2011 ANNUAL REPORT

TABLE OF CONTENTS

Unitholder Returns and Chief Executive Officer's Message	**3**
Management's Discussion and Analysis	**7**
Financial Summary	**8**
Executive Summary	**9**
Overview of Operations and Investment Strategy	**19**
Impact of Income Tax Changes on Net Sale Proceeds	**22**
Status of Parsons Landing Financing	**23**
International Financial Reporting Standards ("IFRS")	**24**
Real Estate Portfolio	**25**
Capital Structure	**27**
Long-Term Debt	**27**
Analysis of Income/Loss	**38**
Analysis of Cash Flows	**51**
Capital Resources and Liquidity	**54**
Related Party Transactions	**60**
Revenue/Income and Other Commitments	**62**
Changes in Accounting Policies	**63**
Operating Risks and Uncertainties	**68**
Critical Accounting Estimates	**74**
Taxation	**75**
Internal Controls over Financial Reporting	**76**
Additional Information	**76**
Approval by Trustees	**76**
Schedule I - Real Estate Portfolio	**77**
Management's Responsibility	**79**
Auditor's Report	**80**

Financial Statements **82**

Unitholder Information **146**

Unitholder Returns

	Year Ended December 31, 2011 (Per unit)	Year Ended December 31, 2010 (Per unit)
Opening price	$0.44	$0.81
Closing price	$0.42	$0.44

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

CHIEF EXECUTIVE OFFICER'S MESSAGE

Operating Results

LREIT completed 2011 with net income of $5,035,231, compared to a loss of $9,323,543 during 2010. The increase in net income mainly reflects an increase in "fair value" gains of $13.2 Million. Fair value gains represent the increase in the fair market value of investment properties.

In addition to fair value gains, the increase in net income in 2011 reflects the following components:

- **Net operating income:** overall increase of $2,368,073 or 10.1% in 2011, compared to 2010, comprised of a $3,127,414 increase from the Fort McMurray portfolio and a $759,341 decrease from other investment properties. During 2011, the average monthly occupancy level for the Fort McMurray property portfolio increased to 84%, compared to 68% in 2010, while the average monthly rental rate decreased by $121 or 5.1%. During the third and fourth quarters of 2011, the average occupancy level for the Fort McMurray property portfolio was 94%.
- **Interest expense:** increased by $497,709 or 2% in 2011, compared to 2010, comprised of an increase in the cash component of interest expense of $1,650,232, largely offset by a decrease in the non-cash component of $1,152,523.
- **Profit on sale of investment property:** amounted to $487,095 in 2011, compared to $1,947,913 in 2010. The gain in 2011 pertains to the sale of four condominium units at Lakewood Townhomes in the fourth quarter of 2011. The gain in 2010 represents the excess of net sale proceeds over the carrying value of the five properties which were sold by LREIT in 2010.
- **Income from discontinued operations:** increased by $1,042,405 or 62% in 2011, compared to 2010. The increase mainly reflects an increase of approximately $1.5 Million in the net operating income ("NOI") of the four seniors' housing complexes in discontinued operations, partially offset by an increase in interest expense of approximately $500,000.

During 2011, the cash outflow from operating activities, excluding working capital adjustments, amounted to $2,627,510 compared to a cash outflow of $4,121,098 in 2010, representing a decrease in the operating cash outflow of $1,493,588. The decrease in the operating cash outflow is mainly due to an increase in net operating income, on a cash basis, largely offset by an increase in the cash component of interest expense. Including working capital adjustments, the cash outflow from operating activities decreased by $1,181,931, compared to 2010. After including regular payments of mortgage loan principal and capital expenditures, the cash "shortfall" amounted to $12,246,803. The cash shortfall was funded by the upward refinancing of mortgage loan debt and by additional advances on the revolving loan from 2668921 Manitoba Ltd.

Key Accomplishments in 2011

Pending a full recovery of rental market conditions in Fort McMurray and the completion of additional property sales, LREIT successfully managed issues pertaining to covenant breaches on mortgage loan debt, convertible debenture debt maturities, the deferred acquisition of Parsons Landing and the funding of operating cash shortfalls. Other key accomplishments in 2011 include the implementation of a comprehensive refurbishment program for the six apartment properties in downtown Fort McMurray and the conversion to International Financial Reporting Standards (IFRS), including the adoption of the "fair value" valuation method for investment properties.

Mortgage Loan Debt

New mortgage loans

During 2011, the proceeds from additional mortgage loan financing, net of mortgage loans repaid on refinancing, amounted to approximately $18.5 Million, including proceeds of $16.4 Million from the upward refinancing of Riverside Terrace. The proceeds from upward refinancing, combined with additional advances on the revolving loan from 2668921 Manitoba Ltd., enabled LREIT to meet all of its ongoing funding commitments during the year.

Covenant breaches

During 2011, LREIT remained focused on working with lenders to address mortgage loan covenant breaches pertaining to debt service coverage requirements for properties in Fort McMurray. Throughout 2011, approximately $156 Million of mortgage loan debt for twelve properties in Fort McMurray was in breach of debt service coverage requirements. All required payments of interest and principal were made on the mortgage loans in 2011 and the covenant breaches were addressed on an ongoing basis through forbearance agreements, waivers or modified loan terms. As of December 31, 2011, restricted cash deposits include $8.2 Million in regard to covenant breaches.

In January, 2012 the first mortgage loan for Lakewood Apartments was refinanced with a new lender which resulted in the elimination of one of the mortgage loans with a covenant breach. The covenant breach for the first mortgage loan for Lakewood Townhomes is expected to be addressed as the loan is gradually repaid from condominium sale proceeds. The expectation is that the covenants breaches for the remaining mortgage loans for Fort McMurray properties will continue to be addressed in 2012 through improved operations, modified loan agreements, debt repayment or refinancing.

At the beginning of 2011, the first mortgage loans for a property in Moose Jaw and a property in Winnipeg were also in breach of debt covenants. The debt covenant breach for the property in Moose Jaw was satisfied through improved operations. The debt covenant breach for a secondary mortgage registration on a property in Winnipeg is expected to be addressed through loan repayment or sale of the property.

Mortgage Bond and Warrant Offering

In January 2011, LREIT completed the second closing of a mortgage bond and warrant offering for gross proceeds of $3,363,000. The proceeds from the second closing, plus the remaining proceeds from the first closing in December 2010 of approximately $8.95 Million, combined with working capital, enabled LREIT to repay the Series F convertible debentures of approximately $13.6 Million in March 2011.

Convertible Debenture Debt

At the beginning of 2011, the convertible debenture debt of LREIT amounted to approximately $39.2 Million, comprised of approximately $13.6 Million of 7.5% Series F debentures with a maturity date of March 11, 2011 and approximately $25.6 Million of 7.5% Series G debentures with a maturity date of December 31, 2011.

As noted above, the Series F convertible debentures were repaid in full at maturity. In October 2011, the holders of the Series G convertible debentures agreed to amend the terms of the debentures to extend the maturity date to February 28, 2015. Other amendments included an increase in the interest rate to 9.5%, the elimination of the conversion privilege and the granting of underlying security to include a security interest in all of the assets and property of LREIT, subject to senior debt and permitted encumbrances, and a requirement by LREIT to apply the net proceeds from property sales to the repayment of the Series G debenture debt prior to maturity.

In the absence of the amendments, it would likely have been necessary for LREIT to repay the Series G debentures through the issuance of additional trust units, at a discount to the then current market price of the trust units, which would have significantly diluted the value of the existing trust units.

Acquisition of Parsons Landing

During 2011, LREIT remitted monthly interest payments of $300,000 in order to extend the closing date for the Parsons Landing apartment complex in Fort McMurray to September 30, 2012.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month will be deferred pending the receipt of revenue loss insurance proceeds.

Refurbishment Program for Properties in Downtown Fort McMurray

In 2011, LREIT commenced a refurbishment program for the six apartment complexes in downtown Fort McMurray at a total projected cost of approximately $2.3 Million. The refurbishment program encompasses the upgrading of many suites and all common areas. Actual costs incurred under the refurbishment program in 2011 were approximately $1.48 Million and projected costs for 2012 are $734,000. The property upgrades combined with a projected increase in occupancy levels from the re-leasing of renovated suites is expected to improve the NOI and value of the properties.

New Financing

In February 2012, LREIT obtained additional mortgage loan financing of $12 Million, maturing on March 1, 2013. The net proceeds from the loan were used to repay $1.5 Million of interim mortgage loan debt and for working capital purposes.

In addition, the revolving loan commitment from 2668921 Manitoba Ltd. has been increased from $12 Million to $15 Million and matures on August 31, 2012.

Divestiture Program

Management expects to complete the sale of the four seniors' housing complexes and/or other properties in 2012. In addition, the condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2013.

Outlook

Following the economic downturn in 2008, the realizable equity value of the property portfolio enabled LREIT to raise sufficient capital, through property sales or additional mortgage debt financing, to cover the ongoing funding obligations of LREIT. The increase in NOI which has resulted from the improvement in rental market conditions in Fort McMurray, combined with capital expenditures and other initiatives, has increased the portfolio value.

During 2012, LREIT will continue mortgage finance activities and property sales. Pending the completion of additional property sales, LREIT will continue to utilize the increased revolving loan commitment from 2668921 Manitoba Ltd. and/or advances from Shelter Canadian Properties Limited.

The proceeds from property sales and mortgage refinancings, combined with an anticipated improvement in operating cash flow from the property portfolio are expected to enhance the financial position of LREIT this year.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
March 23, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements of LREIT for the year ended December 31, 2011 and with reference to the quarterly reports for 2011.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

During 2011, LREIT did not sell any properties under its divestiture program, aside from the sale of four condominium units at Lakewood Townhomes.

LREIT sold five properties under its divestiture program in 2010.

Number of Properties

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

FINANCIAL SUMMARY

	December 31 2011	December 31 2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 554,720,070	$ 547,829,176
Total long-term financial liabilities **(1)**	$ 399,176,274	$ 402,006,221

	Year Ended December 31 2011	Year Ended December 31 2010
KEY FINANCIAL PERFORMANCE INDICATORS (2)		
Operating Results		
Rentals from investment properties	$ 41,852,726	$ 39,902,688
Net operating income *	$ 25,729,391	$ 23,361,318
Income (loss) from continuing operations, before taxes *	$ 2,382,662	$ (11,496,252)
Income (loss) and comprehensive income (loss)	$ 5,035,231	$ (9,323,543)
Cash Flows		
Cash flow from operating activities	$ (383,188)	$ (1,565,119)
Funds from Operations (FFO) *	$ (6,993,506)	$ (10,333,671)
Adjusted Funds from Operations (AFFO) *	$ (8,483,052)	$ (9,670,113)
Distributable income (loss) *	$ (5,002,715)	$ (5,652,477)
Per Unit		
Net operating income *		
- basic	$ 1.394	$ 1.279
- diluted	$ 1.391	$ 1.279
Income (loss) from continuing operations, before income tax*		
- basic	$ 0.129	$ (0.629)
- diluted	$ 0.129	$ (0.629)
Income (loss) and comprehensive income (loss)		
- basic	$ 0.273	$ (0.510)
- diluted	$ 0.272	$ (0.510)
Cash flow from operating activities		
- basic	$ (0.021)	$ (0.086)
- diluted	$ (0.021)	$ (0.086)
Funds from Operations (FFO) *		
- basic	$ (0.379)	$ (0.566)
- diluted	$ (0.379)	$ (0.566)
Adjusted Funds from Operations (AFFO) *		
- basic	$ (0.460)	$ (0.529)
- diluted	$ (0.460)	$ (0.529)
Distributable income (loss) *		
- basic	$ (0.271)	$ (0.309)
- diluted	$ (0.271)	$ (0.309)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

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

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

As of December 31, 2011, 18 properties and four condominium units have been sold under the divestiture program. The property portfolio of LREIT, as of December 31, 2011 consists of the remaining 27* properties, comprised of 23* investment properties (including the unsold condominium units at Lakewood Townhomes) and four seniors' housing complexes. The operating results for the four seniors' housing complexes are classified under discontinued operations.

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

**Prior to September 2011, Lakewood Apartments and Lakewood Townhomes were considered to be a single property for the purpose of determining the number of properties in the LREIT portfolio. With the commencement of the condominium sale program, the townhomes and apartments are now identified as two distinct properties and the total number of properties reflected in this report has been adjusted accordingly.*

Highlights of 2011 Results and Key Issues/Events

1. Background Information

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

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties, including the revenues and expenses of investment properties which were sold. During 2011, the portfolio of investment properties was comprised of 23 properties. During 2010, the portfolio of investment properties was comprised of 28 properties from January 1, 2010 to March 1, 2010, 26 properties to September 1, 2010, 25 properties to September 30, 2010, 24 properties to November 1, 2010 and 23 properties to December 31, 2010.

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

2. Operations

	Year Ended December 31	
	2011	2010
Average vacancy		
Fort McMurray	16%	32%
Other	2%	5%
Sub-total	12%	24%
Sold properties	N/A	3%
Total	12%	23%
Average rental rate		
Fort McMurray	$2,261	$2,382
Other	$1,050	$1,033
Sub-total	$1,767	$1,793
Sold properties	N/A	$986
Total	$1,767	$1,724

3. Income (Loss) and Cash Flow

	Year Ended December 31		
	2011	2010	Increase (Decrease)
Net operating income			
Fort McMurray properties	$ 17,845,582	$ 14,718,168	$ 3,127,414
Other properties	7,883,809	8,643,150	(759,341)
Total net operating income	25,729,391	23,361,318	2,368,073
Interest income	328,145	482,274	(154,129)
Interest expense	(33,162,993)	(32,665,284)	(497,709)
Trust expense	(2,611,313)	(3,035,583)	424,270
Income before the following	(9,716,770)	(11,857,275)	2,140,505
Profit (loss) on sale of investment properties	487,095	1,947,913	(1,460,818)
Fair value gains (losses)	11,612,337	(1,586,890)	13,199,227
Income (loss) before taxes and discontinued operations	2,382,662	(11,496,252)	13,878,914
Income tax expense (recovery)	91,922	(470,623)	562,545
Income (loss) before discontinued operations	2,290,740	(11,025,629)	13,316,369
Income from discontinued operations	2,744,491	1,702,086	1,042,405
Income (loss) and comprehensive income (loss)	$ 5,035,231	$ (9,323,543)	$ 14,358,774

	Year Ended December 31		
	2011	2010	Increase (Decrease)
Cash provided by (used in) operating activities	$ (383,188)	$ (1,565,119)	$ 1,181,931

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

The comprehensive income for 2011 includes fair value gains of $11,612,337. After excluding fair value gains, profit on property sales, discontinued operations and income taxes, the loss for 2011 decreased by $2,140,505 compared to 2010. The decrease in the loss is mainly due to a $2.4 Million increase in net operating income and a $0.4 Million decrease in trust expense, partially offset by a $0.5 Million increase in interest expense and a $0.2 Million decrease in interest income.

3. Income (Loss) and Cash Flow (continued)

The increase in net operating income of $2.4 Million reflects an increase in net operating income of $3.2 Million from the Fort McMurray property portfolio and a $0.8 Million decrease from the other property portfolio. Increase in net operating income from the Fort McMurray property portfolio reflects a decrease in vacancy partially offset by a decrease in the average rental rate. The decrease in net operating income from the other property portfolio reflects property sales. An analysis of the increase in interest expense is provided below.

4. Fair Value Gains/Losses

In accordance with the IFRS accounting policies which were adopted by LREIT, the carrying value of investment properties is adjusted to reflect changes in fair value. During 2011, the fair value of investment properties increased by $11,612,337, resulting in a corresponding increase in the carrying value of investment properties.

As noted in Note 5 to the Financial Statements, appraisals for 10 properties were obtained in 2011 with an aggregate appraised value of $327.1 Million. The appraisals support fair value increases for seven properties and a fair value decrease for one property. In addition, the appraisals plus market information support fair value increases for two other properties. Capital expenditures at 12 other properties have also served to support an increase in the carrying value of investment properties.

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

5. Interest Expense

	Year Ended December 31		
	2011	2010	Increase (Decrease)
Interest expense	$ 33,162,993	$ 32,665,284	$ 497,709

Key Variables	December 31	
	2011	2010
Weighted average interest rate of total mortgage loan debt		
Investment properties	6.9 %	6.4 %
Seniors' housing complexes	7.3 %	6.3 %
Combined operations	6.9 %	6.3 %

Key Events Affecting Interest Expense

Interest expense increased by $497,709 or 1.5% during 2011 compared to 2010 as a result of the following factors:

- an increase in mortgage loan interest of $1,758,004;
- a reduction of non-cash interest charges (amortization charges pertaining to transaction costs, accretion and the change in value of interest rate swaps) of $1,152,523.

The increase in mortgage loan interest is comprised of an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $1,040,644 and an increase in interest on mortgage loan debt of $717,359. The increase in interest on mortgage loan debt is mainly due to an increase in the interest rate for variable rate mortgage loans and an increase in the relative proportion of variable rate mortgage loan debt, partially offset by a decrease in the average quarterly balance of mortgage loans payable.

The reduction of non-cash interest charges of $1,152,523 during 2011, compared to 2010, is comprised of a decrease in accretion of $2,632,970, a decrease in amortization of transaction costs of $485,980, partially offset by an increase of $1,966,427 in regard to the change in fair value of interest rate swaps charge to expense.

5. Interest Expense (continued)

The decrease in accretion expense is mainly attributable to the fact that accretion expense was comparatively high during 2010 due to the high level of accretion that was expensed in association with the repayment of the March 2010 mortgage bond issue in December 2010. The repayment of the Series F convertible debentures in March 2011 also contributed to the decrease in accretion during 2011.

6. Financing

Parsons Landing

Although LREIT obtained possession of Parsons Landing on September 1, 2008, the purchase agreement provided for a portion of the purchase price to be paid by February 28, 2009. As LREIT has experienced delays in completing financing, the vendor agreed to multiple extensions of the payment deadline, subject to certain conditions, including the remittance of monthly interest payments of $300,000 and a lump-sum principal payment of $500,000. As of December 31, 2011, the agreement between LREIT and the vendor provided for an extension of the payment deadline to September 30, 2012, subject to LREIT remitting additional payments of $2 Million on February 17, 2012 and $3 Million prior to closing. Under the agreement, the vendor agreed to provide second mortgage loan financing of up to $12 Million to complete the purchase of the property.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month will be deferred pending the receipt of revenue loss insurance proceeds.

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

Debt Covenants

As of December 31, 2011, thirteen investment properties have mortgage loans or swap mortgage loans which are in breach of net operating income achievement, debt service coverage requirements, covenants restricting secondary financing or reporting requirements (the "covenant breaches") including twelve of the investment properties in Fort McMurray. In total, the mortgage debt with covenant breaches for the twelve properties in Fort McMurray amounted to $155,748,703 as of December 31, 2011, representing 53% of the total of mortgage loan and swap mortgage loan debt for investment properties.

Subsequent to December 31, 2011, one of the first mortgage loans in breach of covenant requirements in the amount of $24,858,349 was repaid in full from the proceeds of a new first mortgage loan from another lender. The repayment of the loan served to eliminate the covenant breach. In addition, covenant breaches in respect of two other properties were eliminated during 2011 as a result of improved operations and mortgage refinancing.

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

6. Financing (continued)

Debentures

As of December 31, 2011, the long term debt of LREIT includes $25,312,000 of Series G debentures. The debentures were issued in December 2006 with a maturity date of December 31, 2011. In October 2011, the debenture holders approved an extension of the maturity date to February 28, 2015, with an increase in the interest rate to 9.5%. The restructured debentures are not convertible and LREIT is no longer allowed to repay interest or principal through the issuance of trust units. The net proceeds from property sales are also to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The restructured debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

7. Liquidity

	December 31 2011	December 31 2010
Unrestricted cash	$ 1,170,619	$ 925,046
Restricted cash	$ 14,746,600	$ 21,478,638
Working capital deficit	$ 13,469,776	$ 11,261,492

Key Events affecting liquidity

- Cash outflow from operations and "ongoing" financing and investing activities: During 2011, the net cash outflow from operating activities, regular repayments of principal on mortgage loan debt and capital expenditures was $12,246,803.
- Mortgage bond proceeds: During 2011, the cash inflow of LREIT included mortgage bond proceeds of $3,363,000 from the second closing of the December 2010 mortgage bond offering.
- Repayment of convertible debenture debt: On March 11, 2011, the 7.5% Series F convertible debenture debt of $13,598,000 was fully repaid. The repayment of the Series F debentures was primarily funded from the proceeds of the December 2010 mortgage bond offering.
- Additional mortgage loan financing: During 2011, the net proceeds from additional mortgage loan financing amounted to $13,616,562, after retiring $32,558,438 of mortgage loans and interim debt and fully repaying the bank line of credit of $4,875,000.
- Revolving loan: During 2011, utilization of the revolving loan from 2668921 Manitoba Ltd. provided net proceeds of $4,650,000. During the fourth quarter of 2011, 2668921 Manitoba Ltd. deferred payment of $294,000 of interest on the revolving loan.
- Deferred fees and interest-free advances: During the first nine months of 2011, Shelter Canadian Properties Limited provided LREIT with interest-free advances of $3,582,000 and deferred payment of $1.8 Million of service fees. In September 2011, all of the interest-free advances and deferred service fees were repaid from the proceeds of upward refinancing. During the fourth quarter of 2011, Shelter Canadian Properties Limited deferred payment of $425,833 of service fees and provided additional interest-free advances of $1,183,000.
- Transaction costs: During 2011, expenditures on transaction costs associated with mortgage loan financing, mortgage bond and warrant offerings and the restructuring of the Series G debentures, amounted to $4,200,857 including $625,245 fees associated with mortgage loans with covenant breaches.

Liquidity summary

During 2011, the repayment of the Series F convertible debentures, the completion of the second closing of the December 2010 mortgage bond offering and the upward refinancing of mortgage loans, represented the main financing activities of LREIT. The revolving loan, bank line of credit, deferred payment of service fees and revolving loan interest and interest-free advances from Shelter Canadian Properties Limited served as an interim source of funds. The working capital deficiency of LREIT increased from a balance of $11,261,492 as of December 31, 2010 to a balance of $13,469,776 as of December 31, 2011.

8. Divestiture Program

	Properties Sold			
	2009	2010	2011	Total
Number of properties	13	5	-	18
Number of condominium units	-	-	4	4
Gross proceeds	$ 90,392,000	$ 40,835,000	$ 1,927,100	$ 133,154,100
Net proceeds at closing	$ 29,631,650	$ 17,563,501	$ 52,120	$ 47,247,271
Vendor take-back financing received	6,300,000	3,790,650	-	10,090,650
Total proceeds	$ 35,931,650	$ 21,354,151	$ 52,120	$ 57,337,921

LREIT is pursuing the sale of the four seniors' housing complexes and/or other properties. In October 2011, LREIT also commenced a condominium sales program at Lakewood Townhomes. Aside from the sale of four condominium units, LREIT did not complete any property sales under its divestiture program during 2011.

9. Risks and Uncertainties

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

- the net operating losses sustained by LREIT in 2011, 2010 and 2009;
- the breach of covenants which remain on five mortgage loans and a swap mortgage loan (relating to 12 properties) encompassing $150.5 Million of mortgage loan and swap mortgage loan debt;
- the working capital deficiency of the Trust;
- the significant concentration of properties in Fort McMurray;
- the impact of the timing of the increase in rental rates and changes in vacancy loss in Fort McMurray on the ability of the Trust to meet minimum debt service coverage requirements and to renew mortgage loan financing;
- successful completion of additional property sales under the divestiture program and/or upward refinancings of mortgage loan debt;
- reliance on Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. for interim funding; and
- ability of the Trust to obtain mortgage financing for Parsons Landing and complete the acquisition of the property after the reconstruction and occupancy of the property, which is expected to be completed in 2013.

