LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2012

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Unitholder Returns

	Three Months Ended March 31, 2012 (Per unit)	Year Ended December 31, 2011 (Per unit)
Opening price	$0.42	$0.44
Closing price	$0.55	$0.42

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

CHIEF EXECUTIVE OFFICER'S MESSAGE

Improved Occupancy

During the first quarter of 2012, the portfolio of investment properties achieved an average occupancy of 89%, compared to 75% during the first quarter of 2011. The occupancy for the Fort McMurray portfolio increased from 67% in the first quarter of 2011 to 93% in the first quarter of 2012.

The occupancy results exclude Parsons Landing which was destructed by a fire in February.

The continuing improvement in the occupancy for the Fort McMurray portfolio is expected to result in an upward trend in rental rates.

Operating Results

Impairment of Parsons Landing

During the first quarter of 2012, LREIT recorded an impairment loss of $27.8 Million in regard to Parsons Landing. The loss represents the estimated amount by which the fair value of the property decreased as a result of the fire destruction at the property in February 2012.

Although the cost of reconstructing the property is expected to be fully covered by insurance, agreements are required with the property builder and the insurer. Upon completion of the insurance agreements, impairment loss will be offset by insurance entitlements.

As a result of the impairment loss, LREIT incurred a net loss of approximately $26.1 Million during the first quarter of 2012, compared to a net loss of approximately $3.75 Million during the first quarter of 2011.

For purposes of analyzing net operating income in the MD&A, Parsons Landing is disclosed separately as an "Impaired property" and is not included in the Fort McMurray property portfolio.

Net Income, excluding impairment loss

Excluding the impairment loss, LREIT completed the first quarter of 2012 with net income of $1.7 Million, representing an increase in income of $5.5 Million, compared to the first quarter of 2011. The increase in income, excluding the impairment loss, mainly reflects an increase in fair value gains, a decrease in interest expense, forgiveness of debt and an increase in net operating income.

- **Net operating income:** overall increase of $835,707 or 16% in the first quarter of 2012, compared to the first quarter of 2011, comprised of a $1,113,784 increase from the Fort McMurray portfolio, partially offset by a $252,866 decrease from Parsons Landing and a $25,211 decrease from other operating properties.
- **Interest expense:** decreased by $1,598,138 or 18% during the first quarter of 2012, compared to the first quarter of 2011, comprised of a decrease in the non-cash component of interest expense of $1,026,532 and a decrease in the cash component of interest expense of $571,606.
- **Fair value gains:** Fair value gains represent the increase in the fair market value of investment properties. During the first quarter of 2012, fair value gains amounted to $1,861,617 compared to a fair value loss of $300,707 in the first quarter of 2011.

Cash Flow from Operating Activities

During the first quarter of 2012, cash from operating activities, excluding working capital adjustments, amounted to $684,013 compared to a cash outflow of $1,290,942 during the first quarter of 2011, representing an increase in cash from operating activities of $1,974,955. The increase in operating cash flow is mainly due to an increase in net operating income, on a cash basis and a decrease in the cash component of interest expense. Including working capital adjustments, the cash outflow from operating activities decreased by $1,726,033, compared to the first quarter of 2011. After including regular payments of mortgage loan principal and capital expenditures the cash "shortfall" amounted to $3,284,712. The cash shortfall was funded by additional mortgage loan debt.

Sources of Capital

Financing

LREIT obtained a mortgage loan of $12 Million In February 2012, and the net proceeds from the loan were used to repay $1.5 Million of mortgage loan debt and for working capital purposes.

The 9.75% revolving loan commitment of $12 Million matured on March 31, 2012 and was renewed for a five month term to August 31, 2012 at an increased balance of $15 Million and at an interest rate of 10%. Based on the increased commitment of $15 Million, $4.8 Million is available under the revolving loan commitment, as of the date of the report.

Divestiture Program

LREIT is continuing a divestiture program to reduce debt.

Clarington Seniors' Residence

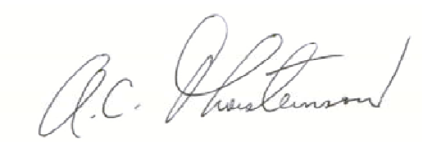
On May 9, 2012, LREIT sold Clarington Seniors Residence at a gross selling price of $24 Million. The net proceeds are estimated at approximately $1.3 Million, after accounting for selling expenses, the repayment of the existing mortgage debt of approximately $14.75 Million and a 12.5% vendor-take back mortgage of $7.5 Million. The vendor-take back mortgage is for a term of two years and requires payments of interest at 5% per month and the accrual of interest at 7.5% per month, with accrued interest payable at maturity. The net proceeds will repay debt.

Siena Apartments

On May 1, 2012, LREIT sold Siena Apartments at a gross selling price of $30.5 Million. The net proceeds are $11.4 Million, after the assumption of the existing mortgage debt of approximately $18.65 Million. The net proceeds will repay debt.

Outlook

LREIT will continue to pursue property sales under its divestiture program. The combination of property sale proceeds and the revolving loan from 2668921 Manitoba Ltd., is expected to enable LREIT to meet all of its funding commitments. Rental housing markets and values are buoyant in Canada and LREIT expects continued improvement in its net operating income this year and next.



ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the three months ended March 31, 2012 and with reference to the Annual Report for 2011.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

During the first quarter of 2012, LREIT did not sell any properties under its divestiture program, aside from the sale of three condominium units at Lakewood Townhomes. Property sales in 2011 consisted of the sale of four condominium units at Lakewood Townhomes during the fourth quarter of the year.

Subsequent to March 31, 2012, LREIT sold two properties under its divestiture program and three condominium units.

Number of Properties

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

FINANCIAL SUMMARY

	March 31 2012	December 31 2011
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 526,222,803	$ 555,220,070
Total long-term financial liabilities **(1)**	$ 399,774,699	$ 399,176,274

	Three Months Ended March 31 2012	2011
KEY FINANCIAL PERFORMANCE INDICATORS (2)		
Operating Results		
Rentals from investment properties	$ 10,383,920	$ 9,150,517
Net operating income *	$ 5,958,714	$ 5,123,007
Income (loss) from continuing operations, before taxes *	$ (26,418,131)	$ (4,587,848)
Income (loss) and comprehensive income (loss)	$ (26,085,895)	$ (3,746,608)
Cash Flows		
Cash flow from operating activities	$ (954,913)	$ 771,120
Funds from Operations (FFO) *	$ (1,331,298)	$ (3,510,890)
Adjusted Funds from Operations (AFFO) *	$ (1,471,140)	$ (3,446,350)
Distributable income (loss) *	$ 510,651	$ (1,621,753)
Per Unit		
Net operating income *		
- basic	$ 0.321	$ 0.279
- diluted	$ 0.320	$ 0.279
Income (loss) from continuing operations, before income tax*		
- basic	$ (1.425)	$ (0.250)
- diluted	$ (1.425)	$ (0.250)
Income (loss) and comprehensive income (loss)		
- basic	$ (1.407)	$ (0.204)
- diluted	$ (1.407)	$ (0.204)
Cash flow from operating activities		
- basic	$ (0.052)	$ 0.042
- diluted	$ (0.052)	$ 0.042
Funds from Operations (FFO) *		
- basic	$ (0.072)	$ (0.191)
- diluted	$ (0.072)	$ (0.191)
Adjusted Funds from Operations (AFFO) *		
- basic	$ (0.079)	$ (0.187)
- diluted	$ (0.079)	$ (0.187)
Distributable income (loss) *		
- basic	$ 0.028	$ (0.088)
- diluted	$ 0.027	$ (0.088)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

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

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

As of March 31, 2012, 18 properties and seven condominium units have been sold under the divestiture program.
The property portfolio of LREIT, as of March 31, 2012 consists of the remaining 27 properties, comprised of 23 investment properties (including the unsold condominium units at Lakewood Townhomes) and four seniors' housing complexes. The operating results for the four seniors' housing complexes are classified under discontinued operations. Subsequent to March 31, 2012, two properties and three condominium units were sold.

