LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2011	December 31 2010
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$446,837,052**	$439,300,000
Loans and receivables (Note 5)	**500,000**	500,000
Defeasance assets (Note 6)	**3,264,842**	3,313,434
Restricted cash (Note 7)	**13,601,648**	21,478,638
Deferred tax asset (Note 12)	**298,707**	185,859
Total non-current assets	**464,502,249**	464,777,931
Current assets		
Cash	**2,039,277**	925,046
Rent and other receivables (Note 8)	**1,970,917**	1,315,470
Deposits, prepaids and other (Note 9)	**1,603,555**	1,046,795
	5,613,749	3,287,311
Non-current assets classified as held for sale (Note 10)	**80,225,076**	79,763,934
Total current assets	**85,838,825**	83,051,245
TOTAL ASSETS	**$550,341,074**	$547,829,176
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 11)	**$107,266,811**	$128,457,486
Total non-current liabilities	**107,266,811**	128,457,486
Current liabilities		
Trade and other payables (Note 13)	**66,841,054**	59,244,173
Bank indebtedness (Note 14)	**4,865,000**	2,960,000
Current portion of long-term debt (Note 11)	**237,671,506**	225,526,496
Deposits from tenants	**2,843,083**	2,121,716
	312,220,643	289,852,385
Non-current liabilities classified as held for sale (Note 10)	**54,269,851**	54,466,518
Total current liabilities	**366,490,494**	344,318,903
Total liabilities	**473,757,305**	472,776,389
Total equity	**76,583,769**	75,052,787
TOTAL LIABILITIES AND EQUITY	**$550,341,074**	$547,829,176

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Rentals from investment properties	**$ 10,363,052**	$ 9,672,356	**$ 19,513,569**	$ 20,424,498
Property operating costs	**4,043,090**	4,008,689	**8,070,600**	8,855,294
Net operating income	**6,319,962**	5,663,667	**11,442,969**	11,569,204
Interest income	**47,344**	141,637	**125,011**	248,069
Interest expense (Note 18)	**(8,651,755)**	(7,123,403)	**(17,367,825)**	(14,537,402)
Trust expense	**(661,170)**	(957,471)	**(1,432,915)**	(1,654,261)
Profit (loss) on sale of investment properties	**-**	1,440,074	**-**	1,417,750
Fair value gains (losses) (Note 4)	**7,049,162**	(657,506)	**6,748,455**	(785,922)
Income (loss) before taxes and discontinued operations	**4,103,543**	(1,493,002)	**(484,305)**	(3,742,562)
Income tax expense (recovery)	**(89,123)**	-	**(206,782)**	(227,520)
Income (loss) before discontinued operations	**4,192,666**	(1,493,002)	**(277,523)**	(3,515,042)
Income from discontinued operations (Note 10)	**708,255**	653,652	**1,431,836**	976,860
Income (loss) and comprehensive income (loss)	**$ 4,900,921**	$ (839,350)	**$ 1,154,313**	$ (2,538,182)
Income (loss) per unit - before discontinued operations: Basic and diluted	**$ 0.228**	$ (0.082)	**$ (0.015)**	$ (0.193)
Income (loss) per unit - discontinued operations: Basic and diluted	**$ 0.038**	$ 0.036	**$ 0.078**	$ 0.054
Income (loss) and comprehensive income (loss) per unit: Basic and diluted	**$ 0.266**	$ (0.046)	**$ 0.063**	$ (0.139)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Issued capital				
Balance, beginning and end of period	**$107,860,241**	$ 98,966,638	**$107,860,241**	$ 98,966,638
Contributed surplus				
Balance, beginning of period	**9,419,244**	5,706,320	**5,544,362**	461,871
Value of unit options granted	**2,042**	14,466	**4,295**	29,246
Maturity of Series E debentures	**-**	-	**-**	2,835,690
Maturity of Series F debentures	**-**	-	**3,507,495**	-
Issue of warrants	**-**	-	**334,874**	747,285
Debentures purchased under normal course issuer bid	**15,372**	11,464	**26,882**	12,246
Value of deferred units granted	**18,750**	35,125	**37,500**	92,750
Balance, end of period	**9,455,408**	5,767,375	**9,455,408**	4,179,088
Equity component of convertible debentures				
Balance, beginning of period	**6,230,063**	9,802,069	**9,749,068**	12,641,038
Debentures purchased under normal course issuer bid	**(15,372)**	(11,464)	**(26,882)**	(12,246)
Maturity of Series E debentures	**-**	-	**-**	(2,835,690)
Maturity of Series F debentures	**-**	-	**(3,507,495)**	-
Balance, end of period	**6,214,691**	9,790,605	**6,214,691**	9,793,102
Cumulative earnings (losses)				
Balance, beginning of period	**15,602,543**	23,995,600	**19,349,151**	27,280,222
Income (loss) and comprehensive income (loss)	**4,900,921**	(839,350)	**1,154,313**	(2,538,182)
Balance, end of period	**20,503,464**	23,156,250	**20,503,464**	24,742,040
Cumulative distributions to unitholders				
Balance, beginning and end of period	**(67,450,035)**	(58,635,749)	**(67,450,035)**	(58,635,749)
Total equity	**$ 76,583,769**	$ 79,045,119	**$ 76,583,769**	$ 79,045,119

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Operating activities				
Income (loss) and comprehensive income (loss)	**$ 4,900,921**	$ (839,350)	**$ 1,154,313**	$ (2,538,182)
Adjustments to reconcile income (loss) to cash flows				
Fair value gains (losses)	**(7,049,162)**	657,506	**(6,748,455)**	785,922
Profit (loss) on sale of investment properties	**-**	(1,440,074)	**-**	(1,417,750)
Discount on repayment of mortgage loan	**-**	210,000	**-**	210,000
Accrued rental revenue	**(375,569)**	660	**(415,477)**	165,596
Unit-based compensation	**20,792**	49,591	**41,795**	121,996
Deferred income taxes	**(39,302)**	(91,758)	**(104,291)**	(138,746)
Interest income	**(47,344)**	(141,637)	**(125,011)**	(248,069)
Interest received	**47,344**	141,240	**125,011**	248,069
Interest expense	**9,367,965**	7,935,118	**18,896,135**	16,185,877
Interest paid	**(9,055,528)**	(7,111,241)	**(16,344,845)**	(15,420,102)
Cash from operations	**(2,229,883)**	(629,945)	**(3,520,825)**	(2,045,389)
Decrease (increase) in rent and other receivables	**52,981**	(1,166,937)	**(231,979)**	(921,241)
Decrease (increase) in deposits, prepaids and other	**(737,861)**	(1,192,020)	**(683,867)**	(674,507)
Increase (decrease) in tenant deposits	**389,041**	(186,742)	**747,060**	292,417
Increase (decrease) in trade and other payables	**1,228,873**	1,919,527	**3,163,882**	1,987,879
	(1,296,849)	(1,256,117)	**(525,729)**	(1,360,841)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**16,300,000**	-	**16,700,000**	-
Proceeds of mortgage bond financing	**-**	-	**3,363,000**	6,780,000
Repayment of mortgage loans on refinancing	**(12,250,000)**	-	**(12,250,000)**	-
Repayment of debentures	**-**	-	**(13,598,000)**	(11,950,000)
Repayment of long-term debt	**(2,466,777)**	(2,109,973)	**(4,608,391)**	(4,025,934)
Proceeds (repayment) of line of credit	**(10,000)**	3,300,000	**1,905,000**	4,560,000
Proceeds of revolving loan commitment	**4,700,000**	700,000	**8,350,000**	5,780,000
Repayment of revolving loan commitment	**(2,700,000)**	-	**(3,700,000)**	(5,080,000)
Expenditures on transaction costs	**(637,839)**	(148,630)	**(1,288,989)**	(1,101,760)
Debentures purchased and cancelled under normal course issuer bid	**(15,373)**	(37,085)	**(27,619)**	(39,643)
	2,920,011	1,704,312	**(5,154,999)**	(5,077,337)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(487,890)**	(530,511)	**(788,597)**	(536,397)
Capital expenditures on property and equipment	**(31,698)**	(10,000)	**(61,802)**	(138,416)
Decrease in defeasance assets	**27,802**	-	**48,592**	-
Proceeds of sale	**-**	-	**-**	6,445,841
Change in restricted cash	**(347,542)**	(138,326)	**7,846,646**	(1,220,972)
	(839,328)	(678,837)	**7,044,839**	4,550,056
Cash increase (decrease)	**783,834**	(230,642)	**1,364,111**	(1,888,122)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 10)	**(307,445)**	(101,906)	**(249,880)**	(255,072)
	476,389	(332,548)	**1,114,231**	(2,143,194)
Cash, beginning of period	**1,562,888**	1,818,810	**925,046**	3,629,456
Cash, end of period	**$ 2,039,277**	$ 1,486,262	**$ 2,039,277**	$ 1,486,262

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

1 *Organization*

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust, which was created under the laws of the Province of Manitoba by a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006, June 18, 2008 and December 9, 2009.

The registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of the Trust, which trade on the TSX and the related trading symbol.

