LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2011

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Unitholder Returns

	Three Months Ended March 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 Units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.G". The 5 year 9% second mortgage bonds and the trust unit purchase warrants are listed on the Toronto Stock Exchange under the symbols "LRT.NT.A", "LRT.WT" and "LRT.WT.A", respectively.

CHIEF EXECUTIVE OFFICER'S MESSAGE

Comprehensive loss

During the first quarter of 2011, the comprehensive loss of LREIT increased by $2,047,776, compared to the first quarter of 2010. The increase in the loss is mainly due to an increase in interest expense of $1,302,071 and a decrease in net operating income of $782,530, partially offset by an increase in income from the four seniors' housing complexes in discontinued operations of $400,373.

In comparison to the fourth quarter of 2010, the comprehensive loss of LREIT decreased by $1,984,103, during the first quarter of 2011, mainly due to a decrease in interest expense of $2,689,934 and an increase in income from discontinued operations of $161,050, partially offset by a decrease in net operating income of $283,338 and a decrease in profit on sale of investment property of $222,608.

For both the first quarter comparatives and the 2011 Q1 vs 2010 Q4 comparatives, the increase/decrease in interest expense is largely due to a change in amortization, accretion and other non-cash charges to interest expense.

Cash from Operating Activities

During the first quarter of 2011, cash from operating activities, excluding working capital adjustments, decreased by $124,502. Net operating income and the cash component of interest expense are the main components of cash from operating activities. The decrease in operating cash flow mainly reflects the decrease in net operating income from the Fort McMurray property portfolio, partially offset by the increase in net operating income from the four seniors' housing complexes in discontinued operations.

In comparison to the fourth quarter of 2010, cash from operating activities, excluding working capital adjustments, decreased by $987,699. The decrease in cash from operating activities reflects a decrease in net operating income for the entire property portfolio of $501,595; and an increase in the cash component of interest expense of $135,700.

Financing and Investing Activities

During the first quarter of 2011, LREIT retired $13,598,000 of convertible debenture debt, primarily from mortgage bond net proceeds in the amount of $12,081,000. The balance of the convertible debenture repayment, as well as the other first quarter funding obligations of LREIT, including the shortfall in operating cash flow, were funded by the additional mortgage loan financing of $400,000 and from existing working capital.

In April 2011, LREIT obtained an 8% second mortgage loan of $16.3 million, resulting in net proceeds of $4.0 million after retiring a 12.5% interim mortgage loan of $12.3 million. The net proceeds were used for working capital purposes.

LREIT is pursuing the sale of the four seniors' housing complexes this year. Management expects that LREIT will generate additional net proceeds of $18 Million from the upward refinancing of one of the targeted sale properties and complete the sale of three of the seniors' housing complexes by December 31, 2011

Financing Issues

LREIT experienced a delay in obtaining sufficient financing to complete the closing of a 160-suite apartment development in Fort McMurray (Parsons Landing). As of April 30, 2011, the payment date was extended to September 30, 2012 in order to demonstrate a full year of stabilized occupancy for financing purposes.

LREIT is also continuing to address the breach of debt covenant requirements for approximately $198 Million of mortgage loan debt. The majority of the covenant breaches were initially resolved through forbearance agreements or modified loan terms and by the provision of additional cash deposits. The expectation is that all of the covenant breaches will continue to be addressed through new or extended forbearance agreements, waivers or modified loan terms.

The Series G convertible debentures in the approximate amount of $25.6 Million mature on December 31, 2011. LREIT has the option to satisfy repayment by issuing trust units, in whole or in part, to the debenture holders.

Outlook

Occupancy levels at LREIT properties have substantially improved during the second quarter of 2011. This improvement is expected to continue in the Fort McMurray portfolio as the oil sands industry embarks on an investment program to significantly increase production capacity through 2016. Current occupancy levels in the Fort McMurray portfolio are approximately 87% while the occupancy levels for the total portfolio are 94%.

LREIT is continuing to raise supplemental capital and maximize operating cash flow from its property portfolio. The net cash proceeds from the sale and upward refinancing of properties are expected to be sufficient to enable LREIT to meet all of its funding requirements through 2011.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
June 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements of LREIT for the three months ended March 31, 2011 and with reference to the 2010 Annual Report.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

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

During the first quarter of 2010, LREIT sold two properties.

FINANCIAL SUMMARY

	March 31 2011	December 31 2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 540,496,000	$ 547,829,176
Total long-term financial liabilities **(1)**	$ 343,738,509	$ 355,770,082
KEY FINANCIAL PERFORMANCE INDICATORS (2)		
Operating Results		
Total revenue	$ 9,150,517	$ 10,752,142
Net operating income *	$ 5,123,007	$ 5,905,537
Loss from continuing operations, before taxes *	$ (4,587,848)	$ (2,249,560)
Loss and comprehensive loss	$ (3,746,608)	$ (1,698,832)
Cash Flows		
Cash flow from operating activities	$ 771,120	$ (104,724)
Funds from Operations (FFO) *	$ (3,510,890)	$ (1,746,244)
Adjusted Funds from Operations (AFFO) *	$ (3,326,447)	$ (1,261,114)
Distributable income (loss) *	$ (1,621,753)	$ (1,549,746)
Per Unit		
Net operating income *		
- basic	$ 0.279	$ 0.326
- diluted	$ 0.232	$ 0.247
Loss from continuing operations, before income tax*		
- basic	$ (0.250)	$ (0.124)
- diluted	$ (0.250)	$ (0.124)
Income (loss) and comprehensive income (loss)		
- basic	$ (0.204)	$ (0.094)
- diluted	$ (0.204)	$ (0.094)
Funds from Operations (FFO) *		
- basic	$ (0.191)	$ (0.096)
- diluted	$ (0.191)	$ (0.096)
Adjusted Funds from Operations (AFFO) *		
- basic	$ (0.181)	$ (0.070)
- diluted	$ (0.181)	$ (0.070)
Distributable income (loss) *		
- diluted	$ (0.088)	$ (0.085)
- diluted	$ (0.088)	$ (0.085)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

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

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

As of March 31, 2011, 18 properties have been sold under the divestiture program. The property portfolio of LREIT, as of March 31, 2011 is comprised of the remaining 26 properties, including four seniors' housing complexes. The operating results for the four seniors' housing complexes are classified under discontinued operations.

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

Highlights of 2011 Q1 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 do not include the revenues and expenses of the four seniors' housing complexes.

All other revenues and expenses reflect the revenues and expenses of investment properties, including the revenues and expenses of investment properties which were sold. In the first quarter of 2011, the portfolio of investment properties was comprised of 22 properties. During the first quarter of 2010, the portfolio of investment properties included 27 properties, two of which were sold on March 1, 2010.

Cash flow from operating activities includes the net operating income less interest and trust expenses incurred, on a cash basis.

2. Operations

	Three Months Ended March 31	
	2011	2010
Average vacancy loss		
Fort McMurray	34 %	30 %
Other	2 %	6 %
Sub-total	25 %	24 %
Sold properties	N/A	5 %
Total	25 %	23 %
Average rental rate		
Fort McMurray	$2,323	$2,495
Other	$1,034	$1,037
Sub-total	$1,790	$1,895
Sold properties	N/A	$1,060
Total	$1,790	$1,767

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

3. Income (Loss) and Cash Flow

	Three Months Ended March 31		
	2011	2010	Increase (Decrease)
Net operating income from continuing operations			
Fort McMurray properties	$ 3,270,120	$ 4,028,040	$ (757,920)
Other properties	1,852,887	1,877,497	(24,610)
Trust	1,481	3,780	(2,299)
Total net operating income	$ 5,124,488	$ 5,909,317	$ (784,829)
Comprehensive income (loss)			
Income (loss) before taxes and discontinued operations	$ (4,587,848)	$ (2,249,560)	$(2,338,288)
Income tax expense (recovery)	(117,659)	(227,520)	109,861
Income from discontinued operations	723,581	323,208	400,373
Comprehensive income (loss)	$ (3,746,608)	$ (1,698,832)	$(2,047,776)
Operating cash flow			
Cash provided by (used in) operating activities	$ 771,120	$ (104,724)	$ 875,844

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 increase in the comprehensive loss for the first quarter of 2011 mainly reflects an increase in interest expense, a decrease in net operating income and income tax recovery, partially offset by an increase in income from discontinued operations.

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

The increase in income from the four seniors' housing complexes in discontinued operations mainly reflects an increase in net operating income due to increase in occupancy.

4. Financing

	Three Months Ended March 31		
	2011	2010	Increase (Decrease)
Interest expense	$ 8,716,070	$ 7,413,999	$ 1,302,071

Key Variables	March 31 2011	December 31 2010
Weighted average interest rate of total mortgage loan debt		
Investment properties	7.1 %	6.4 %
Seniors' housing complexes in discontinued operations	6.6 %	6.6 %
Combined operations	7.0 %	6.4 %

Key Events Affecting Interest Expense

Interest expense increased by $1,302,071 during the first quarter of 2011 mainly due to the following factors:

- an increase in mortgage loan interest of $551,316;
- an increase in mortgage bond interest of $323,220;
- an increase in amortization charges for transaction costs of $495,232;
- an increase of $189,429 related to the variance in the change in value of interest rate swaps;
- a decrease in convertible debenture interest of $123,909;
- a net decrease in accretion of $114,914 for mortgage bonds and convertible debentures.

The increase in mortgage loan interest is mainly due to an increase in the interest rate for variable rate mortgage loans. The increase in amortization charges for transaction costs mainly reflects the amortization of the fees which were incurred in regard to mortgage loans in breach of debt service covenants.

After considering the mortgage bond and convertible debenture transactions which occurred between January 1, 2010 and March 31, 2011, interest expense on mortgage bonds, including accretion, increased by $367,242 during the first quarter of 2011, while interest expense on convertible debentures, including accretion, decreased by $282,845, representing a net increase of $84,397.

Key Financing Issues

Parsons Landing

Although LREIT acquired full possession of Parsons Landing on September 1, 2008, the purchase agreement provided for a portion of the purchase price to be paid by February 28, 2009. As LREIT has experienced delays in completing financing, the vendor agreed to multiple extensions of the payment deadline, subject to certain conditions, including the remittance of monthly interest payments of $300,000 and a lump-sum principal payment of $500,000. As of April 30, 2011, the payment deadline was extended to September 30, 2012. On closing, the vendor has also agreed to forgive accrued interest in excess of the $300,000 monthly payments for the period from January 1, 2010 to September 30, 2012. The financial statements for 2011 reflect the forgiveness of excess interest for the quarter in the amount of $1,691,586.

The vendor has also agreed to provide second mortgage loan financing of up to $12 Million to complete the purchase of the property.

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

Debt Covenants

As of March 31, 2011, twelve investment properties have mortgage loans or swap mortgage loans which are in breach of net operating income achievement, debt service coverage requirements and covenant restricting secondary financing (the "covenant breaches") including eleven of the investment properties in Fort McMurray. In total, the mortgage loans payable debt with covenant breaches for the eleven properties in Fort McMurray amounts to $179,970,151, representing 59% of the total of mortgage loan and swap mortgage loan debt for investment properties.