As a result of the substantial improvement in the occupancy level of the Fort McMurray portfolio in 2011, the repayment of the Series F debentures in March 2011; the restructuring of the Series G debentures in December 2011; completion of mortgage bond and warrant offerings in 2010 and 2011; the renewal or refinancing of mortgage loans, including the refinancing of Lakewood Apartments in January 2012, and ongoing discussions with lenders for mortgages which have matured to the date of this report; and the completion of 18 property sales in 2009 and 2010, management believes that LREIT has the financial capacity to continue operations in 2012.

The financial capacity of LREIT to continue operations is contingent upon improving cash flows from operations and, in particular, the operating cash flow from the Fort McMurray portfolio, the completion of property sales and upward refinancings, the continued ability of the Trust to repay, renew or refinance debt at maturity, renewal of the revolving loan commitment from 2668921 Manitoba Ltd., and the continued availability of interim funding from Shelter Canadian Properties Limited in the form of interest-free advances and deferred fees. In the event that the net proceeds from property sales or upward refinancing are less than anticipated, or in the absence of continued interim funding from Shelter Canadian Properties Limited and its parent company 2668921 Manitoba Ltd., prior to completion of additional property sales or upward refinancings, LREIT may not have the ability to fund all of its debt obligations, including regular monthly payments of mortgage loan principal.

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

CONTINUING OPERATIONS AND LIQUIDITY

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

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

The main variables affecting the liquidity of LREIT for 2012 are as follows:

Funding Requirements

Working Capital Deficiency

As at December 31, 2011, LREIT has a working capital deficiency of approximately $13.5 Million, excluding the amount payable on Parsons Landing, representing an increase of approximately $2.2 Million, compared to the working capital deficiency as of December 31, 2010. The working capital deficiency consists primarily of the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd. of $12 Million, interest-free advances from Shelter Canadian Properties Limited of $1.2 Million, accounts payable and other liabilities of approximately $5.0 Million, less unrestricted cash of approximately $1.2 Million, rent and other receivables of approximately $2.3 Million and deposits, prepaids and other current assets of approximately $1.2 Million.

The increase in the working capital deficiency from December 31, 2010 is mainly due to the increase in the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd. and the advances from Shelter Canadian, partially offset by the repayment of the bank line of credit.

Accounts payable as of December 31, 2011 includes deferred service fees of $425,833, and transaction fees of $788,500 in regard to the restructuring of the Series G debentures.

Cash from Operations

During 2011, the cash outflow from operating activities was approximately $2.6 Million, before working capital adjustments, and approximately $0.4 Million, including working capital adjustments. The cash outflow from operating activities, including working capital adjustments, decreased by $1.2 Million during 2011 compared to 2010.

Net operating income is the main cash inflow in regard to operating activities, with the Fort McMurray property portfolio being the main contributor to net operating income. "Interest paid" is the main cash outflow in regard to operating activities. Interest paid includes interest payments for mortgage loan debt, including the revolving loan from 2668921 Manitoba Ltd., mortgage bonds and convertible debentures.

In general terms, and excluding the impact of property sales, the extent of the cash outflow from operating activities is expected to decrease during 2012, as the anticipated improvement in net operating income from the Fort McMurray property portfolio is expected to exceed the increase in interest associated with upward refinancings and/or an increase in the amount withdrawn on the revolving loan from 2668921 Manitoba Ltd.. During 2012, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal and capital improvements.

Ongoing Funding Commitments

In addition to the cash outflow from operating activities, the ongoing funding commitments of LREIT include regular payments of mortgage loan principal and capital improvements. Regular payments of mortgage loan principal and capital improvements for 2011 were $9,488,410 and $2,375,205, respectively.

In the absence of property sales, mortgage loan principal payments are expected to increase during 2012 due to the upward refinancing of mortgage loan debt. Capital improvements are expected to be approximately $3.1 Million during 2012, including $734,000 for capital improvements for the six apartment properties which are located in downtown Fort McMurray.

Series G Debentures

The 7.5% Series G convertible debentures were issued in December 2006 with a maturity date of December 31, 2011. In September 2011, the debenture holders approved an extension of the maturity date to February 28, 2015, with an increase in the interest rate to 9.5%. The restructured debentures are not convertible and LREIT is no longer allowed to repay interest or principal through the issuance of trust units. The terms of the restructured debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment.

The face value of the debentures is $25,312,000 as of December 2011.

Lump sum payment for Parsons Landing

It was previously reported that LREIT was required to remit a lump sum payment of $2 Million on February 1, 2012 as partial payment of the amount due on Parsons Landing. The deadline for the $2 Million payment has been extended to February 17, 2012.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim.

Sources of Capital

Upward Refinancing and Property Sales

Property Sales

Although the timing and completion of property sales is subject to uncertainty, the current expectation of management is that LREIT will complete the sale of four seniors' housing complexes and/or other properties in 2012. In addition, a condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2013.

There is no assurance that LREIT will sell properties proposed for sale at the targeted sale price or timeline.

Mortgage Refinancing

In January 2012, the existing $24.9 Million loan for Lakewood Apartments was refinanced from the proceeds of a new $18.85 Million mortgage loan, $3.0 Million of interest-free advances from Shelter Canadian Properties Limited, mortgage forgiveness of $857,561, the application of cash deposits with the mortgage company and working capital. The refinanced mortgage loan bears interest at 5.75% and matures on October 31, 2017.

In January 2012, $1.5 Million of interim mortgage loan debt was retired from the proceeds of interest-free advances from Shelter Canadian Properties Limited.

In February 2012, LREIT obtained additional mortgage loan financing of $12 Million. The loan bears interest at the prime rate plus 9% for the first 11 months and 25% thereafter, matures on March 1, 2013 and is secured by secondary mortgage charges on multiple properties. The net proceeds from the loan were used to repay $6.3 Million of Shelter Canadian Properties Limited advances and reduce the extent of the working capital deficiency. The reduction of the working capital deficiency included the repayment of deferred asset management fees and interest-free advances from Shelter Canadian, as well as the repayment of $6 Million in principal and all deferred interest on the revolving loan commitment from 2668921 Manitoba Ltd.

Other Sources of Capital

Revolving Loan Commitment

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). As of December 31, 2011, the revolving loan commitment was fully utilized. The loan amount for the three month period ending March 31, 2012 was $12 Million at an interest rate of 9.75%, subject to a maximum interest charge of $162,594. Effective April 1, 2012, the revolving loan commitment will be increased to $15 Million. 2668921 Manitoba Ltd. has agreed to maintain the revolving loan with the Trust, in the amount of $8,800,000, until the closing date of the Parsons Landing Sale.

Advances from Shelter Canadian Properties Limited

In 2011, Shelter Canadian provided $4,765,000 of unsecured interest-free advances as an interim funding measure, pending repayment from upward refinancing proceeds. LREIT made repayments of $3,582,000 resulting in an outstanding balance of $1,183,000 at December 31, 2011. Subsequent to December 31, 2011, Shelter Canadian advanced an additional $3.6 Million to partially fund the repayment of the first mortgage loan at Lakewood Apartments and $1.5 Million to retire an interim loan. The full balance of the interest-free advances was repaid from the proceeds of an upward financing in February 2012.

Deferred Fees

As at December 31, 2011, deferred service fees payable to Shelter Canadian Properties Limited were $425,833. Subsequent to December 31, 2011, the deferred service fees payable were fully repaid and no additional service fees have been deferred.

Deferred Interest Payments on Revolving Loan

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

Other Factors

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

Mortgage Loans in Breach of Covenant Requirements

As of December 31, 2011, there were thirteen investment properties in the LREIT portfolio that have mortgage debt which is in breach of net operating income achievement, debt service coverage requirements, restriction on secondary financing and reporting requirements, comprised of twelve properties in Fort McMurray and one property in Winnipeg. The willingness of the mortgage lenders to continue to forbear under the mortgage loans is uncertain. The inability of LREIT to maintain mortgage loan financing for the indebted properties may have adverse consequences on operations.

Subsequent to December 31, 2011, the first mortgage loan which was in breach of covenant requirements for Lakewood Apartments in Fort McMurray was repaid in full at a discounted amount of $24 Million from the proceeds of a new first mortgage loan. The repayment of the loan eliminated the covenant breach. In addition, covenant breaches in respect of two other properties were eliminated during 2011 as a result of improved operations and mortgage refinancing.

The breach of covenants for the remaining properties have been addressed through forbearance agreements and the provision of additional cash deposits or guarantees and management believes the lenders will continue to accept the covenant breaches.

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

Maturing Debt

- Investment Properties: All of the mortgage loans which have matured to date have been renewed or refinanced with the exception of three mortgage loans which are in breach of debt service coverage requirements and are repayable on demand. One of the three first mortgage loans is for the Lakewood Townhomes which will be repaid upon the successful completion of the condominium sales program.

- Discontinued Properties: All of the mortgage loans which matured to date have been renewed or refinanced.

Acquisition of Parsons Landing

As of December 31, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000 and the property is carried as an investment property at a fair value of $47,800,000.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

Summary

It is anticipated that the proceeds from property sales and upward refinancings, supplemented by draws on the revolving loan, additional interest-free advances and the deferral of payments of service fees and revolving loan interest, as required, will continue to be sufficient to fund the projected funding commitments of LREIT during 2012. As of the date of this report, the amount available under the revolving loan is $2.2 Million.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

The core business activities of LREIT includes acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada. As of December 31, 2011, the real estate portfolio of LREIT consists of 20 multi-family residential properties, two commercial properties and one mixed residential/commercial property (the "investment properties"), as well as four seniors' housing complexes (the "discontinued operations") under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

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

The investment properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. In 2009 and 2010, the decline in economic conditions in Fort McMurray resulted in a reduction in the profitability of the Fort McMurray property portfolio and a decrease in the operating income of LREIT. As a result of an increase in activity in the oil sands industry, the occupancy levels and operating income from the Fort McMurray property portfolio improved during 2011.

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

Operations

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

During 2011, LREIT commenced a comprehensive in-suite upgrade program for the six properties which are located in the downtown area of Fort McMurray. The total budgeted cost of the two year program is approximately $2.3 Million.

Financing

The purchase price of new property acquisitions is typically funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes the upward refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of investment capital. LREIT also utilizes a revolving loan commitment from 2668921 Manitoba Ltd. and interest-free advances from Shelter Canadian Properties Limited as an interim source of funds. A line of credit with the Royal Bank was used as an interim funding source in prior periods. The line of credit was fully repaid during the third quarter of 2011 from the upward refinancing proceeds for Riverside Terrace and the line of credit facility was closed.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of December 31, 2011, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During 2011, the mortgage loan debt service coverage ratio was 0.97, compared to 1.01 in 2010. The mortgage loan debt service coverage ratio excludes net

operating income and mortgage loan debt service costs for discontinued operations and Parsons Landing.

Divestiture Program

General

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

During 2009 and 2010, LREIT sold 18 properties at a combined gross selling price of $131.2 Million. The total net proceeds from sale were approximately $57.3 Million, after accounting for expenses, the repayment or assumption of debt and the subsequent receipt of take-back financing provided to purchasers. The 2010 Annual Report provides a report on the disbursement of divestiture program proceeds.

LREIT did not complete any property sales under its divestiture program during 2011, aside from the sale of four condominium units at Lakewood Townhomes at a combined gross selling price of $1.9 Million. LREIT is pursuing the sale of the four seniors' housing complexes and/or other properties.

Lakewood Townhomes Condominium Sales

The Lakewood complex is comprised of 64 townhomes and a 111 suite apartment building. In October, 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. After funding sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, net sales proceeds will be applied to reduce the first mortgage loan until such time that the first mortgage loan is repaid in full. The sale of five additional units occurred in 2012. The condominium sales program is expected to be substantially completed in 2013. The condominium sales program encompasses services and renovations fees payable to Shelter Canadian Properties Limited. (See "Related Party Transactions".)

The condominium sales program is expected to be substantially complete by 2013.

Distributions

Due to the downturn in rental market conditions in Fort McMurray in 2008, LREIT suspended cash distributions subsequent to the payment of the cash distribution which was declared for the month of February 2009.

IMPACT OF INCOME TAX CHANGES ON NET SALE PROCEEDS

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

As a result, for the 2011 and 2012 taxation years the income tax liability on capital gains from property sales will be payable by LREIT for all future property sales. The income tax liability associated with a capital gain will serve to reduce the net proceeds from a property sale to the extent that the property sale results in a capital gain.

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

PARSONS LANDING FINANCING

On September 1, 2008, the Trust acquired possession of Parsons Landing, a newly constructed luxury residential property located in Fort McMurray, Alberta, consisting of a four-storey apartment building, with a total of 160 suites, for a total cost of $63,200,000, including GST. After accounting for the payment of total deposits of $15,000,000, the balance owing on Parsons Landing was $48,220,000 as of December 31, 2008, including GST.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder has agreed to several extensions to September 30, 2012. The builder has also agreed to accept interest payments of $300,000 per month to September 30, 2012.

On closing, the builder has agreed to provide a second mortgage to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, provided that the Trust makes an additional payment of $2,000,000 on February 17, 2012 (this payment has been deferred) and $3,000,000 at closing. On closing, the builder 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. The Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1.

As of December 31, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000 and the property is carried as an investment property at a fair value of $47,800,000.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

The purchase agreement relating to Parsons Landing provides for the builder 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 of the acquisition of Parsons Landing on September 30, 2012. Management expects that the closing date for the acquisition of Parsons Landing will be delayed until 2013 after reconstruction and occupancy of the property. The Trust has not recorded interest expense in excess of $300,000 per month as the closing is expected to occur after reconstruction and occupancy of the property.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

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

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

General

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

Comparative results for 2010

– a net reduction of the gain on sale of $10,725,789 in regard to the five properties which were sold during 2010, the elimination of amortization charges on investment properties of approximately $8,717,543, the recognition of fair value losses of $1,586,890 and the recognition of a deferred income tax recovery of $470,623, resulted in a decrease in comprehensive income of approximately $3.0 Million.
– after considering other adjustments, the comparative results for 2010, as restated under IFRS, reflect a comprehensive loss of $9,323,543 compared to $6,278,907, as previously reported under GAAP.

Discontinued Operations

- net operating income from investment properties which were sold or classified as "held for sale" during 2010 is included in the net operating income from continuing operations. After considering the reclassification of revenues and expenses, as well as the elimination of the gain on property sales, income from discontinued operations as restated under IFRS is $12,660,646 lower in 2010, compared to the income from discontinued operations which was previously reported under GAAP, and $1,043,981 lower for the fourth quarter of 2010.

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

REAL ESTATE PORTFOLIO

Portfolio Summary - December 31, 2011

As of December 31, 2011, the property portfolio of LREIT consists of 27 rental properties, 23 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust. The investment properties include Lakewood Townhomes or, more specifically, all of the unsold condominium units at Lakewood Townhomes. The remaining four properties consist of the four seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Non-current assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 27 properties has a total purchase price of approximately $493.8 Million and encompasses 2,612 suites and 139,243 square feet of leasable area.

Although there were not any changes to the number of properties in the property portfolio during 2011, the number of suites decreased from 2,616 to 2,612 as a result of the sale of four condominium units at the Lakewood Townhomes. During 2010, LREIT sold five properties with two sales occurring on March 1, 2010, one sale occurring on September 1, 2010, one sale occurring on September 30, 2010 and one sale occurring on November 1, 2010.

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

Composition of Portfolio of Investment Properties

The 23 properties which are classified as investment properties consist of two commercial properties located in Burlington, Ontario and Airdrie, Alberta; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 14 multi-family residential properties in Fort McMurray, Alberta; two multi-family properties in Yellowknife, Northwest Territories; and four multi-family properties located in Thompson, Manitoba, Brandon, Manitoba, Edson, Alberta and Peace River, Alberta.

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

Properties Held for Sale

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

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

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

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

Discontinued Operations

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

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

The cash inflows and outflows from properties in discontinued operations and for "held for sale" investment properties are included with the cash inflows and outflows from investment properties in the statement of cash flows. The increase or decrease in cash held in discontinued operations is separately deducted or added to the statement of cash flows.

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

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to a sold unit are included in continuing operations.

The profit on sale of condominium units is included in continuing operations. The carrying value of investment properties and long-term debt in continuing operations are reduced on a proportional basis as units are sold.

Analysis of Operating Results for Properties Held For Sale

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

In 2010, the operating results for continuing operations include the operating results of 23 investment properties which were owned for the entire year as well as the operating results of two properties which were sold during the first six months of the year and three properties which were sold during the second half of the year. In 2011, the operating results for continuing operations include the operating results of the 23 investment properties which were owned for the entire year. As of December 31, 2010, only the four Lakewood Townhomes condominium units, which were sold during 2011, were classified as "held-for sale". There were no investment properties classified as "held-for-sale" as of December 31, 2011.

Loans and Receivables

As of December 31, 2011, "Loans and receivables" consisted of a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a 12% $250,000 secured note receivable from a previous tenant which is due on demand.

CAPITAL STRUCTURE

Capital Structure - December 31, 2011

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Long-term debt	$ 129,982,408	31.0 %	$ 128,457,486	29.9 %
Current portion of long-term debt	208,519,415	49.8 %	225,526,496	52.6 %
Equity	80,510,813	19.2 %	75,052,787	17.5 %
Total capitalization	$ 419,012,636	100.0 %	$ 429,036,769	100.0 %

Long-term Debt

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

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

Change in Total Long-term Debt

As disclosed in the following chart, the total debt of the investment properties of LREIT as of December 31, 2011, before accrued interest payable and unamortized transaction costs, decreased by $15,418,390 or 4.3% compared to the long-term debt as of December 31, 2010. The decrease mainly reflects a decrease in debenture and mortgage loan debt, partially offset by an increase in mortgage bond debt.

	December 31		Increase
	2011	2010	(Decrease)
Secured debt			
Mortgages loans	$ 254,863,171	$ 259,104,483	$ (4,241,312)
Mortgage bonds	14,058,307	10,826,910	3,231,397
Debentures	25,312,000	-	25,312,000
Convertible debentures	-	13,464,400	(13,464,400)
Swap mortgage loans	42,942,356	44,832,599	(1,890,243)
Defeased liability	2,755,325	2,806,222	(50,897)
Total secured debt	339,931,159	331,034,614	8,896,545
Unsecured debt			
Convertible debentures	-	23,948,528	(23,948,528)
Mortgage guarantee fees	40,498	73,074	(32,576)
Construction costs payable	-	333,831	(333,831)
Total unsecured debt	40,498	24,355,433	(24,314,935)
Total secured and unsecured debt	339,971,657	355,390,047	(15,418,390)
Accrued interest payable	2,019,182	1,666,375	352,807
Unamortized transaction costs	(3,489,016)	(3,072,440)	(416,576)
Total debt	$ 338,501,823	$ 353,983,982	$ (15,482,159)
Total debt is comprised of the following:			
Current portion of long-term debt	$ 208,519,415	$ 225,526,496	$ (17,007,081)
Long-term debt	129,982,408	128,457,486	1,524,922
Total debt	$ 338,501,823	$ 353,983,982	$ (15,482,159)

The decrease in total debt of $15,418,390 is comprised of a decrease of $11,893,649 in the first quarter of 2011 (mainly due to the repayment of the Series F convertible debentures), an increase of $2,323,360 in the second quarter of 2011 (mainly due to the upward refinancing of Colony Square, net of the associated repayment of interim mortgage loan debt), a decrease of $1,766,460 in the third quarter of 2011 (mainly due to mortgage loan principal payments, including a $1 Million lump sum paydown of interest-only second mortgage loan debt) and a decrease of $4,081,641 in the fourth quarter of 2011 (mainly due to mortgage loan principal repayments).

Discontinued Operations - Long-term Debt

As of December 31, 2011, the long-term debt for discontinued operations consisted of the mortgage loan debt for the four seniors' housing complexes in the amount of $60,152,797, plus mortgage guarantee fees of $267,319, less unamortized transaction costs of $609,028. An analysis of the mortgage loan debt for discontinued operations is provided in the following section of this report.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of December 31, 2011, the mortgage loan debt of LREIT increased by $8,886,995 compared to the amount payable as of December 31, 2010. As disclosed in the following chart, the increase is comprised of a decrease in mortgage loan debt of $4,241,312 for investment properties in continuing operations and an increase in the mortgage loan debt of $13,128,307 for the four seniors' housing complexes in discontinued operations.

	Year Ended December 31, 2011		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 51,050,000	$ 19,900,000	$ 31,150,000
Repayment of mortgage loans on refinancing	(32,558,438)	(15,688,438)	(16,870,000)
Net proceeds (repayment)	18,491,562	4,211,562	14,280,000
Regular repayment of principal on mortgage loans	(7,825,763)	(6,674,070)	(1,151,693)
Reduction of mortgage loans on sale of properties	(1,778,804)	(1,778,804)	-
Increase (decrease) in mortgage loans	8,886,995	(4,241,312)	13,128,307
Total mortgage loans - December 31, 2010	306,128,973	259,104,483	47,024,490
Total mortgage loans - December 31, 2011	$ 315,015,968	$ 254,863,171	$ 60,152,797

Continuing Operations

The decrease in the mortgage loan debt for investment properties in continuing operations consists of regular repayments of principal of $6,674,070 and repayments from sale proceeds of $1,778,804 less net proceeds from refinancing of $4,211,562. The net proceeds of refinancing of investment properties mainly consist of the net proceeds from the upward refinancing of Colony Square.

Composition of Mortgage Loan Debt - December 31, 2011

Summary of Mortgage Loans Payable - Investment Properties

Year of Maturity (Note 1)	Weighted Average Interest Rate	Amount December 31, 2011	Percentage of Total
Fixed rate			
2012	5.9 %	$ 30,028,538	11.8 %
2013	5.8 %	25,096,362	9.8 %
2014	6.3 %	34,108,988	13.5 %
2015	5.3 %	26,250,511	10.3 %
2016	5.2 %	34,513,503	13.5 %
2017	5.5 %	1,585,358	0.6 %
		151,583,260	59.5 %
Demand/variable rate	8.5 %	103,279,911	40.5 %
Principal amount		$ 254,863,171	100.0 %

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

Mortgage Loan Debt Summary *

	2011			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Fixed rate mortgage loans	5.7%	5.7%	6.0%	6.3%
Variable rate mortgage loans	8.5%	8.5%	8.6%	8.6%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties at fair value *	61%	62%	63%	63%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties at fair value *	70%	70%	72%	72%

	2010			
	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate				
Fixed rate mortgage loans	6.2%	6.0%	6.2%	6.2%
Variable rate mortgage loans	6.7%	6.7%	6.7%	5.9%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties at fair value *	64%	66%	68%	69%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties at fair value *	75%	75%	78%	78%

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

Discontinued Operations

The increase in the mortgage loan debt for discontinued operations consists of the net proceeds from refinancings of $14,280,000, less regular repayments of principal of $1,151,693. The net proceeds of refinancing mainly consist of the $16.4 Million upward refinancing of Riverside Terrace, net of principal repayments, and a lump sum principal paydown of $2,170,000 on the mortgage loan debt for the Clarington Seniors' Residence.

