the IASB and the CICA Accounting Standards Board. The Trust's financial position and results of its operations may be significantly different when presented in accordance with IFRS.

Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

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 in 2008 and 2009, (ii) the breach of debt service coverage requirements on five mortgage loans which could potentially result in $13.68 Million of convertible debenture debt becoming payable on demand and $6.78 Million of mortgage bonds becoming payable on demand, (iii) the impact of increased vacancy rates and reduced rental rates in Fort McMurray on the ability of LREIT to continue to secure financing on the Fort McMurray properties, and (iv) the working capital deficit of the Trust, as of March 31, 2010 in the amount of $2,406,317.

Management believes that LREIT has the ability to continue operations as a result of the steps which have been taken to address the risk factors, and after considering events which have occurred subsequent to December 31, 2009, including the repayment of the Series E debentures in February 2010; the issue of mortgage bonds; the renewal or refinancing of all mortgage loans which have matured to the date of this report in 2010; the completion of additional property sales in 2010.

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

LREIT is pursuing a divestiture program targeting the sale of assets, with a value in excess of $250 Million, by early 2011. 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. As a result of the sales, the Trust repaid $17.1 Million of interim mortgage loan financing during 2009. On March 1, 2010, LREIT sold two additional properties at a combined gross selling price of $19,170,000.

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 2010. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments to the vendor. 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. Excluding the 8 properties which are classified as "held for sale", there were 21 properties in the real estate portfolio of LREIT as of March 31, 2010, including one commercial property and 20 residential properties, comprising 1,742 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 67% of the total residential suites in the income-producing 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 income-producing properties.

The 13 properties in Fort McMurray accounted for 74% of the total revenue of LREIT during the first quarter of 2010 and 76% of the net operating income.

None of the properties which are classified as "held for sale" as of March 31, 2010 are located in Fort McMurray.

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. LREIT also has two properties in Fort McMurray which are 100% leased to major oil sands companies, under a single lease agreement, as follows:

- Lakewood Manor - all units 100% leased under a three year lease agreement, expiring on June 30, 2010; and
- Siena Apartments - all units 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.

As a result of current reduced construction activity in the oil sands industry, there is an increased risk that leases will not be renewed for suites which are leased to oil sands companies or to the employees of oil sands companies. The current lease agreement for Lakewood Manor is not expected to be renewed on the expiry date of June 30, 2010.

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.

Mortgage Financing

The adoption of more restrictive and conservative lending policies by mortgage lenders following the economic downturn in October 2008, combined with the utilization of interim sources of mortgage financing by LREIT and 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 previously disclosed in this report, LREIT is in breach of a debt service coverage covenant in regard to four first mortgage loans and a second mortgage loan totaling $123,615,262. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that secured convertible debentures, with a face value of $13,677,000, and mortgage bonds, with a face value of $6,780,000, may become payable on demand.

Management believes the default situation for all of the mortgage loans which are in breach of the debt service coverage requirements will be satisfactorily resolved. The anticipated sale of the Moose Jaw property in 2010 would effectively reduce the amount of the "defaulted" debt by approximately $5 Million.

Sources of Capital

Prior to 2009 LREIT utilized second mortgage and interim financing as a source of funds in order to supplement the funding of distributions as well as the funding of income property improvements and unit repurchases under the normal course issuer bid. As of March 31, 2010, the second mortgage loans and interim mortgage loans of LREIT amounted to $42.5 Million. Although it is anticipated that LREIT will be able to renew its existing interim mortgage loan financing at maturity, it is unlikely that LREIT will undertake additional interim financing.

LREIT is undertaking a divestiture program in order to create an additional source of capital in order to supplement the cash provided from operating activities.

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. 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, as amended pursuant to the Special Resolution which was approved at the special meeting of the Unitholders in December 2009, the cash distributions of LREIT are established at the discretion of the Trustees. If circumstances permit, it is the intent of the Trust to distribute an amount which is not less than all of its taxable income to its Unitholders and to deduct these distributions for income tax purposes.