As at March 31, 2011, the Trust was not in compliance with one mortgage loan in the amount of $4,945,612 as a result of a debt service coverage covenant on a seniors' housing complex. Subsequent to March 31, 2011, the mortgage loan matured and was renewed.

Subsequent to March 31, 2011, a covenant to obtain an undertaking to insure from Canada Mortgage and Housing Corporation by April 15, 2011 was not satisfied by the due date in regard to a $12,835,520 mortgage loan on a seniors' housing complex.

Management believes the default for all of the mortgage loans and swap mortgage loans with covenant breaches will be waived or satisfactorily resolved through forbearance agreements or modified loan terms, although additional cash deposits may be required as security for the mortgages and additional fees may be incurred.

Convertible Debentures

As of March 31, 2011, the long term debt of LREIT includes $25,551,000 of Series G convertible debentures with a maturity date of December 31, 2011. LREIT has the option to satisfy its obligation in regard to the repayment of the Series G debentures by issuing trust units, in whole or in part, to the debenture holders.

5. Liquidity

	March 31 2011	December 31 2010
Unrestricted cash	$ 1,562,888	$ 925,046
Restricted cash	$ 13,248,494	$ 21,478,638
Working capital deficit	$ 15,945,082	$ 10,703,726

Key events affecting liquidity - 2011 Q1

- Repayment of convertible debenture debt: On March 11, 2011, the 7.5% Series F convertible debenture debt of $13,598,000 was fully retired. The retirement of the debentures was primarily funded from mortgage bond net proceeds of $12,081,000, the additional mortgage loan financing of $400,000 and the balance from other sources of capital.
- Other sources of capital: During the first quarter of 2011, other sources of capital consisted of net draws on the bank line of credit and revolving loan commitment of $1,915,000 and $2,650,000, respectively and additional mortgage loan financing of $400,000, representing a total of $4,965,000.
- Transaction costs: During the first quarter of 2011, expenditures on transaction costs associated with mortgage loan financing and mortgage bond and warrant offerings, amounted to $651,150 including $169,199 fees associated with mortgage loans with covenant breaches.

Liquidity summary

During the first quarter of 2011, the repayment of the Series F convertible debentures and the completion of the mortgage bond offering, represented the main financing activities of LREIT. The net proceeds from revolving loan, line of credit and second mortgage loan, combined with cash from operating activities, were sufficient to enable LREIT to meet all of its other funding commitments. As the revolving loan and line of credit are considered to be sources of working capital, the additional draws on the revolving loan and line of credit resulted in an increase in the working capital deficiency of LREIT during the first quarter of 2011.

6. Divestiture Program

	Properties Sold in 2009	Properties Sold in 2010	Properties Sold First Three Months 2011	Total
Number of properties	13	5	-	18
Gross proceeds	$ 90,392,000	$ 40,835,000	$ -	$ 131,227,000
Net proceeds	$ 29,631,650	$ 17,563,501	$ -	$ 47,195,151

Net proceeds are calculated after deducting vendor "take-back" financing of $7,050,000 for properties sold in 2009 and $3,790,650 for properties sold in 2010.

LREIT did not complete any property sales under its divestiture program during the first quarter of 2011. Management is projecting that three of the seniors' housing complexes will be sold during the fourth quarter of 2011, generating net sales proceeds of approximately $15 Million.

7. Risks and Uncertainties

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

- the net losses sustained by LREIT during the first quarter of 2011 and in 2010 and 2009;
- the breach of covenants on nine mortgage loans (relating to 14 properties) encompassing $197.8 million of mortgage loan and swap mortgage loan debt;
- the working capital deficiency of the Trust;
- the significant concentration of properties in Fort McMurray;
- the impact of the timing of the increase in occupancy and rental rates of the six small Fort McMurray properties on the ability of the Trust to meet the minimum debt service coverage requirements;
- the impact of the timing of the increase in rental rates in Fort McMurray on the ability of the Trust to meet minimum debt service coverage requirements and to renew mortgage loan financings;
- successful completion of the divestiture program; and
- ability of the Trust to obtain mortgage financing for Parsons Landing and complete the acquisition of the property.

As a result of the substantial improvement in the occupancy level of the Fort McMurray portfolio in the second quarter of 2011, the steps which have been taken to address the risk factors, and after considering events which have occurred during 2010 and into 2011, including the repayment of the Series E debentures in February 2010; the repayment of the Series F debentures on March 11, 2011; the completion of two public offerings of secured mortgage bonds and warrants; the renewal or refinancing of mortgage loans and/or generally positive ongoing discussions with lenders for mortgages which have matured to the date of this report; and the completion of 18 property sales in 2009 and 2010, management believes that LREIT has the financial capacity to continue operations in 2011.

The financial capacity of LREIT to continue operations in 2011 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 as planned, the completion of upward refinancing and the continued ability of the Trust to renew or refinance debt at maturity. In the event that the net proceeds from property sales or upward refinancing are less than anticipated, LREIT may not have the ability to fund all of its debt obligations, including regular monthly payments of mortgage loan principal.

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

CONTINUING OPERATIONS AND LIQUIDITY

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

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

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

Funding Requirements

Working Capital Deficiency

As at March 31, 2011, LREIT has a working capital deficiency of approximately $15.9 Million, excluding the amount payable on Parsons Landing, representing an increase of approximately $5.2 Million, compared to the working capital deficiency as of December 31, 2010. The working capital deficiency consists primarily of the amount withdrawn on the revolving loan commitment of $10 Million, accounts payable and accrued payables of approximately $6.1 Million, bank indebtedness net of cash, of approximately $3.3 Million less rent and other receivables of approximately $3.5 Million. The maturity date of the revolving loan commitment is June 30, 2011.

The increase in the working capital deficiency from December 31, 2010 is mainly due to withdrawals from the revolving loan commitment and bank line of credit of $2,650,000 and $1,915,000, respectively.

Cash from Operations

During the first quarter of 2011, the cash outflow from operating activities was approximately $1.3 Million, before working capital adjustments, and the cash inflow from operating activities after working capital adjustments approximately $0.8 Million. The working capital adjustments mainly consist of an increase in trade and other payables. Net operating income is the main component of the cash inflow from operating activities, with the Fort McMurray property portfolio being the main contributor to net operating income.

Cash from operating activities, before working capital adjustments, reflects a decrease of $124,502 during the first quarter of 2011. Although net operating income is expected to improve during the remainder of 2011, the rate and extent of the anticipated improvement in net operating income is subject to uncertainty. Cash from operating activities, including working capital adjustments is expected to decrease during the second quarter of 2011, as a result of the use of the net cash proceeds from upward financing to reduce the extent of the working capital deficiency.

Ongoing Funding Commitments

The ongoing funding commitments of LREIT include regular payments of mortgage loan principal and capital improvements. Cash from operating activities serves as a partial funding source for these ongoing funding commitments. During the first quarter of 2011, the shortfall between cash from operating activities, regular payments of mortgage loan principal and capital improvements was $1.7 Million.

For the remainder of 2011, there will continue to be a shortfall between cash from operating activities and the ongoing funding commitments of LREIT.

Series G Convertible Debentures

The 7.5% Series G convertible debentures mature on December 31, 2011. The face value of the debenture is $25,551,000 as of March 31, 2011. LREIT has the option to satisfy its obligation in regard to the repayment of the Series G debentures by issuing trust units, in whole or in part, to the debenture holders.

Revolving Line of Credit

The Trust utilizes a revolving line of credit from a Canadian chartered bank with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate plus 3.5%. As at May 31, 2011 the line of credit was fully utilized. The line of credit is reduced by $125,000 in regard to a letter of credit. The line of credit is secured by a second mortgage loan registered against a seniors' housing project scheduled for sale. It is anticipated that the line of credit will be repaid in full in the third quarter of 2011 from the proceeds of an upward financing.

Sources of Capital

Upward Financing

LREIT expects to generate net proceeds of approximately $14 Million from the upward financing of the three or more of the properties which are designated for sale and that the financing will be repaid or assumed on the sale of the property or properties.

During the first quarter of 2011, LREIT obtained a 9% second mortgage loan of $400,000 on one of its commercial properties, with a maturity date of September 1, 2013.

In April 2011, LREIT obtained a 8% second mortgage loan of $16.3 Million for Colony Square for a term of two years. The proceeds of the loan were used to retire a 12.5% interim loan of $12.3 Million resulting in net proceeds of approximately $4.0 Million. The net proceeds were used to reduce the working capital deficiency.

Another upward refinancing of Riverside Terrace will be completed by July 2011, generating proceeds of approximately $17 Million. The proceeds of the loan will be used to repay $7 Million of existing mortgage loan debt and to further reduce the working capital deficiency.

Property Sales

LREIT expects to generate significant net proceeds from the sale of three properties during 2011 and four properties in 2012.

Management anticipates that the net sale proceeds which are generated from the sales program will provide the Trust with sufficient resources to satisfy the funding requirements through 2012.

During 2009 and 2010, LREIT generated net sale proceeds of approximately $29.6 Million from the sale of thirteen properties and $17.6 Million from the sale of five properties, respectively, for a total of $58 Million, after receipt of $10.8 Million in vendor-take back financing/mortgage loans receivable provided to purchasers. Management believes that the actual sale results for 2009 and 2010 are an indicator of the ability of LREIT to successfully complete additional property sales in 2011 and 2012.

Increase in Revolving Loan Commitment

The revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited) has been renewed and increased from $10 Million to $12 Million. The revolving loan matures on December 31, 2011 and the interest rate is 14% to June 30, 2011 and 11% thereafter. If required, the loan renewal will be continued in 2012.

Summary

Management expects that the projected proceeds from the upward refinancing of mortgage loan debt, property sales, and the increase in the revolving loan commitment combined with improvement in operating cash flow will be sufficient to enable LREIT to meet all of its cash funding requirements and reduce the extent of its working capital deficiency.

Other Factors

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

*Mortgage Loans in Breach of Covenant Requirement*s

There were 12 properties in the LREIT portfolio that have mortgage debt which is in breach of NOI achievement and debt service coverage requirements or restrictions on secondary financing, including eleven properties in Fort McMurray and there are two seniors' housing complexes that have mortgage loan debt which is in breach of debt service coverage requirements and a covenant to obtain mortgage insurance. The willingness of the mortgage lenders to continue to forbear under the mortgage loans is subject to uncertainty. The inability of LREIT to maintain mortgage loan financing for the indebted properties may have adverse consequences on operations.

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

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

Maturing Debt

Management of LREIT expects to renew or refinance all mortgage loans which come due during the remainder of 2011 with the possible exception of mortgage loans which are in breach of debt service coverage requirements. The mortgage loans which are in breach of debt service coverage requirements are expected to remain as payable on demand until the breaches are remedied.

Acquisition of Parsons Landing

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

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

The core business activities of LREIT includes acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada. As of March 31, 2011, the real estate portfolio of LREIT consists of 20 multi-family residential properties and 2 commercial properties (the "investment properties"), as well as four seniors' housing complexes which are classified as "discontinued operations" under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

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

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

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

Operations

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

Financing

The purchase price of new property acquisitions is typically funded from the proceeds of mortgage loans with the remaining balance, or the equity component, funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes second mortgage loans, bridge financing and an operating line of credit as a source of investment capital. The upward refinancing of mortgage loan debt has also served as a source of investment capital.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of March 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 the first quarter of 2011, the mortgage loan debt service coverage ratio was 0.85, compared to 1.21 for the first quarter of 2010 and 1.01 for the entire year in 2010. The debt service coverage ratio excludes net operating income and debt service costs for discontinued operations and Parsons Landing.