The total balance of $60,152,797 is comprised of first and second mortgage loans. The first and second mortgage loans payable debt have a weighted average interest rate of 7.3% as of December 31, 2011, compared to 6.65% as of December 31, 2010.

Debt Maturities

Investment properties

With the exception of three mortgage loans in breach of debt service coverage requirements, all of the mortgage loans on the investment properties which matured as of December 31, 2011 have been renewed or refinanced. The three matured loans in breach of debt service coverage requirements consist of the first mortgage loan of $16,301,762 for the Lakewood Townhomes which matured on July 18, 2010; the second mortgage loan of $17,084,412 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010; and the first mortgage loan of $53,593,737 for Laird's Landing which matured October 1, 2011. The loans are repayable on demand. A forbearance agreement was obtained from the lender in regard to the covenant breaches on the three loans with an expiry date of December 31, 2011.

As of December 31, 2011, the amount of mortgage loan principal which is classified as "current", as disclosed in the financial statements in accordance with IFRS, includes all mortgage loans which are payable on demand and all mortgage loans which are in breach of covenant requirements, including swap mortgage loans, as well as fixed term mortgages which mature on or before December 31, 2012. An analysis of the total mortgage loan principal which is classified as "current" for financial statement reporting purposes is provided in the "Capital Resources and Liquidity" section of the MD&A.

As at December 31, 2011, there is a $28,493,538 first mortgage loan which matures on April 5, 2012. The $1.7 Million interim mortgage loan which matured on May 1, 2012, was repaid subsequent to December 31, 2011.

Seniors' Housing Complexes Classified as Discontinued Operations

As at December 31, 2011, there is a $12,372,913 first mortgage loan that matures on April 1, 2012 and a $4,838,205 first mortgage loan that matures on June 30, 2012.

The long-term debt for the seniors' housing complexes is included in the "Non-current liabilities classified as held for sale" classification in current liabilities under IFRS.

Management anticipates that the mortgage loans will be renewed or refinanced at maturity.

Debt Covenant Breaches

Investment Properties

Of the 14 properties in Fort McMurray which are encumbered by mortgage loans payable or swap mortgage loans, 12 of the properties have mortgage loans or swap mortgage loans which were in breach of the net operating income achievement, debt service coverage requirements or reporting requirements as of December 31, 2011. The debt for the properties consists of four first mortgage loans, one second mortgage loan and one swap mortgage loan. The first mortgage loans include three mortgage loans which have matured and are payable on demand. The covenant breaches for the 12 Fort McMurray properties resulted from the slow down of development activity in the oil sands industry experienced in 2009 and the associated decline in rental revenue in Fort McMurray.

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

The status of the mortgage loans which are in breach of covenant requirements as of December 31, 2011 is provided below.

Investment Properties

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance December 31, 2011	Maturity Date	Status
Mortgage Loans					
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	(5)	First	$ 22,699,023	September 1, 2016	(1)
Lakewood					
Apartments	1.2	First	24,858,349	July 17, 2014	(2)
Townhomes	1.1	First	16,301,762	July 18, 2010	(3)
			63,859,134		
Laird's Landing	1.2	First	53,593,737	October 1, 2011	(3)
Woodland Park, Nelson Ridge Estates	1.2	Second	17,084,412	October 31, 2010	(3)
			70,678,149		
Winnipeg					
Colony Square		First	19,657,184	April 1, 2015	(4)
Subtotal			154,194,467		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(5)	First	21,211,420	May 1, 2018	(1)
			$ 175,405,887		

(1) The lender has been notified of the breach and is being provided with operating information on a monthly basis.
(2) Subsequent to December 31, 2011, the first mortgage loan was repaid from the proceeds of new financing. The repayment of the loan served to eliminate the covenant breach.
(3) The lender provided a forbearance agreement to December 31, 2011.
(4) During 2010, the lender issued notice regarding the breach demanding that secondary financing be removed from the title to the property. The property is listed for sale.
(5) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

Seniors' Housing Complexes Classified as Discontinued Operations

As at December 31, 2010, the Trust was not in compliance with one mortgage loan in the amount of $4,874,122 as a result of a debt service covenant. As a result of improved operating results, the Trust was in compliance with the covenant at December 31, 2011. During 2011, the Trust was not in compliance with a mortgage loan as a result of an undertaking to insure with Canada Mortgage and Housing Corporation. The loan has been renewed and there is no longer the requirement for mortgage insurance.

In summary, covenant breaches in respect of three mortgage loans have been satisfied through improved operating results and mortgage refinancing.

Management believes that the remaining covenant breaches will also be satisfactorily resolved through improved operations, modified loan agreements, debt repayment or refinancing.

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

During 2010, LREIT provided cash deposits of $7,926,000 relating to four of the mortgage loans with covenant breaches, including $1,177,300 that was provided on one of the loans which matured in 2010. During 2011, LREIT provided a cash deposit of $250,000 relating to one mortgage loan with a covenant breach.

Notwithstanding the fact that the Fort McMurray property portfolio achieved improved occupancy and operating income levels in 2011, the properties are not expected to reach income levels in 2012 which satisfy the existing covenant requirements. The first mortgage loan for the Lakewood Townhomes will be fully discharged upon the successful completion of the condominium sales program.

During 2011, the total fees related to covenant breaches and forbearance agreements amounted to $625,245, of which $149,049 were incurred in the fourth quarter of 2011. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During 2011, interest expense includes amortization charges related to fees on covenant breaches of $977,210, compared to nil during 2010.

Weighted Average Interest Rates

As of December 31, 2011, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 6.9%, 7.3% and 6.9%, respectively, compared to 6.4%, 6.3% and 6.3% at December 31, 2010.

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

Mortgage Bonds and Trust Unit Purchase Warrants

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

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

On January 28, 2011, the second closing of the December 2010 Bond Offering occurred, in which an additional 3,363 investment units were sold at $1,000 per Unit for aggregate gross proceeds of $3,363,000. The proceeds from the second closing, combined with the mortgage bond funds held in escrow of $8,929,000, the additional mortgage loan financing of $400,000 and additional draws on the revolving loan of $906,000, were used to repay the 7.5% Series F convertible debentures in March 2011.

The December 2010 mortgage bonds mature on December 23, 2015. Interest is payable semi-annually on May 31 and November 30 in each year, as well as on the maturity date . The first interest payment occurred on May 31, 2011. Interest is based on the aggregate face value of the mortgage bonds of $16,000,000. The bonds are secured by second mortgages registered against five investment properties.

For financial statement purposes, the initial book value of the December 2010 mortgage bonds was determined to be $13,730,562 based on the valuation methodology as established under IFRS. The carrying value of the December 2010 mortgage bonds, as of December 31, 2011, of $12,788,628 is based on the initial book value net of unamortized transaction costs plus accretion from the date of issue to December 31, 2011. The initial book value of the trust unit purchase warrants of $1,681,156 is recognized in equity and a deferred tax liability of $588,282 which was recognized on the issue date was charged to income tax recoveries. See Note 12 in the financial statements for additional details.

As noted above, the December 2010 mortgage bond and warrant offering was completed in January 2011. The offering encompassed the issuance of 16,000,000 trust unit purchase warrants. Each trust unit purchase warrants entitles the holder to purchase one unit of LREIT at a price of $0.75 per unit at any time for a period of five years expiring December 23, 2015.

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

Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of debenture debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of December 31, 2011.

Summary of Convertible Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions: Year Ended December 31 2011	Repayments/Unit Conversions: As of December 31 2010	Net Amount Outstanding December 31 2011
Convertible Debentures						
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(12,000,000)	-
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	(13,601,000)	(79,000)	-
Dec. 8/06/Dec. 31/11 *	G	7.5 %	25,732,000	(25,595,000)	(137,000)	-
			$ 69,543,000	$ (39,196,000)	$ (30,347,000)	-
Unamortized transaction costs						-
Book value, December 31, 2011						$ -

* Effective January 1, 2012, the maturity date of the Series G debentures was extended to February 28, 2015 and certain terms of the Series G debentures were amended as more particularly described below.

Summary of Debenture Offering

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions: Year Ended December 31 2011	Repayments/Unit Conversions: As of December 31 2010	Net Amount Outstanding December 31 2011
Debentures						
Jan. 1/12/Feb. 28/15	G	9.5 %	$ 25,312,000	$ -	$ -	$ 25,312,000
Unamortized transaction costs						(849,554)
Book value, December 31, 2011						$ 24,462,446
Allocation of book value						
Debt component						$ 25,312,000
Unamortized transaction costs						(849,554)
December 31, 2011						$ 24,462,446

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

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

The Series G convertible debentures were issued in December 2006 with a maturity date of December 31, 2011. In October 2011, the debenture holders approved an extension of the maturity date to February 28, 2015, with an increase in the interest rate to 9.5%. The restructured debentures are not convertible and LREIT is no longer allowed to repay interest or principal through the issuance of trust units. The net proceeds from property sales after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment are also to be used to redeem debentures on a prorata basis.

Swap Mortgage Loans

The swap mortgage loans of LREIT consist of two floating rate mortgage loans which are hedged under interest rate swap arrangements. During 2011, the carrying value of the swap mortgage loans decreased by $1,815,473, comprised of principal payments on the mortgage loans of $1,145,045 and an decrease in the fair value of the interest rate swaps of $745,198, net of a $74,770 reduction of unamortized transaction costs.

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2011	17,988,339
- March 23, 2012	17,909,011

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

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

OTHER LIABILITIES

Acquisition Payable

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

The amount payable in regard to the acquisition of Parsons Landing is $45.2 Million, excluding GST.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

The purchase agreement relating to Parsons Landing provides for the builder 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 of the acquisition of Parsons Landing on September 30, 2012. Management expects that the closing date for the acquisition of Parsons Landing will be delayed until 2013 after reconstruction and occupancy of the property. The Trust has not recorded interest expense in excess of $300,000 per month as the closing is expected to occur after reconstruction and occupancy of the property.

Revolving Loan Commitment

The liabilities of LREIT include a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited).

The revolving loan was issued in 2009 at an interest rate of 7.5%, with a maximum balance of $7.5 Million. Effective January 1, 2011, the interest rate was increased to 14% in conjunction with the increase in the maximum amount of the loan to $10 Million and an extension of the maturity date for a six month period to June 30, 2011. During the second quarter of 2011, the maximum amount of the loan commitment was increased from $10 Million to $12 Million and the loan was extended to December 31, 2011 at an interest rate of 11%, effective July 1, 2011. Effective January 1, 2012, the interest rate was reduced to 9.75% and the maturity date was extended to March 31, 2012, with the maximum loan amount remaining at $12 Million.

As of December 31, 2010, the balance of the revolving loan was $7.35 Million. The quarter ending balances for the loan in 2011 were $10 Million (March 31, 2011), $12 Million (June 30, 2011), $9.2 Million (September 30, 2011) and $12 Million, as of December 31, 2011.

During 2011, the total interest expense associated with the revolving loan commitment was $1,230,505, compared to $189,861 during 2010. The revolving loan is included in "Trade and other payables" on the Consolidated Statement of Financial Position of LREIT.

The approved loan amount for the three month period ending March 31, 2012 was $12 Million at an interest rate of 9.75%, subject to a maximum interest charge of $162,594. Effective April 1, 2012, the revolving loan commitment will be increased to $15 Million.

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

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease)	
	2011	2010	Amount	%
Rentals from investment properties	$ 41,852,726	$ 39,902,688	$ 1,950,038	4.9 %
Property operating costs	16,123,335	16,541,370	(418,035)	(2.5)%
Net operating income	25,729,391	23,361,318	2,368,073	10.1 %
Interest income	328,145	482,274	(154,129)	(32.0)%
Interest expense	(33,162,993)	(32,665,284)	(497,709)	(1.5)%
Trust expense	(2,611,313)	(3,035,583)	424,270	14.0 %
Loss before the following	(9,716,770)	(11,857,275)	2,140,505	18.1 %
Profit (loss) on sale of investment properties	487,095	1,947,913	(1,460,818)	(75.0)%
Fair value gains (losses)	11,612,337	(1,586,890)	13,199,227	831.8 %
Income (loss) before taxes and discontinued operations	2,382,662	(11,496,252)	13,878,914	120.7 %
Income tax expense (recovery)	91,922	(470,623)	562,545	119.5 %
Income (loss) before discontinued operations	2,290,740	(11,025,629)	13,316,369	120.8 %
Income from discontinued operations	2,744,491	1,702,086	1,042,405	61.2 %
Income (loss) and comprehensive income (loss)	$ 5,035,231	$ (9,323,543)	$ 14,358,774	154.0 %

During 2011, the loss of LREIT, before fair value gains/losses, profit on property sales, income taxes and discontinued operations decreased by $2,140,505 compared to 2010. The decrease in the loss is mainly due to a $2.4 Million increase in net operating income and a $0.4 Million decrease in trust expense, partially offset by a $0.5 Million increase in interest expense and a $0.2 Million decrease in interest income.

After accounting for fair value gains/losses, profit on property sales, income taxes and discontinued operations, LREIT completed 2011 with comprehensive income of $5,035,231 compared to a comprehensive loss of $9,323,543 during 2010.

Net Operating Income

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

Rental Revenue

Market Conditions

Fort McMurray (Fourteen properties)

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

As a result of the downturn in the global economy in October 2008, there was a reduction in the level of activity in the oil sands construction industry resulting in a weakening of rental market conditions in Fort McMurray. The decline in rental market conditions resulted in lower rental rates and a reduction in the occupancy level of LREIT's property portfolio in Fort McMurray in 2009 and 2010.

Given the significant increase in activity in the oil sand industry, occupancy levels of the investment properties in Fort McMurray improved substantially during 2011. Occupancy levels to the date of this report have improved beyond the 84% average which was achieved in 2011, while rental rates in the Fort McMurray portfolio are expected to rise gradually as the demand for rental housing in Fort McMurray continues to grow.

Occupancy levels may decline moderately in the second quarter of 2012 as a result of the expiry of an entire building lease agreement at Siena Apartments.

Other Locations (Nine Properties)

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

The property portfolio also includes four seniors' housing complexes which are classified under discontinued operations. The following analyses exclude the revenue and operating costs of the four seniors' housing complexes.

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

Sources of Rental Revenue

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

Rental Revenue Results

Analysis of Total Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2011	2010	Amount	%	2011	2010
Fort McMurray	$ 27,768,479	$ 24,129,908	$ 3,638,571	15 %	66 %	60 %
Other	14,084,247	15,772,780	(1,688,533)	(11)%	34 %	40 %
Total	$ 41,852,726	$ 39,902,688	$ 1,950,038	5 %	100 %	100 %

As disclosed in the chart above, the total revenue from the investment properties of LREIT increased by $1,950,038 during 2011 compared to 2010. The increase is comprised of an increase in revenue from the investment properties in Fort McMurray of $3,638,571, partially offset by a decrease in revenue from the other investment properties of $1,688,533.

The increase in revenue from the Fort McMurray property portfolio reflects a decrease in the vacancy, partially offset by a decrease in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio decreased from 34% during the first quarter of 2011, to 6% in the third and fourth quarters of 2011, while the average monthly rental rate decreased by $121 or 5.1%.

The decrease in revenue for the "Other" property portfolio is mainly due to a reduction in the number of revenue-generating investment properties. LREIT commenced operations in 2010 with 28 investment properties and ended the year with 23 investment properties having sold five properties throughout the year. During 2011, the portfolio of LREIT consisted of 23 investment properties throughout the entire year.

Vacancy, by Quarter

	2011				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	34 %	16 %	6 %	6 %	16 %
Other	2 %	2 %	2 %	1 %	2 %
Sub-total	25 %	13 %	5 %	5 %	12 %
Sold properties	N/A	N/A	N/A	N/A	N/A
Total	25 %	13 %	5 %	5 %	12 %

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

Vacancy represents the revenue potential of vacant suites.

Average Monthly Rents, by Quarter

	2011				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,323	$2,290	$2,246	$2,199	$2,261
Other	$1,034	$1,065	$1,050	$1,064	$1,050
Sub-total	$1,790	$1,792	$1,759	$1,743	$1,767
Sold properties	N/A	N/A	N/A	N/A	N/A
Total	$1,790	$1,792	$1,759	$1,743	$1,767

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

Property Operating Costs

Analysis of Property Operating Costs

	Year Ended December 31		Increase (Decrease)	
	2011	2010	Amount	%
Fort McMurray	$ 9,922,897	$ 9,411,740	$ 511,157	5 %
Other	6,200,438	7,129,630	(929,192)	(13)%
Total	$ 16,123,335	$ 16,541,370	$ (418,035)	(3)%

During 2011, property operating costs for the entire portfolio of investment properties decreased by $418,035 or 3%, compared to 2010. The decrease is comprised of a $511,157 increase in the operating costs of the Fort McMurray portfolio partially offset by a decrease of $929,192 in the operating costs of the "Other" property portfolio. The increase in operating costs for the Fort McMurray portfolio is mainly due to an increase in advertising expenses and on-site salary costs. The decrease in operating costs for the "Other" property portfolio is mainly due to the reduction in the number of properties in the portfolio.

Summary of Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income						Operating Margin	
	Year Ended December 31		Increase (Decrease)		Percent of Total			
	2011	2010	Amount	%	2011	2010	2011	2010
Fort McMurray	$ 17,845,582	$ 14,718,168	$ 3,127,414	21 %	69 %	63 %	64 %	61 %
Other	7,883,809	8,643,150	(759,341)	(9)%	31 %	37 %	56 %	55 %
Total	$ 25,729,391	$ 23,361,318	$ 2,368,073	10 %	100 %	100 %	61 %	59 %

After considering the increase in rental revenue and the decrease in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties increased by $2,368,073 or 10% during 2011, compared to 2010.

The increase in net operating income is comprised of an increase in the net operating income of the Fort McMurray portfolio, partially offset by a decrease in net operating income from the "Other" property portfolio. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by $3,127,414 during 2011, compared to 2010, while the net operating income of the "Other" property portfolio decreased by $759,341.

Overall, the operating margin for the property portfolio increased from 59% during 2010, to 61% during 2011. The increase in the overall operating margin reflects an improvement in the profit margin for the Fort McMurray property portfolio, partially offset by decrease in the profit margin for the "Other" property portfolio.

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

Trust Expense

Trust expense decreased by $424,270 during 2011, compared to 2010.

The decrease mainly reflects the prepayment discounts of $250,000 on the settlement of two mortgage loans receivable and accounting and audit expenditures of $125,000 related to the conversion to IFRS, which were incurred in 2010.

Profit (Loss) on Sale of Investment Properties

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

During 2011, LREIT did not complete any property sales. The sale of four units which were sold under the condominium sales program at the Lakewood Townhomes however, resulted in a profit on sale of $487,095. During 2010, LREIT sold five properties and recognized a profit on sale of investment properties in the amount of $1,947,913.

Fair Value Gains (Losses)

The valuation gain of $11,612,337 for 2011 represents a net increase in the fair value of investment properties during the year. When capital expenditures of $2,288,861 are added to the valuation gain, the carrying value of investment properties increased by $13,882,370 during 2011.

As noted in Note 5 to the Financial Statements, appraisals for 10 properties were obtained in 2011 with an aggregate appraised value of $327.1 Million representing 72% of the total carrying value. The appraisals support fair value increases for seven properties and a fair value decrease for one property. In addition, the appraisals plus market information supported fair value increases for two other properties. Capital expenditures at 12 other properties have also served to support an increase in the carrying value of investment properties.

Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 14% of the total carrying value of investment properties and in 2009 for one property having an appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

Interest Income

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

During 2011 interest income decreased by $154,129 compared to 2010, almost entirely due to a decrease in interest income on "loans and receivables" partially offset by an increase in income on defeasance assets and an increase in income on term deposits.

Interest Expense

Total Interest Expense

Interest expense increased by $497,709 or 2% during 2011, compared to 2010. As disclosed in the following chart, the increase is comprised of a $3,981,780 increase in interest expense related to mortgage loans, including swap mortgage loans, partially offset by a $1,605,078 decrease in interest expense related to the mortgage bonds and a $1,878,993 decrease in interest expense related to debentures.

Interest expense encompasses a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During 2011, "non-cash" expenses served to reduce the total increase in interest expense by $1,152,523.

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

Analysis of Interest Expense

	Year Ended December 31		Increase (Decrease)	
	2011	2010	Amount	%
Mortgage Loans				
Mortgage loan interest	$ 19,468,784	$ 17,710,780	$ 1,758,004	10 %
Swap mortgage loan interest	2,353,579	2,454,198	(100,619)	(4)%
Amortization of transaction costs	2,169,067	1,811,099	357,968	20 %
Change in value of interest rate swaps	(745,198)	(2,711,625)	1,966,427	73 %
Total - mortgage loans	23,246,232	19,264,452	3,981,780	21 %
Mortgage Bonds				
Mortgage bond interest	1,440,000	530,334	909,666	172 %
Accretion of debt component	324,448	2,111,947	(1,787,499)	(85)%
Amortization of transaction costs	179,247	906,492	(727,245)	(80)%
Total - mortgage bonds	1,943,695	3,548,773	(1,605,078)	(45)%
Acquisition Payable				
Interest on acquisition payable	3,600,000	3,600,000	-	- %
Total - acquisition payable	3,600,000	3,600,000	-	- %
Debentures				
Interest on debentures	2,159,766	3,076,585	(916,819)	(30)%
Accretion of debt component	1,772,441	2,617,912	(845,471)	(32)%
Amortization of transaction costs	440,859	557,562	(116,703)	(21)%
Total - debentures	4,373,066	6,252,059	(1,878,993)	(30)%
Total - interest expense	$ 33,162,993	$ 32,665,284	$ 497,709	2 %

Cash and Non-cash Component

	2011	2010	Amount	%
Non-cash component				
Accretion	$ 2,096,889	$ 4,729,859	$ (2,632,970)	(56)%
Amortization of transaction costs	2,789,173	3,275,153	(485,980)	(15)%
Change in value of interest rate swaps	(745,198)	(2,711,625)	1,966,427	73 %
Total non-cash component	4,140,864	5,293,387	(1,152,523)	(22)%
Total cash component	29,022,129	27,371,897	1,650,232	6 %
Total - interest expense	$ 33,162,993	$ 32,665,284	$ 497,709	2 %

Cash Component of Interest Expense

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

"Interest paid" on the Consolidated Statements of Cash Flows of $32,007,967 includes the cash component of interest expense of $29,022,129, plus the cash component of interest expense pertaining to the four seniors' housing complexes in discontinued operations of $3,340,258, less the increase in accrued interest between December 31, 2010 and December 31, 2011 of $354,420.

Mortgage Loan Interest

Mortgage loan interest increased by $1,758,004 or 10% during 2011, compared to 2010, comprised of an increase in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $1,040,645 and an increase in interest on mortgage loan debt of $717,359. The increase in interest on mortgage loan debt mainly reflects an increase in the weighted average interest rate for variable rate mortgage loans and an increase in the relative proportion of variable rate mortgage loan debt, compared to 2010, partially offset by a decrease in the balance of mortgage loans payable.

Mortgage Bond Interest

During 2011, interest on the mortgage bonds increased by $909,666, compared to 2010. The increase in mortgage bond interest reflects the increase in the face value of mortgage bonds payable from a balance of $6,780,000 during 2010 to a balance which ranged from $12,637,000 in January 2011 to $16,000,000 during the remainder of the year.

Interest on Acquisition Payable

Interest expense associated with Parsons Landing is reflected in "interest on acquisition payable".

Debenture Interest

During 2011, interest on debentures decreased by $916,819, compared to 2010, due to the repayment of the Series F convertible debentures on March 11, 2011.