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 "New SIFT Rules") was enacted. Under the New SIFT Rules, certain 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. Distribution of income of SIFT's received by a Unitholder that are not deductible to the SIFT will be treated as dividends payable to the Unitholders, however, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, LREIT may increase its equity capital by $50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, LREIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the REIT Conditions. Accordingly, LREIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, LREIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, 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 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to LREIT and its Unitholders. In addition, no assurance can be given that LREIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

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 Canadian generally accepted accounting principles (GAAP), 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:

- allocation of the cost of property acquisition: a portion of the acquisition cost of an income property is allocated to tenant origination costs associated with in-place leases and the cost of tenant relationships, lease origination costs above market leases and below market leases. The amount allocated to the above is based on the estimated fair market value of each variable. The allocated amounts are of significance, as the costs are amortized over a relatively short time frame (I.e., the term of the respective tenant leases) in comparison to the amount allocated to buildings and equipment;

- amortization of the building component of Income Properties: a portion of the purchase price of an income property is allocated to "building" based on the estimated value of the building on an "as if vacant" basis. Amortization expense is based on the estimated useful life of the building. The estimated useful life of the building may vary and could result in a different amount of amortization charged to income;

- amortization of property improvements: expenditures relating to improvements to income properties are capitalized to the cost of income properties and amortized for a period of five to 25 years, based on the estimated useful life of the improvements. The estimated useful life of improvements may vary and could result in a different amount of amortization charged to income;

- the classification of properties held for sale;

- interest expense on the acquisition payable;

- 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 future income tax assets and liabilities;

- the allocation of convertible debentures between debt and equity based on the estimated fair value of the debt using an estimated cost of borrowing; and

- the allocation of mortgage bonds between debt and equity based on the estimated fair value of the debt using an estimated cost of borrowing.

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 New 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, 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.

Under the New SIFT Rules, if LREIT does not meet the REIT Conditions to become a Qualifying REIT resulting in the tax on distributions commencing to apply to LREIT in 2011 (or earlier if LREIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from LREIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions 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 New 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 March 31, 2010, have represented a reduction in adjusted cost base of the units; with the exception of the special distribution paid by LREIT in December 2009 which represented a capital gain.

Under the New 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.
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INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2010 First Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I and Schedule II, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 12, 2010

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS - 2010

SCHEDULE I

Real Estate Portfolio as of March 31, 2010

Property Portfolio - March 31, 2010

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2010
INCOME PRODUCING PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	97 %
Saskatchewan					
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	99 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	97 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	65 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	59 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	65 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	38 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	55 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	24 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	74 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	67 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	64 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	35 %
Parsons Landing (3)	Fort McMurray	60,733,000	September 2008	160	69 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	60 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	99 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	92 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Total - Residential		**$ 392,928,000**	Total suites	**1,742**	
COMMERCIAL					
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
Total income producing properties		**$ 394,128,000**			

Property Portfolio - March 31, 2010

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2010
PROPERTIES HELD FOR SALE					
RESIDENTIAL					
Manitoba					
Colony Square	Winnipeg	$ 29,907,700	October 2008	428	91 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	98 %
Saskatchewan					
Chateau St. Michael's (2)	Moose Jaw	7,600,000	June 2006	93	99 %
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	96 %
Alberta					
Nova Manor	Edmonton	2,615,000	May 2004	32	92 %
Ontario					
Elgin Lodge (2)	Port Elgin	18,122,000	June 2006	124	64 %
Clarington Seniors Residence (2)	Bowmanville	22,400,000	February 2007	118	66 %
Total - Residential		**$ 108,970,700**	Total suites	**1,064**	
COMMERCIAL					
Retail and Office					
Colony Square	Winnipeg	$ 7,931,600	October 2008	83,190	99 %
		7,931,600		83,190	
Light Industrial					
156 / 204 East Lake Blvd.	Aidrie	1,600,000	June 2003	39,936	- %
Total - Commercial		**$ 9,531,600**	Total leasable area	**123,126**	
Total discontinued operations		**$ 118,502,300**			
Total real estate portfolio		**$ 512,630,300**			

Notes to the Property Portfolio:

(1) Includes the cost of major renovations and asset additions.
(2) Seniors housing complex.
(3) LREIT took possession of Parsons Landing on September 1, 2008 and is expected to close the purchase transaction on July 31, 2010. See "Property Acquisitions - Parsons Landing" above.
(4) Property includes 8,400 square feet of commercial space.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS - 2010

SCHEDULE II

Details of DRIP, NCIB, Unit Option Plan, Deferred Unit Plan and Limited Partnership Units

Distribution Reinvestment Plan ("DRIP")

The "Distribution Reinvestment Plan" provides that Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount. Participants in the DRIP may also purchase additional units on a distribution payment date. The purchase price of the units will generally be equal to the weighted average closing price of the units for the five trading days immediately preceding the relevant distribution payment date.