Units	LRT.UN
Series G Convertible Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Warrants expiring March 10, 2015	LRT.WT
Warrants expiring December 24, 2015	LRT.WT.A

The Trust and its subsidiaries lease, develop and sell residential real estate investments in Canada.

2 *Basis of presentation and continuing operations*

The consolidated financial statements of Lanesborough Real Estate Investment Trust have been prepared in accordance with International Financial Reporting Standards (hereafter IFRS). The consolidated statements for the six months ended June 30, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on August 9, 2011.

The consolidated financial statements of the Trust reflect the operations of the Trust and Riverside Terrace Inc, LREIT Holdings 18 Corporation, LREIT Holdings 32 Corporation, LREIT Holdings 39 Corporation; which are wholly owned subsidiaries under its control. The consolidated financial statements have been prepared on an historical cost basis except for investment properties and certain financial instruments, that are measured at fair value, as explained in the accounting policies below. The consolidated financial statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust generated income from investment properties for the three months ended June 30, 2011 of $4,192,666 and sustained a loss of $277,523 for the six months ended June 30, 2011 (2010 - $1,493,002 and $3,515,042, respectively); has a working capital deficit of $18,448,189 as at June 30, 2011 (December 31, 2010 - $11,261,492); and was in breach of net operating income achievement, debt service coverage, restrictions on the registration of secondary mortgage charges and reporting requirements on six individual mortgage loans and a swap mortgage loan during 2010 and as of June 30, 2011.

The Trust is in breach of a net operating income achievement requirement of a $23,047,291 first mortgage loan for six properties in Fort McMurray, Alberta. The Trust is also in breach of a 1.15 debt service coverage requirement of a $21,455,715 swap mortgage loan on a property in Fort McMurray, Alberta with the same lender. The Trust has notified the lender of the breaches and is providing operating information to the lender on a monthly basis.

2 Basis of presentation and continuing operations (continued)

At December 31, 2010, the Trust was in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $71,265,558, on three properties in Fort McMurray, Alberta. The Trust was also in breach of the 1.1 times debt service coverage requirement of a $18,251,093 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. Two mortgage loans in breach of debt coverage requirements, in the aggregate amount of $35,525,691, matured in 2010. A forbearance to June 30, 2011 has been obtained for the three loans in the aggregate amount of $89,516,651, including the two mortgage loans which have matured. It is expected that extensions of forbearance will be obtained.

The Trust is in breach of the 1.2 times debt service coverage and reporting requirement of a $25,133,822 first mortgage loan on one property in Fort McMurray, Alberta. The terms of forbearance are under negotiation.

The breaches of the net operating income achievement and debt service coverage requirements on individual mortgage loans and a swap mortgage loan, as noted above, are a result of the negative impact of the 2009-2010 decline of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Notwithstanding that recently there has been a substantial improvement in the occupancy rate in the Fort McMurray properties of the Trust, all or some of the covenant breaches may continue for the next 12 months. There can be no assurance that the covenant breaches will be remedied.

The Trust is in breach of a covenant of a $19,863,771 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of a secondary mortgage charge. The lender demanded that the secondary mortgage charge be discharged and the Trust has not yet complied.

The Trust is in breach of the 1.3 times debt service coverage requirement of a $4,914,896 first mortgage loan and a requirement to obtain mortgage insurance for a $12,548,704 first mortgage loan on seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario, respectively. The Trust has notified the lenders of the breaches. The $12,548,704 first mortgage loan has matured and the loan is payable on demand. It is the intention of the Trust to arrange replacement financing and/or sell the two seniors' housing complexes within the next 12 months and use the proceeds to repay the mortgage loans.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or convertible debentures of the Trust.

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the completion of the divestiture program in a manner which achieves the targeted sales price and timelines, the continued ability of the Trust to renew or refinance its debt at maturity, the continued support of related parties in the form of the renewal of the revolving loans and advances and the deferral of fees, the ability of the Trust to successfully negotiate and extend forbearance arrangements for mortgages with covenant breaches; and the ability of the Trust to retire, refinance or extend the debenture debt at maturity.

2 Basis of presentation and continuing operations (continued)

Management believes that the going concern assumption is appropriate for the financial statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, the Trust has successfully sold 18 properties, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has successfully retired the Series E and Series F debenture debt in 2010 and 2011, respectively, and the Trust has the option to satisfy the obligation in regard to the repayment of the Series G debentures by issuing units, in whole or in part, to the debenture holders.

If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities and reported revenues and expenses used in these consolidated financial statements.

Statement of compliance

The condensed consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 and IFRS 1. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The condensed consolidated financial statements are based on IFRS standards issued and outstanding as at August 9, 2011.

The Trust follows accounting policies under IFRS as disclosed in the March 31, 2011 interim report. Note 25 to the March 31, 2011 interim report discloses the impact of the transition to IFRS on the Trust's reported financial position, income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's consolidated financial statements for the year ended December 31, 2010. Subject to certain transition elections disclosed in Note 25 to the March 31, 2011 report, the accounting policies in Note 3 have been applied consistently in all material respects.

Copies of the March 2011 interim report are available on SEDAR at www.sedar.com.

3 Significant accounting policies

Future changes to significant accounting policies

The following new or amended standards have been issued by the IASB:

- IFRS 7 - Financial Instruments-Disclosure, amendments relating to disclosures with respect to the transfers of financial assets, effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.

- IAS 12 - Income Taxes, amendments applicable to the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model, effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

- IFRS 9 - replaces IAS 39 - Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 10 - Consolidated Financial Statements - replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

3 Significant accounting policies (continued)

Future changes to significant accounting policies (continued)

- IFRS 11 - Joint Arrangements - supersedes IAS 31 Interests in Joint Ventures and SIC-13-Jointly Controlled Entities-Non-monetary Contributions by Venturers, established principles for the financial reporting by parties to a joint arrangement, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 12 - Disclosure of Interests in Other Entities - combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangement, associates and unconsolidated structured entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 13 - Fair Value Measurement - defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The impact of these changes is not known or reasonably estimatable at this time.

4 Investment properties

The carrying amount of investment properties is summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	$439,300,000	$440,300,000	$439,300,000	$440,300,000
Additions - capital expenditures	487,890	157,506	788,597	285,922
Fair value gains (losses)	7,049,162	(657,506)	6,748,455	(785,922)
Balance, end of period	$446,837,052	$439,800,000	$446,837,052	$439,800,000

4 Investment properties (continued)

Investment properties have been valued using the following methods and key assumptions:

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

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

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

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

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

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

(iii) *Direct comparison*. For properties with condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value. The key assumption is the cost of the condominium conversion and sales program. Direct comparison valuation analyses are prepared for Colony Square, Laird's Landing, Lakewood Apartments, Lakewood Townhouses, Millennium Village, Parsons Landing, Siena Apartments and Woodland Park.

4 *Investment properties (continued)*

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in accordance with an established timetable, as reflected in the following schedule, to in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value:

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

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

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

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions.

Details on the carrying value of investment properties are provided in Schedule 1.

5 Loans and receivables

	June 30 2011	December 31 2010
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	$ 500,000	$ 500,000
Note receivable from a previous tenant. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	250,000	250,000
	750,000	750,000
Current portion of loans and receivables	(250,000)	(250,000)
	$ 500,000	$ 500,000

6 Defeasance assets and defeased liability

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased. The defeased loan is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.75% and have been placed in escrow. The Defeasance Assets and the defeased liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

The following table reflects the effect of the defeasance assets and the defeased liability on income.

		Three Months Ended June 30		Six Months Ended June 30	
	Recorded as	2011	2010	2011	2010
Interest income on defeasance assets	Interest income	$ 23,772	$ -	$ 54,556	$ -
Interest expense on defeased liability	Interest expense	(38,881)	-	(77,938)	-
Amortization of transaction costs	Interest expense	(2,283)	-	(7,593)	-
		$ (15,109)	$ -	$ (30,975)	$ -

The unamortized balance of transaction costs in respect of the defeased liability is $48,279 (2010 - $55,872).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

7 *Restricted cash*

	June 30 2011	December 31 2010
Tenant security deposits	$ 2,767,199	$ 2,057,086
Reserves required by mortgage loan agreements	10,834,449	10,473,737
Mortgage bond proceeds held in escrow	-	8,947,815
	$ 13,601,648	$ 21,478,638

8 *Rent and other receivables*

	June 30 2011	December 31 2010
Rent receivable	$ 703,632	$ 792,876
Estimated property operating cost recoveries	99,627	37,657
Less: allowance for uncollectible accounts	(39,230)	(364,685)
	764,029	465,848
Other receivables	372,077	430,288
Deferred rent receivable	584,811	169,334
	1,720,917	1,065,470
Current portion of loans and receivables	250,000	250,000
	$ 1,970,917	$ 1,315,470

9 *Deposits, prepaids and other*

	June 30 2011	December 31 2010
Deposits		
Property tax deposits	$ 543,755	$ 482,368
Deposit on potential acquisition	10,000	10,000
Performance deposit	166,916	166,916
Utility deposits	630	38,407
Deposit with Canada Revenue Agency	250,000	-
	971,301	697,691
Prepaid expenses	632,254	349,104
	$ 1,603,555	$ 1,046,795

10 Non-current assets and non-current liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors housing complexes as discontinued operations.