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 2012 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 does not include the revenues and expenses of the four seniors' housing complexes.

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties. During the first quarter of both 2012 and 2011, the portfolio of investment properties was comprised of the same 23 properties, with two main differences. Firstly, there were fewer units in the Lakewood Townhomes during the first quarter of 2012, due to the condominium sales programs. (In 2012 Q1, there were 60 units at the beginning of the quarter and three units were sold during the quarter. In 2011 Q1, there were 64 units.) Secondly, the 160 suites at Parsons Landing were removed from operations effective February 5, 2012, due to the fire destruction of the property. As a result, Parsons Landing is disclosed as an "Impaired Property" in the analyses throughout this report.

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

2. Operations

	Three Months Ended March 31	
	2012	2011
Average vacancy		
Fort McMurray	7%	33%
Other operating properties	2%	2%
Impaired Property *	62%	37%
Sub-total	11%	25%
Average rental rate		
Fort McMurray	$2,188	$2,315
Other operating properties	$1,075	$1,034
Impaired Property *	$2,259	$2,370
Sub-total	$1,746	$1,790

* As a result of a fire at the property, Parsons Landing has been segregated from operating properties and analyzed separately under the caption "Impaired Property".

3. Income (Loss) and Cash Flow

	Three Months Ended March 31		
	2012	2011	Increase (Decrease) in Income
Net operating income			
Fort McMurray properties	$ 4,029,513	$ 2,915,729	$ 1,113,784
Other operating properties	1,829,157	1,854,368	(25,211)
Impaired Property	100,044	352,910	(252,866)
Total net operating income	5,958,714	5,123,007	835,707
Interest income	74,567	77,667	(3,100)
Forgiveness of debt	859,561	-	859,561
Interest expense	(7,117,932)	(8,716,070)	1,598,138
Trust expense	(578,883)	(771,745)	192,862
Income before the following	(803,973)	(4,287,141)	3,483,168
Profit (loss) on sale of investment properties	324,225	-	324,225
Fair value gains (losses)	1,861,617	(300,707)	2,162,324
Impairment of investment property	(27,800,000)	-	(27,800,000)
Income (loss) before taxes and discontinued operations	(26,418,131)	(4,587,848)	(21,830,283)
Income tax expense (recovery)	-	(117,659)	117,659
Income (loss) before discontinued operations	(26,418,131)	(4,470,189)	(21,947,942)
Income from discontinued operations	332,236	723,581	(391,345)
Income (loss) and comprehensive income (loss)	$ (26,085,895)	$ (3,746,608)	$ (22,339,287)

	Three Months Ended March 31		
	2012	2011	Increase (Decrease) in Income
Cash provided by (used in) operating activities	$ (954,913)	$ 771,120	$ (1,726,033)

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

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

The comprehensive income for the first quarter of 2012 includes impairment of investment property expense of $27.8 Million After excluding profit on property sales, fair value gains, impairment of investment property, discontinued operations and income taxes, the loss for the first quarter of 2012 decreased by $3.5 Million compared to the first quarter of 2011. The decrease in the loss is mainly due to a $0.8 Million increase in net operating income, a $0.9 Million increase in forgiveness of debt, a $1.6 Million decrease in interest expense and a $0.2 Million decrease in Trust expense.

The increase in net operating income of $0.8 Million reflects an increase in net operating income of $1.1 Million from the Fort McMurray property portfolio, partially offset by a $0.3 Million decrease from the Impaired Property. The increase in net operating income from the Fort McMurray property portfolio reflects a decrease in vacancy partially offset by a decrease in the average rental rate.

The decrease in net operating income from the Impaired Property is entirely due to the increased vacancy loss which was recorded at Parsons Landing as a result of the fire in February 2012. The property is insured for loss of revenue and management is currently in negotiations with the builder and insurer in respect to such losses. In accordance with IFRS, insurance proceeds are not accrued unless the amount, timing and nature of proceeds are "virtually certain". As a result, the Financial Statements do not reflect any recovery of revenue loss.

An analysis of the increase in interest expense is provided below.

4. Impairment Loss

The investment properties of LREIT are disclosed in the Financial Statements of the Trust at fair value. The fire at Parsons Landing in February 2012 served to reduce the fair value of the property by $27.8 Million during the first quarter of 2012, with a corresponding reduction to the income of the Trust.

5. Fair Value Gains/Losses

In accordance with the IFRS accounting policies which were adopted by LREIT, the carrying value of investment properties is adjusted to reflect changes in fair value. During the first quarter of 2012, the fair value of investment properties increased by $1.9 Million, resulting in a corresponding increase in the carrying value of investment properties.

The increase in fair value is supported by appraisals for one property that was obtained in the first quarter of 2012 and for nine properties in 2011 with an aggregate appraised value of $332.6 Million. Capital expenditures at five other properties have also served to support an increase in the carrying value of investment properties.

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

6. Interest Expense

	Three Months Ended March 31		
	2012	2011	Increase (Decrease)
Interest expense	$ 7,117,932	$ 8,716,070	$(1,598,138)

Key Variables	March 31 2012	December 31 2011
Weighted average interest rate of total mortgage loan debt		
Investment properties	7.0 %	6.9 %
Seniors' housing complexes	7.3 %	7.3 %
Combined operations	7.0 %	6.9 %

6. Interest Expense (continued)

Key Events Affecting Interest Expense

Interest expense decreased by $1.6 Million or 18% during the first quarter of 2012 compared to the first quarter of 2011 as a result of the following factors:

- a decrease in mortgage loan interest of $0.42 Million;
- a decrease in debenture interest of $0.14 Million; and
- a reduction of non-cash interest charges (amortization charges pertaining to transaction costs, accretion and the change in value of interest rate swaps) of $1.03 Million.

The decrease in mortgage loan interest is mainly due to a decrease of interest on mortgage loan debt of $0.3 Million and a decrease of interest on the revolving loan commitment from 2668921 Manitoba Ltd. of $0.1 Million. The decrease in interest on mortgage loan debt is mainly due to a decrease in the balance of mortgage loans payable in the first quarter of 2012 compared to the first quarter of 2011.

The decrease in debenture interest relates to the repayment of the Series F debentures on March 11, 2011. The reduction of non-cash interest charges of $1.0 Million during the first quarter of 2012, compared to the first quarter of 2011, is comprised of a decrease in accretion of $0.5 Million and a decrease in amortization of transaction costs of $0.5 Million.