There have not been any units issued under the Distribution Reinvestment Plan subsequent to the first quarter of 2009 as a result of the suspension of distributions by LREIT.

The value of the DRIP units is included in the determination of the total amount of distributions declared by LREIT.

Normal Course Issuer Bid

In January 2009, LREIT renewed a normal course issuer bid ("NCIB") for its trust units, under which it is entitled to purchase a limited number of the issued and outstanding units of the Trust, as specified by the TSX. The NCIB was renewed in January 2010 for an additional 12 month term that expires on January 12, 2011.

Since January 2009, there have not been any purchases of trust units. The Trust is not required to purchase any units under the normal course issuer bid.

In January 2010, LREIT initiated a normal course issuer bid ("NCIB") for its Series F debentures and a normal course issuer bid for its Series G debentures, under which LREIT is entitled to purchase a limited number of issued and outstanding Series F debentures and Series G debentures. Each of the normal course issuer bids commenced on January 13, 2010 and expire on January 12, 2011.

During the period from January 13, 2010 to March 31, 2010, the Trust purchased and cancelled $3,000 Series F debentures at an average price of $82.00 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of LREIT and to other individuals who are employed or retained by the Trust to perform specific duties.

As of March 31, 2010, LREIT had 1,452,000 options outstanding of which 880,000 or 79.7% had vested, all of which vested prior to the three months ended March 31, 2010. LREIT has not granted any options under the Unit Option Plan since January 2008.

In accordance with Canadian generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Loss and Comprehensive Loss. During the three months ended March 31, 2010, unit-based compensation expense related to unit options amounted to $14,780.

As unit-based compensation is a "non-cash" expense, it does not impact the operating cash flows of the Trust.

Deferred Unit Plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees paid in the form of deferred units. Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control (as defined in the deferred unit plan), any unvested deferred units shall vest upon the earlier of the next applicable vesting date that is immediately prior to the date on which the change of control occurs Whenever cash distributions are paid, additional deferred units are credited to the participant based on the number of deferred units held. The deferred units credited to a participant vest immediately and are redeemable by the participant on retirement or on "termination" other than for cause. If a participant is terminated for cause, only the deferred units which have vested shall be redeemable and any unvested deferred units shall be cancelled. Additional details of the Deferred Unit Plan are disclosed in Note 15 to the 2010 quarterly financial statements of LREIT.

The Trustees have also approved a compensation package, whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair and attending meetings. During the three months ended March 31, 2010, the total fees payable to independent Trustees under the compensation package amounted to $57,625.

All of the independent Trustees elected to have their compensation for the three months ended March 31, 2010 paid in the form of deferred units. The number of deferred units received is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable. Based on an average market price of $0.62, there were 92,765 deferred units granted to the independent Trustees during the three months ended March 31, 2010.

The value of the deferred units is a unit-based compensation expense, including in "Trust expense" in the financial statements of LREIT. Unit-based compensation expense is a "non-cash" expense, which does not affect the cash flow of the Trust.

UNITHOLDER INFORMATION

Trustees and Officers

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

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Mr. Harold Milavsky, FCA, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the President of Big Freight Systems Inc. Mr. Milavsky and Ms. Barker were appointed at the Annual General Meeting in June 2006. Mr. Milavsky is the Chair of the Board, Quantico Capital Corporation. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer and Secretary of LREIT is Mr. Kenneth Dando, CA, Senior Manager of Corporate Accounting and Financial Reporting for Shelter Canadian Properties Limited.

Administrator of the Trust

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

Property Management

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

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Website: www.lreit.com

Unit Listing

Toronto Stock Exchange (TSX)
Unit trading symbol: LRT.UN
Debenture trading symbol: LRT.DB.F
LRT.DB.G

Unitholder and Investor Contact

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Transfer Agent and Registrar

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