Divestiture Program

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

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

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

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

Distributions

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

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

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

IMPACT OF INCOME TAX CHANGES ON NET SALE PROCEEDS

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

Effective January 1, 2011, in accordance with the federal income taxation policy for SIFT's ("specified investment flow-through" trusts), the distributions of LREIT will generally no longer be deductible for purposes of determining the taxable income of LREIT, with certain exceptions* . As a result, the income tax liability on capital gains from property sales will be payable by LREIT in 2011.

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. The estimated net proceeds from the sale of the three seniors' housing complexes which are expected to be sold in 2011 is $14.9 Million, after deducting the estimated taxes payable on capital gains of $1.6 Million.

As a result of the direct payment of the tax liability on capital gains, it is anticipated that it will not be necessary for LREIT to declare a special distribution in 2011.

In the event that three of the four seniors' housing complexes of LREIT are sold, it is expected that LREIT will meet the prescribed conditions necessary to become a "Qualifying REIT". As a "Qualifying REIT", LREIT would once again be in a position to reduce taxable income arising from capital gains through the payment of distributions.

* A complete explanation of the impact of SIFT rules on the income tax position of the Trust, is included in the MD&A under the title "Taxation".

PARSONS LANDING FINANCING

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

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

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

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

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

The vendor has agreed to forgive interest in excess of the $300,000 monthly interest payment for the period from January 1, 2010 to September 30, 2012, on closing. Accrued interest on the balance owing for the period from January 1, 2010 to September 30, 2012 amounts to $28,910,579 of which $7,889,939 relates to the nine months ending September 30, 2012, $10,510,317 relates to the year ending December 31, 2011 and $10,510,317 relates to the year ending December 31, 2010. Management estimates that the entire amount of the interest in excess of the $300,000 monthly interest payments will be forgiven and, as such, the financial statements for the three months ended March 31, 2011 reflect the forgiveness of interest in the amount of $2,591,586.

As of March 31, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47.7 Million.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

LREIT has adopted International Financial Reporting Standards effective for the 2011 fiscal year, commencing with the first quarter financial statements for 2011. In the first quarter financial statements for 2011, comparative financial information for the first quarter of 2010 has been restated to reflect the retrospective application of IFRS. The retrospective application of IFRS encompassed the restatement of the balance sheet 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 complexes and are disclosed in the financial statements using the fair value method of presentation. The restatement of the balance sheet 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 have a significant operating component in the form of delivery of services to residents and as LREIT is actively pursuing a sale of all of the seniors' housing complexes. 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 differences between IFRS and GAAP in regard to the recognition and measurement of revenues and expenses are as follows:

Comparative results for the first quarter 2010 - General

- amortization expense on rental properties was eliminated.
- the gain on sale of properties was effectively eliminated as a result of the restatement of the carrying value of the sold properties to fair value as at January 1, 2010.
- the elimination of the gain on sale of properties of approximately $7.6 Million and the elimination of amortization charges on investment properties of approximately $2.2 Million, resulted in a decrease in income of approximately $5.4 Million.
- after considering other adjustments, the comparative results for the first quarter of 2010, as restated under IFRS, reflect a net loss of $1,698,832 compared to net income of $3,647,290, as previously reported under GAAP.

Discontinued Operations

- net operating income from investment properties which were sold or classified as "held for sale" during the first quarter of 2010 of $799,833 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 $7,223,928 lower in the first quarter of 2010, compared to the income from discontinued operations which was previously reported under GAAP.

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 - March 31, 2011

As of March 31, 2011, the property portfolio of LREIT consists of 26 rental properties, 22 of which are classified as "Investment properties" on the balance sheet of the Trust. The remaining four properties consist of the four seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Non-current assets classified as held for sale" on the statement of financial position of the Trust. The entire portfolio of 26 properties has a total purchase price of approximately $495.4 Million and encompasses 2,622 suites and 139,243 square feet of leasable area.

There were not any changes to the property portfolio during the first quarter of 2011.

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

Composition of Portfolio of Investment Properties

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

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

Properties Held for Sale

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

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

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

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

Discontinued Operations

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

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

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

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

Analysis of Operating Results for Properties Held For Sale

The operating results for all of the properties which are classified as "held for sale" as of March 31, 2011, 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.

Loans and Receivables

As of March 31, 2011, "Loans and receivables" consisted of a 5% second mortgage loan of $500,000, due October 1, 2014.

As of March 31, 2010, "Loans and receivables" amounted to $10,050,000, comprised of the 5% loan which is noted above, as well as two other mortgage loans receivable of $9.55 Million. The two other mortgage loans receivable were prepaid in 2010.

CAPITAL STRUCTURE

Capital Structure - March 31, 2011

	March 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Long-term debt	$ 119,022,202	28.7 %	$ 128,457,486	29.9 %
Current portion of long-term debt	224,294,078	54.0 %	225,526,496	52.6 %
Equity	71,662,056	17.3 %	75,001,586	17.5 %
Total capitalization	$ 414,978,336	100.0 %	$ 428,985,568	100.0 %

LONG-TERM DEBT

The "long-term debt" of LREIT as disclosed on the statement of financial position includes mortgage loans, mortgage bonds, convertible debenture debt, swap mortgage loans, a defeased liability, mortgage guarantee fees, construction costs payable and accrued interest payable, less unamortized transaction costs. "Long-term debt" encompasses debt for "held for sale" investment properties and excludes long-term debt for the four seniors' housing complexes in discontinued operations. Long-term debt for the four seniors' housing complexes in discontinued operations is classified under "Non-current liabilities classified as held for sale" on the statement of financial position of the Trust. The amount payable in regard to the acquisition of Parson's Landing is not included in long-term debt.

The current portion of long-term debt is disclosed separately on the statement of financial position of LREIT.

Change in Total Long-term Debt

As disclosed in the following chart, the total long-term debt of the investment properties of LREIT as of March 31, 2011, before accrued interest payable and unamortized transaction costs, decreased by $11,893,649 or 3.4% compared to the long-term debt as of December 31, 2010. The decrease mainly reflects a decrease in convertible debenture debt, as well as a decrease in mortgages payable, partially offset by an increase in mortgage bond debt.

	March 31 2011	December 31 2010	Increase (Decrease)
Secured debt			
Mortgages loans	257,824,890	259,104,483	(1,279,593)
Mortgage bonds	13,790,429	10,826,910	2,963,519
Convertible debentures	-	13,464,400	(13,464,400)
Swap mortgage loans	44,362,619	44,832,599	(469,980)
Defeased liability	2,793,762	2,806,222	(12,460)
Total secured debt	318,771,700	331,034,614	(12,262,914)
Unsecured debt			
Convertible debentures	24,322,420	23,948,528	373,892
Mortgage guarantee fees	65,109	73,074	(7,965)
Construction costs payable	337,169	333,831	3,338
Total unsecured debt	24,724,698	24,355,433	369,265
Total secured and unsecured debt	343,496,398	355,390,047	(11,893,649)
Accrued interest payable	2,633,848	1,666,375	967,473
Unamortized transaction costs	(2,813,966)	(3,072,440)	258,474
Current portion of long-term debt	(224,294,078)	(225,526,496)	1,232,418
Total long-term debt	119,022,202	128,457,486	(9,435,284)

Discontinued Operations - Long-term Debt

As of March 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 $46,858,161, plus mortgage guarantee fees of $320,891, less unamortized transaction costs of $52,500. 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 March 31, 2011, the mortgage loan debt of LREIT decreased by $1.4 Million compared to the amount payable as of December 31, 2010. An analysis of the reduction in mortgage loan debt is provided in the following chart.

	Three Months Ended March 31, 2011		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 400,000	$ 400,000	$ -
Regular repayment of principal on mortgage loans	(1,845,922)	(1,679,593)	(166,329)
Total debt reduction	(1,445,922)	(1,279,593)	(166,329)
Total mortgage loans - December 31, 2010	306,128,973	259,104,483	47,024,490
Total mortgage loans - March 31, 2011	$ 304,683,051	$ 257,824,890	$ 46,858,161

Composition of Mortgage Loan Debt - March 31, 2011

Summary of Mortgage Loans Payable - Investment Properties

Year of Maturity (Note 1)	Weighted Average Interest Rate	Amount March 31, 2011	Percentage of Total
Fixed rate			
2011 (Note 2)	7.5 %	$ 2,465,019	1.0 %
2012	7.9 %	44,311,275	17.2 %
2013	5.9 %	22,885,704	8.9 %
2014	6.3 %	34,689,664	13.5 %
2015	5.3 %	26,703,283	10.4 %
2016	5.2 %	35,219,722	13.7 %
2017	5.5 %	1,606,465	0.6 %
		167,881,132	65.1 %
Demand/variable rate	8.6 %	89,943,758	34.9 %
Principal amount		257,824,890	100.0 %
Unamortized transaction costs		(891,186)	
		$ 256,933,704	

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

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

Mortgage Loan Debt Summary *

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

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

Discontinued Operations

As disclosed in the analysis at the beginning of the "mortgage loans payable" section of this report, the mortgage loans payable debt for discontinued operations amounted to $46,858,161 as of March 31, 2011.

The total balance of $46,858,161 is comprised of first and second mortgage loans. The first and second mortgage loans payable debt have a weighted average interest rate of 6.55% as of March 31, 2011.

Debt Maturities

Investment properties

During the first half of 2011, the mortgage loans totalling $2,720,000 for Norglen Terrace matured. The loans were refinanced upward to $3,250,000 until June 30, 2013 at an interest rate of 5%.

With the exception of two mortgage loans in breach of debt service coverage requirements, all of the mortgage loans on the investment properties have been renewed or refinanced. The loans consist of the 5.5% first mortgage loan of $18,424,309 for the Lakewood Townhouses which matured on July 18, 2010 and the 6.5% second mortgage loan of $17,501,827 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010. The loans are repayable on demand. A forbearance agreement was obtained from the lender in regard to the covenant breaches for both of the loans with an expiry date of June 30, 2011.

As of March 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 default of debt service covenant breaches, as well as fixed term mortgages which mature on or before March 31, 2012. The long-term debt for seniors' housing complexes is included in the "Non-current liabilities classified as held for sale" classification in current liabilities under IFRS. An analysis of the total mortgage loan principal which is classified as "current" for financial statement reporting purposes is provided in the "Capital Resources and Liquidity" section of the MD&A.

The first mortgage loan for Laird's Landing in the amount of $54,176,998 matures in October 2011.

None of the other mortgage loans for investment properties mature during the balance of 2011.

Seniors' Housing Complexes Classified as Discontinued Operations

During the first quarter of 2011, a mortgage loan for a seniors' housing complex classified under discontinued operations in the amount of $4,976,540 with an interest rate of 5.7% became due and was extended for a term of one year at an interest rate of prime plus 2.0%.

In addition, mortgage loans for Clarington Seniors' Residence in the total amount of $16,870,000, with a weighted average interest rate of 7% matured on March 27, 2011. LREIT has accepted an offer of replacement financing for the mortgage loans. Management expects that the mortgage loans will be refinanced.