The decrease in accretion expense is mainly attributable to the fact that accretion expense was comparatively high during the first quarter of 2011 due to the repayment of the Series F convertible debentures in March 2011. The decrease in amortization of transaction costs is mainly attributable to the fact that amortization expense was comparatively high during the first quarter of 2011 due to the amortization expense in regard to transaction costs of mortgage loans with covenant breaches.

7. Financing

Mortgage Refinancing

LREIT obtained additional mortgage loan financing of $12 Million in February 2012 at an interest rate of prime rate plus 9%. The additional mortgage loan financing matures on March 1, 2013 and is secured by secondary mortgage charges on a number of investment properties.

In January 2012, the existing 6.82% $24.9 Million loan for Lakewood Apartments was refinanced by a new $18.85 Million mortgage loan at an interest rate of 5.75% with a maturity date of October 31, 2017. The difference was funded by $2.7 Million of restricted cash deposits, an interest free advance from Shelter Canadian Properties Limited and the remaining $0.9 Million of the loan balance was forgiven.

Parsons Landing

Although LREIT obtained possession of Parsons Landing on September 1, 2008, the purchase agreement provided for a portion of the purchase price to be paid by February 28, 2009. As LREIT experienced delays in completing financing, the builder agreed to multiple extensions of the payment deadline, subject to certain conditions, including the remittance of monthly interest payments of $300,000, a lump-sum principal payment of $500,000 and that the Trust made an additional payment of $2 Million on February 17, 2012 and $3 Million, at closing. Under the extension agreements the builder has also agreed to forgive "excess" interest for the period from January 1, 2010 to closing and to provide second mortgage loan financing of up to $12 Million to complete the purchase of the property.

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

The time period for reconstruction of the property is estimated to be more than one year, and tenant occupancies are unlikely until the reconstruction has been completed.

7. Financing (continued)

The builder has commenced a legal claim for payment of all amounts due under the purchase agreement, or an order of foreclosure. The Trust is contesting the claim and seeking an agreement which addresses the extension of the closing date to 90 days after the reconstruction period; the commitment of the builder to deliver the property at closing in accordance with the term of the original construction specifications and a determination of revenue loss proceeds under the terms of the insurance policies.

Management expects that an agreement will be negotiated.

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, 2012, twelve investment properties have mortgage loans or swap mortgage loans which are in breach of net operating income achievement, debt service coverage requirements or covenants restricting secondary financing (the "covenant breaches") including eleven of the investment properties in Fort McMurray. In total, the mortgage debt with covenant breaches for the eleven properties in Fort McMurray amounted to $128.7 Million as of March 31, 2012, representing 43% of the total of mortgage loan and swap mortgage loan debt for investment properties.

Management believes the mortgage loans and swap mortgage loans with covenant breaches will be waived or satisfactorily resolved through improved operations, modified loan terms or repayment from sale or refinancing proceeds. During the first quarter of 2012, a covenant breach for one first mortgage was eliminated upon the refinancing of the mortgage. Covenant breaches in respect of two mortgage loans were eliminated during 2011 as a result of improved operations and mortgage refinancing.

Debentures

As of March 31, 2012, the total face value of the Series G debentures is $24.96 Million. The debentures mature on February 28, 2015. The terms of the debentures also provide for the net proceeds from property sales to be applied against the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment.

Revolving Loan with 2668921 Manitoba Ltd.

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd. Effective April 1, 2012, the amount of the loan commitment was increased from $12 Million to $15 Million, with an increase in the interest rate from 9.75% to 10% and an extension of the maturity date to August 31, 2012. The revised loan terms received independent Trustee and regulatory approval.

As of the date of this report, the amount available on revolving loan commitment was $4.8 Million.

8. Liquidity

	March 31 2012	December 31 2011
Unrestricted cash	$ 1,120,359	$ 1,170,619
Restricted cash	$ 12,692,549	$ 15,246,600
Working capital deficit	$ 9,670,156	$ 13,510,274

8. Liquidity (continued)

Key Events affecting liquidity

- Cash outflow from operations and "ongoing" financing and investing activities: During the first quarter of 2012, the net cash outflow from operating activities, regular repayments of principal on mortgage loan debt and capital expenditures was $3.3 Million.
- Additional mortgage loan financing: During the first quarter of 2012, the net proceeds from additional mortgage loan financing amounted to $4.5 Million. The net proceeds from the additional financing were used to repay loan debt, repay deferred asset management fees and interest-free advances from Shelter Canadian, partially repay the revolving loan commitment and for working capital purposes.
- Revolving loan: During the first quarter of 2012, net repayments of the revolving loan amounted to $1.8 Million, resulting in a loan balance of $10.2 Million as of March 31, 2012.
- Transaction costs: During the first quarter of 2012, expenditures on transaction costs associated with mortgage loan financing, amounted to $1.0 Million including $0.1 Million fees associated with mortgage loans with covenant breaches.

Liquidity summary

During the first quarter of 2012, the additional mortgage loan of $12 Million represented the main source of financing of LREIT. The revolving loan, interest-free advances from Shelter Canadian Properties Limited and deferred payment of service fees and revolving loan interest served as an interim source of funds prior to the completion of the additional mortgage loan financing. The working capital deficiency of LREIT decreased from a balance of $13.5 Million as of December 31, 2011, to a balance of $9.7 Million as of March 31, 2012.

9. Divestiture Program

	Properties Sold				
	2009	2010	2011	2012	Total
Number of properties sold	13	5	-	-	18
Number of condominium units sold	-	-	4	3	7
Gross proceeds	$ 90,392,000	$ 40,835,000	$ 1,927,100	$ 1,470,700	$ 134,624,800
Net proceeds at closing	$ 29,631,650	$ 17,563,501	$ 52,120	$ -	$ 47,247,271
Vendor take-back financing received	6,300,000	3,790,650	-	-	10,090,650
Total proceeds	$ 35,931,650	$ 21,354,151	$ 52,120	$ -	$ 57,337,921

LREIT is pursuing the sale of the four seniors' housing complexes and/or other properties. In October 2011, LREIT also commenced a condominium sales program at Lakewood Townhomes. Aside from the sale of three condominium units, LREIT did not complete any property sales under its divestiture program during the first quarter of 2012.

Subsequent to March 31, 2012, LREIT sold one seniors' housing complex for gross proceeds of $24 Million, one investment property for gross proceeds of $30.5 Million , and three condominium units.

10. Risks and Uncertainties

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

- the breach of covenants which remain on five mortgage loans and a swap mortgage loan (relating to 12 properties) encompassing $148.3 Million of mortgage loan and swap mortgage loan debt;
- the working capital deficiency of the Trust;
- the significant concentration of properties in Fort McMurray;
- the impact of the timing of the increase in rental rates in Fort McMurray on the ability of the Trust to meet minimum debt service coverage requirements and to renew mortgage loan financing;
- completion of additional property sales.
- ability of Trust to complete additional upward refinancings.
- reliance on Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. for interim funding; and
- ability of the Trust to reach an agreement with the builder of Parsons Landing in regard to an amended purchase agreement, including an extended closing date.