In addition, the following investment properties which were sold during 2010, were also classified as non-current assets classified as held for sale.

Property	Sale Date	Consideration
Chancellor Gate	March 1, 2010	$ 7,970,000
McIvor Mall	March 1, 2010	11,200,000
Woodlily Courts	September 1, 2010	6,600,000
Nova Manor	September 30, 2010	3,415,000
Three Lakes Village	November 1, 2010	11,200,000

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at June 30, 2011, are as follows:

	June 30 2011	**December 31 2010**
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 78,340,501	$ 78,278,699
Cash	806,706	556,826
Restricted cash	309,015	278,671
Rent and other receivables	62,469	70,460
Deposits, prepaids and other	706,385	579,278
Non-current assets classified as held for sale	80,225,076	79,763,934
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	46,701,504	47,363,194
Deferred income tax (c)	5,904,164	5,681,835
Trade and other payables	1,102,519	885,518
Deposits from tenants	561,664	535,971
Non-current liabilities classified as held for sale	$ 54,269,851	$ 54,466,518

10 Non-current assets and non-current liabilities of properties held for sale (continued)

Details of income and cash flow information relating to discontinued operations are as follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Rental income	$ 3,772,148	$ 3,382,540	$ 7,476,035	$ 6,622,897
Property operating expenses	2,185,412	2,025,149	4,243,949	4,030,769
Net operating income	1,586,736	1,357,391	3,232,086	2,592,128
Interest expense	716,210	770,602	1,528,310	1,607,362
Current tax	43,813	(37,495)	100,812	7,906
Deferred tax	118,458	(29,368)	171,128	-
Income from discontinued operations	$ 708,255	$ 653,652	$ 1,431,836	$ 976,860
Cash inflow from operating activities	$ 753,827	$ 172,080	$ 1,577,660	$ 1,191,885
Cash outflow from investing activities	(394,001)	(903,252)	(439,271)	(913,579)
Cash outflow from financing activities	(52,381)	833,078	(888,509)	(23,235)
Increase in cash from discontinued operations	$ 307,445	$ 101,906	$ 249,880	$ 255,071

10 Non-current assets and non-current liabilities of properties held for sale (continued)

(a) Property and equipment

June 30, 2011	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,697,286	51,333	(3,050,825)	68,697,794
Furniture, equipment and appliances	1,549,743	10,469	(280,546)	1,279,666
	79,345,219	61,802	(3,331,371)	76,075,650
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,610,070	$ 61,802	$ (3,331,371)	$ 78,340,501

December 31, 2010	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,652,524	44,762	(3,050,825)	68,646,461
Furniture, equipment and appliances	1,450,806	98,937	(280,546)	1,269,197
	79,201,520	143,699	(3,331,371)	76,013,848
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,466,371	$ 143,699	$ (3,331,371)	$ 78,278,699

The carrying value in property and equipment is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	$ 78,308,803	$ 78,140,886	$ 78,278,699	$ 78,135,000
Additions - capital expenditures	31,698	11,320	61,802	17,206
Balance, end of period	$ 78,340,501	$ 78,152,206	$ 78,340,501	$ 78,152,206

10 Non-current assets and non-current liabilities of properties held for sale (continued)

(b) Long term debt

	June 30 2011	December 31 2010
Secured debt		
Mortgage loans	$ 46,403,101	$ 47,024,490
Unsecured debt		
Mortgage guarantee fees	303,053	338,704
Unamortized transaction costs	(4,650)	-
Total long term debt	$ 46,701,504	$ 47,363,194

Certain of the mortgage loans are subject to covenants, including minimum debt service coverage requirements and a requirement to obtain mortgage insurance.

As of June 30, 2011, the Trust was not in compliance with the minimum debt service requirement in regard to a mortgage loan in the amount of $4,914,896 and with a requirement to obtain mortgage insurance in regard to a mortgage loan in the amount of $12,548,704. The Trust has notified the lenders of the breach of the requirement.

It is the intention of the Trust to sell both properties within the next 12 months and use the proceeds to repay the mortgage loans.

As of June 30, 2011, two mortgage loans in the amount of $16,870,000 matured and were not refinanced until July 2011.

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

10 Non-current assets and non-current liabilities of properties held for sale (continued)

(c) Deferred taxes

Deferred tax liabilities consist of the following:

	June 30 2011	December 31 2010	January 1 2010
Temporary differences between the accounting and tax bases of property and equipment	$ 5,605,458	$ 5,547,177	$ 5,483,339
Temporary differences between the accounting and tax bases of investments in subsidiaries	298,706	134,658	134,658
	$ 5,904,164	$ 5,681,835	$ 5,617,997

At June 30, 2011, the Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:	
Property and equipment	$ 2,050,772
Transaction costs	$ 254,312

Unused tax losses expiring in:

2026	$ 113,256
2027	2,354,011
2028	2,510,247
2029	2,397,735
2030	1,858,141
2031	533,152
	$ 9,766,542

11 Long-term debt

	June 30 2011	December 31 2010
Secured debt		
Mortgage loans (a)	$ 260,176,786	$ 259,104,483
Mortgage bonds (b)	13,875,160	10,826,910
Convertible debentures (c)	-	13,464,400
Swap mortgage loans (d)	43,895,711	44,832,599
Defeased liability (e)	2,781,128	2,806,222
Total secured debt	320,728,785	331,034,614
Unsecured debt		
Convertible debentures (c)	24,693,439	23,948,528
Mortgage guarantee fees (f)	57,026	73,074
Construction costs payable	340,508	333,831
Total unsecured debt	25,090,973	24,355,433
Accrued interest payable	1,758,060	1,666,375
Unamortized transaction costs		
Mortgage loans (a)	(877,167)	(1,285,457)
Mortgage bonds (b)	(1,373,673)	(1,137,864)
Convertible debentures (c)	(186,457)	(426,282)
Swap mortgage loans (d)	(153,925)	(169,957)
Defeased liability (e)	(48,279)	(52,880)
Total unamortized transaction costs	(2,639,501)	(3,072,440)
	344,938,317	353,983,982
Less current portion		
Mortgage loans (a)	(189,712,610)	(165,076,432)
Convertible debentures (c)	(24,693,439)	(37,412,928)
Swap mortgage loans (d)	(22,138,403)	(22,356,458)
Defeased liability (e)	(52,335)	(50,897)
Mortgage guarantee fees (f)	(33,545)	(32,576)
Construction costs payable	(340,508)	(333,831)
Accrued interest payable	(1,758,060)	(1,666,375)
Transaction costs	1,057,394	1,403,001
Total current portion	(237,671,506)	(225,526,496)
	$ 107,266,811	$ 128,457,486

Current portion of unamortized transaction costs		
Mortgage loans (a)	$ 527,665	$ 714,040
Mortgage bonds (b)	217,053	137,730
Convertible debentures (c)	186,457	426,281
Swap mortgage loans (d)	116,846	115,085
Defeased liability (e)	9,373	9,864
	$ 1,057,394	$ 1,403,000

11 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At June 30, 2011, the contractual weighted average interest rate for variable rate long-term debt was 8.5% and for fixed rate long-term debt was 6.6% (December 31, 2010 - variable - 6.7%, fixed - 6.2%).

Normal principal installments and principal maturities at face value are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Convertible Debentures and Mortgage Bonds	Swap Mortgage Loans
2011 - Remainder of year (1)	$ 1,689,125	$159,990,378	$ 25,492,000	$21,792,177
2012	2,484,410	30,594,455		702,495
2013	1,284,814	36,370,964		18,179,071
2014	547,244	8,762,938		
2015	480,779	5,796,988	16,000,000	
Thereafter		12,174,691		
	$ 6,486,372	$253,690,414	$ 41,492,000	$40,673,743

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees and Construction Costs Payable	Total Long-term Debt	Weighted average interest rate of long-term debt
2011 - Remainder of year	$ 25,803	$ 357,034	$209,346,517	7.3%
2012	53,813	34,542	33,869,715	6.0%
2013	56,896	5,957	55,897,702	6.5%
2014	60,155	-	9,370,337	5.0%
2015	63,602	-	22,341,369	7.8%
Thereafter	2,520,859	-	14,695,550	5.2%
	$ 2,781,128	$ 397,533	$345,521,190	6.9%

(1) Mortgage loans principal maturities and swap mortgage loans principal maturities include mortgage loans which are not in compliance with loan covenants. In accordance with IFRS, $157,561,535 of mortgage loan balances and $21,455,715 in regard to swap mortgage loan balances are included in the balance due in the remainder of 2011.

The Trust intends to seek renewals of the mortgage principal maturities at market rates.