Total Cash Component of Interest Expense

During 2011, the total cash component of interest expense increased by $1,650,232 or 6%, compared to 2010.

Ratio of Cash Component of Interest Expense

As a percentage of net operating income, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, decreased from 102% during 2010 to 99% during 2011.

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

After including the cash component of interest on mortgage bonds and debentures, the ratio of the cash component of interest, relative to net operating income, is 113% for 2011, compared to 117% for 2010.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense decreased $1,152,523 during 2011, compared to 2010. The decrease is comprised of a decrease in accretion of $2,632,970, a decrease in amortization of transaction costs of $485,980, partially offset by an increase in expense of $1,966,427 in regard to the change in fair value of interest rate swaps.

Accretion

Accretion relates to the debentures and mortgage bonds. The decrease in accretion expense is mainly attributable to the fact that accretion expense was comparatively high during 2010 due to the high level of accretion that was expensed in association with the repayment of the March 2010 mortgage bond issue in December 2010. The repayment of the Series F convertible debentures in March 2011 also contributed to the decrease in accretion during 2011.

Amortization of Transaction Costs

Transaction costs related to mortgage loans, mortgage bonds, debentures and certain other financial instruments are capitalized and expensed through amortization charges.

The decrease in amortization of transaction costs is mainly attributable to the fact that amortization charges for transaction costs were comparatively high during 2010 as the unamortized portion of transaction costs relating to the repayment of the March 2010 bond issue were fully expensed in December 2010. Amortization charges for transaction costs related to mortgage loans with covenant breaches were also comparatively high in 2010.

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the variance between the change in value of interest rate swaps in 2011, compared to 2010, served to increase interest expense by $1,966,427 during 2011.

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

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During 2011, the fair value of the interest rate swaps decreased by $745,198 due to an increase in interest rates during the year. During 2010, the fair value of the interest rate swaps decreased by $2,711,625, as a result of a more substantive increase in interest rates in 2010.

As the decrease in value in 2011 was less than the decrease in value in 2010, the change in value of the interest rate swaps resulted in an increase in interest expense in 2011 of $1,966,427, compared to 2010.

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

Discontinued Operations

During 2011, LREIT generated income from discontinued operations of $2,744,491 compared to $1,702,086 during 2010, representing an increase of $1,042,405. The income from discontinued operations includes the net operating income, interest expense and income tax for the four seniors' housing complexes.

Analysis of Income from Discontinued Operations

	Year Ended December 31		Increase
	2011	2010	(Decrease)
Rental income	$ 15,371,667	$ 13,626,439	$ 1,745,228
Property operating costs	8,849,075	8,600,637	248,438
Net operating income	6,522,592	5,025,802	1,496,790
Interest expense	3,724,725	3,216,211	508,514
Current tax	81,078	(20,762)	101,840
Deferred tax	(27,702)	128,267	(155,969)
Income from discontinued operations	$ 2,744,491	$ 1,702,086	$ 1,042,405

The increase in income from discontinued operations during 2011 reflects a $1,496,790 increase in net operating income and a $54,129 increase in income tax recoveries, partially offset by a $508,514 increase in interest expense.

Deferred Taxes

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

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

As of December 31, 2011, temporary differences between the carrying values and tax values of investment properties and debentures and mortgage bonds has created deferred tax liabilities of $1,306,711 and $504,840, respectively. The deferred tax liabilities are completely offset by deferred tax assets created by temporary differences between tax values and carrying values of transaction costs and interest rate swaps and unused tax losses available for carry forward.

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

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

Comparison to Preceding Quarter

Analysis of Income (Loss)

	2011			2010	
	Q4	Q3	Increase (Decrease)	Q4	Increase (Decrease)
Rentals from investment properties	11,196,590	11,142,567	54,023	9,612,269	1,584,321
Property operating costs	4,013,791	4,038,944	(25,153)	3,917,464	96,327
Net operating income	7,182,799	7,103,623	79,176	5,694,805	1,487,994
Interest income	162,836	40,298	122,538	154,270	8,566
Interest expense	(7,709,989)	(8,085,179)	(375,190)	(11,398,028)	(3,688,039)
Trust expense	(560,688)	(617,710)	(57,022)	(723,855)	(163,167)
Loss before the following	(925,042)	(1,558,968)	633,926	(6,272,808)	5,347,766
Profit on sale of investment property	487,095	-	487,095	222,608	264,487
Fair value gains (losses)	1,709,960	3,153,922	(1,443,962)	(189,606)	1,899,566
Income (loss) for the period before taxes and discontinued operations	1,272,013	1,594,954	(322,941)	(6,239,806)	7,511,819
Income tax expense (recovery)	-	298,704	(298,704)	(243,103)	243,103
Income (loss) for the period before discontinued operations	1,272,013	1,296,250	(24,237)	(5,996,703)	7,268,716
Income from discontinued operations	333,267	979,388	(646,121)	200,631	132,636
Comprehensive income (loss)	$ 1,605,280	$ 2,275,638	$ (670,358)	$ (5,796,072)	$ 7,401,352

Overview

Comparison to Preceding Quarter

During the fourth quarter of 2011, the loss of LREIT, before profit on sale of investment property, fair value gains (losses), income taxes and discontinued operations, decreased by $633,926 compared to the third quarter of 2011. The decrease in the loss mainly reflects a decrease in interest expense of $375,190.

The decrease in interest expense of $375,190 is mainly due to the fact that accretion charges were comparatively high during the third quarter of 2011.

After accounting for profit on sale of investment property, fair value gains, income tax expense and income from discontinued operations, LREIT completed the fourth quarter of 2011 with comprehensive income of $1,605,280, compared to comprehensive income of $2,275,638 during the third quarter of 2011.

Comparison to Fourth Quarter of 2010

During the fourth quarter of 2011, the loss of LREIT, before profit/loss on sale of investment property, fair value gains/losses, income taxes and discontinued operations, decreased by $5,347,766 compared to the fourth quarter of 2010. The decrease in the loss mainly reflects a decrease in interest expense of $3,688,039 and an increase in net operating income of $1,487,994.

The decrease in interest expense of $3,688,039 is mainly attributable to the high level of accretion and amortization of transaction cost charges expensed in the fourth quarter of 2010 in association of the repayment of the March 2010 mortgage bond issue in December 2010, as well as the high level of amortization of transaction cost charges expensed in regard to mortgage loans with covenant breaches.

The increase in net operating income during the fourth quarter of 2011, compared to the fourth quarter of 2010, mainly reflects an increase in the net operating income of the Fort McMurray property portfolio. As disclosed in the analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio increased by $1,813,912 during the fourth quarter of 2011, while the net operating income from the Other portfolio decreased by $325,918.

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

After accounting for profit/loss on sale of investment property, fair value gains, income tax expense and income from discontinued operation, LREIT completed the fourth quarter of 2011 with comprehensive income of $1,605,280, compared to a comprehensive loss of $5,796,072 during the fourth quarter of 2010.

Revenue and Net Operating Income Analysis

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

	2011			2010	
	Q4	Q3	Increase (Decrease)	Q4	Increase (Decrease)
Revenue					
Fort McMurray	$ 7,611,297	$ 7,618,972	$ (7,675)	$ 5,738,120	$ 1,873,177
Other	3,585,293	3,523,595	61,698	3,874,149	(288,856)
Total revenue - continuing operations	11,196,590	11,142,567	54,023	9,612,269	1,584,321
Total revenue - discontinued operations	3,994,295	3,901,337	92,958	3,561,612	432,683
Total revenue	$ 15,190,885	$ 15,043,904	$ 146,981	$ 13,173,881	$ 2,017,004
Net operating income					
Fort McMurray	$ 5,192,162	$ 5,095,856	$ 96,306	$ 3,378,250	$ 1,813,912
Other	1,990,637	2,007,767	(17,130)	2,316,555	(325,918)
Total net operating income - continuing operations	7,182,799	7,103,623	79,176	5,694,805	1,487,994
Total net operating income - discontinued operations	1,617,080	1,672,940	(55,860)	1,098,228	518,852
Total net operating income	$ 8,799,879	$ 8,776,563	$ 23,316	$ 6,793,033	$ 2,006,846

Summary of Quarterly Results

Quarterly Analysis

	2011			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 11,196,590	$ 11,142,567	$ 10,363,052	$ 9,150,517
Net operating income	$ 7,182,799	$ 7,103,623	$ 6,319,962	$ 5,123,007
Income (loss) for the period before taxes and discontinued operations	$ 1,272,013	$ 1,594,954	$ 4,103,543	$ (4,587,848)
Income (loss) and comprehensive income (loss)	$ 1,605,280	$ 2,275,638	$ 4,900,921	$ (3,746,608)
PER UNIT				
Net operating income				
- basic	$ 0.388	$ 0.384	$ 0.343	$ 0.279
- diluted	$ 0.387	$ 0.384	$ 0.343	$ 0.279
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.069	$ 0.086	$ 0.223	$ (0.250)
- diluted	$ 0.069	$ 0.086	$ 0.223	$ (0.250)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.087	$ 0.123	$ 0.266	$ (0.204)
- diluted	$ 0.087	$ 0.123	$ 0.266	$ (0.204)

Quarterly Analysis

	2010			
	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 9,612,269	$ 9,865,921	$ 9,672,356	$ 10,752,142
Net operating income	$ 5,694,805	$ 6,097,309	$ 5,663,667	$ 5,905,537
Income (loss) for the period before taxes and discontinued operations	$ (6,239,806)	$ (1,513,884)	$ (1,493,002)	$ (2,249,560)
Income (loss) and comprehensive income (loss)	$ (5,796,072)	$ (989,289)	$ (839,350)	$ (1,698,832)
PER UNIT				
Net operating income				
- basic	$ 0.310	$ 0.333	$ 0.311	$ 0.326
- diluted	$ 0.310	$ 0.333	$ 0.311	$ 0.326
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.340)	$ (0.083)	$ (0.082)	$ (0.124)
- diluted	$ (0.340)	$ (0.083)	$ (0.082)	$ (0.124)
Income (loss) and comprehensive income (loss)				
- basic	$ (0.316)	$ (0.054)	$ (0.046)	$ (0.094)
- diluted	$ (0.316)	$ (0.054)	$ (0.046)	$ (0.094)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Year Ended December 31			
	2011	2010	Change	
Income (loss) and comprehensive income (loss)				
- basic	$ 0.273	$ (0.510)	$ 0.783	154 %
- diluted	$ 0.272	$ (0.510)	$ 0.782	153 %
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.129	$ (0.629)	$ 0.758	121 %
- diluted	$ 0.129	$ (0.629)	$ 0.758	121 %

Excluding income taxes and discontinued operations, LREIT generated income of $2,382,662 ($0.129 per unit) during 2011, compared to a loss of $11,496,252 ($0.629 per unit) during 2010, representing an increase in income of $13,878,914 ($0.758 per unit). As the weighted average number of units has only increased by 1.05% since December 31, 2010, the increase in the income per unit mainly reflects the increase in the overall income of the Trust before income tax expense and discontinued operations. The increase in the overall income of the Trust is entirely attributable to the fair value gains of $11,612,337 ($0.629 per unit) which were recorded during 2011. Excluding the fair value gains, the income of the Trust increased by $1,159,547 ($0.063 per unit) during 2011.

ANALYSIS OF CASH FLOWS

Operating Activities

2011 vs 2010 Comparatives

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

During 2011, the net cash outflow from operating activities for the portfolio of investment properties in continuing operations was $5,732,988, before working capital adjustments, and $3,263,991 after including working capital adjustments. The cash inflow from the operations of the seniors' housing complexes in discontinued operations for 2011 was $3,105,478, before working capital adjustments and $2,880,803 after including working capital adjustments. Overall, the net cash outflow from continuing and discontinued operations excluding working capital adjustments, decreased by $1,493,588 in 2011, compared to 2010. The improvement in operating cash flow results is mainly due to an increase in net operating income, on a cash basis, largely offset by an increase in interest paid.

Cash from Operating Activities

	Year Ended December 31			
	2011			2010
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 25,729,391	$ 6,544,720	$ 32,274,111	$ 28,387,120
Accrued rent receivable	553,953	-	553,953	(432)
Net operating income - cash basis	25,175,438	6,544,720	31,720,158	28,387,552
Trust expense	2,611,313	-	2,611,313	3,035,583
Non-cash component of trust expense	87,921	-	87,921	176,271
Trust expense - cash basis	2,523,392	-	2,523,392	2,859,312
Interest paid	(28,667,709)	(3,340,258)	(32,007,967)	(29,968,617)
Interest received	280,422	-	280,422	611,484
Interest expense - cash basis	(28,387,287)	(3,340,258)	(31,727,545)	(29,357,133)
Income tax expense - current	2,253	(98,984)	(96,731)	(292,205)
Cash from operating activities, before working capital adjustments	(5,732,988)	3,105,478	(2,627,510)	(4,121,098)
Working capital adjustments, net	2,468,997	(224,675)	2,244,322	2,555,979
Cash provided by (used in) operating activities	$ (3,263,991)	$ 2,880,803	$ (383,188)	$ (1,565,119)

Comparison to Third Quarter of 2011

Cash from Operating Activities

	Three Months Ended			
	December 31, 2011			September 30, 2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 7,182,799	$ 1,639,694	$ 8,822,493	$ 8,776,563
Accrued rent receivable	76,774	-	76,774	61,702
Net operating income - cash basis	7,106,025	1,639,694	8,745,719	8,714,861
Trust expense	560,688	-	560,688	617,710
Non-cash component of trust expense	27,376	-	27,376	18,750
Trust expense - cash basis	533,312	-	533,312	598,960
Interest paid	(7,596,382)	(968,603)	(8,564,985)	(7,098,137)
Interest received	115,113	-	115,113	40,298
Interest expense - cash basis	(7,481,269)	(968,603)	(8,449,872)	(7,057,839)
Income tax expense - current	2,253	109,705	111,958	(39,243)
Cash from operating activities, before working capital adjustments	(906,303)	780,796	(125,507)	1,018,819
Working capital adjustments, net	3,125,090	(281,135)	2,843,955	(3,594,726)
Cash provided by (used in) operating activities	$ 2,218,787	$ 499,661	$ 2,718,448	$ (2,575,907)

In comparison to the third quarter of 2011, the net cash from continuing and discontinued operations excluding working capital adjustments, decreased by $1,144,326 in the fourth quarter of 2011. The decrease in cash provided by operating activities excluding working capital adjustments, is mainly due to an increase in interest paid, partially offset by an increase in income tax expense.

The amount of interest paid on the Series G debentures and mortgage bonds is approximately $1.7 Million higher in the second and fourth quarter of the year, compared to the first and third quarter of the year due to the timing of interest payments. For the first quarter of 2012, interest paid on the Series G debentures and mortgage bonds is expected to decrease by approximately $1.7 Million compared to the fourth quarter of 2011.

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

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

During 2011, the FFO deficiency decreased by $3,340,165, compared to 2010, while the AFFO deficiency decreased by $1,187,061. On a basic per unit basis, the FFO deficiency decreased by $0.187 per unit, while the AFFO deficiency decreased by $0.069 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Year Ended December 31	
	2011	2010
Comprehensive income (loss)	$ 5,035,231	$ (9,323,543)
Add (deduct):		
Deferred taxes	70,695	(649,105)
Profit (loss) on sale of investment properties	(487,095)	(1,947,913)
Fair value gains (losses)	(11,612,337)	1,586,890
Funds from operations *	(6,993,506)	(10,333,671)
Add (deduct):		
Straight-line rent adjustment	(553,953)	432
Accretion of debt component of debentures and mortgage bonds	2,096,889	4,729,859
Unit-based compensation	87,921	176,271
Change in fair value of interest rate swaps	(745,198)	(2,711,625)
Capital expenditures on investment properties	(2,288,861)	(1,387,680)
Capital expenditures on property and equipment	(86,344)	(143,699)
Adjusted funds from operations *	$ (8,483,052)	$ (9,670,113)
FFO per unit *		
- basic and diluted	$ (0.379)	$ (0.566)
AFFO per unit *		
- basic and diluted	$ (0.460)	$ (0.529)

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Year Ended December 31	
	2011	2010
Cash provided by operating activities	$ (383,188)	$ (1,565,119)
Changes in non-cash operating items	(2,244,322)	(2,555,979)
	(2,627,510)	(4,121,098)
Add (deduct):		
Capital expenditures on investment properties	(2,288,861)	(1,387,680)
Capital expenditures on property and equipment	(86,344)	(143,699)
Distributable loss	$ (5,002,715)	$ (5,652,477)
Per unit		
- basic and diluted	$ (0.271)	$ (0.309)

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

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

During 2011, the distributable loss of LREIT was $5,002,715, representing a decrease in the distributable loss of $649,762 compared to 2010.

Distributions

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

CAPITAL RESOURCES AND LIQUIDITY

Source and Use of Funds - General

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

The net cash inflow from upward refinancing of properties, represents the primary funding source for the cash outflow from operating activities, regular mortgage loan principal payments and capital expenditures. The remaining net cash inflow from the upward refinancing of properties, if any, is used to fund any required lump-sum repayments of secondary mortgage loan debt, to repay any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment and to restore working capital. The revised terms of the Series G debentures require that the net proceeds of any property sales (after repayment of mortgage indebtedness related to the property sold and the revolving loan from 2668921 Manitoba Ltd.) be applied to the redemption of Series G debentures on a pro rata basis. As a result, net proceeds from property sales may not be available to fund operating requirements.

Source and Use of Funds - 2011 Summary

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

(i) the cash outflow from operating activities amounted to $383,188;

(ii) after accounting for regular monthly mortgage loan principal payments and capital expenditures the net cash shortfall increased to $12,246,803;

(iii) after including the cash flows from other financing and investing activities, there was a net cash inflow of $245,573. As disclosed in the Consolidated Statements of Cash Flows, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:

- proceeds of mortgage bond financing of $12,310,815 comprised of proceeds of mortgage bond financing of $3,363,000 and restricted cash of $8,947,815 relating to the December 2010 mortgage bond proceeds;
- proceeds from mortgage loan financing of $51,050,000; and
- net proceeds from the revolving loan commitment of $4,650,000.

Outflows:

- expenditures on transaction costs of $4,200,857;
- change in restricted cash of $2,268,255, representing an increase in security deposits and loan reserves;
- lump-sum repayments of mortgage loan debt of $32,558,438;
- the repayment of the Series F debentures of $13,598,000; and
- net repayment of the bank line of credit of $2,960,000.

After accounting for the cash balance at the beginning of 2011 of $925,046, LREIT completed 2011 with a cash balance of $1,170,619.

Cash Flow Analysis (Note 1) - Year Ended December 31, 2011

Cash provided by (used in) operating activities		$ (383,188)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on long term debt	(9,488,410)	
Capital expenditures (Note 2)	(2,375,205)	(11,863,615)
Shortfall in cash provided by operating activities		(12,246,803)
Main sources of funds, net of transaction costs		
Proceeds of mortgage bond financing, including change in restricted cash (Note 1)	12,310,815	
Proceeds of mortgage loan financing	51,050,000	
Transaction costs	(4,200,857)	
Restricted cash	(2,268,255)	
	56,891,703	
Less: Lump-sum debt repayments		
Repayment of mortgage loans on refinancing	(32,558,438)	
Repayment of debentures	(13,598,000)	
Repayment of line of credit	(2,960,000)	
Debentures purchased under normal course issuer bid	(299,000)	
	(49,415,438)	7,476,265
		(4,770,538)
Other sources of funds		
Net proceeds from revolving loan commitment (Note 1)	4,650,000	
Defeasance assets	145,241	
Net proceeds from sale (Note 1)	52,120	
Cash from discontinued operations	168,750	5,016,111
Cash increase		245,573
Cash, beginning of period		925,046
Cash, end of period		$ 1,170,619

Note 1 - IFRS Measurements

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

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

Note 2 - Capital Expenditures

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

Sources and Use of Funds - 2012

Sources

Working Capital/Existing Cash

As of December 31, 2011, the unrestricted cash balance of LREIT was $1,170,619 and the working capital deficit was $13,469,776. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash.

The working capital deficiency is mainly comprised of the amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $12 Million and the interest-free advances payable to Shelter Canadian Properties Limited in the amount of $1.2 Million.

Long term debt repayments due within the twelve month period ending December 31, 2012 are not included in the calculation of the working capital deficit.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities. Working capital is a non-IFRS measurement and the method which is used by LREIT for calculating the working capital deficit may differ from the method which is used by other issuers. Accordingly, the working capital deficit as calculated by LREIT may not be comparable to the working capital measurements which are provided by other issuers.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a $12 Million revolving loan commitment from 2668921 Manitoba Ltd.

As of December 31, 2011, the revolving loan was fully utilized.

Effective April 1, 2012, the revolving loan commitment will be increased to $15 Million.

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

Cash Outflow from Operating Activities

During 2011, the net cash outflow from operating activities was $383,188. The main components of the cash outflow from operating activities are net operating income on a cash basis, interest paid and working capital adjustments, from both continuing and discontinued operations.

As property sales serve to reduce net operating income and the mortgage loan component of interest paid, the cash outflow from operating activities in 2012 cannot be reasonably predicted given the uncertainty associated with the timing and extent of projected property sales in 2012. In general terms, and excluding the impact of property sales, the extent of the cash outflow from operating activities is expected to decrease during 2012, as the anticipated improvement in net operating income from the Fort McMurray property portfolio is expected to exceed the increase in interest associated with upward refinancings and/or an increase in the amount withdrawn on the revolving loan. During 2012, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal and capital improvements.

Sale Proceeds

The current expectation of LREIT is that the sale of the four seniors' housing complexes and/or other investment properties will be completed in 2012. In addition, the condominium sales program at the Lakewood Townhomes is expected to be substantially completed in 2013.

To the date of this report, there have been no property sales and five condominium units have been sold for proceeds of $2,467,800.

Mortgage Loans Receivable

As of December 31, 2011, LREIT has a $500,000 mortgage loan receivable which matures in 2014 and provides for payments of interest only. The mortgage loan receivable arose as a result of providing vendor take-back financing on sale of an investment property in 2009.

Mortgage Loan Financing

Subsequent to December 31, 2011, proceeds of approximately $12 Million were generated from the upward refinancing of four investment properties.

Debt and/or Equity Offerings

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

Uses

Parsons Landing

Under the agreement which was in effect as of December 31, 2011, the deadline for payment of the balance owing for Parsons Landing was set at September 30, 2012, subject to LREIT remitting an additional payment of $2,000,000 on February 17, 2012 (this payment has been deferred) and $3,000,000 at closing.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim.

Long-term Debt Principal Payments

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	2012	2013/2014	2015/2016	2017 and beyond
Regular mortgage loans	$ 167,883,260	$99,418,930	$ 50,035,598	$ 17,008,396	$ 1,420,336
Variable rate demand loans	86,979,911	86,979,911	-	-	-
Sub-total	254,863,171	186,398,841	50,035,598	17,008,396	1,420,336
Swap mortgage loans	40,092,980	21,913,909	18,179,071	-	-
Debentures and mortgage bonds	41,312,000	-	-	41,312,000	-
Total	$ 336,268,151	$208,312,750	$ 68,214,669	$ 58,320,396	$ 1,420,336

Summary of Mortgage Loan Debt "Due in 2012"

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

An analysis of the mortgage loan debt which is considered due in 2012 in the amount of $186,398,841 is provided on the following chart.