Debt Covenants

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

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

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

The first mortgage loan for the seniors' housing complex in Moose Jaw, Saskatchewan is in breach of the debt service coverage requirement for the years ended December 31, 2009 and December 31, 2010. Subsequent to March 31, 2011, the mortgage was renewed. The renewal of the mortgage provided a forbearance of the December 31, 2009 breach of the debt service covenant and management expects that a forbearance of the December 31, 2010 breach will be provided.

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

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

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance March 31, 2011	Maturity Date	Status
First Mortgage Loans: Investment Properties					
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	NOI achievement	First	$ 23,218,048	September 1, 2016	(1)
Lakewood					
Apartments	1.2	First	25,268,134	July 17, 2014	(2)
Townhouses	1.1	First	18,366,107	July 18, 2010	(3)
			66,852,289		
Laird's Landing	1.2	First	54,176,998	October 1, 2011	(3)
Woodland Park, Nelson Ridge Estates	1.2	Second	17,400,653	October 31, 2010	(3)
			71,577,651		
Winnipeg					
Colony Square		First	19,964,982	April 1, 2015	(4)
Subtotal			158,394,922		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(7)	First	21,575,229	May 1, 2018	(1)
			179,970,151		
Seniors' Housing Complexes in Discontinued Operations					
Moose Jaw					
Chateau St. Michael's	1.3	First	4,945,612	March 1, 2011	(5)
Port Elgin					
Elgin Lodge		First	12,835,570	June 30, 2011	(6)
Subtotal			17,781,182		
			$ 197,751,333		

(1) The lender has been notified of the breach and is being provided with operating information on a monthly basis.
(2) The terms of the forbearance are under negotiation.
(3) The lender provided a forbearance agreement to June 30, 2011.
(4) The lender has issued a notice regarding the breach demanding that secondary financing be removed from the title to the property.

(5) The loan matured and was renewed to March 31, 2012. The renewal of the loan provided a forbearance in regard to the December 31, 2009 covenant breach. Management expects that a forbearance in respect of the December 31, 2010 covenant breach will be provided.
(6) The lender has been advised of the breach in the requirement to obtain mortgage insurance.
(7) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

As disclosed in the preceding table, LREIT is resolving covenant breaches for all of the loans identified therein. Management believes that all of the covenant breaches will be satisfactorily resolved through modified loan agreements or extensions of forbearance agreements. During the first quarter of 2011, the total fees related to covenant breaches and forbearance agreements amounted to $1.35 Million. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first quarter of 2011, interest expense includes amortization charges related to fees on covenant breaches of $486,786, compared to nil during the first quarter of 2010.

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

Notwithstanding the fact that the Fort McMurray property portfolio is achieving improved occupancy and income levels in 2011, all of the affected properties may not attain income levels in 2011 which satisfy the existing covenant requirements. LREIT intends to sell the seniors' housing complexes in Moose Jaw, Saskatchewan and Port Elgin, Ontario

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

Weighted Average Interest Rates

As of March 31, 2011, the weighted average interest rate of the mortgage loan debt for continuing operations, discontinued operations and combined operations is 7.1%, 6.6% and 7.0%, respectively.

The weighted average interest rate for mortgage loan debt excludes the acquisition payable on Parsons Landing.

Acquisition Payable

The amount payable on the acquisition of Parsons Landing is included in "Trade and other payables" on the consolidated statement of financial position of LREIT.

The amount payable in regard to the acquisition of Parsons Landing is $45.2 Million, excluding GST. The amount payable was originally due on February 28, 2009. During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor in regard to the amount payable. In total, $5,841,638 of interest was forgiven during 2009. Interest charges in excess of $300,000 per month for the period from January 1, 2010 to September 30, 2012 will be forgiven by the vendor.

Interest charges for the period from January 1, 2010 to September 30, 2012, amount to $28,910,579 of which $10,510,317 pertains to 2010 and $2,591,586 pertains to the first quarter of 2011. Based on the actual events which have occurred since the initial payment deadline date, it is estimated by management that the entire amount of the excess interest which has accrued since January 1, 2010 will be forgiven and, as such, the financial statements for the three month period ended March 31, 2011 reflect the forgiveness of interest in the amount of $2,591,586. The recognition of the forgiveness of interest has also resulted in the reduction of accrued interest payable by $8,601,906 for the 15 month period ended March 31, 2011. Interest charges of $300,000 per month represent an effective interest rate of 8%.

Revolving Loan Commitment

The liabilities of LREIT include a $10 Million revolving loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian, with an interest rate of 14% and a maturity date of June 30, 2011. The revolving loan commitment has been renewed and increased to $12 Million. The revolving loan matures on December 31, 2011 and the interest rate is 11%. During the first quarter of 2011, the utilization of the loan commitment increased from $7,350,000 as of December 31, 2010 to $10 Million as of March 31, 2011.

During the first quarter of 2011, the total interest expense associated with the revolving loan commitment was $268,337, compared to $19,113 during the first quarter of 2010. The revolving loan is included in "Trade and other payables" on the consolidated Balance Sheet of LREIT. Additional information regarding the financing arrangements with 2668921 Manitoba Ltd. are provided in the section of this report titled "Related Party Transactions".

Mortgage Bonds and Warrants

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

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

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

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

For financial statement purposes, the initial book value of the warrants and second mortgage bonds was determined to be $2,300,426 and $13,699,574, respectively, based on the valuation methodology as established under IFRS. The carrying value of the second mortgage bonds, as of March 31, 2011, of $13,790,429 is based on the initial book value net of unamortized transaction costs plus accretion from the date of issue to March 31, 2011. The value of the warrants is recognized in equity and the value of the mortgage bonds is recognized as long-term debt. See Note 12 in the first quarter financial statements for additional details.

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

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

Convertible Debentures

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

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions Three Months Ended March 31 2011	Repayments/Unit Conversions As of December 31 2010	Net Amount Outstanding March 31 2011
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(12,000,000)	-
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	(13,601,000)	(79,000)	-
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	(44,000)	(137,000)	25,551,000
Face value			$ 69,543,000	$ (13,645,000)	$ (30,347,000)	25,551,000
Net accumulated accretion						5,428,830
Unamortized transaction costs						(291,422)
Book value, March 31, 2011						$ 30,688,408
Allocation of book value						
Debt component						$ 24,322,420
Equity component						6,657,410
Unamortized transaction costs						(291,422)
						$ 30,688,408

The debt component of convertible debenture is included in "Long-term debt" in the statement of financial position of LREIT.

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

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

In accordance with the terms of the trust indenture for the Series G debentures, the Trust has the option at the maturity of the Series G debentures to retire the debentures, in whole or in part, by issuing units. The number of units issued at redemption is determined by dividing the principal of debentures redeemed by 95% of the current market price of the units.

Swap Mortgage Loans

The swap mortgage loans of LREIT consist of two floating rate mortgage loans which are hedged under interest rate swap arrangements. During the first quarter of 2011, the carrying value of the swap mortgage loans decreased by $459,529, comprised of principal payments on the mortgage loans of $280,111 and an increase in the value of the interest rate swaps of $189,869, net of amortization charges of $10,451.

The change in the value of the interest rate swaps is included in interest expense.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- March 31, 2011	17,988,339
- June 8, 2011	17,988,339

As of March 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 on Schedule II.

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease)	
	2011	2010	Amount	%
Rentals from investment properties	$ 9,150,517	$ 10,752,142	$ (1,601,625)	(14.9)%
Property operating costs	4,027,510	4,846,605	(819,095)	(16.9)%
Net operating income *	5,123,007	5,905,537	(782,530)	(13.3)%
Interest income	77,667	106,432	(28,765)	(27.0)%
Interest expense	(8,716,070)	(7,413,999)	(1,302,071)	17.6 %
Trust expense	(771,745)	(696,790)	(74,955)	10.8 %
Profit (loss) on sale of investment property	-	(22,324)	22,324	(100.0)%
Fair value gains (losses)	(300,707)	(128,416)	(172,291)	134.2 %
Income (loss) before taxes and discontinued operations *	(4,587,848)	(2,249,560)	(2,338,288)	103.9 %
Income tax expense (recovery)	(117,659)	(227,520)	109,861	(48.3)%
Income (loss) before discontinued operations	(4,470,189)	(2,022,040)	(2,448,149)	121.1 %
Income from discontinued operations	723,581	323,208	400,373	123.9 %
Income (loss) and comprehensive income (loss)	$ (3,746,608)	$ (1,698,832)	$ (2,047,776)	120.5 %

During the first quarter of 2011, the comprehensive loss of LREIT increased by $2,047,776 compared to the first quarter of 2010. The increase in the loss mainly reflects an increase in interest expense and a decrease in net operating income, partially offset by an increase in income from discontinued operations.

Net Operating Income

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

Rental Revenue

Market Conditions

Fort McMurray (Thirteen properties)

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

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

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

Other Locations (Nine Properties)

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

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

An analysis of the average monthly rents and vacancy loss 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 "held for sale" investment properties. Rental revenue does not include revenue from the four seniors' housing complexes which are classified under discontinued operations.

Rental Revenue Results

Analysis of Total Rental Revenue from Investment Properties

	Three Months Ended March 31					
			Increase (Decrease)		% of Total	
	2011	2010	Amount	%	2010	2009
Fort McMurray	$ 5,670,174	$ 6,691,357	$ (1,021,183)	(15)%	62 %	62 %
Other	3,480,343	4,060,785	(580,442)	(14)%	38 %	38 %
Total	$ 9,150,517	$ 10,752,142	$ (1,601,625)	(15)%	100 %	100 %

As disclosed in the chart above, the total revenue from the investment properties of LREIT decreased by $1,601,625 during the first quarter of 2011 compared to the first quarter of 2010. The decrease is comprised of a decrease in revenue from the investment properties in Fort McMurray of $1,021,183, and a decrease in revenue from the other investment properties of $580,442.

The decrease in revenue from the Fort McMurray property portfolio reflects an increase in the vacancy loss and a decrease in the average rental rate. As disclosed in the chart below, the vacancy loss for the Fort McMurray portfolio increased from 30% during the first quarter of 2010, to 34% during the first quarter of 2011, while the average monthly rental rate decreased by $172 or 6.9%.

The decrease in revenue for the "Other" property portfolio is mainly due to a reduction in the number of revenue-generating investment properties. During the first quarter of 2010, 27 investment properties contributed to the revenue results, two properties which were sold on March 1, 2010. During the first quarter of 2011, the portfolio of investment properties was comprised of 22 properties.