11 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates June 30 2011	Weighted average interest rates December 31 2010	June 30 2011	December 31 2010
First mortgage loans				
Fixed rate	5.7%	5.7%	$ 150,595,135	$ 171,218,636
Variable rate	8.6%	6.8%	72,242,053	54,439,020
Total first mortgage loans	6.6%	6.0%	222,837,188	225,657,656
Second mortgage loans				
Fixed rate	11.1%	12.2%	3,765,000	15,945,000
Variable rate	8.3%	6.5%	33,574,598	17,501,827
Total second mortgage loans	8.5%	9.2%	37,339,598	33,446,827
Total	6.9%	6.4%	260,176,786	259,104,483
Unamortized transaction costs			(877,167)	(1,285,457)
			259,299,619	257,819,026
Current portion of mortgage loans			(189,712,610)	(165,076,432)
Current portion of unamortized transaction costs			527,665	714,040
			$ 70,114,674	$ 93,456,634

Certain of the mortgage loans are subject to covenants, including net operating income and minimum debt service coverage, restriction on the registration of secondary charges against the title to a property and reporting requirements. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $157,561,535, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $157,561,535 is included in current portion of mortgage loans.

A forbearance to June 30, 2011 has been obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $89,516,651. It is expected that extensions of forbearance will be obtained. Two mortgage loans in breach of minimum debt service coverage requirements, in the aggregate amount of $35,525,691, matured in 2010 and have not been renewed. The maturity dates have not been extended and the loans are payable on demand. The forbearance to June 30, 2011 in the aggregate amount of $89,516,651 includes forbearance in regard to the two mortgage loans in the amount of $35,525,691.

As at June 30, 2011, a mortgage loan in the amount of $1,928,843 matured and was not renewed. Subsequent to June 30, 2011, the loan was refinanced.

Except for the two mortgage loans in the amount of $35,525,691, all mortgages which have matured prior to August 9, 2011 have been renewed or refinanced.

Mortgage loans are secured by mortgage charges registered against specific income properties and are secured by assignments of book debts and rents and by repayment guarantees.

11 Long-term debt (continued)

(b) Mortgage bonds and warrants

The face value of the mortgage bonds is $16,000,000 (December 31, 2010 - $12,637,000).

The carrying value of the mortgage bonds is summarized as follows:

	June 30 2011	December 31 2010
Balance, beginning of period	$ 10,826,910	$ -
Value at issue	2,910,467	16,624,166
Accretion	137,783	982,744
Redemption	-	(6,780,000)
Balance, end of period	13,875,160	10,826,910
Unamortized transaction costs	(1,373,673)	(1,137,864)
	12,501,487	9,689,046
Current portion of unamortized transaction costs	(217,053)	(137,730)
	$ 12,284,434	$ 9,551,316

On March 9, 2010, the Trust issued 6,780 five year 9% second mortgage bonds in the principal amount of $1,000 and 6,780,000 in warrants for gross proceeds of $6,780,000. Each warrant entitles the holder to purchase one unit at a price of $1.00 until March 9, 2015.

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $227,520 was identified and the residual value of $748,409 was assigned to the warrants.

In December 2010, the mortgage bonds were redeemed using proceeds from property sales and the December 23, 2010 mortgage bond issue. At redemption, $875,076 of accretion and $838,423 of unamortized transaction costs were recorded to financing expense. The warrants related to the March 9, 2010 mortgage bond issue continue to be exercisable until their expiry on March 9, 2015.

On December 23, 2010, the Trust issued 12,637 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 12,637,000 in warrants for gross proceeds of $12,637,000. Each warrant entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $54,800,000 (December 31, 2010 - $54,600,000).

11 Long-term debt (continued)

(b) Mortgage bonds and warrants (continued)

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $470,623 was identified, and the residual value of $1,346,282 was assigned to the warrants.

On January 28, 2011, the second closing of the December 2010 mortgage bond offering, the Trust issued 3,363 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 3,363,000 in warrants for gross proceeds of $3,363,000. Each warrant entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $54,800,000.

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $117,659 was identified and the residual value of $334,874 was assigned to the warrants.

(c) Convertible debentures

The face value of the convertible debentures is as follows:

	June 30 2011	December 31 2010
Series F	$ -	$ 13,601,000
Series G	25,492,000	25,595,000
	$ 25,492,000	$ 39,196,000

During the three and six months ended June 30, 2011, there have not been any conversions of convertible debentures.

The allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 15% for the Series E, Series F and Series G debentures.

11 *Long-term debt (continued)*

(c) Convertible debentures (continued)

June 30, 2011	Debt	Equity	Total
Convertible debentures Series G - 7.5%, due December 31, 2011	$ 24,693,439	$ 6,642,038	$ 31,335,477
Deferred tax liability charged to equity	-	(427,347)	(427,347)
Unamortized transaction costs	(186,457)	-	(186,457)
	24,506,982	6,214,691	30,721,673
Current portion of convertible debentures	(24,693,439)	-	(24,693,439)
Current portion of unamortized transaction costs	186,457	-	186,457
	$ -	$ 6,214,691	$ 6,214,691

December 31, 2010	Debt	Equity	Total
Convertible debentures Series F - 7.5%, due March 11, 2011	$ 13,464,400	$ 3,543,792	$ 17,008,192
Series G - 7.5%, due December 31, 2011	23,948,528	6,668,875	30,617,403
	37,412,928	13,048,357	50,461,285
Deferred tax liability charged to equity	-	(463,599)	(463,599)
Unamortized transaction costs	(426,282)	-	(426,282)
	36,986,646	12,584,758	49,571,404
Current portion of convertible debentures	(37,412,928)	-	(37,412,928)
Current portion of unamortized transaction costs	426,282	-	426,282
	$ -	$ 12,584,758	$ 12,584,758

11 Long-term debt (continued)

(c) Convertible debentures (continued)

The accretion of the debt component for the three months ended June 30, 2011 of $426,076 (2010 - $592,159) and for the six months ended June 30, 2011 of $977,149 (2010 - $1,292,359), which increases the debt component from the initial carrying amount, is included in interest expense.

In January 2010, LREIT initiated normal course issuer bids for the Series F debentures and Series G debentures, under which the Trust is entitled to purchase up to $1,368,000 of Series F debentures and up to $2,573,000 of Series G debentures. The normal course issuer bids commenced on January 13, 2010 and expired on January 12, 2011.

In January 2011, LREIT renewed its normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,557,000 of Series G debentures. The normal course issuer bid commenced January 13, 2011 and expires on December 31, 2011.

During the period from January 1, 2010 to December 31, 2010, the Trust purchased and cancelled Series F debentures with a face value of $79,000 at an average price of $89.29 per $100.00 and Series G debentures with a face value of $137,000 at an average price of $73.47 per $100.00.

During the period from January 1, 2011 to June 30, 2011, the Trust purchased and cancelled Series F debentures with a face value of $3,000 at an average price of $98.00 per $100.00 and Series G debentures with a face value of $103,000 at an average price of $81.20 per $100.00.

Subsequent to June 30, 2011, the Trust purchased and cancelled Series G debentures with a face value of $28,000 at an average price of $75.19 per $100.00.

The Trust is not required to purchase any debentures under the normal course issuer bid.

11 Long-term debt (continued)

(d) Swap mortgage loans

The Trust has entered into interest rate swap arrangements whereby the interest rate on variable rate mortgage loans, in the amounts of $19,218,028 and $21,455,715, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

The swap arrangements are used to hedge the exposure to the variable interest rate payments on variable rate mortgage loans. The loans and interest rate swaps have the same contractual terms. The aggregate fair value of the swap mortgage loans is as follows:

	June 30 2011	December 31 2010
Face value of mortgage loans, subject to swaps	$ 40,673,743	$ 41,238,026
Fair value of interest rate swaps	3,221,968	3,594,573
	43,895,711	44,832,599
Unamortized transaction costs	(153,925)	(169,957)
	43,741,786	44,662,642
Current portion of swap mortgage loans	(22,138,403)	(22,356,458)
Current portion of unamortized transaction costs	116,846	115,085
	$ 21,720,229	$ 22,421,269

The swap mortgage loans are subject to covenants, including minimum debt service coverage requirements. The Trust is not in compliance with one swap mortgage loan totaling $21,455,715, as a result of a breach of the minimum debt service coverage requirement. In accordance with IFRS the total balance of $21,455,715 is included in current portion of swap mortgage loans.

The effect of the changes in fair value of the interest rate swaps is included in interest expense.