	Investment Properties	**Seniors' Housing Complexes**	**Total**	
Mortgages				
Demand loans	$ 86,979,911	$ -	$ 86,979,911	(1)
Fixed term mortgages with covenant breaches	67,214,556	-	67,214,556	(1)
	154,194,467	-	154,194,467	
Fixed term mortgages which mature in 2012	29,621,404	17,211,118	46,832,522	
	183,815,871	17,211,118	201,026,989	
Principal repayments	2,582,970	578,094	3,161,064	
	$ 186,398,841	$ 17,789,212	$ 204,188,053	

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

Investing Activities

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $3.1 Million for 2012, including approximately $734,000 for capital expenditures in regard to the in-suite upgrade program for the properties located in downtown Fort McMurray.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to fund future capital repairs and/or as additional security relating to breaches of debt service coverage requirements. As of December 31, 2011, cash deposits of $11,953,784 have been deposited, of which $8,176,000 pertains to mortgage loans which are in breach of debt service coverage requirements. The cash deposit for the first mortgage loan of the Lakewood Apartments of $250,000 served to reduce the outstanding principal balance when the loan was repaid from new mortgage loan financing in January 2012.

Principal Payments - Debentures and Mortgage Bonds

All of the debenture debt of LREIT was retired as of March 31, 2011 with the exception of the 7.5% Series G convertible debentures. As of December 31, 2011 the total face value of the restructured Series G debentures is $25,312,000. The Series G debentures were restructured in October 2011, whereby the maturity date was extended to February 28, 2015, and the interest rate was increased to 9.5%. The restructured debentures are not convertible and LREIT is no longer allowed to repay interest or principal through the issuance of trust units. The net proceeds from property sales are also to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment.

The 9% second mortgage bonds of LREIT mature on December 23, 2015. As of December 31, 2011 the total face value of the mortgage bonds is $16,000,000.

Summary

Management expects that the proceeds from upward refinancings and property sales, supplemented by draws on the revolving loan, additional interest-free advances and the deferral of payments of service fees and revolving loan interest, as required, will continue to be sufficient to fund the projected funding commitments of LREIT during 2012. As of the date of this report, the amount available under the revolving loan is $2.2 Million.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. In August 2011, the term of the Services Agreement was extended from December 31, 2015 to December 31, 2019.

During 2011, LREIT incurred service fees payable to Shelter Canadian of $1,698,992. Service fees are included in trust expense.

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

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

During 2011, the fees payable to Shelter Canadian for continuing operations included service fees of $1,698,992, property management fees of $1,669,318, leasing commissions of $8,507 and tenant improvement and renovation fees of $2,759.

Loans

LREIT utilizes a $12 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment is secured by a mortgage charge on nine investment properties. As of December 31, 2011, the revolving loan was fully utilized.

At the beginning of 2011, the terms of the revolving loan provided for a maximum loan amount of $10 Million at an interest rate of 14% and a maturity date of June 30, 2011. On June 30, 2011, the amount of the revolving loan was increased from $10 Million to $12 Million, the interest rate was reduced from 14% to 11%, and the maturity date was extended to December 31, 2011. The increase in the loan in June 2011 encompassed a refinancing fee of $60,000. Subsequent to December 31, 2011, the maturity date was extended for a three month period to March 31, 2012 and the interest rate was reduced from 11% to 9.75% subject to a maximum interest charge of $162,594 for the three month period. Interest on the revolving loan of $1,230,505 is included in interest expense. Subsequent to December 31, 2011, the Trustees authorized a renewal of the loan commitment effective April 1, 2012, at an interest rate of 10% and a maturity date of August 31, 2012, with an increase in the commitment from $12 Million to $15 Million. The loan renewal provides for a refinancing fee of $75,000.

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

On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bore interest at 7.5%, was due on January 1, 2011 and was secured by a second mortgage charge on an income property. The loan was extended to June 30, 2011 on the same terms and conditions, and a processing fee of $7,500 was paid to 2668921 Manitoba Ltd. in regard to the extension of the loan. In July, 2011, the second mortgage loan was retired from proceeds of a new first mortgage loan. Interest on the second mortgage loan of $9,452 is included in interest expense in 2011.

During 2011, the Trust obtained $4,765,000 and repaid $3,582,000 interest-free advances from Shelter Canadian Properties Limited. Included in trade and other payables at December 31, 2011 is a balance of $1,183,000 payable to Shelter Canadian Properties Limited in regard to interest-free advances.

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

Services Fee and Renovation Fee for Lakewood Townhomes Condominium Sales Program

The condominium sales program for the Lakewood Townhomes encompasses a services fee payable to Shelter Canadian in the amount of 5% of the gross sale proceeds. Shelter Canadian is responsible for payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter Canadian increases by the amount of the increase in the fixed fee.

Shelter Canadian is also entitled to a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During 2011, Shelter Canadian received service fees of $25,589 and renovation fees of nil in regard to the Lakewood Townhomes condominium sales program.

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

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2011 was $554,000 (2010 - $554,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $1,500 (2010 - $7,576).

REVENUE/INCOME AND OTHER COMMITMENTS

Siena Apartments

All of the units at Siena Apartments are leased by a major oil sands company, pursuant to a four year lease agreement, under which the lessee is also responsible for all property operating costs. The lease agreement with the oil sands company will expire on June 1, 2012. A marketing program will be implemented to re-lease the units.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

Reason for Change to IFRS

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

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

Description of New Accounting Standards

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

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

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

IAS 40 - Investment properties

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

As with GAAP, IAS 40 requires that investment properties initially be measured at cost. Subsequent to initial recognition, IAS 40 provides an entity with two choices, as follows:
- cost method: continue with a cost valuation model with note disclosure of fair values
- fair value method: recognize the fair value of investment properties on the Statement of Financial Position with changes in fair value recognized in income.

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

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

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

IAS 16 - Property and equipment

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

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

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

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

Discontinued operations

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

Held for sale investment properties

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

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

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

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

Impact of New Accounting Standards

On-going

Measurement of investment properties at fair value

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

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

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

Discontinued operations

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

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

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

Prior Year Comparatives

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

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

The restatement of the carrying value of investment properties at fair value, as at January 1, 2010, and December 31, 2010, has resulted in the elimination of amortization expense and the gain on sale for properties which were sold in 2010. Overall, income as restated in the 2010 comparative financial statements is less than the income as originally reported under GAAP, as the gain on property sales in 2010 was $12,673,702, while amortization expense on income properties was $8,513,147.

Statement of cash flows

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

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

Valuation Process

Valuation Methods

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

Capitalized Net Operating Income Method

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

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

	December 31 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	6.75 %	8.25 %	7.50 %	8.00 %
Yellowknife	7.00 %	8.50 %	6.75 %	9.75 %
Major Canadian cities	5.25 %	6.00 %	5.00 %	7.50 %
Other	6.00 %	8.50 %	6.25 %	9.00 %
Commercial properties	7.25 %	7.75 %	7.00 %	9.25 %

Discounted Cash Flow Method

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

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

	December 31 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	8.00 %	9.50 %	7.75 %	8.00 %
Yellowknife	8.25 %	9.75 %	7.50 %	8.50 %
Major Canadian cities	6.25 %	7.00 %	5.50 %	5.50 %
Other	7.25 %	9.75 %	6.25 %	8.00 %
Commercial properties	8.25 %	8.75 %	7.25 %	7.75 %

Direct Comparison

For properties with condominium title or in the process of obtaining 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 sale price and condominium conversion and sales program.

External Appraisals

Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Aggregate Value at December 31, 2011	Valuation Update Timetable
Greater than $10 Million	11	$ 392,078,180	Three years
Less than $10 Million	12	59,779,190	Five years
	23	$ 451,857,370	

At the January 1, 2010 conversion to IFRS, the established timetable for appraisal was based on property values of less than or greater than $7.5 Million. The policy was revised effective December 31, 2011.

The Trust utilizes capitalization and discount rates within the ranges provided by external knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount 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 December 31, 2011, external appraisals were obtained in 2011 for 10 properties having an aggregate appraised value of $327.1 Million representing 72% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 14% of the total carrying value of investment properties and in 2009 for one property having an appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

Property Sales

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

Valuation Results

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors that have been identified in regard to the assessing whether LREIT has the ability to continue to operate, including risks relating to: (i) the net operating losses sustained by LREIT during 2011 and prior years, (ii) the breach of debt covenant requirements which remain on five mortgage loans and one swap mortgage loan, encompassing $150.5 Million of mortgage loan and swap mortgage loan debt (iii) the impact of the timing of increased rental rates and changes in vacancy losses in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit of the Trust, as of December 31, 2011 in the amount of $13,469,776, (v) reliance on Shelter Canadian Properties Limited and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) successful completion of additional property sales under the divestiture program and/or upward refinancings of mortgage loan debt, (viii) ability of the Trust to obtain mortgage financing for Parsons Landing and complete the acquisition of the property. As the property was partially destroyed in a fire in January 2012, it is expected that the closing date of the acquisition will be extended to 2013, representing the date on which the reconstruction of the property is expected to be completed.

As a result of the steps which have been taken to address the risk factors, and after considering events which have occurred, including the repayment of the Series E debentures in February 2010; the repayment of the Series F debentures on March 11, 2011; the restructuring of the Series G debentures; the completion of two public offerings of mortgage bonds; the renewal or refinancing of mortgage loans and/or ongoing discussions with lenders for mortgages which have matured to the date of this report; the completion of 18 property sales in 2009 and 2010; and the initiation of a condominium sales program for the Lakewood Townhomes; management believes that LREIT has the financial capacity to continue operations.

The main variables which will affect the financial capacity of LREIT to continue operations is the timing and extent of upward refinancing and property sales and the continued credit support of Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. In the event that the net proceeds from upward refinancing or property sales are less than anticipated and in the absence of continued interim funding from Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd., LREIT may not have the ability to fund operating losses or debt obligations, including regular monthly payments of mortgage loan principal.

Real Property Ownership

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

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

Credit Support from Shelter Canadian Properties Limited

During 2011, Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding was provided in the form of interest-free advances, deferred service fees, revolving loan advances and deferred interest payments. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000 (2010 - nil), deferred service fees of $425,833 (2010 - nil), revolving loan advances of $12 Million (2010 - $7.35 Million) and deferred interest on the revolving loan of $294,000 (2010 - nil) .

This continuation of interim funding from Shelter Canadian and 2668921 Manitoba Ltd. may be necessary to ensure the ongoing operations of LREIT pending the generation of cash inflows from upward refinancings or property sales to the extent required to restore working capital.

Public Market Risk

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

Completion of Divestiture Program

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

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

During 2011, LREIT did not complete any property sales. During 2011, LREIT sold four condominium units at Lakewood Townhomes at a gross selling price of $1,927,100. The current expectations of management are that the four seniors' housing complexes and/or other properties will be sold by December 31, 2012. In addition, the condominium sale program for the Lakewood Townhomes is expected to be substantially completed in 2013.

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

Completion of Parsons Landing Acquisition

Although LREIT obtained possession of Parsons Landing on September 1, 2008, the deadline for the payment of the purchase price has been extended on an ongoing basis, subject to certain conditions as previously disclosed in this report. As of December 31, 2011, the agreement between the vendor and LREIT provided for an extension of the payment deadline to September 30, 2012.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Property and revenue losses resulting from the fire are expected to be fully covered by insurance; however, there is no guarantee that this will be the case. Although LREIT is not aware of any potential problems, there are inherent uncertainties related to the resolution of a large insurance claim which could potentially have adverse financial consequences on LREIT.

In the event that LREIT and the vendor cannot reach an agreement on revised terms of closing, or in the event that LREIT cannot arrange satisfactory financing to complete the closing of the property on the agreed upon closing date, the vendor could take steps to recover the full amount owing, including listing the property for sale. See "Parsons Landing Financing".

Concentration of LREIT's Portfolio in One Market

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

There were 27 properties in the real estate portfolio of LREIT as of December 31, 2011 comprised of 23 properties in the investment property portfolio and 4 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of two commercial properties, 20 residential properties and one mixed residential/commercial property, comprising a total of 2,102 rental units. The residential property portfolio includes 14 properties that are located in Fort McMurray, comprising a total of 1,163 suites, or 55% of the total residential suites in the investment property portfolio. The 14 properties have an aggregate carrying value of $334.2 Million, which represents approximately 74% of the total aggregate carrying value of the investment property portfolio.

The 14 properties in Fort McMurray accounted for 66% of the total revenue of LREIT during 2011 and 69% of the net operating income.

Oil Sands Industry

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

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

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

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

Financing

General

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

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

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

Mortgage Maturities

With the exception of the first mortgage loan of $16,301,762 for the Lakewood Townhomes which matured on July 18, 2010, the second mortgage loan of $17,084,412 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010 and the $53,593,737 first mortgage loan for Laird's Landing which matured October 1, 2011, and which are in breach of the debt service coverage requirements, all of the mortgage loans for continuing operations which matured to the date of this report were renewed, or refinanced. The three loans are repayable on demand. A forbearance agreement has been obtained from the lender in regard to the covenant breaches for the three loans with the expiry date of December 31, 2011. The first mortgage loan for the Lakewood Townhomes will be eliminated upon the successful completion of the condominium sales program.

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

Covenant Breaches

As previously disclosed in this report, as of December 31, 2011, LREIT was is in breach in regard to net operating income requirements; debt service coverage requirements; restrictions on the registration of secondary charges against the title to the property, and reporting covenants, encompassing five first mortgage loans, a second mortgage loan and a swap mortgage loan with a total balance of $175,405,887.

Subsequent to December 31, 2011, one of the first mortgage loans in breach of covenant requirements for an investment property in the amount of $24,858,349 was repaid in full from the proceeds of a new first mortgage loan from another lender. The repayment of the loan served to eliminate the covenant breach. There is a risk that the lenders of the remaining mortgage loans which are in breach of covenant requirements could demand early repayment of the loans. Management does not anticipate that any of the lenders will demand early repayment, provided that LREIT continues to be current with its scheduled payments and interest. Management expects LREIT to remain current with its scheduled payments of principal and interest.

The expectation is that all of the covenants breaches will continue to be addressed through improved operations, modified loan terms or repayment from sale or refinancing proceeds.

During 2011, LREIT deposited an additional $250,000 with the mortgage lender of Lakewood Apartments.

During 2010, LREIT was required to deposit $7.9 Million with the mortgage lenders in order to increase the cash reserve requirements for four of the mortgage loans which were in breach of debt service coverage requirements. During 2011, fees of $625,245 were incurred in regard to mortgage loans in breach of debt covenant requirements, compared to $1.2 Million during 2010. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred.

Payment of Cash Distributions

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

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

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

Changes to Tax Treatment of Trusts

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

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. As of December 31, 2011, rent and other receivables includes an allowance for uncollectible amounts of $163,553. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for 2011 is $6,910,317. Cumulative excess interest from January 1, 2010 to December 31, 2011 is $13,820,634;

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

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

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

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

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to December 31, 2011, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010. As explained more fully in the preceding sections of this report, the special distributions were issued to reduce the taxable income of LREIT to nil.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The additional controls enabled the Trust to maintain the effectiveness of its internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2011 Annual Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
March 23, 2012

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

SCHEDULE I

Real Estate Portfolio as of December 31, 2011

Property Portfolio - December 31, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy December 31 2011
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	96 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	99 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	88 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	96 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	92 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	83 %
Parkland Apartments (3)	Fort McMurray	2,230,200	June 2006	12	8 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	69 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	62 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	89 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	99 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	90 %
Lakewood Apartments (4)	Fort McMurray	34,527,719	July 2007	111	97 %
Lakewood Townhomes (4) (5)	Fort McMurray	23,786,513	July 2007	60	83 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	93 %
Parsons Landing (6)	Fort McMurray	60,733,000	September 2008	160	99 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	96 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	99 %
Nova Court (7)	Yellowknife	15,000,000	March 2007	106	100 %
Total - Residential		**$ 410,975,932**	Total suites	**2,102**	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	$ 7,931,600	October 2008	83,190	97 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 421,707,532**			

Property Portfolio - December 31, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy December 31 2011
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	92 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	99 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	69 %
Clarington Seniors' Residence	Bowmanville	22,400,000	February 2007	112	92 %
Total seniors' housing complexes		**$ 72,122,000**	Total suites	**510**	
Total real estate portfolio		**$ 493,829,532**			

Notes to the Property Portfolio:

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

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

(3) Parkland Apartments is undergoing extensive renovations requiring that the suites be unoccupied.

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

(5) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of December 31, 2011 reflects the sale of 4 condominium units in 2011.

(6) LREIT took possession of Parsons Landing on September 1, 2008. In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance. Management expects that the closing date for Parsons Landing will be deferred until 2013 pending the reconstruction and occupancy of the property.

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Lanesborough Real Estate Investment Trust. To fulfill this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial information. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's best judgment in the circumstances.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and free access to the Audit Committee.

MNP LLP, the independent auditors, appointed by the Unitholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Kenneth J. Dando"

Kenneth J. Dando
Chief Financial Officer

March 23, 2012

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive income (loss), statement of changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2011 has a working capital deficit of $13,469,776 and is in breach of certain debt covenants. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

Winnipeg, Manitoba
March 23, 2012

MNP LLP
Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Non-current assets			
Investment properties (Note 5)	**$451,857,370**	$439,300,000	$440,300,000
Loans and receivables (Note 6)	**500,000**	500,000	7,050,000
Defeasance assets (Note 7)	**3,168,193**	3,313,434	-
Restricted cash (Note 8)	**14,746,600**	21,478,638	6,221,222
Deferred tax asset (Note 16)	**-**	185,859	185,859
Total non-current assets	**470,272,163**	464,777,931	453,757,081
Current assets			
Cash	**1,170,619**	925,046	3,629,456
Rent and other receivables (Note 9)	**2,328,256**	1,315,470	1,271,883
Deposits and prepaids (Note 10)	**1,209,170**	1,046,795	1,299,519
	4,708,045	3,287,311	6,200,858
Non-current assets classified as held for sale (Note 11)	**79,739,862**	79,763,934	117,896,483
Total current assets	**84,447,907**	83,051,245	124,097,341
TOTAL ASSETS	**$554,720,070**	$547,829,176	$577,854,422
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt (Note 12)	**$129,982,408**	$128,457,486	$181,890,961
Total non-current liabilities	**129,982,408**	128,457,486	181,890,961
Current liabilities			
Trade and other payables (Note 13)	**65,860,776**	59,244,173	49,976,588
Bank indebtedness (Note 14)	**-**	2,960,000	-
Current portion of long-term debt (Note 12)	**208,519,415**	225,526,496	208,109,294
Deposits from tenants	**2,829,861**	2,121,716	2,081,657
	277,210,052	289,852,385	260,167,539
Non-current liabilities classified as held for sale (Note 11)	**67,016,797**	54,466,518	55,081,902
Total current liabilities	**344,226,849**	344,318,903	315,249,441
Total liabilities	**474,209,257**	472,776,389	497,140,402
Total equity	**80,510,813**	75,052,787	80,714,020
TOTAL LIABILITIES AND EQUITY	**$554,720,070**	$547,829,176	$577,854,422

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31 2011	2010
Rentals from investment properties	**$ 41,852,726**	$ 39,902,688
Property operating costs	**16,123,335**	16,541,370
Net operating income	**25,729,391**	23,361,318
Interest income	**328,145**	482,274
Interest expense (Note 15)	**(33,162,993)**	(32,665,284)
Trust expense	**(2,611,313)**	(3,035,583)
Profit (loss) on sale of investment properties	**487,095**	1,947,913
Fair value gains (losses) (Note 5)	**11,612,337**	(1,586,890)
Income (loss) before taxes and discontinued operations	**2,382,662**	(11,496,252)
Income tax expense (recovery) (Note 16)	**91,922**	(470,623)
Income (loss) before discontinued operations	**2,290,740**	(11,025,629)
Income from discontinued operations (Note 11)	**2,744,491**	1,702,086
Income (loss) and comprehensive income (loss)	**$ 5,035,231**	$ (9,323,543)
Income (loss) per unit before discontinued operations:		
Basic	**$ 0.124**	$ (0.603)
Diluted	**$ 0.124**	$ (0.603)
Income per unit from discontinued operations:		
Basic	**$ 0.149**	$ 0.093
Diluted	**$ 0.148**	$ 0.093
Income (loss) and comprehensive income (loss) per unit:		
Basic	**$ 0.273**	$ (0.510)
Diluted	**$ 0.272**	$ (0.510)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31	
	2011	**2010**
Issued capital (Note 18)		
Balance, beginning of year	**$107,860,241**	$ 98,966,638
Payment of distributions	**-**	8,814,286
Issue of units	**-**	79,317
Balance, end of year	**107,860,241**	107,860,241
Contributed surplus		
Balance, beginning of year	**6,936,834**	461,871
Value of unit options granted	**12,921**	41,521
Maturity of Series E debentures	**-**	2,835,690
Maturity of Series F debentures	**3,507,495**	-
Maturity of Series G debentures	**6,167,055**	-
Issue of trust unit purchase warrants	**334,874**	3,486,039
Debentures purchased under normal course issuer bid	**74,518**	56,280
Value of deferred units granted	**75,000**	134,750
Value of deferred units redeemed	**-**	(79,317)
Balance, end of year	**17,108,697**	6,936,834
Equity component of debentures		
Balance, beginning of year	**9,749,068**	12,641,038
Debentures purchased under normal course issuer bid	**(74,518)**	(56,280)
Maturity of Series E debentures	**-**	(2,835,690)
Maturity of Series F debentures	**(3,507,495)**	-
Maturity of Series G debentures	**(6,167,055)**	-
Balance, end of year	**-**	9,749,068
Cumulative earnings (losses)		
Balance, beginning of year	**17,956,679**	27,280,222
Income (loss) and comprehensive income (loss)	**5,035,231**	(9,323,543)
Balance, end of year	**22,991,910**	17,956,679
Cumulative distributions to unitholders		
Balance, beginning of year	**(67,450,035)**	(58,635,749)
Distributions declared	**-**	(8,814,286)
Balance, end of year	**(67,450,035)**	(67,450,035)
Total equity	**$ 80,510,813**	$ 75,052,787

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2011	December 31 2010
Operating activities		
Income (loss) and comprehensive income (loss)	**$ 5,035,231**	$ (9,323,543)
Adjustments to reconcile income (loss) to cash flows		
Fair value gains (losses)	**(11,612,337)**	1,586,890
Profit (loss) on sale of investment properties	**(487,095)**	(1,947,913)
Discount on repayment of mortgage loan	**-**	250,000
Accrued rental revenue	**(553,953)**	432
Unit-based compensation	**87,921**	176,271
Deferred income taxes	**70,695**	(649,105)
Interest income	**(328,145)**	(779,514)
Interest received	**280,422**	611,484
Interest expense	**36,887,718**	35,922,517
Interest paid	**(32,007,967)**	(29,968,617)
Cash from operations	**(2,627,510)**	(4,121,098)
Decrease (increase) in rent and other receivables	**(373,842)**	145,134
Decrease (increase) in deposits and prepaids	**(186,671)**	469,949
Increase (decrease) in tenant deposits	**793,051**	173,196
Increase (decrease) in trade and other payables	**2,011,784**	1,767,700
	(383,188)	(1,565,119)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**51,050,000**	20,500,000
Proceeds of mortgage bond financing	**3,363,000**	19,417,000
Repayment of mortgage loans on refinancing	**(32,558,438)**	(22,809,254)
Repayment of mortgage loans from proceeds of mortgage loan receivable	**-**	(4,500,000)
Repayment of debentures	**(13,598,000)**	(11,950,000)
Repayment of mortgage bonds	**-**	(6,780,000)
Repayment of long-term debt	**(9,488,410)**	(8,578,808)
Proceeds (repayment) of line of credit	**(2,960,000)**	2,960,000
Proceeds of revolving loan commitment	**11,850,000**	13,964,692
Repayment of revolving loan commitment	**(7,200,000)**	(6,614,692)
Expenditures on transaction costs	**(4,200,857)**	(4,203,183)
Debentures purchased and cancelled under normal course issuer bid	**(299,000)**	(171,606)
	(4,041,705)	(8,765,851)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(2,288,861)**	(1,387,680)
Capital expenditures on property and equipment	**(86,344)**	(143,699)
Decrease (increase) in defeasance assets	**145,241**	(3,338,341)
Proceeds of mortgage loan receivable	**-**	10,090,000
Proceeds of sale	**52,120**	17,563,501
Change in restricted cash	**6,679,560**	(15,258,803)
	4,501,716	7,524,978
Cash increase (decrease)	**76,823**	(2,805,992)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 11)	**168,750**	101,582
	245,573	(2,704,410)
Cash, beginning of year	**925,046**	3,629,456
Cash, end of year	**$ 1,170,619**	$ 925,046

The accompanying notes are an integral part of these financial statements

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 Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Trust unit purchase warrants expiring March 9, 2015	LRT.WT
Trust unit purchase warrants expiring December 23, 2015	LRT.WT.A

The Trust and its subsidiaries earn income from 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 ("IFRS"). The consolidated statements for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on March 23, 2012.