Analysis of Vacancy Loss for Investment Properties

	2011	2010				
	Q1	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	34 %	30 %	30 %	33 %	33 %	32 %
Other	2 %	6 %	5 %	4 %	3 %	5 %
Sub-total	25 %	24 %	23 %	25 %	24 %	24 %
Sold properties	N/A	5 %	2 %	2 %	2 %	3 %
Total	25 %	23 %	22 %	24 %	24 %	23 %

Analysis of Average Monthly Rents for Investment Properties

	2011	2010				
	Q1	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,323	$2,495	$2,315	$2,380	$2,338	$2,382
Other	$1,034	$1,037	$1,031	$1,037	$1,025	$1,033
Sub-total	$1,790	$1,895	$1,743	$1,781	$1,753	$1,793
Sold properties	N/A	$1,060	$1,004	$904	$978	$986
Total	$1,790	$1,767	$1,683	$1,711	$1,735	$1,724

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31		Increase	
	2011	2010	(Decrease)	%
Fort McMurray	$ 2,400,054	$ 2,663,317	$ (263,263)	(10)%
Other	1,627,456	2,183,288	(555,832)	(25)%
Total	$ 4,027,510	$ 4,846,605	$ (819,095)	(17)%

During the first quarter of 2011, property operating costs for the entire portfolio of investment properties decreased by $819,095 or 17%, compared to the first quarter of 2010. The decrease is comprised of a $263,263 decrease in the operating costs of the Fort McMurray portfolio and a decrease of $555,832 in the operating costs of the "Other" property portfolio. The decrease in operating costs for the Fort McMurray portfolio is mainly due to a decrease in property taxes and bad debts. 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 - Investment Properties

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2011	2010	Amount	%	2011	2010	2011	2010
Fort McMurray	$ 3,270,120	$ 4,028,040	$ (757,920)	(19)%	64 %	68 %	58 %	60 %
Other	1,852,887	1,877,497	(24,610)	(1)%	36 %	32 %	53 %	46 %
Total	$ 5,123,007	$ 5,905,537	$ (782,530)	(13)%	100 %	100 %	56 %	55 %

After considering the decrease in rental revenue and property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties decreased by $782,530 or 13% during the first quarter of 2011.

As the decrease in rental revenue for the "Other" property portfolio was almost entirely offset by a decrease in operating costs, the decrease in net operating income is almost entirely attributable to a decrease in the net operating income of the Fort McMurray portfolio. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio decreased by $757,920 during the first quarter of 2011, compared to the first quarter of 2010. The decrease in net operating income from the Fort McMurray property portfolio represents 97% of the total decrease in net operating income from investment properties.

Overall, the operating margin for the property portfolio increased from 55% during the first quarter of 2010, to 56% during the first quarter of 2011. The increase in the overall operating margin is primarily due to an increase in the operating margin for the "Other" property portfolio, partially offset by a decrease in the operating margin of the Fort McMurray 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 increased by $74,955 during the first quarter of 2011, compared to the first quarter of 2010. The increase is mainly due to final closing costs for properties sold in 2010, partially offset by a decrease in service fee of Shelter Canadian and a decrease unit based compensation expense relating to the Unit Option Plan and the Deferred Unit Plan. During the first quarter of 2011, the service fee of Shelter Canadian for continuing operations decreased by $11,186.

The service fee of Shelter Canadian is in regard to administrative and asset management services and the fee is equal to 0.3% of the gross book value of the assets of LREIT, excluding cash, as of the date of the most recently issued financial statements. The decrease in the fee reflects a net book asset value which, on a monthly average basis, was lower in the first quarter of 2011 than in the first quarter of 2010.

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

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

Profit (Loss) on Sale of Investment Properties

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

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

Fair Value Gains (Losses)

Net gains/losses on investment property consists of "profit/loss on sale of investment property" and "fair value gains/losses on investment property". Fair value gains/losses on investment property reflect the net increase/decrease in the total fair value of the portfolio of investment properties during the quarter, compared to the preceding quarter. If there is no change in the value of the property portfolio during a quarter, capital expenditures are recognized as a valuation loss as the fair value is not increased as a result of capital expenditures incurred during the quarter.

The valuation losses in the first quarter of 2011 and 2010 of $300,707 and $128,416 represent capital expenditures as the fair value of the investment properties did not change during these quarters.

Interest Income

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

During the first quarter of 2011 interest income decreased by $28,765 compared to the first quarter of 2010, almost entirely due to an decrease in interest income on mortgage loans receivable and defeasance assets. During the first quarter of 2011, LREIT had $0.5 Million of mortgage loans receivable, whereas during the first quarter of 2010, LREIT's investments in mortgage loans receivable ranged from $7.05 Million to $10.05 Million. During the first quarter of 2011, LREIT had $3.2 Million of defeasance assets compared to nil during the first quarter of 2010.

Interest Expense

Total Interest Expense

Interest expense increased by $1,302,071 or 18% during the first quarter of 2011, compared to the first quarter of 2010. As disclosed in the following chart, the increase is comprised of a $1,199,602 increase in mortgage loan and swap mortgage loan interest expense and a $398,035 increase in interest expense related to the mortgage bonds, partially offset by a $295,566 decrease in interest expense related to convertible debentures.

Interest expense encompasses a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the first quarter of 2011, "non-cash" expenses accounted for $569,747 or 44% of the total increase in interest expense.

Analysis of Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
	2011	2010	Amount	%
Mortgage Loans				
Mortgage loan interest	$ 4,861,557	$ 4,310,241	$ 551,316	13 %
Swap mortgage loan interest	585,450	603,753	(18,303)	(3)%
Amortization of transaction costs	697,082	219,922	477,160	217 %
Change in value - interest rate swaps	(189,869)	(379,298)	189,429	(50)%
Total - mortgage loans	5,954,220	4,754,618	1,199,602	25 %
Mortgage Bonds				
Mortgage bond interest	360,000	36,780	323,220	879 %
Accretion of debt component	53,052	9,030	44,022	488 %
Amortization of transaction costs	30,793	-	30,793	- %
Total - mortgage bonds	443,845	45,810	398,035	869 %
Acquisition Payable				
Interest on acquisition payable	900,000	900,000	-	- %
Total - acquisition payable	900,000	900,000	-	- %
Debentures				
Interest on convertible debentures	732,586	856,495	(123,909)	(14)%
Accretion of debt component	551,073	710,009	(158,936)	(22)%
Amortization of transaction costs	134,346	147,067	(12,721)	(9)%
Total - debentures	1,418,005	1,713,571	(295,566)	(17)%
Total - interest expense	$ 8,716,070	$ 7,413,999	$ 1,302,071	18 %

Cash and Non-cash Component

Non-cash component				
Accretion	$ 604,125	$ 719,039	$ (114,914)	(16)%
Amortization of transaction costs	862,221	366,989	495,232	135 %
Change in value - interest rate swaps	(189,869)	(379,298)	189,429	(50)%
Total non-cash component	1,276,477	706,730	569,747	81 %
Total cash component	7,439,593	6,707,269	732,324	11 %
Total - interest expense	$ 8,716,070	$ 7,413,999	$ 1,302,071	18 %

Cash Component of Interest Expense

The cash component of interest expense consists of mortgage loan interest, swap mortgage interest, convertible debenture interest, mortgage bond interest and interest expense on acquisition payable. The cash component of interest expense is included in "interest paid" under financing activities on the Consolidated Statements of Cash Flow.

Interest paid on the Consolidated Statements of Cash Flows of $7,289,317 also reflects interest payments pertaining to the four seniors' housing complexes in discontinued operations of $760,426 and the change in accrued interest of $967,473.

Mortgage Loan Interest

Mortgage loan interest increased by $551,316 or 13% during the first quarter of 2011, compared to the first quarter of 2010. The increase mainly reflects an increase in the weighted average interest rate for variable rate mortgage loans compared to the first quarter of 2010.

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

Interest on Acquisition Payable

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

Mortgage Bond Interest

During the first quarter of 2011, interest on the mortgage bonds increased by $323,220, compared to the first quarter of 2010. The increase in mortgage bond interest reflects that mortgage bond interest was comparatively low during the first quarter of 2010, as the first offering of mortgage bonds was completed part-way through the first quarter on March 9, 2010. In addition, the total face value of mortgage bonds fluctuated during the fourth quarter of 2010 and the first quarter of 2011 as a result of the graduated repayment of the March 2010 mortgage bonds and the completion of the second mortgage bond offering in January 2011.

The face value of the mortgage bonds was: (i) $6.78 Million from March 9, 2010 to October 31, 2010; (ii) $2.63 Million from November 1, 2010 to December 22, 2010; (iii) $12,637,000 from December 23, 2010 to January 27, 2011; and (iv) $16,000,000 from January 28, 2011 to March 31, 2011.

Convertible Debenture Interest

During the first quarter of 2011, interest on convertible debentures decreased by $123,909 or 14%, compared to the first quarter of 2010. The decrease is partially due to the retirement of the Series F Convertible Debenture on March 11, 2011. Interest on convertible debentures was also comparatively high during the beginning of the first quarter of 2010, as the retirement of $11.95 Million of Series E Convertible Debentures did not occur until February 17, 2010.

Total Cash Component of Interest Expense

During the first quarter of 2011, the total cash component of interest expense increased by $732,324 or 11%, compared to the first quarter of 2010.

Ratio of Cash Component of Interest Expense

As a percentage of net operating income, the cash component interest on mortgage loans, swap mortgage loans and acquisition payable, increased from 127% during the first quarter of 2010 to 156% during the first quarter of 2011.

The increase in the ratio of the cash component mortgage loans, swap mortgage loans and acquisition payable interest, relative to net operating income mainly reflects an increase in the weighted average interest rate for variable rate mortgage loans compared to the first quarter of 2010 as well as a reduction in net operating income.

After including the cash component of interest on convertible debentures and mortgage bonds, the ratio of the cash component of interest, relative to net operating income, is 178% for the first quarter of 2011, compared to 142% for the first quarter of 2010.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense increased from $706,730 during the first quarter of 2010 to $1,276,477 during the first quarter of 2011. The increase is comprised of an increase in amortization of transaction costs expenses of $495,232 and a decrease in the amount related to the change in fair value of interest rate swaps of $189,429, partially offset by a decrease in accretion of $114,914.

Accretion

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

Amortization of Transaction Costs

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

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

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in interest expense for the first quarter of 2011 includes an decrease in the amount related to the change in value of the "interest rate swaps" of $189,429.

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 as interest expense. Increases in the fair value of the interest rate swaps serve to increase interest expense, while decreases in fair value serve to decrease interest expense.

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the first quarter of 2011, the fair value of the interest rate swaps decreased due to a marginal increase in interest rates during the quarter. As a result, interest expense decreased by $189,869. During the first quarter of 2010, the fair value of the interest rate swaps decreased by $379,298, as a result of a more substantive increase in interest rates between December 31, 2009 and March 31, 2010.

As the decrease in value in the first quarter of 2011 was less than the decrease in value in the first quarter of 2010, the change in value of the interest rate swaps increased interest expense in the first quarter of 2011 by $189,429, compared to the first quarter of 2010.

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

Discontinued Operations

During the first quarter of 2011 LREIT generated income from discontinued operations of $723,581 compared to income of $323,208 during the first quarter of 2010. The income from discontinued operations includes the net operating income, interest expense and income tax for the four seniors' housing complexes which are classified under discontinued operations as follows:

Analysis of Income from Discontinued Operations

	Three Months Ended March 31 2011	Three Months Ended March 31 2010	Increase (Decrease)
Rental income	$ 3,703,887	$ 3,240,357	$ 463,530
Property operating costs	2,058,537	2,005,620	52,917
Net operating income	1,645,350	1,234,737	410,613
Interest expense	812,100	836,760	(24,660)
Current tax	56,999	45,401	11,598
Deferred tax	52,670	29,368	23,302
Comprehensive income	$ 723,581	$ 323,208	$ 400,373

The increase in income from discontinued operations reflects a $410,613 increase in net operating income.