(e) Defeased liability

	June 30 2011	December 31 2010
Face value	$ 2,781,128	$ 2,806,222
Unamortized transaction costs	(48,279)	(52,880)
	2,732,849	2,753,342
Current portion of defeased liability	(52,335)	(50,897)
Current portion of unamortized transaction costs	9,375	9,864
	$ 2,689,889	$ 2,712,309

11 Long-term debt (continued)

(f) Mortgage guarantee fees

	June 30 2011	December 31 2010
Nelson Ridge Estates	$ 57,026	$ 73,074
Current portion of mortgage guarantee fees	(33,545)	(32,576)
	$ 23,481	$ 40,498

12 Income taxes

The major components of income tax recovery (expense) are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Current tax recovery (expense)	$ -	$ -	$ -	$ -
Deferred tax recovery (expense) relating to origination and reversal of temporary differences	(1,089,942)	-	51,862	-
Benefit from previously unrecognized temporary difference or unused tax losses of a prior period used to reduce deferred tax expense	1,179,065	-	154,920	227,520
Deferred tax recovery (expense)	89,123	-	206,782	227,520
Income tax recovery (expense)	$ 89,123	$ -	$ 206,782	$ 227,520

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12 Income taxes (continued)

The income tax recovery (expense) of the Trust can be reconciled to its income tax recovery (expense) that would be calculated using the statutory income tax rate as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Loss (income) from continuing operations before income taxes	$ (4,103,543)	$ 1,493,002	$ 484,305	$ 3,742,562
Statutory income tax rate	26%	0%	26%	0%
Income tax recovery (expense) calculated using the combined federal and provincial statutory income tax rate	$ (1,076,447)	$ -	$ 116,393	$ -
Non-deductible unit-based compensation	(5,406)	-	(10,867)	-
Deferred tax assets not recognized in the period	-	-	(17,747)	-
Recognition of previously unrecognized deferred tax assets	1,179,065	-	154,920	227,520
Other	(8,089)	-	(35,917)	-
Income tax recovery (expense)	$ 89,123	$ -	$ 206,782	$ 227,520

The Trust's deferred tax liabilities (assets) in respect of continuing operations are as follows:

	June 30 2011	December 31 2010
Temporary differences between the accounting and tax bases of:		
Investment properties	$ 741,918	$ (872,143)
Transaction costs	(497,028)	(247,938)
Convertible debentures and mortgage bonds	760,084	934,222
Unused tax losses	(1,303,681)	-
	$ (298,707)	$ (185,859)

12 *Income taxes (continued)*

The Trust's deferred tax recovery (expense) recognized in loss (income) from continuing operations, in respect of each type of temporary difference or unused tax losses, is as follows:

	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Investment properties	$ (1,484,704)	$ -	$ (1,637,786)	$ 227,520
Transaction costs	136,311	-	249,090	-
Convertible debentures and mortgage bonds	133,835	-	291,797	-
Unused tax losses	1,303,681	-	1,303,681	-
	$ 89,123	$ -	$ 206,782	$ 227,520

The Trust has deductible temporary differences and unused tax losses related to continuing operations for which no deferred tax asset is recognized as follows:

	June 30 2011	December 31 2010
Deductible temporary differences		
Investment properties	$ -	$ 595,846
	$ -	$ 595,846
Unused tax losses expiring in:		
2031	$ 68,258	$ -
	$ 68,258	$ -

13 *Trade and other payables*

	June 30 2011	December 31 2010
Accounts payable - vendor invoices	$ 4,466,714	$ 1,845,566
Accrued payables	1,290,493	1,120,144
Prepaid rent	1,363,847	1,208,463
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	12,000,000	7,350,000
	$ 66,841,054	$ 59,244,173

The amount payable on acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,233,000, excluding GST.

14 *Bank indebtedness*

Bank indebtedness consists of a revolving line of credit that the Trust obtained from a Canadian chartered bank in the maximum amount of $5,000,000, bearing interest at prime plus 3.5% (2010 - prime plus 3.5%) and repayable on demand. The line of credit is secured by a second mortgage on a property classified as discontinued operations. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at June 30, 2011, $10,000 was available to the Trust (December 31, 2010 - $1,915,000).

15 *Units*

The number of units issued, and purchased and cancelled, are as follows:

	Six Months Ended June 30, 2011		Year Ended December 31, 2010	
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,988,339	$107,860,241	17,893,767	$ 98,966,638
Exchange of deferred units	-	-	94,572	79,317
Units issued on payment of distributions	-	-	-	8,814,286
Outstanding, end of period	17,988,339	$107,860,241	17,988,339	$107,860,241

Units issued on payment of distribution
As a result of realized capital gains, the Trust paid a "special" distribution in the form of additional units on December 31, 2010. The distribution was followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distribution as were held prior to the distribution.

16 *Unit option plan*

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the TSX on the date of grant. Options granted to Trustees vest immediately. Options granted to senior officers and consultants vest on a straight-line basis over five years. The options will have a maximum term of five years from the date of grant.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model.

Unit-based compensation expense for the three months ended June 30, 2011 of $2,042 (2010 - $14,466) and for the six months ended June 30, 2011 of $4,295 (2010 - $29,246), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

16 *Unit option plan (continued)*

A summary of the status of the unit options and changes during the period is as follows:

	Six Months Ended June 30, 2011		Year Ended December 31, 2010	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	968,500	$ 5.58	1,452,000	$ 5.56
Cancelled, January 17, 2011	(22,500)	5.42	-	-
Cancelled, March 29, 2010	-	-	(357,500)	5.60
Cancelled, April 1, 2010	-	-	(6,500)	5.64
Cancelled, September 12, 2010	-	-	(6,500)	5.64
Cancelled, September 16, 2010	-	-	(110,000)	5.47
Cancelled, October 8, 2010	-	-	(3,000)	5.10
Outstanding, end of period	946,000	$ 5.58	968,500	$ 5.58
Vested, end of period	917,800		912,100	

At June 30, 2011 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.80	625,000	625,000	July 26, 2011
5.30	90,000	90,000	June 8, 2012
5.10	231,000	202,800	January 7, 2013
	946,000	917,800	

On July 26, 2011, 625,000 options expired and were cancelled.

17 *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 payable to that person by the Trust paid, in whole or in part, in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees, as applicable, to be paid in the form of deferred units on that date by the fair market value of the Trust's 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, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

17 Deferred unit plan (continued)

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following termination other than for cause, retirement, or death. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees, and fully vested, totaled 50,676 for the three months ended June 30, 2011 (2010 - 73,054) and 87,440 for the six months ended June 30, 2011 (2010 - 165,819) and 486,859 aggregate deferred units were outstanding at June 30, 2011 (2010 - 316,957).

Unit-based compensation expense of $18,750 for the three months ended June 30, 2011 (2010 - $35,125) and $37,500 for the six months ended June 30, 2011 (2010 - $92,750) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

18 Interest expense

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Interest on acquisition payable	$ 2,620,381	$ 2,620,381	$ 5,211,966	$ 5,211,966
Forgiveness of interest on acquisition payable	(1,720,381)	(1,720,381)	(3,411,966)	(3,411,966)
	900,000	900,000	1,800,000	1,800,000
Mortgage loan interest	5,135,156	4,480,447	9,996,713	8,790,688
Mortgage bond interest	360,000	152,549	720,000	189,338
Accretion of mortgage bonds	84,731	66,546	137,783	75,576
Convertible debenture interest	477,975	739,091	1,210,561	1,605,386
Accretion of the debt component of convertible debentures	426,076	592,159	977,149	1,292,359
Swap mortgage loan interest	597,046	618,685	1,182,496	1,222,438
Change in fair value of interest rate swaps	(182,736)	(798,918)	(372,605)	(1,178,216)
Amortization of transaction costs	853,507	372,844	1,715,728	739,833
	$ 8,651,755	$ 7,123,403	$ 17,367,825	$ 14,537,402

19 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the period, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures and warrants to the extent that the debentures and the warrants are dilutive.

Income (loss) per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Income (loss) and diluted income (loss) - before discontinued operations	$ 4,192,666	$ (1,493,002)	$ (277,523)	$ (3,515,042)
Weighted average number of:				
Units	17,988,339	17,893,767	17,988,339	17,893,767
Deferred units	436,184	342,727	417,903	301,117
Total, basic and diluted	18,424,523	18,236,494	18,406,242	18,194,884

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Income and diluted income - discontinued operations	$ 708,255	$ 653,652	$ 1,431,836	$ 976,860
Weighted average number of:				
Units	17,988,339	17,893,767	17,988,339	17,893,767
Deferred units	436,184	342,727	417,903	301,117
Total, basic and diluted	18,424,523	18,236,494	18,406,242	18,194,884

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Income and diluted income	$ 4,900,921	$ (839,350)	$ 1,154,313	$ (2,538,182)
Weighted average number of:				
Units	17,988,339	17,893,767	17,988,339	17,893,767
Deferred units	436,184	342,727	417,903	301,117
Total, basic and diluted	18,424,523	18,236,494	18,406,242	18,194,884

20 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

Management agreement
The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, to December 31, 2015. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes and Siena Apartments. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. 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. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to income properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development. Subsequent to June 30, 2011, the term of the property management agreement was extended to December 31, 2019.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $426,313 for the three months ended June 30, 2011 (2010 - $391,390) and $794,381 for the six months ended June 30, 2011 (2010 - $819,386). Property management fees are included in property operating costs.

The Trust incurred leasing commissions on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of $8,770 for the three months ended June 30, 2011 (2010 - nil) and $10,867 for the six months ended June 30, 2011 (2010 - $2,407).

Included in trade and other payables at June 30, 2011 is a balance of $700,013 (December 31, 2010 - $24,741), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust has entered into a services agreement with Shelter Canadian Properties Limited to December 31, 2015. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, valuation adjustments and defeasance assets. Subsequent to June 30, 2011, the services agreement was extended to December 31, 2019.

20 Related party transactions (continued)

The Trust incurred service fees of $425,833 for the three months ended June 30, 2011 (2010 - $430,888) and $852,532 for the six months ended June 30, 2011 (2010 - $868,773). Service fees are included in trust expense.