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 of $2,290,740 for the year ended December 31, 2011 (2010 - $11,025,629 loss); has a working capital deficit of $13,469,776 as at December 31, 2011 (December 31, 2010 - $11,261,492); and was in breach of net operating income achievement, debt service coverage, restriction on the registration of secondary mortgage charges and reporting requirements on six mortgage loans and a swap mortgage loan during 2011 and as of December 31, 2011.

The Trust is in breach of a net operating income achievement requirement of a $22,699,023 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 $21,211,420 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)

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $70,678,149, on three properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $16,301,762 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The three mortgage loans in breach of debt coverage requirements, in the aggregate amount of $86,979,911 have matured. A forbearance to December 31, 2011 has been obtained for the three mortgage loans and it is expected that extensions of forbearance will be obtained.

At December 31, 2011, the Trust was in breach of the 1.2 times debt service coverage and reporting requirement of a $24,858,349 first mortgage loan on one property in Fort McMurray, Alberta. Subsequent to December 31, 2011, the first mortgage loan in breach was retired from proceeds of a new first mortgage loan from another lender.

The breaches of the net operating income achievement and debt service coverage requirements on five 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 $19,657,184 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.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or 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 repay, renew or refinance its debt, the continued support of related parties in the form of the renewal of the revolving loan, the provision of advances and the deferral of fees.

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 throughout 2011, 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 and has extended the maturity date for the Series G debentures and the Trust has successfully refinanced two of the first mortgage loans with a covenant breach and the covenant breach at another property has been satisfied through improved operations.

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.

2 *Basis of presentation and continuing operations (continued)*

Statement of compliance
The consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS 1. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The consolidated financial statements are based on IFRS standards issued and outstanding as at March 23, 2012.

The Trust follows accounting policies under IFRS as disclosed in Note 3 in these statements. Note 25 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 in these statements, the accounting policies in Note 3 have been applied consistently in all material respects.

3 *Significant accounting policies*

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise corporate acquisitions are accounted for as business combinations.

(b) Investment Properties

The Trust has adopted IAS 40-Investment Properties and has chosen the fair value method of presenting investment properties in the financial statements.

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the property to the condition necessary for it to be capable of operating and similar costs. The carrying amount also includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met.

3 Significant accounting policies (continued)

(b) Investment Properties (continued)

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. An investment property is derecognized upon sale.

The fair value of investment properties is determined by the Trust using recognized valuation techniques.

Investment properties held for sale are classified as non-current assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(c) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses, in accordance with IAS 16 "Property and equipment".

The Trust provides for amortization of property and equipment so as to apply the cost of the assets over the estimated useful lives as follows.

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Amortization is not recorded for property and equipment held in non-current assets classified as held for sale.

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. Cash generating units are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying amount of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in income (loss). Impairment losses for goodwill are not reversed.

3 Significant accounting policies (continued)

(d) Receivables

(i) Rent and other receivables

Rent and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost using the effective interest rate method. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(ii) Loans and receivables

Loans and receivables are recognized at amortized cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the loans and receivables are recognized in income over the expected life of the loans and receivables. All loans and receivables with maturities greater than 12 months after the financial statements date are classified as non-current assets. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full.

(e) Cash

Cash comprises demand and short-term deposits at the bank with an original maturity of twelve months or less.

Cash deposits, which are not available for use by the Trust within a period of twelve months, are carried as restricted cash.

(f) Non-current assets classified as held for sale

Held for sale assets
Properties are transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:

- The Board must be committed to a plan to sell the property, and an active program to locate a buyer and complete the plan must have been initiated
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification

3 Significant accounting policies (continued)

(f) Non-current assets classified as held for sale (continued)

Non-current assets classified as held for sale are recorded as follows:

Investment Properties	-	fair value as stated in subparagraph (b) Investment Properties above
All other assets	-	lower of carrying value or fair value

Non-current assets classified as held for sale will also be recovered principally through a sale transaction instead of use. Such assets are not depreciated or amortized. For an asset or disposal group to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

Discontinued operations
A discontinued operation is a part of the Trust's business that:

- It has disposed or has classified as held for sale and that represents a major line of its business or geographic area of operation;
- Is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- Is a subsidiary acquired exclusively with a view to resell.

The results of discontinued operations are presented separately on the face of the Statement of Comprehensive Income and the assets and liabilities are presented separately on the face of the Statement of Financial Position.

(g) Mortgages loans and mortgage bonds

All mortgages loans and mortgage bonds are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and bonds are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the loans and bonds are recognized in the Statement of Comprehensive Income (Loss) over the expected life of the borrowings. Interest payable is recognized on an accrual basis. All mortgage loans and mortgage bonds with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and mortgage bonds with maturities greater than twelve months, but which are in breach of a debt covenant, and the debt becomes payable on demand as a result of said breach at the financial statement date, are classified as current liabilities.

(h) Debentures

Debentures are separated into debt and equity components based on the respective fair values at the date of issue. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the debentures. The value assigned to the equity component of debentures represents the value of the conversion feature.

Subsequent to initial recognition, the liability component of a debenture is measured at amortized cost using the effective interest method. The equity component of a debenture is not measured subsequent to initial recognition.

3 Significant accounting policies (continued)

(i) Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust, including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. At the end of each reporting period, the estimate of unit options expected to vest is revised and compensation expense in regard to options granted to officers, employees and trustees is recognized.

(j) Tenant deposits

Tenant deposits liabilities are initially recognized at fair value. Where the time value of money is material, tenant deposits are carried at amortized cost, using the effective interest rate method. Any difference between the initial fair value and the nominal amount is included as a component of rentals from investment properties and recognized on a straight-line basis over the lease term.

(k) Revenue recognition

Management has determined that all of the leases with tenants are operating leases.

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to deferred rent receivable. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancelable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognized in the income statement when they arise.

Meal and other revenue is recognized on the delivery of the meal or other service.

Interest income is recognized on an accrual basis using the effective interest method.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

3 Significant accounting policies (continued)

(l) Income taxes

Current tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses and other short-term temporary differences.

Deferred tax assets are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. The recoverability of all tax assets is reassessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which that asset or liability will be settled, based on rates enacted or substantively enacted at the end of the reporting period.

(m) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur; and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(n) Per unit calculations

Basic per unit amounts are calculated using the weighted average number of units outstanding during the period, including vested deferred units. Diluted per unit amounts are calculated based on the weighted average diluted number of units for the period after considering the dilution effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential exercise of trust unit purchase warrants to the extent that the warrants are dilutive. The diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

3 Significant accounting policies (continued)

(o) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the Trust's designation of such instruments. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial assets classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until disposition of the financial asset.

Financial instruments are derecognized when the Trust no longer controls the contractual rights that comprises a financial asset or when the obligation under a financial liability has been discharged, concluded or expired.

Based on the purpose for which assets and liabilities are acquired, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Loans and receivables	Loans and receivables	Amortized cost
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Mortgage bonds	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Debt component of convertible debentures	Other liabilities	Amortized cost
Swap mortgage loans	Fair value in income	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage guarantee fees	Other liabilities	Amortized cost
Construction costs	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

The Trust assesses impairment of all it financial assets, except those classified as fair value in income. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in income.

3 Significant accounting policies (continued)

(p) 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.

- 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.

- IAS 1 - Presentation of Financial Statements - amendments require grouping together items within other comprehensive income that may be reclassified to the net income. The amendments also reaffirm existing requirements that items in other comprehensive income and net income should be presented as either a single statement or two consecutive statements.

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

4 *Significant accounting judgments, estimates and assumptions*

The preparation of the consolidated financial statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the financial statements date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

(a) Judgments other than estimates

In the process of applying the accounting policies of the Trust, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations

The Trust acquires subsidiaries that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The extent of the land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, meal services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

Operating lease contracts

The Trust has entered into leases with tenants. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and accounts for the leases as operating leases.

4 Significant accounting judgments, estimates and assumptions (continued)

(b) Estimates

Valuations of property

Investment property is stated at fair value as at the financial statement date. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. The valuations are prepared using recognized valuation techniques to determine the fair value of investment properties. The techniques comprise both the capitalized net operating income method and the discounted cash flow method. In certain cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

Investment property under construction is also valued at fair value as determined by independent real estate valuation experts, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be readily determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the discounted cash flow method or the residual method.

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

Other factors such as the continuing volatility in the global financial system and its effect on real estate markets are reflected in the estimates of market values. Management used their market knowledge and professional judgment and has not relied solely on historic transactional comparables or external appraisals obtained. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property.

Taxes

The Trust is subject to income and capital gains taxes. Estimates are required to determine the total provision for current and deferred taxes.

There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxes, the effective tax rate applicable on the temporary differences in investment property is estimated based on the anticipated date of future transactions.

The Trust recognizes liabilities for current taxes based on estimates of whether taxes will be due. Where the actual taxes are different from the amounts that were initially recorded, the difference will impact the income and deferred tax provisions in the period in which the difference is determined.

5 *Investment properties*

The carrying amount of investment properties is summarized as follows:

	Year Ended December 31	
	2011	2010
Balance, beginning of year	$439,300,000	$440,300,000
Additions - capital expenditures	2,288,861	586,890
Fair value gains (losses)	11,612,337	(1,586,890)
Disposals	(1,343,828)	-
Balance, end of year	$451,857,370	$439,300,000

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:

	December 31 2011		December 31 2010		January 1 2010	
	Low	High	Low	High	Low	High
Residential properties						
Fort McMurray	6.75 %	8.25 %	7.50 %	8.00 %	7.00 %	8.00 %
Yellowknife	7.00 %	8.50 %	6.75 %	9.75 %	7.25 %	9.75 %
Major Canadian cities	5.25 %	6.00 %	5.00 %	7.50 %	5.00 %	7.50 %
Other	6.00 %	8.50 %	6.25 %	9.00 %	6.25 %	9.00 %
Commercial properties	7.25 %	7.75 %	7.00 %	9.25 %	6.75 %	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:

	December 31 2011		December 31 2010		January 1 2010	
	Low	High	Low	High	Low	High
Residential properties						
Fort McMurray	8.00 %	9.50 %	7.75 %	8.00 %	7.50 %	7.75 %
Yellowknife	8.25 %	9.75 %	7.50 %	8.50 %	7.50 %	8.50 %
Major Canadian cities	6.25 %	7.00 %	5.50 %	5.50 %	5.50 %	5.50 %
Other	7.25 %	9.75 %	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	8.25 %	8.75 %	7.25 %	7.75 %	7.25 %	7.75 %

5 *Investment properties (continued)*

(iii) *Direct comparison*. For properties with condominium title or in the process of obtaining 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 sale price and cost of the condominium conversion and sales program. Direct comparison valuation analyses are prepared for Colony Square, Laird's Landing, Lakewood Apartments, Lakewood Townhomes, Millennium Village, Parsons Landing, Siena Apartments and Woodland Park.

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Aggregate Value at December 31, 2011	Valuation Update Timetable
Greater than $10 Million	11	$ 392,078,180	Three years
Less than $10 Million	12	59,779,190	Five years
	23	$ 451,857,370	

At the January 1, 2010 conversion to IFRS, the established timetable for appraisal was based on property values of less than or greater than $7.5 Million. The policy was revised effective December 31, 2011.

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 and discount 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 December 31, 2011, external appraisals were obtained in 2011 for 10 properties having an aggregate appraised value of $327.1 Million representing 72% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 14% of the total carrying value of investment properties and in 2009 for one property having an aggregate appraised value of $8.4 Million representing 2% 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.

6 *Loans and receivables*

	December 31 2011	December 31 2010	January 1 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	$ 500,000
Second mortgage loan due June 1, 2011	-	-	6,550,000
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	250,000
	750,000	750,000	7,300,000
Current portion of loans and receivables	(250,000)	(250,000)	(250,000)
	$ 500,000	$ 500,000	$ 7,050,000

7 *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 ("Defeased Liability"). The Defeased Liability 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 3.81% (December 31, 2010 - 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.

	Recorded as	Year Ended December 31 2011	Year Ended December 31 2010
Interest income on Defeasance Assets	Interest income	$ 61,055	$ 26,668
Interest expense on Defeased Liability	Interest expense	(155,164)	(52,344)
Amortization of transaction costs	Interest expense	(12,280)	(2,241)
		$ (106,389)	$ (27,917)

The unamortized balance of transaction costs in respect of the Defeased Liability is $43,592 (2010 - $52,880).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

8 Restricted cash

	December 31 2011	December 31 2010	January 1 2010
Tenant security deposits	$ 2,792,816	$ 2,057,086	$ 2,067,736
Reserves required by mortgage loan agreements	11,953,784	10,473,737	2,111,691
Mortgage bond proceeds held in escrow	-	8,947,815	-
Sale proceeds in escrow	-	-	2,041,795
	$ 14,746,600	$ 21,478,638	$ 6,221,222

9 Rent and other receivables

	December 31 2011	December 31 2010	January 1 2010
Rent receivable	$ 728,258	$ 792,876	$ 759,950
Estimated property operating cost recoveries	-	37,657	-
Less: allowance for uncollectible accounts	(163,553)	(364,685)	(422,793)
	564,705	465,848	337,157
Other receivables	790,264	430,288	514,960
Deferred rent receivable	723,287	169,334	169,766
	2,078,256	1,065,470	1,021,883
Current portion of loans and receivables	250,000	250,000	250,000
	$ 2,328,256	$ 1,315,470	$ 1,271,883

10 Deposits and prepaids

	December 31 2011	December 31 2010	January 1 2010
Deposits			
Property tax deposits	$ 522,304	$ 482,368	$ 339,705
Deposit on potential acquisition	10,000	10,000	10,000
Performance deposit	-	166,916	166,916
Utility deposits	630	38,407	12,320
Deposit with Canada Revenue Agency	250,000	-	-
	782,934	697,691	528,941
Prepaid expenses	426,236	349,104	770,578
	$ 1,209,170	$ 1,046,795	$ 1,299,519

11 *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, which are owned by wholly owned subsidiary companies, as discontinued operations.

In addition, the following investment properties which were sold during 2010 and 2011, were also classified as non-current assets classified as held for sale.

	December 31 2011	December 31 2010	January 1 2010
Chancellor Gate	$ -	$ -	$ 7,814,000
McIvor Mall	-	-	10,951,000
Woodlily Courts	-	-	5,000,000
Nova Manor	-	-	3,100,000
Three Lakes Village	-	-	11,100,000
	$ -	$ -	$ 37,965,000

During 2010, the Trust sold the following properties:

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

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

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at December 31, 2011, are as follows:

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Investment properties held for sale	$ -	$ -	$ 37,965,000
Assets in discontinued operations			
Property and equipment (a)	78,383,871	78,278,699	78,135,000
Cash	388,076	556,826	658,408
Restricted cash	331,149	278,671	277,284
Rent and other receivables	33,192	70,460	89,195
Deposits, prepaids and other	603,574	579,278	771,596
	79,739,862	79,763,934	79,931,483
Non-current assets classified as held for sale	79,739,862	79,763,934	117,896,483
LIABILITIES			
Liabilities in discontinued operations			
Long term debt (b)	59,811,088	47,363,194	48,025,668
Deferred tax (c)	5,654,133	5,681,835	5,617,997
Trade and other payables	930,699	885,518	1,035,403
Deposits from tenants	620,877	535,971	402,834
Non-current liabilities classified as held for sale	$ 67,016,797	$ 54,466,518	$ 55,081,902

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

	Year Ended December 31 2011	Year Ended December 31 2010
Rental income	$ 15,371,667	$ 13,626,439
Property operating expenses	8,849,075	8,600,637
Net operating income	6,522,592	5,025,802
Interest expense (d)	3,724,725	3,216,211
Current tax	81,078	(20,762)
Deferred tax	(27,702)	128,267
Income from discontinued operations	$ 2,744,491	$ 1,702,086
Cash inflow from operating activities	$ 2,880,803	$ 2,198,748
Cash outflow from financing activities	(2,891,903)	(2,153,960)
Cash outflow from investing activities	(157,650)	(146,370)
Increase (decrease) in cash from discontinued operations	$ (168,750)	$ (101,582)

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

(a) Property and equipment

December 31, 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	84,717	(3,050,825)	68,731,178
Furniture, equipment and appliances	1,549,743	20,455	(280,546)	1,289,652
	79,345,219	105,172	(3,331,371)	76,119,020
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,610,070	$ 105,172	$ (3,331,371)	$ 78,383,871

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

January 1, 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	-	(3,050,825)	68,601,699
Furniture, equipment and appliances	1,450,806	-	(280,546)	1,170,260
	79,201,520	-	(3,331,371)	75,870,149
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,466,371	$ -	$ (3,331,371)	$ 78,135,000

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

(a) Property and equipment (continued)

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

	Year Ended December 31	
	2011	2010
Balance, beginning of year	$ 78,278,699	$ 78,135,000
Additions - capital expenditures	105,172	143,699
Balance, end of year	$ 78,383,871	$ 78,278,699

(b) Long term debt

	December 31		January 1
	2011	2010	2010
Secured debt			
Mortgage loans	$ 60,152,797	$ 47,024,490	$ 47,654,114
Unsecured debt			
Mortgage guarantee fees	267,319	338,704	409,652
Unamortized transaction costs	(609,028)	-	(38,098)
Total long term debt	$ 59,811,088	$ 47,363,194	$ 48,025,668

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

As of December 31, 2011, the Trust was in compliance with all mortgage covenants for properties held for sale.

All mortgage loans which matured prior to March 23, 2012 have been renewed or refinanced.

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

(c) Deferred tax

Deferred tax liabilities consist of the following:

	December 31 2011	December 31 2010	January 1 2010
Temporary differences between the accounting and tax bases of property and equipment	$ 5,663,279	$ 5,547,177	$ 5,483,339
Temporary differences between the accounting and tax bases of transaction costs	(9,146)	-	-
Temporary differences between the accounting and tax bases of investments in subsidiaries	-	134,658	134,658
	$ 5,654,133	$ 5,681,835	$ 5,617,997

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:

	December 31 2011	December 31 2010	January 1 2010
Property and equipment	$ 3,738,010	$ 2,050,773	$ 2,217,438
Transaction costs	$ 347,623	$ 282,790	$ 170,342

Unused tax losses expiring in:

	December 31 2011	December 31 2010	January 1 2010
2026	$ 102,771	$ 113,256	$ 113,256
2027	2,354,011	2,354,011	2,354,011
2028	2,510,247	2,510,247	2,510,247
2029	2,397,735	2,397,735	2,397,735
2030	1,858,141	1,858,141	-
2031	928,264	-	-
	$ 10,151,169	$ 9,233,390	$ 7,375,249

(d) Interest expense

	Year Ended December 31 2011	Year Ended December 31 2010
Mortgage loan interest	$ 3,340,258	$ 3,019,413
Amortization of transaction costs	384,467	196,798
	$ 3,724,725	$ 3,216,211

12 *Long-term debt*

	December 31 2011	December 31 2010	January 1 2010
Secured debt			
Mortgage loans (a)	$ 254,863,171	$ 259,104,483	$ 293,241,134
Mortgage bonds (b)	14,058,307	10,826,910	-
Debentures (c)	25,312,000	-	-
Convertible debentures (d)	-	13,464,400	24,402,020
Swap mortgage loans (e)	42,942,356	44,832,599	48,625,212
Defeased liability (f)	2,755,325	2,806,222	-
Total secured debt	339,931,159	331,034,614	366,268,366
Unsecured debt			
Convertible debentures (d)	-	23,948,528	22,541,667
Mortgage guarantee fees (g)	40,498	73,074	290,667
Construction costs payable	-	333,831	1,134,621
Total unsecured debt	40,498	24,355,433	23,966,955
Accrued interest payable	2,019,182	1,666,375	2,099,067
Unamortized transaction costs			
Mortgage loans (a)	(1,231,004)	(1,285,457)	(1,213,654)
Mortgage bonds (b)	(1,269,679)	(1,137,864)	-
Debentures (c)	(849,554)	-	-
Convertible debentures (d)	-	(426,282)	(1,002,844)
Swap mortgage loans (e)	(95,187)	(169,957)	(117,635)
Defeased liability (f)	(43,592)	(52,880)	-
Total unamortized transaction costs	(3,489,016)	(3,072,440)	(2,334,133)
	338,501,823	353,983,982	390,000,255
Less current portion			
Mortgage loans (a)	(185,523,843)	(165,076,432)	(171,514,458)
Convertible debentures (d)	-	(37,412,928)	(11,814,796)
Swap mortgage loans (e)	(21,913,931)	(22,356,458)	(22,774,002)
Defeased liability (f)	(53,813)	(50,897)	-
Mortgage guarantee fees (g)	(34,542)	(32,576)	(58,195)
Construction costs payable	-	(333,831)	(800,790)
Accrued interest payable	(2,019,182)	(1,666,375)	(2,099,067)
Transaction costs	1,025,896	1,403,001	952,014
Total current portion	(208,519,415)	(225,526,496)	(208,109,294)
	$ 129,982,408	$ 128,457,486	$ 181,890,961
Current portion of unamortized transaction costs			
Mortgage loans (a)	$ 458,322	$ 714,040	$ 859,553
Mortgage bonds (b)	235,975	137,730	-
Debentures (c)	208,905	-	-
Convertible debentures (d)	-	426,282	15,143
Swap mortgage loans (e)	113,145	115,085	77,318
Defeased liability (f)	9,549	9,864	-
	$ 1,025,896	$ 1,403,001	$ 952,014

12 *Long-term debt (continued)*

Long-term debt has both fixed and variable interest rates. At December 31, 2011, the contractual weighted average interest rate for variable rate long-term debt was 8.5% and for fixed rate long-term debt was 5.7% (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	Debentures and Mortgage Bonds	Swap Mortgage Loans
2012 (1)	$ 2,582,970	$183,815,871	$ -	$21,913,931
2013	1,344,560	39,380,857	-	18,179,050
2014	547,244	8,762,938	-	-
2015	480,779	5,800,175	41,312,000	-
2016	64,412	10,663,030	-	-
Thereafter	-	1,420,335	-	-
	$ 5,019,965	$249,843,206	$ 41,312,000	$40,092,981

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Total Long-term Debt	Weighted average interest rate of long-term debt
2012	$ 53,813	$ 34,542	$208,401,127	7.0%
2013	56,896	5,956	58,967,319	6.4%
2014	60,155	-	9,370,337	5.0%
2015	63,602	-	47,656,556	8.7%
2016	2,520,859	-	13,248,301	5.1%
Thereafter	-	-	1,420,335	5.5%
	$ 2,755,325	$ 40,498	$339,063,975	7.0%

(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, $154,194,467 of mortgage loan balances and $21,211,420 in regard to swap mortgage loan balances are included in the balance due in 2012.