Deferred Taxes

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

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

In determining the deferred tax asset, the Trust considers the likelihood of realizing the deferred tax asset and if the likelihood that a tax asset will not be realized is high, the deferred tax asset is not recorded. As noted in Note 13 to the financial statements, deferred tax assets relating to $1,093,373 of temporary differences on investment properties and $3,441,491 of unused tax loss carry forward are not recorded.

As of March 31, 2011, a deferred tax asset of $209,584 has been recorded on the consolidated statements of financial position, which arises from the temporary differences between the accounting and tax basis of assets held in the Trust. A $141,384 deferred tax recovery has been recorded on the consolidated statement of comprehensive income (loss).

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

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

Comparison to Preceding Quarter

Analysis of Loss First Quarter 2011 vs. Fourth Quarter 2010

	Three Months Ended		Increase (Decrease)	
	March 31, 2011	December 31, 2010	Amount	%
Rentals from investment properties	9,150,517	9,323,809	(173,292)	(1.9)%
Property operating costs	4,027,510	3,917,464	110,046	2.8 %
Net operating income	5,123,007	5,406,345	(283,338)	(5.2)%
Interest income	77,667	154,270	(76,603)	(49.7)%
Interest expense	(8,716,070)	(11,406,004)	2,689,934	(23.6)%
Trust expense	(771,745)	(723,855)	(47,890)	6.6 %
Profit (loss) on sale of investment property	-	222,608	(222,608)	(100.0)%
Fair value gains (losses)	(300,707)	(189,606)	(111,101)	58.6 %
Loss for the period before taxes and discontinued operations	(4,587,848)	(6,536,242)	1,948,394	(29.8)%
Income tax expense (recovery)	(117,659)	(243,000)	125,341	(51.6)%
Loss for the period before discontinued operations	(4,470,189)	(6,293,242)	1,823,053	(29.0)%
Income from discontinued operations	723,581	562,531	161,050	29 %
Comprehensive income (loss)	$ (3,746,608)	$ (5,730,711)	$ 1,984,103	(34.6)%

Overview

During the first quarter of 2011, the comprehensive loss of LREIT, decreased by $1,984,103 compared to the fourth quarter of 2010. The decrease in the loss mainly reflects a decrease in interest expense of $2,689,934 and an increase in income from discontinued operations of $161,050, partially offset by a decrease in net operating income of $283,338 and a decrease in profit on sale of investment property of $222,608.

The decrease in net operating income reflects a decrease in the net operating income of the Fort McMurray and Other property portfolios. As disclosed in the analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio decreased by $113,111 during the first quarter of 2011, while the net operating income from the Other portfolio decreased by $170,227.

The decrease in interest expense is mainly due to a decrease in interest charges related to the amortization of transaction costs, accretion and change in fair value of interest rate swaps, all of which are "non-cash" expenses. On a cash basis, interest payments increased by $176,441 during the first quarter of 2011, compared to the fourth quarter of 2010.

The decrease in the net operating income for the Fort McMurray portfolio is mainly due to an increase in vacancy loss. The decrease in net operating income for the Other properties is mainly the result of the sale of two properties in March 2010. The increase in income from the four seniors' housing complexes is mainly due to an decrease in the vacancy loss of the properties.

During the fourth quarter of 2010, LREIT recognized a profit of $222,608 in regard to the sale of one property in November 2010. The profit represents the difference between the selling price and the carrying value of the property at fair value. There were no property sales during the first quarter of 2011.

The fourth quarter profit on property sales combined with the variance in the fair value gains (loss) on investment properties accounts for the increase in the net loss on valuation of investment properties during the first quarter of 2011.

Revenue and Net Operating Income Analysis

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

	Three Months Ended		Increase (Decrease)	
	March 31 2011	December 31 2010	Amount	%
Revenue				
Fort McMurray	$ 5,670,174	$ 5,743,101	$ (72,927)	(1.3)%
Other	3,480,343	3,580,708	(100,365)	(2.8)%
Total revenue	$ 9,150,517	$ 9,323,809	$ (173,292)	(1.9)%
Net operating income				
Fort McMurray	$ 3,270,120	$ 3,383,231	$ (113,111)	(3.3)%
Other	1,852,887	2,023,114	(170,227)	(8.4)%
Total net operating income	$ 5,123,007	$ 5,406,345	$ (283,338)	(5.2)%
Discontinued operations				
Income	$ 723,581	$ 562,531	$ 161,050	28.6 %
Add: Interest expense	812,100	779,392	32,708	4.2 %
Income tax	109,669	44,946	64,723	144.0 %
Net operating income	$ 1,645,350	$ 1,386,869	$ 258,481	18.6 %

Summary of Quarterly Results

Quarterly Analysis

	2011	2010			
	Q1	Q4	Q3	Q2	Q1
Rentals from investment properties	$ 9,150,517	$ 9,612,269	$ 9,865,921	$ 9,586,856	$ 10,752,142
Net operating income	$ 5,123,007	$ 5,694,805	$ 6,097,309	$ 5,578,167	$ 5,905,537
Loss for the period before taxes and discontinued operations	$ (4,587,848)	$ (6,247,782)	$ (1,505,908)	$ (1,500,978)	$ (2,249,560)
Comprehensive income (loss)	$ (3,746,608)	$ (5,730,711)	$ (1,054,753)	$ (719,579)	$ (1,698,832)
PER UNIT					
Net operating income					
- basic	$ 0.279	$ 0.310	$ 0.333	$ 0.306	$ 0.326
- diluted	$ 0.232	$ 0.239	$ 0.256	$ 0.235	$ 0.247
Loss for the period before taxes and discontinued operations					
- basic	$ (0.250)	$ (0.340)	$ (0.082)	$ (0.082)	$ (0.124)
- diluted	$ (0.250)	$ (0.340)	$ (0.082)	$ (0.082)	$ (0.124)
Comprehensive income (loss)					
- basic	$ (0.204)	$ (0.312)	$ (0.058)	$ (0.039)	$ (0.094)
- diluted	$ (0.204)	$ (0.312)	$ (0.058)	$ (0.039)	$ (0.094)

Quarterly Analysis *

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

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

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Three Months Ended March 31			
	2011	2010	Change	
Income (loss) and comprehensive income (loss)				
- basic	$ (0.204)	$ (0.094)	$ (0.110)	(117)%
- diluted	$ (0.209)	$ (0.099)	$ (0.110)	(111)%
Income (loss) for the period before tax and discontinued operations				
- basic	$ (0.250)	$ (0.124)	$ (0.126)	(102)%
- diluted	$ (0.250)	$ (0.124)	$ (0.126)	(102)%

Excluding deferred income tax expense, LREIT incurred a loss of $0.250 per unit during the first quarter of 2011, compared to a loss of $0.124 per unit during the first quarter of 2010. As the weighted average number of units has only increased by 1.43% since March 31, 2010, the increase in the loss per unit mainly reflects the increase in the overall loss of the Trust before deferred income tax expense.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash from Operating Activities

	Three Months Ended March 31		Increase
Investment properties	2011	2010	(Decrease)
Net operating income	$ 5,123,007	$ 5,905,537	$ (782,530)
Accrued rent receivable	39,908	(164,936)	204,844
Net operating income - cash basis	5,083,099	6,070,473	(987,374)
Trust expense	771,745	696,790	74,955
Non-cash component of trust expense	21,003	72,405	(51,402)
Trust expense - cash basis	750,742	624,385	126,357
Interest paid	(6,528,891)	(7,597,385)	1,068,494
Interest received	77,667	106,829	(29,162)
Interest expense - cash basis	(6,451,224)	(7,490,556)	1,039,332
Cash from operating activities, before working capital adjustments	(2,118,867)	(2,044,468)	(74,399)
Working capital adjustments, net	2,066,153	919,938	1,146,215
Cash provided by (used in) operating activities - investment properties	$ (52,714)	$ (1,124,530)	$ 1,071,816
Discontinued Operations			
Cash provided by operating activities, before working capital adjustments	$ 827,926	$ 1,130,691	$ (302,765)
Working capital adjustments, net	(4,092)	(110,885)	106,793
Cash provided by operating activities	$ 823,834	$ 1,019,806	$ (195,972)
Total cash provided by operating activities	$ 771,120	$ (104,724)	$ 875,844

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

During the first quarter of 2011, the investment properties generated a net cash outflow from operating activities of $2,118,867. After excluding working capital adjustments, the net cash outflow from operating activities was reduced to $52,714. The $52,714 cash outflow represents an improvement in cash flow of $1,071,816 in comparison to the first quarter of 2010. Given that the decrease in net operating income, on a cash basis, from the portfolio of investment properties is offset by a decrease in interest expense on a cash basis; the improvement in cash flow from operating activities in entirely due to the change in working capital adjustments.

Comparison to Fourth Quarter of 2010

Cash from Operating Activities

	Three Months Ended		
Continuing Operations	March 31 2011	December 31 2010	Increase (Decrease)
Net operating income	$ 5,123,007	$ 5,406,345	$ (283,338)
Accrued rent receivable	39,908	110,111	(70,203)
Net operating income - cash basis	5,083,099	5,296,234	(213,135)
Trust expense	771,745	723,855	47,890
Non-cash component of trust expense	21,003	23,517	(2,514)
Trust expense - cash basis	750,742	700,338	50,404
Interest paid	(6,528,891)	(6,352,450)	(176,441)
Interest received	77,667	336,926	(259,259)
Interest expense - cash basis	(6,451,224)	(6,015,524)	(435,700)
Cash from operating activities, before working capital adjustments	(2,118,867)	(1,419,628)	(699,239)
Working capital adjustments, net	2,066,153	2,082,147	(15,994)
Cash provided by (used in) operating activities - continuing operations	$ (52,714)	$ 662,519	$ (715,233)
Discontinued Operations			
Cash provided by operating activities, before working capital adjustments	$ 827,926	$ (3,276)	$ 831,202
Working capital adjustments	(4,092)	(20,498)	16,406
Cash provided by operating activities	$ 823,834	$ (23,774)	$ 847,608
Total cash provided by operating activities	$ 771,120	$ 638,745	$ 132,375

During the first quarter of 2011, the net cash flow from operating activities, excluding working capital adjustments, decreased by $699,239, compared to the fourth quarter of 2010. The decrease in cash from operating activities many reflects a decrease in net operating income for the entire property portfolio and an increase in interest paid and interest received.