Included in trade and others payables at June 30, 2011 is a balance of $852,532 (2010 - $869,639) payable to Shelter Canadian Properties Limited in regard to outstanding service fees. The amount payable is non-interest bearing.

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

On June 30, 2009, the Trust obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $5 Million on September 2, 2009; to $10 Million on November 9, 2010 and to $12 Million on June 8, 2011. The loan bears interest at 14% to June 30, 2011 and 11% thereafter (2010 - 14%), is due on December 31, 2011 and is secured by mortgage charges against the title to six income properties and the assignment of a $500,000 mortgage loan receivable. As of June 30, 2011, $12,000,000 has been drawn and is included in trade and other payables.

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

Interest on the revolving loan of $498,667 for the three months ended June 30, 2011 (2010 - $19,113) and of $767,004 for the six months ended June 30, 2011 (2010 - $19,113) is included in interest expense.

Included in accrued interest payable at June 30, 2011 is a balance of $767,004 (2010 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest. The amount payable is non-interest bearing.

The second mortgage loan, the revolving loan from 2668921 Manitoba Ltd. and the interest free advance from Shelter Canadian Properties Limited were approved by the independent Trustees.

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited. There were not any fees charged to the Trust in regard to the guarantees.

21 Financial instruments and risk management

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk - debt covenant requirements
The Trust is in breach of the net operating income, minimum debt service coverage and reporting requirements on five mortgage loans and a swap mortgage loan totaling $159,153,479 on properties in Fort McMurray, Alberta. The Trust has obtained a forbearance to June 30, 2011 on three mortgage loans totaling $89,516,651. The Trust is continuing to negotiate 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 2011, which satisfy the existing minimum debt service coverage requirements.

The Trust is also in breach of a covenant on a $19,863,771 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of secondary charges against the title to the property.

There is no assurance that the lenders will not accelerate payment of the mortgage loans.

The Bond Indenture which governs the mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series G debentures or any of the first mortgages on Beck Court, Nova Court, Norglen Terrace, Highland Tower or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments.

There are no others cross-default covenants with respect to other mortgage loans of the Trust.

21 Financial instruments and risk management (continued)

Liquidity risk - debt maturities
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to compile the acquisition of Parsons Landing on the agreed date and to refinance its debt as it matures.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years.

As at June 30, 2011, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.9 years (2010 - 2.9 years).

The repayment obligations in regard to the financial liabilities of the Trust, are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Convertible Debentures and Mortgage Bonds	Swap Mortgage Loans
2011 - Remainder of year	$ 1,689,125	$159,990,378	$ 25,492,000	$21,792,177
2012	2,484,410	30,594,455	-	702,495
2013	1,284,814	36,370,964	-	18,179,071
2014	547,244	8,762,938	-	-
2015	480,779	5,796,988	16,000,000	-
Thereafter	-	12,174,691	-	-
	$ 6,486,372	$253,690,414	$ 41,492,000	$40,673,743

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees and Construction Costs Payable	Other Payables	Total
2011 - Remainder of year	$ 25,803	$ 357,034	$ 26,730,528	$236,077,045
2012	53,813	34,542	47,720,000	81,589,715
2013	56,896	5,957	-	55,897,702
2014	60,155	-	-	9,370,337
2015	63,602	-	-	22,341,369
Thereafter	2,520,859	-	-	14,695,550
	$ 2,781,128	$ 397,533	$ 74,450,528	$419,971,718

Other payables include trade and other payables, bank indebtedness, and deposits from tenants.

In accordance with IFRS, the balance of the six mortgage loans and one swap mortgage loan in the amount of $157,561,535 and $21,455,715, respectively, which are not in compliance with covenants, including net operating income, minimum debt service coverage, restriction on the registration of secondary charges against the title to the property and reporting requirements have been included with amounts due in 2011.

21 Financial instruments and risk management (continued)

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At June 30, 2011 the percentage of fixed rate mortgage loans to total mortgage loans was 59% (December 31, 2010 - 72%).

The Trust has variable rate mortgage loans on investment properties totaling $105,816,651, or 41% of the total mortgage loans at June 30, 2011 (December 31, 2010 - 28%).

As at June 30, 2011, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to June 30, 2014 of $66,086,214, representing 25% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $660,862 per year.

As at June 30, 2011, the Trust had variable rate mortgages totaling $105,816,651. Should interest rates change by 1%, interest expense would change by $1,058,167 per year.

With the exception of interest rate swap arrangements, the Trust does not trade in financial instruments.

Credit risk
Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Trust has credit policies to address credit risk that include the analysis of financial position and credit history of a prospective tenant and by obtaining security deposits whenever permitted by legislation. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due but not impaired:

	June 30 2011	December 31 2010
Rent receivable overdue:		
0 to 30 days	302,731	166,510
31 to 60 days	78,002	38,556
More than 60 days	322,899	587,810
	$ 703,632	$ 792,876

21 Financial instruments and risk management (continued)

Credit risk (continued)
A reconciliation of allowance for doubtful accounts is as follows:

	June 30 2011	December 31 2010
Balance, beginning of period	$ 38,635	$ 97,903
Amount charged to bad debt expense relating to impairment of rent receivable	22,928	51,981
Amounts written off as uncollectible	(22,333)	(111,249)
Balance, end of period	$ 39,230	$ 38,635
Amount charged to bad debts as a percent of rentals from investment properties	0.12%	0.13%

Market risk
Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The Trust does not have financial instruments that are affected by changes in market prices.

Currency risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust does not have any transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with the financial instruments of the Trust are not exposed to other price risk.

21 *Financial instruments and risk management (continued)*

Fair values

Except for swap mortgage loans which are carried at fair value, a comparison of the carrying amounts and fair value of the financial instruments of the Trust is provided below.

	Carrying Value	
	June 30 2011	December 31 2010
Financial assets		
Loans and receivables	500,000	500,000
Defeasance assets	3,264,842	3,313,434
Restricted cash	13,601,648	21,478,638
Cash	2,039,277	925,046
Rent and other receivables	1,970,917	1,315,470
Deposits	971,301	697,691
Financial liabilities		
Mortgages loans	260,176,786	259,104,483
Mortgage bonds	13,875,160	10,454,939
Convertible debentures	24,693,439	37,412,928
Defeased liability	2,781,128	2,806,222
Mortgage guarantee fees	57,026	73,074
Construction costs payable	340,508	333,831
Trade and other payables	66,841,054	59,244,173
Bank indebtedness	4,865,000	2,960,000
Deposits from tenants	2,843,083	2,121,716

	Fair Value	
	June 30 2011	December 31 2010
Financial assets		
Loans and receivables	409,105	397,542
Defeasance assets	-	-
Restricted cash	13,601,648	21,478,638
Cash	2,039,277	925,046
Rent and other receivables	1,970,917	1,315,470
Deposits	971,301	697,691
Financial liabilities		
Mortgages loans	260,233,309	259,121,541
Mortgage bonds	14,472,974	11,331,068
Convertible debentures	20,094,069	31,772,040
Defeased liability	-	-
Mortgage guarantee fees	57,026	73,074
Construction costs payable	340,508	333,831
Trade and other payables	66,841,054	59,244,173
Bank indebtedness	4,865,000	2,960,000
Deposits from tenants	2,843,083	2,121,716

21 Financial instruments and risk management (continued)

Fair values (continued)
The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying amounts due to the short-term maturities of these instruments.
- Loans and receivables are estimated by discounting expected future cash flows using current market interest rates.
- The fair value of the defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
- In regard to mortgages loans, mortgage bonds, the debt component of convertible debentures, mortgage guarantee fees and construction costs payable:
  - The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.
  - The fair value of debt component of convertible debentures are based on quoted market prices.

Fair value hierarchy

The fair value of the swap mortgage loans has been determined using Level 2 of the fair value hierarchy whereby the Trust makes use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

22 Management of capital

The capital structure of the Trust is comprised of the following:

	June 30 2011	December 31 2010
Mortgage loans	$259,299,619	$257,819,026
Mortgage bonds	12,501,487	9,689,046
Convertible debentures - debt component	24,506,982	36,986,646
Swap mortgage loans	43,741,786	44,662,642
Equity	76,583,769	75,052,787
	$416,633,643	$424,210,147

The Trust manages capital in order to safeguard its ability to continue as a going concern and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimise the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including convertible debenture debt.

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may (i) issue units, debentures or mortgage debt and other securities, such as unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units or debentures; and/or (v) reduce debt.

Market requirements for attracting capital may vary in ways that the Trust may not be able to accurately predict.

23 Segmented financial information

Investment properties are located in Fort McMurray, Alberta (13 properties), Yellowknife, Northwest Territories (2 properties) and other locations in Canada (7 properties).

Revenue is primarily derived from the operations of residential real estate comprised of multi family rental properties.