As a result of the substantial improvement in the occupancy level of the Fort McMurray portfolio, the extension of the Series G debentures in December 2011; the renewal or refinancing of mortgage loans and ongoing discussions with lenders for mortgages which have matured to the date of this report; and two property sales subsequent to March 31, 2012, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

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

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

CONTINUING OPERATIONS AND LIQUIDITY

The Financial Statements have been prepared using the going concern assumption.

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

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

Funding Requirements

Working Capital Deficiency

As at March 31, 2012, LREIT has a working capital deficiency of approximately $9.7 Million, representing a decrease of approximately $3.8 Million, compared to the working capital deficiency as of December 31, 2011. The working capital calculation excludes the amount payable on Parsons Landing. The working capital deficiency consists primarily of the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd. of $10.2 Million, accounts payable and other liabilities of approximately $4.1 Million, less unrestricted cash of approximately $1.1 Million, rent and other receivables of approximately $2.4 Million and deposits, prepaids and other current assets of approximately $1.1 Million.

The decrease in the working capital deficiency from December 31, 2011 is mainly due to a decrease in the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd., the repayment of advances from Shelter Canadian in February 2012, and the payment of accounts payable.

Cash from Operations

During the first quarter of 2012, the cash inflow from operating activities was approximately $0.7 Million, before working capital adjustments, and a cash outflow of approximately $1.0 Million, including working capital adjustments. The cash outflow from operating activities, including working capital adjustments, decreased by $1.7 Million during the first quarter of 2012, compared to the first quarter of 2011.

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

In general terms, and excluding the impact of property sales, the extent of the cash outflow from operating activities is expected to decrease during 2012, as the anticipated improvement in net operating income from the Fort McMurray property portfolio is expected to exceed the increase in interest associated with upward refinancings and/or an increase in the loan amount utilized on the revolving loan from 2668921 Manitoba Ltd. During the first quarter of 2012, the increase in net operating income of $0.8 Million and the decrease in interest paid of $0.5 Million, compared to the first quarter of 2011, served to reduce the cash outflow from operating activities. During 2012, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal and capital improvements.

Ongoing Funding Commitments

The ongoing funding commitments of LREIT include regular payments of long-term debt and capital improvements.

Capital improvements are expected to be approximately $2.9 Million for the remainder of 2012, including $734,000 for capital improvements for the six apartment properties which are located in downtown Fort McMurray.

During the first quarter of 2012, long-term debt payments amounted to $2,156,437, representing an increase of $14,823 compared to the first quarter of 2011. Capital improvements amounted to $173,362 during the first quarter of 2012.

Series G Debentures

The 9.5% Series G debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The face value of the debentures is $24,961,000 as of March 31, 2012. The extent of debenture repayments during 2012, if any, is dependent on the extent of property sales and the amount of mortgage indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

Monthly Payments for Parsons Landing

As previously reported, a fire occurred at Parsons Landing in February 2012 which substantially destroyed one entire wing of the property and resulted in wide spread damage to the other two wings. Payment of the $300,000 monthly interest to the builder has been deferred pending the receipt of revenue loss insurance proceeds.

Sources of Capital

Mortgage Refinancing

As previously reported, LREIT obtained additional mortgage loan financing of $12 Million in February 2012 at an interest rate of prime rate plus 9% The additional mortgage loan financing matures on March 1, 2013 and is secured by secondary mortgage charges on a number of investment properties.

In January 2012, the existing 6.82% $24.9 Million loan for Lakewood Apartments was refinanced by a new $18.85 Million mortgage loan at an interest rate of 5.75% with a maturity date of October 31, 2017. The difference was funded by $2.7 Million of restricted cash deposits, an interest free advance from Shelter Canadian Properties Limited and the remaining $0.9 Million of the loan balance was forgiven.

In the event that the net proceeds from property sales are insufficient to fund obligations, LREIT may pursue additional upward refinancing in 2012 to fund the shortfall. The opportunity to complete upward refinancings is limited, given the extent to which the existing property portfolio is leveraged, the number of mortgage loans with covenant breaches and the maximum 75% debt to value restrictions of the Trust.

Revolving Loan Commitment

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). The 9.75% revolving loan commitment of $12 Million matured on March 31, 2012 and was renewed for a five month term to August 31, 2012 at an increased balance of $15 Million and at an interest rate of 10%. Based on the increased balance of $15 Million, $4.8 Million is available under the revolving loan commitment, as of the date of report.

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

Credit Support From Shelter Canadian Properties Limited

Shelter Canadian Properties Limited has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000 and deferred service fees of $425,833. During the first quarter of 2012, all of the interim funding was fully repaid and no additional fees have been deferred.

Property Sales

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

The terms of the Series G debentures require that the net proceeds of any property sales (after repayment of mortgage indebtedness related to the property sold and the revolving loan from 2668921 Manitoba Ltd.) be applied to the redemption of Series G debentures on a pro rata basis.

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.3 Million after repayment of mortgage loan debt, a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.4 Million after the assumption of mortgage loan debt and sales expenses. The sale is subject to the receipt of mortgagee approval for the assumption of the first mortgage loan by the purchaser.

There is no assurance that LREIT will sell properties proposed for sale.

Other Factors

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

Mortgage Loans in Breach of Covenant Requirements

As of March 31, 2012, there were twelve investment properties in the LREIT portfolio that have mortgage debt which is in breach of net operating income achievement, debt service coverage requirements and restrictions on secondary financing, comprised of eleven properties in Fort McMurray and one property in Winnipeg. The inability of LREIT to maintain mortgage loan financing for the indebted properties may have adverse consequences on operations.

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 forbear the covenant breaches.

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

Covenant breaches in respect of two other properties were eliminated during 2011 as a result of improved operations and mortgage refinancing. The covenant breach for the first mortgage loan of the Lakewood Apartments in Fort McMurray was eliminated in February 2012 upon the refinancing of the loan.

Maturing Debt

Investment Properties: With the exception of three mortgage loans which are in breach of debt service coverage requirements and are repayable on demand and a $28,306,403 mortgage loan which matured on April 5, 2012, all of the mortgage loans which have matured to date have been renewed or refinanced. One of the three mortgage loans is for the Lakewood Townhomes which will be repaid upon the successful completion of the condominium sales program. Management expects that the $28,306,403 mortgage loan will be renewed for a one year term at 3%.

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

Summary

It is anticipated that the proceeds from property sales and upward refinancings, supplemented by draws on the revolving loan and periodic credit support from Shelter Canadian as required, will continue to be sufficient to fund the projected funding commitments of LREIT during 2012. As of the date of this report, the amount available under the revolving loan is $4.8 Million.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

The core business activities of LREIT includes acquisition, development, financing, management and divestiture activities pertaining to real estate properties in Canada. As of March 31, 2012, the real estate portfolio of LREIT consists of 20 multi-family residential properties, two commercial properties and one mixed residential/commercial property (the "investment properties"), as well as four seniors' housing complexes (the "discontinued operations") under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

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

The investment properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. In 2009 and 2010, the decline in economic conditions in Fort McMurray resulted in a reduction in the profitability of the Fort McMurray property portfolio and a decrease in the operating income of LREIT. As a result of an increase in activity in the oil sands industry, the occupancy levels and operating income from the Fort McMurray property portfolio has improved. The occupancy level in Q1 2012 is slightly less than the occupancy level achieved in the later half of 2011 due to seasonal fluctuations. Occupancy and rental revenue are expected to increase in 2012 as the demand for rental housing continues to grow.