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

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

During the first quarter of 2011, FFO decreased by $1,764,646, compared to the first quarter of 2010, while AFFO for the same period decreased by $2,065,333. On a basic per unit basis, FFO decreased by $0.095 per unit, while AFFO decreased by $0.111 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended March 31 2011	Three Months Ended March 31 2010
Comprehensive income (loss)	$ (3,746,608)	$ (1,698,832)
Add (deduct):		
Deferred taxes		
Continuing operations	(117,659)	(227,520)
Discontinued operations	52,670	29,368
Profit (loss) on sale of investment properties	-	22,324
Fair value gains (losses)	300,707	128,416
Funds from operations *	(3,510,890)	(1,746,244)
Add (deduct):		
Straight-line rent adjustment	(39,908)	164,936
Accretion of debt component of convertible debentures and mortgage bonds	604,125	719,039
Unit-based compensation	21,003	72,405
Change in fair value of interest rate swaps	(189,869)	(379,298)
Ongoing improvements	(210,908)	(91,952)
Adjusted funds from operations *	$ (3,326,447)	$ (1,261,114)
FFO per unit *		
- basic	$ (0.191)	$ (0.096)
- diluted	$ (0.191)	$ (0.096)
AFFO per unit *		
- basic	$ (0.181)	$ (0.070)
- diluted	$ (0.181)	$ (0.070)

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended March 31	
	2011	2010
Cash provided by operating activities	$ 771,120	$ (104,724)
Changes in non-cash operating items	(2,062,062)	(1,310,720)
	(1,290,942)	(1,415,444)
Add (deduct):		
Capital expenditures on completed investment properties	(300,707)	(5,886)
Capital expenditures on property and equipment	(30,104)	(128,416)
Distributable income (loss)	$ (1,621,753)	$ (1,549,746)
Per unit		
- Basic	$ (0.088)	$ (0.085)
- Diluted	$ (0.088)	$ (0.085)

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

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

During the first quarter of 2011, distributable income decreased by $72,007 compared to the first quarter of 2010.

Total Distribution

In March 2009 LREIT suspended distributions due to the decline in rental market conditions in Fort McMurray and the impact on operating cash flow. 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 interest payments on long-term debt and the acquisition payable, regular mortgage loan principal payments and capital expenditures. In addition, LREIT requires additional capital on a periodic basis to fund lump-sum convertible debenture and mortgage bond repayments. As distributions on units were suspended subsequent to February 2009, the current funding requirements of LREIT do not encompass the funding of distributions.

The net cash flow from operating activities represents the initial source of funding for interest and principal payments and capital expenditures. To the extent that the net cash flow from operating activities is not sufficient to fund interest and principal payments and capital expenditures, LREIT requires additional sources of cash. Notwithstanding the substantial improvement in the occupancy rate in the Fort McMurray properties in the second quarter of 2011, it is anticipated that the net cash inflow from the sale or upward refinancing of properties, will represent the primary funding source for the shortfall in cash from operations. The remaining net cash inflow from the sale or upward refinancing of properties is primarily designated for lump-sum debt repayments, including the retirement of convertible debenture debt. The net cash inflow from other financing and investing activities, including the net borrowing under the revolving loan from 2668921 Manitoba Ltd. and the line of credit with the Royal Bank of Canada, represents a supplemental or interim source of funds.

During the first quarter of 2011, LREIT utilized $1,915,000 on the line of credit and $2,650,000 on the revolving loan, as well as $400,000 of second mortgage loan proceeds and existing cash to fund the net cash outflow from all other financing and investing activities.

Source and Use of Funds - 2011 First Quarter Summary

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

(i) the ongoing funding obligations of LREIT exceeded the net cash flow from operating activities by $1,701,305. The ongoing funding commitments consist of interest payments (net of interest received), regular monthly mortgage loan principal payments and capital expenditures.

(ii) after including the cash flows from other financing and investing activities, there was a net cash inflow of $637,842. 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 $3,363,000;
- change in restricted cash of $8,214,978, representing the release of mortgage bond proceeds held in escrow of $8,947,815, net of an increase in security deposits and loan reserves of $732,837;
- proceeds from upward refinancing of $400,000;
- proceeds from the revolving loan commitment of $2,650,000;and
- proceeds from the bank line of credit of $1,915,000.

Outflows:

- the repayment of the Series F debentures of $13,598,000; and
- expenditures on transaction costs of $651,150.

After accounting for the opening bank balance of $925,046, LREIT completed the first quarter of 2011 with a cash balance of $1,562,888.

Cash Flow Analysis (Note 1) - Three Months Ended March 31, 2011

Cash provided by (used in) operating activities		$ 771,120
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on mortgage loans	(2,141,614)	
Capital expenditures (Note 2)	(330,811)*	(2,472,425)
Shortfall in cash provided by operating activities		(1,701,305)
Main sources of funds, net of transaction costs		
Proceeds of mortgage bond financing, including change in restricted cash	11,577,978 *	
Proceeds of mortgage loan financing	400,000	
Proceeds of sale	-	
Transaction costs	(651,150)	
	11,326,828	
Less: Lump-sum debt repayments		
Repayment of debentures	(13,598,000)	(2,271,172)
		(3,972,477)
Other sources of funds		
Net proceeds from revolving loan commitment	2,650,000 *	
Proceeds of line of credit	1,915,000	
Net cash inflow - other	45,319 *	4,610,319
Cash increase		637,842
Cash, beginning of period		925,046
Cash, end of period		$ 1,562,888

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 asterisked amounts, all of which are the net amount of two identified amounts, aside from "net cash inflow - other" which is equal to the cash decrease relating to discontinued operations which is excluded from the cash balance, net of the cash used to purchase debentures under the NCIB. The order of presentation of the line items differs from the Consolidated Statements of Cash Flows, as follows:

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

Note 2 - Capital Expenditures

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

Sources and Use of Funds - Remainder of 2011

Sources

Working Capital/Existing Cash

As of March 31, 2011, the cash balance of LREIT was $1,562,888.

As of March 31, 2011, the working capital deficit of LREIT was $15,945,082. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification.

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

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a $10 Million revolving loan commitment from 2668921 Manitoba Ltd. The loan commitment bears interest at 14%, matures on June 30, 2011 and is secured by mortgage charges on six investment properties and on assignment of a mortgage loan note receivable of $500,000. As of March 31, 2011, the revolving loan was fully utilized.

The revolving loan commitment has been renewed and increased to $12 Million. The revolving loan matures on December 31, 2011 and the interest rate is 14% to June 30, 2011 and 11% thereafter. If required, the loan renewal will be continued in 2012.

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

Cash from Operating Activities

During the first quarter of 2011, the net cash inflow from operating activities was $771,120. After funding regular payments of mortgage principal and capital expenditures, the cash outflow was $1,701,305 during the first quarter of 2011. Net operating income from continuing and discontinued operations is the main component of cash flow from operating activities, with the Fort McMurray property portfolio being the main contributor to net operating income.

Notwithstanding that there has been a substantial improvement in the occupancy rate in the Fort McMurray properties in the second quarter of 2011, management anticipates that the property portfolio of LREIT will achieve a limited increase in net operating income during 2011. Cash from operating activities is expected to decrease during the second quarter of 2011 as a result of the use of the net cash proceeds from upward refinancing to reduce the extent of the working capital deficiency. LREIT will continue to require other sources of cash to fund interest payments, regular payments of mortgage loan principal and capital improvements.

Sale Proceeds

LREIT expects to generate significant net proceeds from the sale of three properties during 2011 and four properties in 2012.

Management continues to anticipate that the net sale proceeds which are generated from the sales program will provide the Trust with sufficient resources to satisfy the funding requirements.

Mortgage Loans Receivable

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

Mortgage Loan Financing

In April 2011, LREIT obtained additional mortgage loan financing of $16 Million for Colony Square at an interest rate of 8%. The proceeds of the loan were used to retire a 12.5% interim mortgage loan of $12.3 Million, resulting in net proceeds of approximately $4.0 Million. The net proceeds were used to reduce the extent of the working capital deficiency.

It is anticipated that another upward financing of one of the targeted sale properties will be completed in July 2011 generating proceeds of approximately $12 Million.

Debt and/or Equity Offerings

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

Uses

Parsons Landing

As previously disclosed in this report, the deadline for payment of the balance owing for Parsons Landing of approximately $47.7 Million was extended to September 30, 2012.

Revolving Line of Credit

The Trust utilizes a revolving line of credit from a Canadian chartered bank with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate plus 3.5%. As at March 31, 2011 the line of credit was fully utilized. The line of credit is reduced by $125,000 regarding a letter of credit. The line of credit is secured by a second mortgage loan registered against a seniors' housing complex scheduled for sale in 2011. It is anticipated that the line of credit will be repaid in full in the third quarter of 2011 from the proceeds of an upward financing.

Mortgage Loan Principal Payments

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2011	2012/2013	2014/2015	2016 and beyond
Regular mortgage loans	$ 167,881,132	$ 73,433,814	$ 66,684,643	$ 15,587,948	$ 12,174,727
Variable rate demand loans	89,943,758	89,943,758	-	-	-
Total	257,824,890	163,377,572	66,684,643	15,587,948	12,174,727

Summary of Mortgage Loan Debt "Due in 2011"

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

An analysis of the mortgage loan debt which is considered due in 2011 in the amount of $163,377,572 is provided on the following chart.

	Investment Properties	Seniors' Housing Complexes	Total	
Mortgages				
Demand loans	$ 89,943,758	$ 12,835,570	$ 102,779,328	(1)
Fixed term mortgages which matured in the first quarter of 2011	2,465,019	16,870,000	19,335,019	
Fixed term mortgages with debt service covenant breaches	68,451,164	4,945,612	73,396,776	(1)
	160,859,941	34,651,182	195,511,123	
Fixed term mortgages which mature in the third and fourth quarter of 2011	-	-	-	
	160,859,941	34,651,182	195,511,123	
Principal repayments	2,517,631	411,021	2,928,652	
	$ 163,377,572	$ 35,062,203	$ 198,439,775	

(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 to March 31, 2011 were $330,811 and are expected to be approximately $900,000 for the remainder of 2011.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to fund future capital repairs and/or as additional security relating to breaches of debt service coverage requirements. As of March 31, 2011, cash deposits of $9,938,583 have been deposited, of which $7,926,000 pertains to mortgage loans which are in breach of debt service coverage requirements. Subsequent to January 1, 2011, there were no further cash deposits required.

Principal Payments - Convertible Debentures and Mortgage Bonds

All of the convertible debenture debt of LREIT has been retired as of March 31, 2011 with the exception of the 7.5% Series G convertible debentures. As of March 31, 2011 the total face value of the Series G convertible debentures is $25,551,000. The debentures mature on December 31, 2011. LREIT has the option to retire the debentures by issuing units.

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

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash. Payment of the fee occurs on a monthly basis, on the last day of each month. The current term of the Services Agreement expires on December 31, 2015. During the three months ended March 31, 2011, LREIT incurred service fees payable to Shelter Canadian of $426,699. Service fees are included in trust expense.

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

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

During the three months ended March 31, 2011, LREIT incurred property management fees on continuing operations payable to Shelter Canadian of $368,068. LREIT incurred leasing commissions of $2,097 for continuing operations during the first quarter of 2011. LREIT incurred tenant improvement and renovation fees of $13,381 for continuing operations during the first quarter of 2011.

Loans

LREIT utilizes a $10 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment bears interest at 14%, is due on June 30, 2011, and is secured by a mortgage charge on six investment properties and the assignment of a $500,000 mortgage loan receivable. The amount of the revolving loan was increased from $5 Million to $10 Million, effective November 9, 2010. The increase in the loan encompassed a refinancing fee of $50,000. As of March 31, 2011, the revolving loan was fully utilized.

The revolving loan commitment has been renewed and increased to $12 Million. The revolving loan matures on December 31, 2011 and the interest rate is 14% to June 30, 2011 and 11% thereafter. If required, the loan renewal will be continued in 2012.