Three months ended June 30, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	6,869,514	3,482,412	11,126	10,363,052
Property operating costs	2,580,593	1,462,497	-	4,043,090
Interest income	8,333	4,701	34,310	47,344
Interest expense	4,522,920	1,067,500	3,061,335	8,651,755
Income (loss) and comprehensive income (loss) before discontinued operations	5,747,485	2,033,126	(3,587,945)	4,192,666
Cash from operating activities	5,048,533	(16,177,199)	9,742,398	(1,386,268)
Cash from financing activities	(4,054,995)	16,451,067	(9,684,602)	2,711,470
Cash from investing activities	(722,340)	(121,598)	48,590	(795,348)
Total assets excluding non-current assets held for sale at June 30, 2011	338,579,809	118,346,534	13,189,655	470,115,998

Three months ended June 30, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	5,739,350	3,933,006	-	9,672,356
Property operating costs	2,233,504	1,775,185	-	4,008,689
Interest income	2,474	24,590	114,573	141,637
Interest expense	3,718,573	866,359	2,538,471	7,123,403
Income (loss) and comprehensive income (loss) before discontinued operations	(830,680)	2,840,772	(3,503,094)	(1,493,002)
Cash from operating activities	1,118,094	(8,044,871)	6,096,206	(830,571)
Cash from financing activities	(1,271,150)	(561,267)	3,153,030	1,320,613
Cash from investing activities	(494,505)	7,982,278	(8,250,924)	(763,151)
Total assets excluding non-current assets held for sale at December 31, 2010	329,832,749	117,102,384	21,130,109	468,065,242

23 Segmented financial information (continued)

Six months ended June 30, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	12,538,210	6,962,753	12,606	19,513,569
Property operating costs	4,980,647	3,089,953	-	8,070,600
Interest income	20,156	8,950	95,905	125,011
Interest expense	9,282,870	1,764,335	6,320,620	17,367,825
Income (loss) and comprehensive income (loss) before discontinued operations	4,037,851	3,122,870	(7,438,244)	(277,523)
Cash from operating activities	5,229,135	(14,680,441)	8,012,324	(1,438,982)
Cash from financing activities	(3,205,806)	15,256,215	(16,577,820)	(4,527,411)
Cash from investing activities	(1,564,487)	(300,542)	8,999,118	7,134,089

Six months ended June 30, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	12,426,927	7,993,791	3,780	20,424,498
Property operating costs	4,896,821	3,958,473	-	8,855,294
Interest income	4,170	42,705	201,194	248,069
Interest expense	7,531,247	1,847,527	5,158,628	14,537,402
Income (loss) and comprehensive income (loss) before discontinued operations	(617,398)	3,482,753	(6,380,397)	(3,515,042)
Cash from operating activities	3,206,312	(7,215,547)	2,054,134	(1,955,101)
Cash from financing activities	(2,495,761)	(1,009,983)	(1,098,979)	(4,604,723)
Cash from investing activities	(871,208)	7,912,277	(2,565,000)	4,476,069

24 Adoption of International Financial Reporting Standards

Effective January 1, 2011, the Trust adopted International Financial Reporting Standards ("IFRS") on a prospective basis. As a result, financial information which was previously issued under Canadian generally accepted accounting principles ("GAAP") has been recalculated and presented in accordance with IFRS. Details on the accounting policies and transition elections are disclosed in the March 31, 2011 interim report. Copies of the March 2011 interim report are available on SEDAR at www.sedar.com.

There are five areas where changes in measurement affecting the Statement of Equity and Statement of Comprehensive Income (Loss) have occurred, as follows:

1. Investment properties are measured at fair value for IFRS and were valued at amortized cost for GAAP;
2. Property and equipment is valued at fair value on conversion to IFRS;
3. Change in measurement of convertible debentures;
4. Change in measurement of mortgage bonds; and
5. Change in treatment of leasehold improvements.

Schedule 2 attached provides a reconciliation of the information previously issued under GAAP in the Statement of Financial Position as of June 30, 2010 to the IFRS presentation.

Schedule 3 attached provides a reconciliation of the information previously issued under GAAP for the six months ended June 30, 2010 to the IFRS presentation in the Statement of Comprehensive Income (Loss) and Statement of Cash Flows.

Schedule 4 attached provides a reconciliation of the information previously issued under GAAP for the three months ended June 30, 2010 to the IFRS presentation in the Statement of Comprehensive Income (Loss) and Statement of Cash Flows.

25 Commitments

Acquisition

Parsons Landing Apartments

On September 1, 2008, the Trust acquired possession of Parsons Landing, a residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. On November 1, 2007, the Trust provided a $10,000,000 second mortgage loan which bore interest at 8%. On possession of Phase I of the property on May 14, 2008, a purchase instalment payment of $2,500,000 was made and $5,250,000 of the second mortgage loan was applied to the purchase price. On possession of Phase II of the property on September 1, 2008, the balance of the second mortgage loan of $4,750,000 was applied to the purchase price. After accounting for the payment of an additional deposit of $2,500,000 on October 1, 2008, the balance owing on Parsons Landing was $48,220,000 as of December 31, 2008, including GST. The balance owing was originally due on February 28, 2009.

The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to several extensions of the deadline for payment of the balance owing, the latest of which extends the deadline for payment of the balance owing to September 30, 2012, with interest of $28,910,579 from January 1, 2010 to September 30, 2012. The vendor has agreed to accept interest payments of $300,000 per month to September 30, 2012 and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to September 30, 2012 in the amount of $19,010,579, on closing. A purchase instalment payment of $500,000 was also made on May 12, 2009.

On closing, the vendor has agreed to provide a second mortgage to a maximum of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, provided that the Trust makes an additional payment of $2,000,000 on February 1, 2012 and $3,000,000 prior to closing. On closing, the vendor has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. In addition, 2668921 Manitoba Ltd. has agreed to maintain the revolving loan with the Trust, in the amount of $8,800,000, until closing.

As of June 30, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000.

The Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the vendor for the amount of $1.

Management Contracts

The Trust has retained the following third party managers to provide on-site management services to the seniors housing complexes:

Property	Manager	Term Expiring
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2015
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

In addition, Siena Apartments is managed by Pacer Management Inc. for a term expiring 2012.

26 Contingencies

GST Assessment
The Trust has been assessed for additional GST in the amount of $2,393,503 in regard to the acquisition of a property in Fort McMurray. The Trust has appealed the assessment. The outcome of the appeal is uncertain and, as a result, the Trust has not made an accrual in this regard. A deposit in the amount of $250,000 has been paid to the Canada Revenue Agency.

Contingent consideration on acquisition - Elgin Lodge
During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. was entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. The Trust estimates that contingent consideration will not be payable as a result of this requirement.

Contingent consideration on acquisition - Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. 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 acquisition cost to the Trust and the unpaid portion of an 8% return on equity. The Trust estimates that contingent consideration will not be payable as a result of this requirement.

27 Subsequent events

Mortgage refinancing
Subsequent to June 30, 2011, first mortgage loans in the amount $16,870,000 were retired from the proceeds of a new first mortgage loan in the amount of $14,750,000 and an advance from Shelter Canadian Properties Limited in the amount of $2,282,000. The new mortgage loan bears interest at 8.5% per annum for the first 24 months and 10.5% per annum thereafter and matures September 1, 2013. The advance from Shelter Canadian Properties Limited is a non-interest bearing loan with no fixed terms of repayment.

Subsequent to June 30, 2011, a first mortgage loan in the amount $1,928,843 and a second loan in the amount of $500,000 were retired from the proceeds of a new first mortgage loan in the amount of $3,200,000. The new mortgage loan bears interest at 4.92% and matures August 1, 2013. LREIT will use the proceeds from the refinancing to improve its working capital position.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 1**