Subsequent to December 31, 2011, a mortgage loan on one property in Fort McMurray, Alberta, in the amount of $24,858,349, was refinanced and the breach was eliminated.

The Trust intends to renew or refinance all mortgage debt and debentures at market rates on maturity.

12 *Long-term debt (continued)*

(a) Mortgage loans

	Weighted average interest rates					
	December 31		January 1	December 31		January 1
	2011	2010	2010	2011	2010	2010
First mortgage loans						
Fixed rate	5.6%	5.7%	5.7%	$ 149,648,260	$ 171,218,636	$ 194,528,633
Variable rate	8.6%	6.8%	6.0%	69,895,499	54,439,020	55,000,000
Total first mortgage loans	6.6%	6.0%	5.8%	219,543,759	225,657,656	249,528,633
Second mortgage loans						
Fixed rate	11.4%	12.2%	10.1%	1,935,000	15,945,000	25,945,763
Variable rate	8.3%	6.5%	5.8%	33,384,412	17,501,827	17,766,738
Total second mortgage loans	8.4%	9.2%	8.3%	35,319,412	33,446,827	43,712,501
Total	6.9%	6.4%	6.1%	254,863,171	259,104,483	293,241,134
Unamortized transaction costs				(1,231,004)	(1,285,457)	(1,213,654)
				253,632,167	257,819,026	292,027,480
Current portion of mortgage loans				(185,523,843)	(165,076,432)	(171,514,458)
Current portion of unamortized transaction costs				458,322	714,040	859,553
				$ 68,566,646	$ 93,456,634	$ 121,372,575

Certain of the mortgage loans are subject to covenants, including net operating income achievement and 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 $154,194,467, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $154,194,467 is included in current portion of mortgage loans.

A forbearance to December 31, 2011 has been obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $86,979,911. Three mortgage loans in breach of debt service coverage requirements, in the aggregate amount of $86,979,911, matured and have not been renewed. The maturity dates have not been extended and the loans are payable on demand. The forbearance to December 31, 2011 in the aggregate amount of $86,979,911 is in regard to the three mortgage loans which matured.

Except for the three mortgage loans in the amount of $86,979,911, all mortgages which have matured prior to March 23, 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.

12 Long-term debt (continued)

(b) Mortgage bonds and trust unit purchase 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:

	December 31 2011	December 31 2010	January 1 2010
Balance, beginning of year	$ 10,826,910	$ -	$ -
Value at issue	2,910,467	16,624,166	-
Accretion	320,930	982,744	-
Redemption	-	(6,780,000)	-
Balance, end of year	14,058,307	10,826,910	-
Unamortized transaction costs	(1,269,679)	(1,137,864)	-
	12,788,628	9,689,046	-
Current portion of unamortized transaction costs	(235,975)	(137,730)	-
	$ 12,552,653	$ 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 of trust unit purchase 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 $747,285 was assigned to the trust unit purchase 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 trust unit purchase warrants related to the March 9, 2010 mortgage bond issue continue to be exercisable until their expiry on March 9, 2015.

In September 2011, LREIT initiated a normal course issuer bid for the March 9, 2015 trust unit purchase warrrants, under which the Trust is entitled to purchase up to 678,000 trust unit purchase warrants. The normal course issuer bid commenced on September 19, 2011 and expires on September 18, 2012.

On December 23, 2010, the Trust issued 12,637 five year 9% mortgage bonds in the principal amount of $1,000, due December 23, 2015, and 12,637,000 in trust unit purchase warrants for gross proceeds of $12,637,000. Each trust unit purchase warrants 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 $54,398,000 (December 31, 2010 - $54,600,000).

12 Long-term debt (continued)

(b) Mortgage bonds and trust unit purchase 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 23, 2015, and 3,363,000 in trust unit purchase warrants for gross proceeds of $3,363,000. Each trust unit purchase warrants 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 $54,398,000.

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 trust unit purchase warrants.

In September 2011, LREIT initiated a normal course issuer bid for the December 23, 2015 trust unit purchase warrrants, under which the Trust is entitled to purchase up to 1,600,000 trust unit purchase warrants. The normal course issuer bid commenced on September 19, 2011 and expires on September 18, 2012.

(c) Debentures

The carrying value of debentures is summarized as follows:

December 31, 2011	
Series G - 9.5%, due February 28, 2015	$ 25,312,000
Unamortized transaction costs	(849,554)
	24,462,446
Current portion of unamortized transaction costs	208,905
	$ 24,671,351

Effective October 27, 2011, the Series G convertible debentures were extended as Series G debentures. The Series G debentures are redeemable, subject to notice requirements, and the Trust is required to redeem debentures from the net proceeds of property sales after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

12 Long-term debt (continued)

(d) Convertible debentures

The face value of convertible debentures is as follows:

	December 31 2011	December 31 2010	January 1 2010
Series E	$ -	$ -	$ 11,950,000
Series F	-	13,601,000	13,680,000
Series G	-	25,595,000	25,732,000
	$ -	$ 39,196,000	$ 51,362,000

During the year ended December 31, 2011, there have not been any conversions of convertible debentures.

The allocation of the 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 convertible debentures.

12 *Long-term debt (continued)*

(d) Convertible debentures (continued)

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	10,212,667	47,625,595
Deferred tax liability charged to equity	-	(463,599)	(463,599)
Unamortized transaction costs	(426,282)	-	(426,282)
	36,986,646	9,749,068	46,735,714
Current portion of convertible debentures	(37,412,928)	-	(37,412,928)
Current portion of unamortized transaction costs	426,282	-	426,282
	$ -	$ 9,749,068	$ 9,749,068

January 1, 2010	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,814,795	$ 2,835,690	$ 14,650,485
Series F - 7.5%, due March 11, 2011	12,587,225	3,564,376	16,151,601
Series G - 7.5%, due December 31, 2011	22,541,667	6,704,571	29,246,238
	46,943,687	13,104,637	60,048,324
Deferred tax liability charged to equity	-	(466,096)	(466,096)
Unamortized transaction costs	(1,002,844)	-	(1,002,844)
	45,940,843	12,638,541	58,579,384
Current portion of convertible debentures	(11,814,796)	-	(11,814,796)
Current portion of unamortized transaction costs	15,143	-	15,143
	$ 34,141,190	$ 12,638,541	$ 46,779,731

12 Long-term debt (continued)

(d) Convertible debentures (continued)

The accretion of the debt component for the year ended December 31, 2011 of $1,772,446 (2010 - $2,617,912), 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 expired on December 31, 2011.

In January 2012, LREIT renewed its normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,529,000 of Series G debentures. The normal course issuer bid commenced January 12, 2012 and expires on January 11, 2013.

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 December 31, 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 $283,000 at an average price of $77.85 per $100.00.

Subsequent to December 31, 2011, the Trust purchased and cancelled Series G debentures with a face value of $331,000 at an average price of $90.75 per $100.00.

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

12 *Long-term debt (continued)*

(e) 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 $18,881,560 and $21,211,420, 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:

	December 31		January 1
	2011	2010	2010
Face value of mortgage loans, subject to swaps	$ 40,092,981	$ 41,238,026	$ 42,319,014
Fair value of interest rate swaps	2,849,375	3,594,573	6,306,198
	42,942,356	44,832,599	48,625,212
Unamortized transaction costs	(95,187)	(169,957)	(117,635)
	42,847,169	44,662,642	48,507,577
Current portion of swap mortgage loans	(21,913,931)	(22,356,458)	(22,774,002)
Current portion of unamortized transaction costs	113,145	115,085	77,318
	$ 21,046,383	$ 22,421,269	$ 25,810,893

The swap mortgage loans are subject to covenants, including debt service coverage requirements. The Trust is not in compliance with one swap mortgage loan totaling $21,211,420, as a result of a breach of the debt service coverage requirement. In accordance with IFRS the total balance of $21,211,420 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.

(f) Defeased liability

	December 31		January 1
	2011	2010	2010
Face value	$ 2,755,325	$ 2,806,222	$ -
Unamortized transaction costs	(43,592)	(52,880)	-
	2,711,733	2,753,342	-
Current portion of defeased liability	(53,813)	(50,897)	-
Current portion of unamortized transaction costs	9,549	9,864	-
	$ 2,667,469	$ 2,712,309	$ -

12 Long-term debt (continued)

(g) Mortgage guarantee fees

	December 31 2011	December 31 2010	January 1 2010
Nelson Ridge Estates	$ 40,498	$ 73,074	$ 103,797
Three Lakes Village	-	-	186,870
	40,498	73,074	290,667
Current portion of mortgage guarantee fees	(34,542)	(32,576)	(58,195)
	$ 5,956	$ 40,498	$ 232,472

13 Trade and other payables

	December 31 2011	December 31 2010	January 1 2010
Accounts payable - vendor invoices	$ 2,428,036	$ 1,845,566	$ 815,263
Accrued payables	1,139,695	1,120,144	730,522
Prepaid rent	1,390,045	1,208,463	710,803
Payable on acquisition of Parsons Landing	47,720,000	47,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	12,000,000	7,350,000	-
Interest-free advances from Shelter Canadian Properties Limited	1,183,000	-	-
	$ 65,860,776	$ 59,244,173	$ 49,976,588

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

14 Bank indebtedness

Bank indebtedness consisted 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 was secured by a second mortgage on a property classified as discontinued operations. As at December 31, 2011, the line of credit was fully repaid and terminated.

15 *Interest expense*

	Year Ended December 31 2011	2010
Mortgage loan interest	$ 19,468,784	$ 17,710,780
Mortgage bond interest	1,440,000	530,334
Accretion of mortgage bonds	324,448	2,111,947
Debenture interest	2,159,766	3,076,585
Accretion of the debt component of debentures	1,772,441	2,617,912
Swap mortgage loan interest	2,353,579	2,454,198
Change in fair value of interest rate swaps	(745,198)	(2,711,625)
Interest on acquisition payable	3,600,000	3,600,000
Amortization of transaction costs	2,789,173	3,275,153
	$ 33,162,993	$ 32,665,284

16 *Income taxes*

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

	Year Ended December 31 2011	2010
Current tax expense (recovery)	$ -	$ -
Deferred tax expense relating to origination and reversal of temporary differences or tax losses	661,154	(2,497)
Benefit from previously unrecognized tax loss or temporary difference of a prior period used to reduce deferred tax expense	(569,232)	(468,126)
Deferred tax expense (recovery)	91,922	(470,623)
Income tax expense (recovery)	$ 91,922	$ (470,623)

The aggregate current and deferred tax relating to items that are charged directly to equity is $117,659 (2010 - $470,623).

16 *Income taxes (continued)*

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

	Year Ended December 31	
	2011	2010
Income (loss) from continuing operations before income taxes	$ 2,382,662	$ (11,496,252)
Statutory income tax rate	26%	0%
Income tax expense (recovery) calculated using the combined federal and provincial statutory income tax rate	$ 619,492	$ -
Non-deductible unit-based compensation	22,859	-
Interest revenue received from wholly owned subsidiaries	782,390	-
Recognition of previously unrecognized deferred tax assets	(569,232)	(468,126)
Non-taxable/allowable portion of capital (gains) losses	(784,910)	-
Other	21,323	(2,497)
Income tax expense (recovery)	$ 91,922	$ (470,623)

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

	December 31		January 1
	2011	2010	2010
Temporary differences between the accounting and tax bases of:			
Investment properties	$ 1,306,711	$ (872,143)	$ (404,017)
Transaction costs	(479,035)	(247,938)	(247,938)
Debentures and mortgage bonds	504,840	934,222	466,096
Interest rate swaps	(220,560)	-	-
Unused tax losses	(1,111,956)	-	-
	$ -	$ (185,859)	$ (185,859)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

16 Income taxes (continued)

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

	Year Ended December 31	
	2011	2010
Investment properties	$ 2,178,854	$ (468,126)
Transaction costs	(231,097)	-
Debentures and mortgage bonds	(547,041)	(2,497)
Unused tax losses	(1,111,956)	-
Interest rate swaps	(220,560)	-
Other	23,722	-
	$ 91,922	$ (470,623)

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

	December 31		January 1
	2011	2010	2010
Deductible temporary differences:			
Investment properties	$ -	$ 595,846	$ 1,833,396
Interest rate swaps	$ 2,001,067	$ 3,594,573	$ 6,306,198

17 *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 trust unit purchase warrants to the extent that the trust unit purchase warrants are dilutive.

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

	Year Ended December 31 2011	2010
Income (loss) and diluted income (loss) before discontinued operations	$ 2,290,740	$ (11,025,629)
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

	Year Ended December 31 2011	2010
Income and diluted income from discontinued operations	$ 2,744,491	$ 1,702,086
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

	Year Ended December 31 2011	2010
Income (loss) and diluted income (loss)	$ 5,035,231	$ (9,323,543)
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

18 Units

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Units	Amount	Units	Amount
Outstanding, beginning of year	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 year	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.

19 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 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 year ended December 31, 2011 of $12,921 (2010 - $41,521), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

19 Unit option plan (continued)

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	968,500	$ 5.58	1,452,000	$ 5.56
Issued, December 12, 2011	250,000	0.34	-	-
Cancelled, July 26, 2011	(625,000)	5.80	-	-
Cancelled, January 17, 2011	(22,500)	5.42	-	-
Cancelled, October 8, 2010	-	-	(3,000)	5.10
Cancelled, September 16, 2010	-	-	(110,000)	5.47
Cancelled, September 12, 2010	-	-	(6,500)	5.64
Cancelled, April 1, 2010	-	-	(6,500)	5.64
Cancelled, March 29, 2010	-	-	(357,500)	5.60
Outstanding, end of year	571,000	$ 3.05	968,500	$ 5.58
Vested, end of year	542,800		912,100	

At December 31, 2011 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.30	90,000	90,000	June 8, 2012
5.10	231,000	202,800	January 7, 2013
0.34	250,000	250,000	December 12, 2016
	571,000	542,800	

20 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.

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.

20 *Deferred unit plan (continued)*

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 198,117 for the year ended December 31, 2011 (2010 - 248,281) and 597,536 aggregate deferred units were outstanding at December 31, 2011 (2010 - 399,419).

Unit-based compensation expense of $75,000 for the year ended December 31, 2011 (2010 - $134,750) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

21 *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, the current term of which expires on December 31, 2019. 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.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,669,318 for the year ended December 31, 2011 (2010 - $1,587,663). 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 $8,507 for the year ended December 31, 2011 (2010 - $60,555).

The Trust incurred renovation fees on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of $2,759 for the year ended December 31, 2011 (2010 - nil).

21 Related party transactions (continued)

Included in trade and other payables at December 31, 2011 is a balance of $13,641 (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, the current term of which expires on December 31, 2019. 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.

The Trust incurred service fees of $1,698,992 for the year ended December 31, 2011 (2010 - $1,752,587). Service fees are included in trust expense.

Included in trade and other payables at December 31, 2011 is a balance of $425,833 (2010 - nil) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Services Fee and Renovation Fee for Lakewood Townhomes Condominium Sales Program

The condominium sales program for the Lakewood Townhomes encompasses a services fee payable to Shelter Canadian Properties Limited in the amount of 5% of the gross sale proceeds. Shelter Canadian Properties Limited is responsible for payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed fee.

Shelter Canadian Properties Limited is also entitled to a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During 2011, Shelter Canadian Properties Limited received renovation fees of nil and service fees of $25,589 in regard to the Lakewood Townhome condominium sales program.

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

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 was 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. In July 2011, the loan was retired from proceeds of a new first mortgage loan. Interest of $32,568 for the year ended December 31, 2011 (2010 - $37,500) is included in interest expense.

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 December 31, 2011, $12,000,000 has been drawn and is included in trade and other payables.

21 Related party transactions (continued)

Financing (continued)
Interest on the revolving loan of $1,230,505 for the year ended December 31, 2011 (2010 - $189,861) is included in interest expense.

Included in accrued interest payable at December 31, 2011 is a balance of $293,943 (2010 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

During the year ended December 31, 2011, Shelter Canadian Properties Limited advanced $4,765,000 on an interest-free basis as an interim funding measure. LREIT made repayments of $3,582,000 resulting in an outstanding balance of $1,183,000 (2010 - nil) at December 31, 2011.

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

Key management compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2011 was $554,000 (2010 - $554,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $1,500 (2010 - $7,576).

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.

22 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:

22 Financial instruments and risk management (continued)

Liquidity risk - debt covenant requirements
At December 31, 2011, the Trust was in breach of the net operating income achievement, debt service coverage and reporting requirements on five mortgage loans and a swap mortgage loan totaling $155,748,703 on properties in Fort McMurray, Alberta. Subsequent to December 31, 2011, one mortgage loan in breach of a debt service covenant in the amount of $24,858,349 was retired from the proceeds of a new first mortgage loan from another lender. The Trust has obtained a forbearance to December 31, 2011 on three mortgage loans totaling $86,979,911. The Trust is continuing to negotiate with the lenders and management believes that all of the covenant breaches will be resolved. 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 title registration covenant on a $19,657,184 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.

22 *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 complete 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 December 31, 2011, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.5 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	Debentures and Mortgage Bonds	Swap Mortgage Loans
2012	$ 2,582,970	$183,815,871	$ -	$21,913,931
2013	1,344,560	39,380,857	-	18,179,050
2014	547,244	8,762,938	-	-
2015	480,779	5,800,175	41,312,000	-
2016	64,412	10,663,030	-	-
Thereafter	-	1,420,335	-	-
	$ 5,019,965	$249,843,206	$ 41,312,000	$40,092,981

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Other Payables	Total
2012	$ 53,813	$ 34,542	$ 68,690,637	$277,091,764
2013	56,896	5,956	-	58,967,319
2014	60,155	-	-	9,370,337
2015	63,602	-	-	47,656,556
2016	2,520,859	-	-	13,248,301
Thereafter	-	-	-	1,420,335
	$ 2,755,325	$ 40,498	$ 68,690,637	$407,754,612

Other payables include trade and other payables and deposits from tenants.

In accordance with IFRS, the balance of the six mortgage loans and one swap mortgage loan in the amount of $154,194,467 and $21,211,420, respectively, which are not in compliance with covenants, including net operating income achievement, 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 2012.

22 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 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 December 31, 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 $103,279,911, or 41% of the total mortgage loans at December 31, 2011 (December 31, 2010 - 28%). Should interest rates change by 1%, interest expense would change by $1,032,799 per year.

As at December 31, 2011, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to December 31, 2014 of $89,233,888 representing 35% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $892,339 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:

	December 31		January 1
	2011	2010	2010
Rent receivable overdue:			
0 to 30 days	$ 207,365	$ 166,510	$ 146,409
31 to 60 days	33,970	38,556	29,555
More than 60 days	486,923	587,810	583,986
	$ 728,258	$ 792,876	$ 759,950

22 *Financial instruments and risk management (continued)*

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

	December 31 2011	December 31 2010	January 1 2010
Balance, beginning of year	$ 364,685	$ 419,680	$ 97,903
Amount charged to bad debt expense relating to impairment of rent receivable	168,400	56,254	-
Amounts written off as uncollectible	(369,532)	(111,249)	-
Balance, end of year	$ 163,553	$ 364,685	$ 97,903
Amount charged to bad debts as a percent of rentals from investment properties	0.40%	0.15%	N/A

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.

22 *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		
	December 31		January 1
	2011	2010	2010
Financial assets			
Loans and receivables	500,000	500,000	7,050,000
Defeasance assets	3,168,193	3,313,434	-
Restricted cash	14,746,600	21,478,638	6,221,222
Cash	1,170,619	925,046	3,629,456
Rent and other receivables	2,328,256	1,315,470	1,271,883
Deposits	782,934	697,691	528,941
Financial liabilities			
Mortgages loans	254,863,171	259,104,483	293,241,134
Mortgage bonds	14,058,307	10,826,910	-
Debentures	25,312,000	-	-
Convertible debentures	-	37,412,928	46,943,687
Defeased liability	2,755,325	2,806,222	-
Mortgage guarantee fees	40,498	73,074	290,667
Construction costs payable	-	333,831	1,134,621
Trade and other payables	65,860,776	59,244,173	49,976,588
Bank indebtedness	-	2,960,000	-
Deposits from tenants	2,829,861	2,121,716	2,081,657

	Fair Value		
	December 31		January 1
	2011	2010	2010
Financial assets			
Loans and receivables	422,400	397,542	7,390,271
Defeasance assets	-	-	-
Restricted cash	14,746,600	21,478,638	6,221,222
Cash	1,170,619	925,046	3,629,456
Rent and other receivables	2,328,256	1,315,470	1,271,883
Deposits	782,934	697,691	528,941
Financial liabilities			
Mortgages loans	255,170,735	259,121,541	293,241,134
Mortgage bonds	14,606,879	11,331,068	-
Debentures	19,962,452	-	-
Convertible debentures	-	31,772,040	31,325,026
Defeased liability	-	-	-
Mortgage guarantee fees	40,498	73,074	290,667
Construction costs payable	-	333,831	1,010,582
Trade and other payables	65,860,776	59,244,173	49,976,588
Bank indebtedness	-	2,960,000	-
Deposits from tenants	2,829,861	2,121,716	2,081,657

22 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 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 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.

23 Management of capital

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

	December 31		January 1
	2011	2010	2010
Mortgage loans	$253,632,167	$257,819,026	$292,027,480
Mortgage bonds	12,788,628	9,689,046	-
Debentures	24,462,446	-	-
Convertible debentures - debt component	-	36,986,646	45,940,843
Swap mortgage loans	42,847,169	44,662,642	48,507,577
Equity	80,510,813	75,052,787	80,714,020
	$414,241,223	$424,210,147	$467,189,920

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.

23 Management of capital (continued)

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units, debentures or other securities of the Trust.
- 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 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 trust unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units, debentures or trust unit purchase warrants; and/or (v) reduce debt.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

24 Segmented financial information

Investment properties are located in Fort McMurray, Alberta (14 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.

Year ended December 31, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	27,768,479	14,084,247	-	41,852,726
Property operating costs	9,922,897	6,200,438	-	16,123,335
Net operating income	17,845,582	7,883,809	-	25,729,391
Interest income	34,113	31,389	262,643	328,145
Interest expense	18,140,374	3,993,730	11,028,889	33,162,993
Income (loss) before discontinued operations	8,660,620	7,071,485	(13,441,365)	2,290,740
Cash from operating activities	87,981	4,345,126	(7,697,098)	(3,263,991)
Cash from financing activities	3,272,742	(3,555,425)	(867,119)	(1,149,802)
Cash from investing activities	(3,365,923)	(885,775)	8,911,064	4,659,366
Total assets excluding non-current assets held for sale at December 31, 2011	341,349,975	120,661,605	12,968,628	474,980,208

Year ended December 31, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	24,129,908	15,772,780	-	39,902,688
Property operating costs	9,411,740	7,129,630	-	16,541,370
Net operating income	14,718,168	8,643,150	-	23,361,318
Interest income	21,947	31,688	428,639	482,274
Interest expense	14,972,007	3,602,150	14,091,127	32,665,284
Income (loss) before discontinued operations	(2,111,398)	7,015,977	(15,930,208)	(11,025,629)
Cash from operating activities	(3,614,999)	3,645,048	(3,793,917)	(3,763,868)
Cash from financing activities	4,547,689	(21,756,143)	10,596,563	(6,611,891)
Cash from investing activities	(1,429,813)	17,551,522	(8,450,360)	7,671,349
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

25 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 as reflected in Note 3.