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

REVENUE/INCOME AND OTHER COMMITMENTS

Siena Apartments

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

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

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

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

Reason for Change to IFRS

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

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

Description of New Accounting Standards

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

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

IFRS 1 requires that comparative information for 2010 be restated to reflect the application of IFRS. The retrospective application of IFRS encompassed the restatement of the opening statement of balance of assets, liabilities and equity as of January 1, 2010 and the presentation of the January 1, 2010 opening statement of financial position for financial statements prepared as of March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011.

IAS 40 - Investment properties

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

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

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

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

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

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

IAS 16 - Property and equipment

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

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

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

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 are 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 will also result in a higher carrying value for income properties on the balance sheet of the Trust, in comparison to the carrying values which were disclosed under GAAP.

Discontinued operations

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

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

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

Prior Year Comparatives

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

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

The restatement of the carrying value of investment properties at fair value, as at January 1, 2010, and for the purpose of deriving 2010 comparatives for the 2011 IFRS financial statements, will result in the elimination of amortization expense and the gain on sale for properties which are sold in 2010. Overall, income as restated in the 2010 comparative financial statements will be substantially less than the income as originally reported under GAAP, as the gain on property sales in 2010 is $12,673,702, while amortization expense on income properties is $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 will be 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.

Business Impact

The adoption of the fair value measurement method for investment properties will result in a change in the gross book value of the total assets of the Trust. As the service fee of Shelter Canadian Properties Limited is based on the gross book value of the total assets of the Trust, the basis for determining the service fee, as stated in the Services Agreement, has been revised to ensure the amount of the fee remains unchanged.

Valuation Process

The Trust has created an internal valuation process to conduct ongoing valuations of its investment properties.

In this regard, investment properties are 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 (revenues less property operating costs). 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:

	Range	
	Low	High
Residential properties		
Fort McMurray	7.50 %	8.00 %
Yellowknife	6.75 %	9.75 %
Other - primary markets	5.00 %	7.50 %
Other - secondary markets	6.25 %	9.00 %
Commercial properties	7.00 %	9.25 %

(ii) The discounted cash flow method. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for 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:

	Range	
	Low	High
Residential properties		
Fort McMurray	7.75 %	8.00 %
Yellowknife	7.50 %	8.50 %
Other - primary markets	5.50 %	5.50 %
Other - secondary markets	6.25 %	8.00 %
Commercial properties	7.25 %	7.75 %

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

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

Property Value	Number of Properties	Aggregate Value at December 31, 2010	Valuation Update Timetable
Greater than $7.5 Million	11	$ 380,000,000	Three years
Less than $7.5 Million	12	59,300,000	Five years
	23	$ 439,300,000	

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

To assist in the determination of fair value at January 1, 2010, external appraisals were obtained in 2010 for nine properties having an aggregate fair value of $244.4 Million representing 56% of the total value of investment properties.

Appraisals were also obtained in 2009 for three properties having an aggregate fair value of $60.6 Million representing 14% of the total value of investment properties.

(v) 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.

The result of the valuation process is reflected in the Note 25 to the financial statements.

Investment properties and held for sale properties in the above table reflect classifications under IFRS, whereby held for sale properties included the four seniors' housing complexes and properties sold in 2010.

The valuation process described above is reviewed by the auditors during the audit process.

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors that have been identified in regard to the assessing whether LREIT has the ability to continue to operate, including: (i) the net losses sustained by LREIT during the first quarter of 2011 and prior years, (ii) the breach of debt covenant requirements on nine mortgage loans, encompassing $197.7 Million of mortgage loan and swap mortgage loan debt (iii) the impact of the timing of increased occupancy and rental rates in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, and (iv) the working capital deficit of the Trust, as of March 31, 2011 in the amount of $15,945,082.

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

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

Real Property Ownership

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

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

Public Market Risk

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

Completion of Divestiture Program

In 2009, LREIT initiated a divestiture program targeting the sale of assets, with a value in excess of $250 Million. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular higher cost interim mortgage loan financing.

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

LREIT did not complete any property sales during the first quarter of 2011. The expectation of management is that LREIT will sell three of the seniors' housing properties by December 31, 2011.

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

Completion of Parsons Landing Acquisition

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and the property may be listed for sale. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments made to the vendor. Interest charges in the amount of $8,601,902 as at March 31, 2011 which have been recorded as forgiven, may also become payable. See "Parsons Landing Financing".

Concentration of LREIT's Portfolio in One Market

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

There were 26 properties in the real estate portfolio of LREIT as of March 31, 2011, including two commercial properties, 20 residential properties and 4 seniors' homes, comprising a total of 2,106 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 55% of the total residential suites in the investment property portfolio. The 13 properties have an aggregate acquisition price of $336.8 Million, which represents approximately 86% of the total aggregate purchase price of the portfolio of the investment properties.

The 13 properties in Fort McMurray accounted for 62% of the total revenue of LREIT during the three months ended March 31, 2011 and 64% of the net operating income.

Oil Sands Industry

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

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

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

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

Financing

General

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

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

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

Mortgage Maturities

With the exception of one mortgage loan and one swap mortgage loan for properties in breach of the net operating income achievement and debt service coverage requirements, all of the mortgage loans for continuing operations which matured to June 8, 2011 were renewed, or refinanced. The two loans consist of the first mortgage loan of $18,424,309 for the Lakewood Townhouses which matured on July 18, 2010 and the second mortgage loan of $17,501,827 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010. The loans are repayable on demand. A forbearance agreement was obtained from the lender in regard to the covenant breaches for both the loans with the expiry date of June 30, 2011 and management expects that extensions of the forbearance will be obtained.

With the exception of mortgage loans in the amount of $16,870,000, all mortgage loans which have matured prior to June 8, 2011 have been renewed or refinanced. The Trust has accepted an offer of replacement financing for the mortgage loans in the amount of $16,870,000. Management expects that the mortgage loans will be refinanced.

All of the other mortgage loans for discontinued operations which matured to June 8, 2011 were renewed or refinanced.

Covenant Breaches

As previously disclosed in this report, at the date of this report, LREIT is, in breach of net operating income requirements; debt service coverage requirements; restrictions on the registration of secondary charges against the title to the property and a covenant to obtain mortgage insurance on seven first mortgage loans, a second mortgage loan and a swap mortgage loan with a total balance of $197,751,333 as of March 31, 2011. Two of the first mortgage loans are for seniors' housing complexes classified as discontinued operations.

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

Management believes the default for all of the mortgage loans which are in breach of covenant requirements will be waived or satisfactorily resolved through forbearance agreements or modified loan terms.

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 the first quarter of 2011, fees of $169,199 were incurred in regard to mortgage loans in breach of debt covenant requirements. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred.

Interim and Second Mortgage Loans

Prior to 2009 LREIT utilized second mortgage and interim financing as a source of funds in order to supplement the funding of distributions as well as the funding of income property improvements and unit repurchases under the normal course issuer bid. As of March 31, 2011, the second mortgage loans and loan of LREIT amounted to $33.6 Million. Although it is anticipated that LREIT will be able to renew its existing interim mortgage loan financing at maturity, it is unlikely that LREIT will undertake additional interim financing.

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. Accordingly, LREIT is subject to the SIFT Rules and LREIT will be subject to the tax on taxable income commencing in 2011. Prior to 2012, 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 2012, 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 balance sheet 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 March 31, 2011, rent and other receivables includes an allowance for uncollectible amounts of $36,655. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for the first quarter of 2011 is $1,691,585. Cumulative excess interest to March 31, 2011 is $8,601,906;

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

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

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

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

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

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to March 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, should they become applicable to LREIT as set out above, certain distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Except as noted below, no changes were made to the design of the internal controls over financial reporting during the three months ended March 31, 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 First Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I and Schedule II, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
June 8, 2011

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

SCHEDULE I

Real Estate Portfolio as of March 31, 2011

Property Portfolio - March 31, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2011
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	91 %
Colony Square	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	96 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	75 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	38 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	17 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	72 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	18 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	73 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	89 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	66 %
Lakewood	Fort McMurray	59,900,000	July 2007	175	62 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	67 %
Parsons Landing (2)	Fort McMurray	60,733,000	September 2008	160	86 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	85 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Nova Court (3)	Yellowknife	15,000,000	March 2007	106	91 %
Total - Residential		**$ 412,561,700**	Total suites	**2,106**	
COMMERCIAL					
Retail and Office					
Colony Square	Winnipeg, MB	$ 7,931,600	October 2008	83,190	98 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 423,293,300**			

Property Portfolio - March 31, 2011

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2011
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	97 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	95 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	68 %
Clarington Seniors' Residence	Bowmanville	22,400,000	February 2007	118	83 %
Total seniors' housing complexes		**$ 72,122,000**	Total suites	**516**	
Total real estate portfolio		**$ 495,415,300**			

Notes to the Property Portfolio:

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

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

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

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

SCHEDULE II

Summary of DRIP, NCIB, Unit Option Plan, and Deferred Unit Plan

Distribution Reinvestment Plan ("DRIP")

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

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

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

Normal Course Issuer Bid

Subject to approval of annual renewals, LREIT also implemented a normal course issuer bid ("NCIB") for its Series F debentures and a NCIB for its Series G debentures, under which LREIT is entitled to purchase a limited number of issued and outstanding Series F debentures and Series G debentures. The NCIB in regard to the Series G debentures was renewed in January 2011 for an additional 12 month term that expires on January 12, 2012.

During the first quarter of 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 $44,000 at an average price of $79.14 per $100.00. The Trust is not required to purchase any debentures under the NCIB.

Subsequent to March 31, 2011, the Trust purchased and cancelled $59,000 Series G debentures at an average price of $85.35 per $100.00.

Unit Options

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

In addition, as of March 31, 2011, LREIT had 946,000 options outstanding of which 917,800 or 97% had vested and 22,500 options were cancelled during the three months ended March 31, 2011. LREIT has not granted any options under the Unit Option Plan since January 2008.

In accordance with IFRS the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Comprehensive Income (Loss). During the first quarter of 2011, unit-based compensation expense related to unit options amounted to $2,253.

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

Deferred Unit Plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees paid in the form of deferred units. Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control (as defined in the deferred unit plan), any unvested deferred units shall vest upon the earlier of the next applicable vesting date that is immediately prior to the date on which the change of control occurs Whenever cash distributions are paid, additional deferred units are credited to the participant based on the number of deferred units held. The deferred units credited to a participant vest immediately and are redeemable by the participant on retirement or on "termination" other than for cause. If a participant is terminated for cause, only the deferred units which have vested shall be redeemable and any unvested deferred units shall be cancelled. Additional details of the Deferred Unit Plan are disclosed in Note 18 to the 2011 first quarter financial statements of LREIT.

The Trustees have also approved a compensation package, whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair and attending meetings. During the first quarter of 2011, the total fees payable to independent Trustees under the compensation package amounted to $33,375.

All of the independent Trustees elected to have a portion of their compensation for the first quarter of 2011 paid in the form of deferred units. The number of deferred units received is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable. Based on an average market price of $0.51, there were 36,765 deferred units granted to the independent Trustees during the first quarter of 2011, representing fees of $18,750. The balance of the fees were paid in cash.

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

Full details regarding the DRIP, NCIB, Unit Option Plan and Deferred Unit Plan are provided in the Annual Information Form.