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

Operations

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

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

Financing

The purchase price of new property acquisitions is typically funded from the proceeds of mortgage loans with the remaining balance funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings as well as public offerings of investment units, comprised of second mortgage bonds and trust unit purchase warrants. LREIT also utilizes the upward refinancing of mortgage loan debt, second mortgage loans and bridge financing as sources of investment capital. LREIT also utilizes a revolving loan commitment from 2668921 Manitoba Ltd. and interest-free advances from Shelter Canadian Properties Limited as an interim source of funds.

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, 2012, 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 2012, the mortgage loan debt service coverage ratio was 0.87, compared to 1.01 in the first quarter of 2011 and 0.97 for the entire year in 2011. The mortgage loan debt service coverage ratio excludes net operating income and mortgage loan debt service costs for discontinued operations and Parsons Landing.

Divestiture Program

General

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

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

LREIT did not complete any property sales under its divestiture program during 2011 or in the first quarter of 2012, aside from the sale of seven condominium units at Lakewood Townhomes at a combined gross selling price of $3.4 Million. LREIT is pursuing the sale of the four seniors' housing complexes and/or other properties.

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.3 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.4 Million after assumption of mortgage loan debt and sales expenses. The sale is subject to the receipt of mortgagee approval for the assumption of the first mortgage loan by the purchaser.

Lakewood Townhomes Condominium Sales

The Lakewood complex is comprised of 64 townhomes and a 111 suite apartment building. In October, 2011, LREIT commenced a condominium sales program for the Lakewood Townhomes. After funding sale renovation costs, a contribution to the reserve fund of the condominium corporation and closing costs, net sales proceeds will be applied to reduce the first mortgage loan until such time that the first mortgage loan is repaid in full. The sale of three additional units occurred subsequent to March 31, 2012. The condominium sales program is expected to be substantially completed in 2013. The condominium sales program encompasses services and renovations fees payable to Shelter Canadian Properties Limited. (See "Related Party Transactions".)

Distributions

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

IMPACT OF INCOME TAX CHANGES ON NET SALE PROCEEDS

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

Income from capital gains on property sales will be subject to tax in 2012. The income tax liability associated with a capital gain will serve to reduce the net proceeds from a property sale to the extent that the property sale results in a capital gain.

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

PARSONS LANDING

Possession of Property and Closing/Financing Agreement

On September 1, 2008, the Trust acquired possession of Parsons Landing, a luxury residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. On the date of possession, the balance owing of $48,220,000 was to be funded primarily by mortgage loan financing.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement to September 30, 2012, with a requirement for LREIT to submit an additional payment of $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest payments of $300,000 per month to September 30, 2012.

As of March 31, 2012, the balance owing in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000.

The purchase agreement provided that, on closing, the builder agreed to provide a second mortgage to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, and that the Trust make the additional payment of $2,000,000 on February 17, 2012 and $3,000,000 at closing. On closing, the builder also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. In addition, 2668921 Manitoba Ltd. agreed to maintain the revolving loan commitment with the Trust, in the amount of $8,800,000, until closing. The purchase agreement also provided that the Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1.

From the date of possession, Parsons Landing has been reflected as an investment property in the Financial Statements of the Trust. At December 31, 2011, the carrying value was $47,800,000.

Destruction of Property by Fire

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

The time period for reconstruction of the property is estimated to be more than one year, and occupancies are unlikely until the reconstruction has been completed.

The builder retained title to the property and is responsible to insure the property for replacement cost and revenue loss coverage. The additional payment of $2,000,000, which was due on February 17, 2012, was deferred by LREIT due to the destruction of the property.

The builder has commenced a legal claim for payment of all amounts due under the purchase agreement, or an order of foreclosure. The Trust is contesting the claim and seeking an agreement which addresses the extension of the closing date to 90 days after the reconstruction period; the commitment of the builder to deliver the property at closing in accordance with the term of the original construction specifications and a determination of revenue loss proceeds under the terms of the insurance policies.

Management expects that an agreement will be negotiated.

Impact on Interim Financial Statements

The circumstances at Parsons Landing have impacted the 2012 first quarter Financial Statements of LREIT, as follows:

Impairment of investment property

In accordance with IFRS, the land, building and paving of the investment property have been written down from the carrying value of $46,675,000 at December 31, 2011 to $20,000,000, which represents the value of the unaffected components of the investment property. The furniture and equipment component was also written down from the carrying value of $1,125,000 to nil. In the Statement of Comprehensive Income a corresponding entry in the amount of $27,800,000 was recorded under the title "Impairment of investment property".

Insurance and other reconstruction proceeds

Notwithstanding that the builder arranged for the insurance coverage, the Trust is entitled under the terms of the purchase agreement to benefit from the proceeds of insurance which are applied to reconstructing the building and replace revenue losses. In addition, the Trust is entitled to proceeds of an insurance policy retained by the Trust which provides for the replacement of furniture and equipment which is owned by the Trust and was destroyed by the fire.

In accordance with IFRS, insurance entitlements may be carried at fair value in the Financial Statements of the Trust once the collection of such amounts are "virtually certain". Because agreements with the builder and the insurer are uncompleted, virtual certainty has not been satisfied and the Trust has not recorded any amounts in regard to insurance proceeds.

Forgiveness of interest

The purchase agreement relating to Parsons Landing provided for the builder to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to September 30, 2012 in the amount of $19,010,579, on closing of the acquisition of Parsons Landing on September 30, 2012. The Trust has not recorded interest expense in excess of $300,000 per month as Management expects that the closing date for the acquisition of Parsons Landing will be extended until 2013, 90 days after reconstruction of the property.

Net operating income and interest expense

The interim Financial Statements reflect revenues and expenses for the operations of Parsons Landing from January 1, 2012, to the date of the fire on February 5, 2012.

Subsequent to February 5, 2012, the Financial Statements reflect operating costs which continue to be accrued, as well as interest expense of $300,000 per month with respect to the balance owing under the purchase agreement. Payment of the $300,000 monthly interest charge to the builder has been deferred pending the receipt of revenue loss insurance proceeds.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2012

As of March 31, 2012, the property portfolio of LREIT consists of 27 rental properties, 23 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust. The investment properties include Lakewood Townhomes or, more specifically, all of the unsold condominium units at Lakewood Townhomes. The remaining four properties consist of the four seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Non-current assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 27 properties has a total purchase price of approximately $492.6 Million and encompasses 2,609 suites and 139,243 square feet of leasable area.

There were not any changes to the number of properties in the property portfolio between January 1, 2011 and March 31, 2012. Between January 1, 2011 and March 31, 2012 the number of suites decreased from 2,616 to 2,609 as a result of the sale of seven condominium units at the Lakewood Townhomes, comprised of the sale of four condominium units in the fourth quarter of 2011 and three condominium units in the first quarter of 2012. In addition, the fire at Parsons Landing resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012.