The effects of the transition to IFRS are summarized as follows:

a) Transition elections made under IFRS 1 and other applicable standards

(i) Investment Properties
The Trust has elected to carry Investment Properties at fair value.

(ii) Property and Equipment
The Trust has elected to restate Property and Equipment at fair value on transition to IFRS.

(iii) Business combinations
The Trust has elected not to restate business combinations that occurred prior to January 1, 2010. Accordingly, acquisition-related transaction costs associated with business combinations completed prior to January 1, 2010 continue to be capitalized.

b) Reconciliation between financial information previously reported under GAAP to IFRS

In accordance with IFRS 1, a Statement of Financial Position as of the date of transition to IFRS, January 1, 2010, prepared in accordance with IFRS is to be included in the financial statements. This is necessary for the first reporting year. IFRS 1 also requires reconciliation between financial information previously disclosed under GAAP to the IFRS presentation, as reflected in the following schedules:

- Schedule 1 attached provides a reconciliation of the information previously issued under GAAP at December 31, 2009 to the IFRS presentation of the January 1, 2010 opening Statement of Financial Position in these financial statements;

- Schedule 2 attached provides a reconciliation of the information previously issued under GAAP as of December 31, 2010 to the IFRS presentation provided on the Statement of Financial Position in these financial statements;

- Schedule 3 attached provides a reconciliation of the information previously issued under GAAP in the Statement of Comprehensive Income (Loss) and the Statement of Cash Flows for the year ended December 31, 2010 to the IFRS presentation.

25 Adoption of International Financial Reporting Standards (continued)

Generally speaking, the reconciliation reflects five types of adjustments between GAAP and IFRS as follows:

1. Changes in presentation of Statement of Financial Position items to conform to IFRS requirements for continuing operations.
2. Changes in presentation of Statement of Financial Position items to conform with IFRS requirements for held for sale properties and discontinued operations;
3. Changes in presentation of the Statement of Comprehensive Income (Loss);
4. Changes in presentation of the Statement of Cash Flows; and
5. Changes in measurement affecting the Statement of Financial Position, the Statement of Comprehensive Income (Loss) and the Statement of Equity.

Changes in presentation of Statement of Financial Position items to conform with IFRS requirements for continuing operations.

The changes in presentation are:

a) the statement of financial position under IFRS is classified between current and non-current assets and liabilities;

b) under GAAP, several classes of assets were included in the caption "other assets" whereas under IFRS, the assets are segregated by asset type;

c) under IFRS, tenant deposits are segregated from accounts payable; and

d) under IFRS, several classes of liabilities, including mortgage loans, convertible debentures and mortgage bonds, are included in the caption "Long term debt" whereas under GAAP, the liabilities were segregated under separate categories.

The adjustments to the GAAP carrying values which result from these changes are reflected in Schedule 1 and 2 under the caption "Change in Presentation".

Changes in presentation of Statement of Financial Position items to conform to IFRS requirements for held for sale properties and discontinued operations.

Under GAAP, any property which is held for sale may be presented as discontinued operations with all assets, liabilities, revenues and expenses included in discontinued operations.

Under IFRS: (a) discontinued operations only apply to a discontinued line of business or geographic segment; (b) assets and liabilities of discontinued properties are carried as current assets; and (c) Investment property assets of held for sale properties are carried as current assets.

The changes in presentation are:

a) only the seniors housing complexes which are a distinct line of business continue to be included in discontinued operations;

b) for properties identified as held for sale, only the carrying value of the distinct property is classified as held for sale, all other assets and liabilities are reflected as continuing operations; and

25 Adoption of International Financial Reporting Standards (continued)

c) some income properties which were reflected as held for sale under GAAP are not recognized as held for sale under IFRS.

The adjustments to the GAAP carrying values which result from these changes are reflected in Schedule 1 and 2 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

Changes in presentation of the Statement of Comprehensive Income (Loss)

The changes in presentation are:

a) Under GAAP, Interest income was recorded as revenue under the caption "Interest and other income". Upon adoption to IFRS, Interest income is reflected separately following the calculation of Net Operating Income;

b) Under GAAP, miscellaneous revenues are recorded as revenue under the caption "Interest and other income". Upon adoption of IFRS, such revenues are included in Rentals from investment properties;

The adjustments to the Statement of Comprehensive Income (Loss) which result from these changes are reflected in Schedule 3 under the caption "Change in Presentation".

c) Upon adoption of IFRS, discontinued operations are comprised solely of operating revenues and expenses from the seniors housing complexes. Operating revenues and expenses from investment properties which were classified as discontinued operations under GAAP have been reclassified to the appropriate revenue and expense category.

The adjustments to the Statement of Comprehensive Income (Loss) which result from these changes are reflected in Schedule 3 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

The above changes do not result in a change to income or opening equity.

Changes in presentation of the Statement of Cash Flows

The changes in presentation are:

a) Under GAAP, cash flow from discontinued operations is reflected separately. Upon adoption of IFRS, cash flow transactions from discontinued operations are reflected with cash flow from operating activities, financing activities and investing activities. The net increase/decrease in cash transactions from discontinued operations is deducted from/added to the total change in cash flow to arrive at net cash flow from investment properties; and

b) Under GAAP, cash balances in discontinued properties is included in cash. Upon adoption of IFRS, cash balances in discontinued properties are included in assets of discontinued properties.

The adjustments to the Statements of Cash Flows which result from these changes are reflected in Schedule 3 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

25 Adoption of International Financial Reporting Standards (continued)

Changes in measurement affecting the Statement of Financial Position, Statement of Comprehensive Income (Loss) and Statement of Equity.

There are five areas where changes in measurement affecting the Statement of Equity and Income Statement 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.

The following is a summary of the adjustments that were made to effect the above noted changes.

Investment properties are measured at fair value for IFRS and were valued at amortized cost for GAAP

The measurement of investment properties at fair value rather than amortized cost resulted in the following financial statement impacts.

Statement of Financial Position

- Investment properties and investment property held for sale were adjusted by the difference between fair value at the financial statement date and the carrying value;
- A deferred tax asset associated with the difference between carrying value and tax value was recognized;
- Opening retained earnings as of January 1, 2010 is adjusted to reflect the above; and
- The income component of retained earnings is adjusted for the income effect noted below.

Statement of Comprehensive Income (Loss)

- Amortization recorded under GAAP was reversed;
- Valuation adjustments required to carry the assets at fair value were recorded; and
- Gain on sale recorded under GAAP was reversed.

Property and equipment is valued at fair value on conversion to IFRS

IFRS 1 provides an option to re-value property and equipment at fair value on conversion to IFRS. The Trust exercised this option.

Statement of Financial Position

- Property and equipment were adjusted by the difference between fair value at the January 1, 2010 transition to IFRS and the carrying value;
- A deferred tax liability associated with the difference between carrying value and tax value is recognized;
- Opening retained earnings is adjusted for the difference as of January 1, 2010; and
- The income component of retained earnings is adjusted for the income effect noted below.

25 Adoption of International Financial Reporting Standards (continued)

Statement of Comprehensive Income (Loss)

- An adjustment to deferred income tax liability is made of each financial statement date.

Change in measurement of convertible debentures under IFRS

Under IFRS, there is a requirement to apply deferred tax calculations to the carrying value of convertible debentures with the following financial statement impacts:

Statement of Financial Position

- A deferred tax liability relating to the equity portion of convertible debentures is recognized;
- A deferred tax asset relating to transaction costs on convertible debentures is recognized;
- Contributed surplus is reduced by the deferred liability recognized; and
- Opening retained earnings is adjusted.

The application of this revision did not result in a change to income.

Change in measurement of mortgage bonds

a) Change in measurement of trust unit purchase warrants

The sale of mortgage bonds included the sale of trust unit purchase warrants. Under GAAP, the value assigned to trust unit purchase warrants is established by a Black-Scholes calculation and the value assigned to the mortgage bonds is a residual value. Under IFRS, the value assigned to the mortgage bonds is calculated first based on an effective interest rate calculation, and the value assigned to the trust unit purchase warrants is the residual value. The completion of the calculation using IFRS resulted in a different value for trust unit purchase warrants being recognized with the following financial statement impacts:

Statement of Financial Position

- Mortgage bond debt was adjusted by the change in the value of the debt/warrants;
- The value of trust unit purchase warrants carried in contributed surplus was revised; and
- The income component of retained earnings is adjusted for the income effect noted below.

Income statement

- Accretion expense is adjusted to reflect the revised value of the trust unit purchase warrants.

b) Apply deferred income tax calculations to the carrying value of mortgage bonds

The adjustments are the same as noted above for convertible debentures.

25 Adoption of International Financial Reporting Standards (continued)

Change in treatment of leasehold improvements

Under GAAP, leasehold improvements are either charged to expense or capitalized to building and amortized on a straight line basis over the term of the lease. Under IFRS, leasehold improvements are treated as rental incentives and are amortized as a reduction of rental revenue over the term of the lease.

The adjustment to the Statement of Financial Position and Statement of Comprehensive Income (Loss) which result from the changes are reflected in Schedule 1, 2, and 3 under the "Change in Measurements".

c) Change in estimates

Except for items noted below, estimates previously made by the Trust under GAAP were consistently applied under IFRS

Change in valuation under IFRS involving unit options

Under IFRS, there is a requirement to estimate the value of forfeited options at the inception of each option issue.

Statement of Financial Position

- Contributed surplus was reduced to reflect the revised value of unit options; and
- Opening retained earnings is adjusted as of January 1, 2010.

There is no income statement effect.

Change in valuation under IFRS involving contingent considerations

As part of the establishment of fair values for property and equipment, the assumptions surrounding the accrual of a liability for contingent consideration were re-examined. The financial statements reflect the current estimate that no contingent consideration will be payable with the following financial statement impacts:

Statement of Financial Position

- A reduction of non current liability of properties held for sale to reflect the revised liability estimate; and
- Opening retained earnings is adjusted as of January 1, 2010.

The adjustment to the Statement of Financial Position which result from these changes are reflected in Schedule 1 and 2.

26 Commitments

Acquisition

Parsons Landing Apartments
On September 1, 2008, the Trust acquired possession of Parsons Landing, a newly constructed luxury residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. After accounting for the payment of total deposits of $15,000,000, the balance owing on Parsons Landing was $48,220,000 as of December 31, 2008, including GST.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder has agreed to several extensions to September 30, 2012. The builder has also agreed to accept interest payments of $300,000 per month to September 30, 2012.

On closing, the builder has agreed to provide a second mortgage to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, provided that the Trust makes an additional payment of $2,000,000 on February 17, 2012 (this payment has been deferred) and $3,000,000 at closing. On closing, the builder 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. The Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1.

As of December 31, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000 and the property is carried as an investment property at a fair value of $47,800,000.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

26 Commitments (continued)

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 June 30, 2012.

27 Contingencies

Parsons Landing
The purchase agreement relating to Parsons Landing provides for the builder 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 of the acquisition of Parsons Landing on September 30, 2012. Management expects that the closing date for the acquisition of Parsons Landing will be delayed until 2013 after reconstruction and occupancy of the property. The Trust has not recorded interest expense in excess of $300,000 per month as the closing is expected to occur after reconstruction and occupancy of the property. (See Note 26).

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.

28 Subsequent events

Condominium sale program
Subsequent to December 31, 2011, the Trust sold five condominium units under the condominium sale program at Lakewood Townhomes, for gross proceeds of $2,467,800. The sale of three units closed prior to March 23, 2012 and two units are sold subject to unconditional sale agreements. After funding closing costs, suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan.

Revolving loan
Subsequent to December 31, 2011, the revolving loan commitment from 2668921 Manitoba Ltd. was extended to March 31, 2012 at an interest rate of 9.75% subject to a maximum interest charge of $162,594.

Subsequent to December 31, 2011, the revolving loan commitment from 2668921 Manitoba Ltd. was extended effective April 1, 2012, at an interest rate of 10% and a maturity date of August 31, 2012, with an increase in the commitment from $12 Million to $15 Million. The renewal encompasses a $75,000 extension fee.

Subsequent to December 31, 2011, the Trust repaid $6,000,000 on and utilized $3,800,000 of the revolving loan from 2668921 Manitoba Ltd.

28 Subsequent events (continued)

Normal Course Issue Bid
On January 10, 2012, the Trust renewed its normal course issuer bid to purchase up to an aggregate of 1,383,378 trust units for a one year period expiring January 11, 2013. Any units purchased by the Trust will be cancelled.

Subsequent to December 31, 2011, the Trust purchased and cancelled 79,328 units under its normal course issuer bid at a weighted average price of $0.53 per unit.

On January 10, 2012, the Trust initiated a normal course issuer bid to purchase up to an aggregate principal amount of $2,529,000 of Series G Debentures over a 12 month period ending January 11, 2013. Any debentures purchased by the Trust will be cancelled.

Mortgage financing and loan repayment
Subsequent to December 31, 2011, a first mortgage loan in the amount of $24,811,532 and interest to January 31, 2012 of $64,885 were retired from the proceeds of new mortgage financing in the amount of $18,850,000, cash reserves previously paid to the lender of $2,201,970, and an interest-free advance from Shelter Canadian Properties Limited in the amount of $2,966,886, with forgiveness of debt of $857,561.

The forgiveness of debt results in a capital gain in the amount of $857,561 less legal and other costs.

Subsequent to December 31, 2011, the trust obtained additional mortgage loan financing of $12 Million. The loan bears interest at the prime rate plus 9% for the first 11 months and 25% thereafter, matures on March 1, 2013 and is secured by mortgage charges on multiple properties. The net proceeds from the loan were used to repay $1.5 Million of interim mortgage loan debt, repay $6 Million of the revolving loan from 2668921 Manitoba Ltd., repay the advances from Shelter Canadian Properties Limited and reduce the extent of the working capital deficiency.

Interest-free advances from Shelter Canadian Properties Limited
Subsequent to December 31, 2011, the Trust utilized $5,594,000 and repaid $6,777,000 of interest-free advances from Shelter Canadian Properties Limited.

Parsons Landing
In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 1**
RECONCILIATION OF DECEMBER 31, 2009 GAAP BALANCE SHEET TO
JANUARY 1, 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	383,889,710		40,601,761	15,808,529	440,300,000
Loans and receivables	7,050,000			-	7,050,000
Restricted cash	-	5,228,907	992,315	-	6,221,222
Deferred tax asset	-			185,859	185,859
Total Non-current assets	390,939,710	5,228,907	41,594,076	15,994,388	453,757,081
Current assets					
Cash	4,287,864		(658,408)	-	3,629,456
Other assets	7,074,109	(7,074,109)		-	-
Rent and other receivables	-	642,479	629,404	-	1,271,883
Deposits, prepaids and other	-	1,202,723	96,796	-	1,299,519
	11,361,973	(5,228,907)	67,792	-	6,200,858
Non-current assets classified as held for sale	134,842,883		(41,661,868)	24,715,468	117,896,483
Total current assets	146,204,856	(5,228,907)	(41,594,076)	24,715,468	124,097,341
TOTAL ASSETS	537,144,566	-	-	40,709,856	577,854,422
LIABILITIES AND EQUITY					
LIABILITIES					
Long-term liabilities					
Long-term debt	-	129,036,500	52,854,461	-	181,890,961
Mortgage loans	281,374,398	(281,374,398)		-	-
Mortgage bonds	-			-	-
Convertible debentures	45,940,843	(45,940,843)		-	-
Total long-term liabilities	327,315,241	(198,278,741)	52,854,461	-	181,890,961
Current liabilities					
Deposits from tenants	-	1,815,366	266,291	-	2,081,657
Accounts payable & accrued liabilities	60,783,383	(60,783,383)		-	-
Trade and other payables	-	49,137,464	839,124	-	49,976,588
Bank indebtedness	-	-		-	-
Current portion of long term debt	-	208,109,294		-	208,109,294
	60,783,383	198,278,741	1,105,415	-	260,167,539
Non-current liabilities classified as held for sale	107,506,055	-	(53,959,876)	1,535,723	55,081,902
Total current liabilities	168,289,438	198,278,741	(52,854,461)	1,535,723	315,249,441
TOTAL LIABILITIES	495,604,679	-	-	1,535,723	497,140,402
EQUITY					
Issued capital	98,966,638				98,966,638
Contributed surplus	2,536,643			(2,074,772)	461,871
Equity component of convertible debentures	13,104,637			(463,599)	12,641,038
Retained earnings	(73,068,031)			73,068,031	-
Cumulative earnings	-			27,280,222	27,280,222
Cumulative distributions to unit holders	-			(58,635,749)	(58,635,749)
TOTAL EQUITY	41,539,887	-	-	39,174,133	80,714,020
TOTAL LIABILITIES AND EQUITY	537,144,566	-	-	40,709,856	577,854,422

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 2**
RECONCILIATION OF DECEMBER 31, 2010 STATEMENT OF FINANCIAL POSITION BETWEEN GAAP AND IFRS

	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	361,798,003		52,614,902	24,887,095	439,300,000
Loans and receivables	500,000			-	500,000
Defeasance assets	3,313,434				3,313,434
Restricted cash	-	20,395,044	1,083,594		21,478,638
Deferred tax asset				185,859	185,859
Total Non-current assets	365,611,437	20,395,044	53,698,496	25,072,954	464,777,931
Current assets					
Cash	1,697,498	(232,608)	(539,844)	-	925,046
Other assets	21,835,938	(21,835,938)		-	-
Rent and other receivables	-	689,703	566,922	58,845	1,315,470
Deposits, prepaids and other	-	983,799	62,996	-	1,046,795
	23,533,436	(20,395,044)	90,074	58,845	3,287,311
Non-current assets classified as held for sale	121,510,739		(53,788,570)	12,041,765	79,763,934
Total current assets	145,044,175	(20,395,044)	(53,698,496)	12,100,610	83,051,245
TOTAL ASSETS	510,655,612	-	-	37,173,564	547,829,176
LIABILITIES AND EQUITY					
LIABILITIES					
Long-term liabilities					
Long-term debt	-	88,464,470	39,621,045	371,971	128,457,486
Mortgage loans	258,713,190	(258,713,190)		-	-
Mortgage bonds	9,317,075	(9,317,075)		-	-
Convertible debentures	36,986,646	(36,986,646)		-	-
Total long-term liabilities	305,016,911	(216,552,441)	39,621,045	371,971	128,457,486
Current liabilities					
Deposits from tenants	-	1,900,493	221,223	-	2,121,716
Accounts payable & accrued liabilities	66,138,326	(66,138,326)		-	-
Trade and other payables	-	58,671,855	572,318	-	59,244,173
Bank indebtedness	2,960,000	-		-	2,960,000
Defeased liability	2,753,342	(2,753,342)			-
Current portion of long term debt	-	224,871,761	654,735		225,526,496
	71,851,668	216,552,441	1,448,276	-	289,852,385
Non-current liabilities classified as held for sale	94,047,798	-	(41,069,321)	1,488,041	54,466,518
Total current liabilities	165,899,466	216,552,441	(39,621,045)	1,488,041	344,318,903
TOTAL LIABILITIES	470,916,377	-	-	1,860,012	472,776,389
EQUITY					
Issued capital	107,860,241				107,860,241
Contributed surplus	9,827,551			(2,890,717)	6,936,834
Equity component of convertible debentures	10,212,667			(463,599)	9,749,068
Cumulative earnings	(20,711,189)			38,667,868	17,956,679
Cumulative distributions to unit holders	(67,450,035)				(67,450,035)
TOTAL EQUITY	39,739,235	-	-	35,313,552	75,052,787
TOTAL LIABILITIES AND EQUITY	510,655,612	-	-	37,173,564	547,829,176

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE YEAR ENDED DECEMBER 31, 2010

Schedule 3

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Rentals from investment properties	31,385,914	504,807	7,953,122	58,845	**39,902,688**
Interest and other income	959,149	(959,149)		-	**-**
Property operating costs	12,464,247	-	4,077,123	-	**16,541,370**
Net operating income	19,880,816	(454,342)	3,875,999	58,845	**23,361,318**
Interest income	-	454,342	27,932	-	**482,274**
Interest expense	(28,793,113)	-	(3,880,147)	7,976	**(32,665,284)**
Amortization expense	(8,513,147)	-	(204,396)	8,717,543	**-**
Trust expense	(3,035,583)	-	-		**(3,035,583)**
Profit (loss) on sale of investment property	-	-	-	1,947,913	**1,947,913**
Fair value gains (losses)	-	-	-	(1,586,890)	**(1,586,890)**
Income (loss) for the year before taxes and discontinued operations	(20,461,027)	-	(180,612)	9,145,387	**(11,496,252)**
Income tax expense (recovery)	-			(470,623)	**(470,623)**
Income (loss) for the year before discontinued operations	(20,461,027)	-	(180,612)	9,616,010	**(11,025,629)**
Income from discontinued operations	14,182,120	-	180,612	(12,660,646)	**1,702,086**
Income (loss) and comprehensive income (loss)	(6,278,907)	-	-	(3,044,636)	**(9,323,543)**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE YEAR ENDED DECEMBER 31, 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	(4,220,858)	-	2,655,739	-	**(1,565,119)**
Cash flow from investing activities	(9,701,487)	-	17,226,465	-	**7,524,978**
Cash flow from financing activities	(5,554,115)	-	(3,211,736)	-	**(8,765,851)**
Cash flow from discontinued operations	16,886,094	-	(16,886,094)	-	**-**
Cash decrease	(2,590,366)	-	(215,626)	-	**(2,805,992)**
Deduct: Cash increase from discontinued operations	-	-	101,582	-	**101,582**
	(2,590,366)	-	(114,044)	-	**(2,704,410)**
Cash at the beginning of year	4,287,864	-	(658,408)	-	**3,629,456**
Cash at December 31, 2010	1,697,498	-	(772,452)	-	**925,046**

UNITHOLDER INFORMATION

Trustees and Officers

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

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the President of Big Freight Systems Inc. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

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

Administrator of the Trust

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

Property Management

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

Office Address

Lanesborough Real Estate Investment Trust
c/o Shelter Canadian Properties Limited
2600 Seven Evergreen Place
Winnipeg, Manitoba R3L 2T3
Telephone: (204) 475-9090
Facsimile: (204) 452-5505
Email: info@lreit.com
Website: www.lreit.com

Unit Listing

Toronto Stock Exchange (TSX)

Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G
Mortgage bond trading symbol:	LRT.NT.A
Trust unit purchase warrants trading symbols:	LRT.WT LRT.WT.A

Unitholder and Investor Contact

Mr. Gino Romagnoli, CGA
Manager, Investor Services
Shelter Canadian Properties Limited
Telephone: (204) 475-9090, Ext. 208
Facsimile: (204) 452-5505
Email: gromagnoli@lreit.com

Transfer Agent and Registrar

Canada Stock Transfer Company Inc.
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Auditors

MNP LLP
Chartered Accountants
2500 - 201 Portage Avenue
Winnipeg, Manitoba R3B 3K6

Legal Counsel

Aikins MacAulay & Thorvaldson LLP
30th Floor, Commodity Exchange Tower
360 Main Street
Winnipeg, Manitoba R3C 4G1