INVESTMENT PROPERTIES AND PROPERTY & EQUIPMENT
SUMMARY OF CARRYING VALUE

	Carrying Value				
	June 30 2011	December 31 2010	Appraised Value	Latest Appraised Date	Valuators
FORT McMURRAY					
Gannet Place	7,119,321	7,100,000	10,300,000	September 2008	Colliers International Realty Advisors Inc.
Laird's Landing	53,717,593	53,700,000	56,000,000	March 2011	Colliers International Realty Advisors Inc.
Lakewood Manor Apartments	26,800,000	22,400,000	34,290,000	April 2011	Independent Appraisals Ltd.
Lakewood Manor Townhomes	21,500,000	21,200,000	18,800,000	January 2011	Colliers International Realty Advisors Inc.
Lunar Apartments	4,056,931	3,900,000	6,800,000	September 2008	Colliers International Realty Advisors Inc.
Millennium Village	21,713,214	21,700,000	32,545,000	November 2007	Independent Appraisals Ltd.
Nelson Ridge Estates	59,000,000	59,000,000	57,400,000	January 2011	Colliers International Realty Advisors Inc.
Parkland Apartments	2,505,726	2,500,000	3,450,000	September 2008	Colliers International Realty Advisors Inc.
Parsons Landing	46,400,000	45,900,000	44,200,000	January 2011	Colliers International Realty Advisors Inc.
Siena Apartments	30,200,000	29,600,000	30,000,000	July 2007	Colliers International Realty Advisors Inc.
Skyview Apartment	4,782,115	4,700,000	8,400,000	September 2008	Colliers International Realty Advisors Inc.
Snowbird Manor	6,936,408	6,900,000	10,000,000	September 2008	Colliers International Realty Advisors Inc.
Whimbrel Terrace	7,598,632	7,500,000	11,130,000	September 2008	Colliers International Realty Advisors Inc.
Woodland Park	39,300,000	39,100,000	40,250,000	January 2011	Independent Real Property Appraisals Ltd.
Total Fort McMurray	331,629,940	325,200,000	363,565,000		
YELLOWKNIFE					
Beck Court	18,200,000	18,000,000	20,000,000	January 2011	Colliers International Realty Advisors Inc.
Nova Court	20,999,886	21,000,000	19,000,000	January 2011	Colliers International Realty Advisors Inc.
Total Yellowknife	39,199,886	39,000,000	39,000,000		
OTHER					
156 / 204 East Lake Boulevard	2,600,000	2,500,000	2,600,000	October 2010	Cushman & Wakefield Ltd.
Colony Square	49,200,000	48,400,000	53,630,000	November 2010	Hoffer Wilkinson & Associates Ltd.
Highland Tower	6,800,000	6,800,000	8,400,000	December 2009	Dennis T. Browaty & Associates Ltd.
Norglen Terrace	4,800,911	4,800,000	5,550,000	January 2010	Colliers International Realty Advisors Inc.
Purolator	1,500,000	1,500,000	1,300,000	June 2003	Royal LePage Advisors Inc.
Westhaven Manor	4,000,000	4,000,000	4,400,000	December 2007	Colliers International Realty Advisors Inc.
Willowdale Gardens	7,106,315	7,100,000	7,500,000	October 2009	Hoffer Wilkinson & Associates Ltd.
Total Other	76,007,226	75,100,000	83,380,000		
Total Investment Properties	446,837,052	439,300,000	485,945,000		

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 2**
RECONCILIATION OF JUNE 30, 2010 GAAP BALANCE SHEET TO
JUNE 30, 2010 IFRS STATEMENT OF FINANCIAL POSITION

	GAAP	Change in presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in measurement	IFRS
ASSETS					
Non-current assets					
Investment properties	379,637,331		39,264,640	20,898,029	439,800,000
Loans and receivables	9,840,000			-	9,840,000
Restricted cash	-	6,402,874	1,034,576		7,437,450
Deferred tax asset				185,859	185,859
Total Non-current assets	389,477,331	6,402,874	40,299,216	21,083,888	457,263,309
Current assets					
Cash	2,459,181	(47,839)	(925,080)	-	1,486,262
Other assets	9,907,265	(9,907,265)		-	-
Rent and other receivables	-	1,676,619	405,259	-	2,081,878
Deposits, prepaids and other	-	1,875,611	145,846	-	2,021,457
	12,366,446	(6,402,874)	(373,975)	-	5,589,597
Non-current assets classified as held for sale	123,558,617		(39,925,241)	17,123,349	100,756,725
Total current assets	135,925,063	(6,402,874)	(40,299,216)	17,123,349	106,346,322
TOTAL ASSETS	525,402,394	-	-	38,207,237	563,609,631
LIABILITIES AND EQUITY					
LIABILITIES					
Long-term liabilities					
Long-term debt	-	120,320,407	42,815,797	1,129,204	164,265,408
Mortgage loans	278,246,490	(278,246,490)		-	-
Mortgage bonds	3,954,148	(3,954,148)		-	-
Convertible debentures	35,526,025	(35,526,025)		-	-
Total long-term liabilities	317,726,663	(197,406,256)	42,815,797	1,129,204	164,265,408
Current liabilities					
Deposits from tenants	-	2,069,857	237,598	-	2,307,455
Accounts payable & accrued liabilities	62,076,004	(62,076,004)		-	-
Trade and other payables	-	52,030,375	771,798	-	52,802,173
Bank indebtedness	4,560,000	-		-	4,560,000
Current portion of long term debt	-	205,382,028	528,370	-	205,910,398
	66,636,004	197,406,256	1,537,766	-	265,580,026
Non-current liabilities classified as held for sale	97,567,074	-	(44,353,563)	1,505,567	54,719,078
Total current liabilities	164,203,078	197,406,256	(42,815,797)	1,505,567	320,299,104
TOTAL LIABILITIES	481,929,741	-	-	2,634,771	484,564,512
EQUITY					
Issued capital	98,966,638				98,966,638
Contributed surplus	7,618,559			(3,439,471)	4,179,088
Equity component of convertible debentures	10,256,701			(463,599)	9,793,102
Cumulative earnings	(14,733,496)			39,475,536	24,742,040
Cumulative distributions to unit holders	(58,635,749)				(58,635,749)
TOTAL EQUITY	43,472,653	-	-	35,572,466	79,045,119
TOTAL LIABILITIES AND EQUITY	525,402,394	-	-	38,207,237	563,609,631

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 3**
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE SIX MONTHS ENDED JUNE 30, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Rentals from investment properties	16,929,277	160,717	3,334,504	-	**20,424,498**
Interest and other income	367,252	(367,252)		-	**-**
Property operating costs	6,864,925	-	1,990,369	-	**8,855,294**
Net operating income	10,431,604	(206,535)	1,344,135	-	**11,569,204**
Interest income	-	206,535	41,534	-	**248,069**
Interest expense	(12,665,762)	-	(1,879,616)	7,976	**(14,537,402)**
Amortization expense	(4,457,672)	-	-	4,457,672	**-**
Trust expense	(1,654,262)	-	-	1	**(1,654,261)**
Profit (loss) on sale of investment property	-	-	-	1,417,750	**1,417,750**
Fair value gains (losses)	-	-	-	(785,922)	**(785,922)**
Income (loss) for the period before taxes and discontinued operations	(8,346,092)	-	(493,947)	5,097,477	**(3,742,562)**
Income tax expense (recovery)	-			(227,520)	**(227,520)**
Income (loss) for the period before discontinued operations	(8,346,092)	-	(493,947)	5,324,997	**(3,515,042)**
Income from discontinued operations	8,044,878	-	493,947	(7,561,965)	**976,860**
Income (loss) and comprehensive income (loss)	(301,214)	-	-	(2,236,968)	**(2,538,182)**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE SIX MONTHS ENDED JUNE 30, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Cash flow from operating activities	(2,962,582)	-	1,601,741	-	**(1,360,841)**
Cash flow from investing activities	(1,758,369)	-	6,308,425	-	**4,550,056**
Cash flow from financing activities	(4,105,001)	-	(972,336)	-	**(5,077,337)**
Cash flow from discontinued operations	6,997,269	-	(6,997,269)	-	**-**
Cash decrease	(1,828,683)	-	(59,439)	-	**(1,888,122)**
Deduct: Cash increase from discontinued operations	-	-	(255,072)	-	**(255,072)**
	(1,828,683)	-	(314,511)	-	**(2,143,194)**
Cash at the beginning of the period	4,287,864	-	(658,408)	-	**3,629,456**
Cash at June 30, 2010	2,459,181	-	(972,919)	-	**1,486,262**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE THREE MONTHS ENDED JUNE 30, 2010

Schedule 4

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Rentals from investment properties	8,065,897	40,881	1,565,577	1	**9,672,356**
Interest and other income	158,624	(158,624)		-	**-**
Property operating costs	3,178,632	-	830,057	-	**4,008,689**
Net operating income	5,045,889	(117,743)	735,520	1	**5,663,667**
Interest income	-	117,743	23,894	-	**141,637**
Interest expense	(6,234,323)	-	(889,080)	-	**(7,123,403)**
Amortization expense	(2,230,264)	-	-	2,230,264	**-**
Trust expense	(957,472)	-	-	1	**(957,471)**
Profit (loss) on sale of investment property	-	-	-	1,440,074	**1,440,074**
Fair value gains (losses)	-	-	-	(657,506)	**(657,506)**
Income (loss) for the period before taxes and discontinued operations	(4,376,170)	-	(129,666)	3,012,834	**(1,493,002)**
Income tax expense (recovery)	-			-	**-**
Income (loss) for the period before discontinued operations	(4,376,170)	-	(129,666)	3,012,834	**(1,493,002)**
Income from discontinued operations	444,936	-	129,666	79,050	**653,652**
Income (loss) and comprehensive income (loss)	(3,931,234)	-	-	3,091,884	**(839,350)**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE THREE MONTHS ENDED JUNE 30, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Cash flow from operating activities	(2,271,344)	-	1,015,227	-	**(1,256,117)**
Cash flow from investing activities	(533,083)	-	(145,754)	-	**(678,837)**
Cash flow from financing activities	2,160,096	-	(455,784)	-	**1,704,312**
Cash flow from discontinued operations	473,129	-	(473,129)	-	**-**
Cash decrease	(171,202)	-	(59,440)	-	**(230,642)**
Deduct: Cash increase from discontinued operations	-	-	(101,906)	-	**(101,906)**
	(171,202)	-	(161,346)	-	**(332,548)**
Cash at the beginning of the period	2,630,383	-	(811,573)	-	**1,818,810**
Cash at June 30, 2010	2,459,181	-	(972,919)	-	**1,486,262**