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

Composition of Property Portfolio of Investment Properties

The 23 properties which are classified as investment properties consist of two commercial properties located in Burlington, Ontario and Airdrie, Alberta; one mixed-use residential and commercial property located in Winnipeg, Manitoba (Colony Square); 14 multi-family residential properties, including Parsons Landing, 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.

As noted above, the properties in "discontinued operations" consist of the four seniors' housing complexes.

Properties Held for Sale/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". 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.

Income from properties in discontinued operations is disclosed separately on the statement of comprehensive income of LREIT.

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

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

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

Analysis of Operating Results for Discontinued Operations

In this report, the analysis of operating results excludes the operating results from discontinued operations, except where noted.

During the first quarter of 2012 and 2011, the operating results for continuing operations include the operating results of the 23 investment properties, notwithstanding that the sale of seven condominium units at Lakewood Townhomes and the fire at Parsons Landing affected the comparability of the results. There were no investment properties classified as "held-for-sale" as of March 31, 2012 or at the end of any of the quarterly reporting periods in 2011.

Loans and Receivables

As of March 31, 2012, "Loans and receivables" consisted of a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a 12% $250,000 secured note receivable from a previous tenant which is due on demand.

CAPITAL STRUCTURE

Capital Structure - March 31, 2012

	March 31, 2012		December 31, 2011	
	Amount	%	Amount	%
Long-term debt	$ 140,306,674	35.5 %	$ 130,476,452	31.1 %
Current portion of long-term debt	200,201,394	50.7 %	208,484,873	49.7 %
Equity	54,401,933	13.8 %	80,510,813	19.2 %
Total capitalization	$ 394,910,001	100.0 %	$ 419,472,138	100.0 %

Long-term Debt

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

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

Change in Total Long-term Debt

As disclosed in the following chart, the total debt of the investment properties of LREIT as of March 31, 2012, before accrued interest payable and unamortized transaction costs, increased by $823,918 or 0.2% compared to the long-term debt as of December 31, 2011. The increase mainly reflects an increase in mortgage loan debt, partially offset by a decrease in swap mortgage loans and debentures.

	March 31 2012	December 31 2011	Increase (Decrease)
Secured debt			
Mortgages loans	$ 256,436,064	$ 254,863,171	$ 1,572,893
Swap mortgage loans	42,460,970	42,942,356	(481,386)
Mortgage bonds	14,154,892	14,058,307	96,585
Debentures	24,961,000	25,312,000	(351,000)
Defeased liability	2,742,151	2,755,325	(13,174)
Total secured debt	340,755,077	339,931,159	823,918
Accrued interest payable	3,364,144	2,019,182	1,344,962
Unamortized transaction costs	(3,611,153)	(2,989,016)	(622,137)
Total debt	$ 340,508,068	$ 338,961,325	$ 1,546,743
Total debt is comprised of the following:			
Current portion of long-term debt	$ 200,201,394	$ 208,484,873	$ (8,283,479)
Long-term debt	140,306,674	130,476,452	9,830,222
Total debt	$ 340,508,068	$ 338,961,325	$ 1,546,743

Discontinued Operations - Long-term Debt

As of March 31, 2012, the long-term debt for discontinued operations consisted of the mortgage loan debt for the four seniors' housing complexes in the amount of $59,839,214 less unamortized transaction costs of $381,985. 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, 2012, the mortgage loan debt of LREIT increased by $1,259,310 compared to the amount payable as of December 31, 2011. As disclosed in the following chart, the increase is comprised of an increase in mortgage loan debt of $1,572,893 for investment properties in continuing operations and a decrease in the mortgage loan debt of $313,583 for the four seniors' housing complexes in discontinued operations.

	Three Months Ended March 31, 2012		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 30,850,000	$ 30,850,000	$ -
Repayment of mortgage loans on refinancing	(25,486,971)	(25,486,971)	-
Forgiveness of debt	(859,561)	(859,561)	-
Net proceeds (repayment)	4,503,468	4,503,468	-
Regular repayment of principal on mortgage loans	(1,846,553)	(1,532,970)	(313,583)
Reduction of mortgage loans on sale of properties	(1,397,605)	(1,397,605)	-
Increase (decrease) in mortgage loans	1,259,310	1,572,893	(313,583)
Total mortgage loans - December 31, 2011	315,015,968	254,863,171	60,152,797
Total mortgage loans - March 31, 2012	$ 316,275,278	$ 256,436,064	$ 59,839,214

Investment properties

Mortgage loan proceeds is comprised of the additional mortgage loan of $12 Million and the new mortgage financing for Lakewood Apartments in the amount of $18.85 Million. The repayment of mortgage loans on refinancing is comprised of the repayment of the previous mortgage loan for Lakewood Apartments at refinancing and the retirement of $1.5 Million of interim mortgage debt.

Composition of Mortgage Loan Debt - March 31, 2012

Summary of Mortgage Loans Payable - Investment Properties

Year of Maturity	Weighted Average Interest Rate	Amount March 31, 2012	Percentage of Total
(Note 1)			
Fixed rate			
2012	5.5 %	$ 28,306,404	11.0 %
2013	5.8 %	24,743,619	9.6 %
2014	5.0 %	9,192,262	3.6 %
2015	5.3 %	26,094,284	10.2 %
2016	5.2 %	34,271,986	13.4 %
2017	5.7 %	20,399,572	8.0 %
		143,008,127	55.8 %
Demand/variable rate	8.9 %	113,427,937	44.2 %
Principal amount		$ 256,436,064	100.0 %

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

Mortgage Loan Debt Summary *

	2012 Q 1	2011 Q 4	2011 Q 3	2011 Q 2
Weighted average interest rate				
Fixed rate mortgage loans	5.5%	5.7%	5.7%	6.0%
Variable rate mortgage loans	8.9%	8.5%	8.5%	8.6%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties *	62%	61%	62%	63%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties *	70%	70%	70%	72%

	2011 Q 1	2010 Q 4	2010 Q 3	2010 Q 2
Weighted average interest rate				
Fixed rate mortgage loans	6.3%	6.2%	6.0%	6.2%
Variable rate mortgage loans	8.6%	6.7%	6.7%	6.7%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties *	63%	64%	66%	68%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties *	72%	75%	75%	78%

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

Discontinued Operations

The decrease in the mortgage loan debt for discontinued operations consists of regular repayments of principal of $313,583.

The total balance of $59,839,214 is comprised of first and second mortgage loans. The first and second mortgage loans payable debt have a weighted average interest rate of 7.3% as of March 31, 2012, compared to 6.6% as of March 31, 2011 and 7.3% as of December 31, 2011.

Debt Maturities

Investment properties

With the exception of three mortgage loans in breach of debt service coverage requirements, all of the mortgage loans on the investment properties which matured as of March 31, 2012 have been renewed or refinanced. The three matured loans in breach of debt service coverage requirements have a total principal balance of $85,127,937 as of March 31, 2012 and are secured by four investment properties in Fort McMurray. The loans are repayable on demand. The status of three mortgage loans and other loans in breach of debt service coverage requirements is provided in the next section of this report.

As of March 31, 2012, the amount of mortgage loan principal which is classified as "current", as disclosed in the Financial Statements in accordance with IFRS, includes all mortgage loans which are payable on demand and all mortgage loans which are in breach of covenant requirements, including swap mortgage loans, as well as fixed term mortgages which mature on or before March 31, 2013. 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 $1.5 Million interim mortgage loan which was repaid in February 2012 had a maturity date of May 1, 2012. The only other mortgage loan debt for investment properties maturing in 2012 is a $28,306,403 - 5.54% first mortgage loan which matured on April 5, 2012 which has not yet been renewed. Management expects that the mortgage loan will be renewed for a one year term at 3%.

Discontinued Operations

There are two mortgage loans for discontinued operations with maturity dates in 2012, as follows:

- a $12,236,924 - prime plus 2% first mortgage loan that matured on April 1, 2012 and was renewed at the same interest rate and a term which expires on December 31, 2012. Under the terms of the renewal, an additional payment of $1 Million is due May 31, 2012; and
- a $4,801,847 first mortgage loan that matures on June 30, 2012 is expected to be renewed at maturity.

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

Debt Covenant Breaches

Investment Properties

Of the 13 properties in Fort McMurray which are encumbered by mortgage loans payable or swap mortgage loans, 11 of the properties have mortgage loans or swap mortgage loans which were in breach of the net operating income achievement and debt service coverage requirement as of March 31, 2012. The debt for the properties consists of three first mortgage loans, one second mortgage loan and one swap mortgage loan. The first mortgage loans include three mortgage loans which have matured and are payable on demand. The covenant breaches for the Fort McMurray properties resulted from the slow down of development activity in the oil sands industry experienced in 2009 and the associated decline in rental revenue in Fort McMurray.

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

The status of the mortgage loans which are in breach of covenant requirements as of March 31, 2012 is provided below.

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance March 31, 2012	Maturity Date	Status
Mortgage Loans					
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	(4)	First	$ 22,521,455	September 1, 2016	(1)
Lakewood Townhomes	1.1	First	14,782,637	July 18, 2010	(2)
Laird's Landing	1.2	First	53,369,285	October 1, 2011	(2)
Woodland Park, Nelson Ridge Estates	1.2	Second	16,976,015	October 31, 2010	(2)
			107,649,392		
Winnipeg					
Colony Square		First	19,551,770	March 1, 2013	(3)
Subtotal			127,201,162		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(4)	First	21,086,588	May 1, 2018	(1)
			$ 148,287,750		

(1) The lender has been notified of the breach and is being provided with operating information on a monthly basis.
(2) The lender provided a forbearance agreement to December 31, 2011.
(3) The lender issued notice regarding the breach demanding that secondary financing be removed from the title to the property.
(4) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

Discontinued Operations

As at March 31, 2012, the Trust is in compliance with all mortgage loan covenants for discontinued operations.

Summary

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

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

As of March 31, 2012, the cash deposits on mortgage loans with covenant breaches amounted to $8,054,366.

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

During the first quarter of 2012, the total fees related to covenant breaches and forbearance agreements amounted to $110,794. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first quarter of 2012, interest expense includes amortization charges related to fees on covenant breaches of $114,670, compared to $471,025 during the first quarter of 2011.

Weighted Average Interest Rates

As of March 31, 2012, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 7.0%, 7.3% and 7.0%, respectively, compared to 6.9%, 7.3% and 6.9% at December 31, 2011.

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

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 2012, the carrying value of the swap mortgage loans decreased by $505,509, comprised of principal payments on the mortgage loans of $296,711 and an decrease in the fair value of the interest rate swaps of $184,675, net of a $24,123 increase in unamortized transaction costs.

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

Mortgage Bonds

The long-term debt of LREIT includes mortgage bonds with a face value of $16,000,000. 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 bonds are secured by second mortgages registered against five investment properties. The mortgage bonds were issued pursuant to a public offering which had a final closing date of January 28, 2011. The first interest payment occurred on May 31, 2011.

For Financial Statement purposes, the initial book value of the mortgage bonds was determined to be $13,699,574 based on the valuation methodology as established under IFRS. The carrying value of the mortgage bonds, as of March 31, 2012, of $12,940,562 is based on the initial book value net of unamortized transaction costs plus accretion from the date of issue to March 31, 2012.

Trust Unit Purchase Warrants

The $16 Million mortgage bond offering included the issuance of 16,000,000 trust unit purchase warrants ("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 23, 2015.

LREIT also issued, 6,780,000 Warrant on March 9, 2010. The March 2010 Warrants entitle the holder to purchase one unit of LREIT at a price of $1.00 per unit at any time for a period of five years expiring March 9, 2015.

Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of debenture debt which may be issued by the Trust.

Between August 2002 and December 2006, LREIT issued $69,543,000 of debentures in seven separate debenture offerings. With the exception of the Series G debentures, all of the debenture debt was repaid or converted to trust units.

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

The following is a summary of the Series G debenture debt.

Summary of Debenture Offering

				Purchased and Cancelled		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Three Months Ended March 31 2012	As of December 31 2011	Net Amount Outstanding March 31 2012
Debentures						
Jan. 1/12/Feb. 28/15	G	9.5 %	$ 25,312,000	$ (351,000)	$ -	$ 24,961,000
Unamortized transaction costs						(783,995)
Book value, March 31, 2012						$ 24,177,005
Allocation of book value						
Debt component						$ 24,961,000
Unamortized transaction costs						(783,995)
March 31, 2012						$ 24,177,005

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2011	17,988,339
- March 31, 2012	17,909,011
- May 11, 2012	17,909,011

As of March 31, 2012, LREIT had 17,909,011 units outstanding, representing a decrease of 79,328 units or 0.5%, compared to the number of units outstanding as of December 31, 2011. The decrease represents the number of units purchased and cancelled under the normal course issuer bid during the first quarter of 2012.

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

OTHER LIABILITIES

Acquisition Payable

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

As of March 31, 2012, the amount payable in regard to the acquisition of Parsons Landing is $45.2 Million, excluding GST.

As previously disclosed, a fire occurred at Parsons Landing in February 2012 which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance. Information in regard to the status of reconstruction and negotiations with the builder and insurance carriers is provided in other sections of this report.

Revolving Loan Commitment

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

During the first quarter of 2012, the loan had an interest rate of 9.75%, subject to a maximum interest charge of $162,594 to March 31, 2012 and a maximum balance of $12 Million. As of March 31, 2012, the loan balance was $10.2 Million. Effective April 1, 2012, the loan was renewed to August 31, 2012, and the maximum loan amount was increased to $15 Million, at an interest rate of 10%. The renewal encompassed the payment of a $75,000 extension fee.

During the first quarter of 2012, the total interest expense associated with the revolving loan commitment was $162,594, compared to $268,337 during the first quarter of 2011. The revolving loan is included in "Trade and other payables" on the Consolidated Statement of Financial Position of LREIT.

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

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Income (Loss)

	Three Months Ended March 31		Increase Decrease	
	2012	2011	in Income	Change
Rentals from investment properties	$ 10,383,920	$ 9,150,517	$ 1,233,403	13.5 %
Property operating costs	4,425,206	4,027,510	(397,696)	(9.9)%
Net operating income	5,958,714	5,123,007	835,707	16.3 %
Interest income	74,567	77,667	(3,100)	(4.0)%
Forgiveness of debt	859,561	-	859,561	- %
Interest expense	(7,117,932)	(8,716,070)	1,598,138	(18.3)%
Trust expense	(578,883)	(771,745)	192,862	(25.0)%
Loss before the following	(803,973)	(4,287,141)	3,483,168	81.2 %
Profit (loss) on sale of investment properties	324,225	-	324,225	- %
Fair value gains (losses)	1,861,617	(300,707)	2,162,324	719.1 %
Impairment of investment property	(27,800,000)	-	(27,800,000)	- %
Income (loss) before taxes and discontinued operations	(26,418,131)	(4,587,848)	(21,830,283)	(475.8)%
Income tax expense (recovery)	-	(117,659)	(117,659)	(100.0)%
Income (loss) before discontinued operations	(26,418,131)	(4,470,189)	(21,947,942)	(491.0)%
Income from discontinued operations	332,236	723,581	(391,345)	(54.1)%
Income (loss) and comprehensive income (loss)	$ (26,085,895)	$ (3,746,608)	$ (22,339,287)	(596.3)%

During the first quarter of 2012, the loss of LREIT, before profit on property sales, fair value gains (losses), impairment of investment property, income taxes and discontinued operations decreased by $3,483,168 compared to the first quarter of 2011. The decrease in the loss is mainly due to a $0.8 Million increase in net operating income, a $0.9 Million forgiveness of debt, a $1.6 Million decrease in interest expense and a $0.2 Million decrease in trust expense.

After accounting for fair value gains (losses), profit on property sales, impairment of investment property, income taxes and discontinued operations, LREIT completed the first quarter of 2012 with a comprehensive loss of $26,085,895 compared to a comprehensive loss of $3,746,608 during the first quarter of 2011.

Net Operating Income

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

Rental Revenue

Market Conditions

Fort McMurray (Thirteen properties)

Accounting for approximately 48% of the residential suites in the portfolio of investment properties, the thirteen multi-residential buildings in the Fort McMurray property portfolio represent the most significant revenue component in LREIT's overall operations.

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

During 2011 occupancy levels of the investment properties in Fort McMurray improved substantially, as a result of a significant increase in activity in the oil sand industry. Occupancy levels in Fort McMurray during the first quarter of 2012 were 93% which compares favourably to the 84% average occupancy which was achieved for the entire year in 2011. A 93% occupancy level is slightly less than the 94% occupancy achieved in the second half of 2011 as a result of seasonal fluctuations. Rental rates in the Fort McMurray portfolio 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, two commercial properties, and six multi-family residential rental properties in locations throughout Western Canada.

Impaired Property (One Property)

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

The time period for reconstruction of the property is estimated to be more than one year, and occupancies are unlikely until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date.

As a result of the fire and the restrictions on recording revenue from insurance proceeds under IFRS, Parsons Landing has been segregated from operating properties and analyzed separately under the caption "Impaired Property". Parsons Landing will continue to be classified as an Impaired Property for segmented reporting purposes until the completion of reconstruction and reoccupancy of the building.

An analysis of the average monthly rents and vacancy for the Fort McMurray operating properties, the other operating properties and the impaired property of LREIT is provided in the following sections of this report.

Discontinued Operations (Four Properties)

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

Sources of Rental Revenue

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

Rental Revenue Results

Analysis of Total Rental Revenue

	Three Months Ended March 31					
			Increase (Decrease)		% of Total	
	2012	2011	Amount	%	2012	2011
Fort McMurray	$ 6,362,137	$ 4,912,291	$ 1,449,846	30 %	61 %	54 %
Other operating properties	3,627,356	3,481,824	145,532	4 %	35 %	38 %
Impaired property	394,427	756,402	(361,975)	(48)%	4 %	8 %
Total	$ 10,383,920	$ 9,150,517	$ 1,233,403	13 %	100 %	100 %

As disclosed in the chart above, the total revenue from the investment properties of LREIT increased by $1,233,403 during the first quarter of 2012 compared to the first quarter of 2011. The increase is comprised of an increase in revenue from the investment properties in Fort McMurray of $1,449,846 and an increase in revenue from the other investment properties of $145,532, partially offset by a decrease in revenue from the Impaired Property of $361,975.

The increase in revenue from the Fort McMurray property portfolio reflects a decrease in the vacancy, partially offset by a decrease in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio decreased from 33% during the first quarter of 2011, to 7% in the first quarter of 2012, while the average monthly rental rate decreased by $127 or 5.4%.

The increase in revenue for the Other operating properties portfolio is mainly due to an increase in the average rental rate of $41 or 3.9%.

During the first quarter of 2012, the rental revenue from Parsons Landing declined by $361,975 compared to the first quarter of 2011 due to substantially higher vacancy loss for February and March 2012, compared to the prior year, as a result of the fire which occured February 5, 2012.

Vacancy, by Quarter

	2011					2012
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	33 %	19 %	6 %	6 %	16 %	7 %
Other operating properties	2 %	2 %	2 %	1 %	2 %	2 %
Impaired property	37 %	9 %	6 %	3 %	14 %	62 %
Total	25 %	13 %	5 %	5 %	12 %	11 %

Vacancy represents the revenue potential of vacant suites.

Average Monthly Rents, by Quarter

	2011					2012
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	$2,315	$2,285	$2,241	$2,193	$2,254	$2,188
Other operating properties	$1,034	$1,065	$1,050	$1,064	$1,050	$1,075
Impaired property	$2,370	$2,319	$2,282	$2,241	$2,303	$2,259
Total	$1,790	$1,792	$1,759	$1,743	$1,767	$1,746

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended March 31		Increase (Decrease)	
	2012	2011	Amount	%
Fort McMurray	$ 2,332,624	$ 1,996,562	$ 336,062	17 %
Other operating properties	1,798,199	1,627,456	170,743	10 %
Impaired property	294,383	403,492	(109,109)	(27)%
Total	$ 4,425,206	$ 4,027,510	$ 397,696	10 %

During the first quarter of 2012, property operating costs for the entire portfolio of investment properties increased by $397,696 or 10%, compared to the first quarter of 2011. The increase is comprised of a $336,062 increase in the operating costs of the Fort McMurray portfolio and an increase of 170,743 in the Other operating properties portfolio, partially offset by a decrease of $109,109 in the operating costs of the Impaired Property. The increase in operating costs for the Fort McMurray portfolio mainly reflects an increase in variable costs such as maintenance and management fee, which increased in response to the improvement in occupancy. The increase in operating costs for the Other investment property portfolio reflects an increase in maintenance expense. The decrease in operating costs for the Impaired Property is due to the fire in February 2012.

Summary of Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2012	2011	Amount	%	2012	2011	2012	2011
Fort McMurray	$ 4,029,513	$ 2,915,729	$ 1,113,784	38 %	68 %	57 %	63 %	59 %
Other operating properties	1,829,157	1,854,368	(25,211)	(1)%	31 %	36 %	50 %	53 %
Impaired property	100,044	352,910	(252,866)	(72)%	2 %	7 %	25 %	47 %
Total	$ 5,958,714	$ 5,123,007	$ 835,707	16 %	100 %	100 %	57 %	56 %

After considering the increase in rental revenue and property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties increased by $835,707 or 16% during the first quarter of 2012, compared to the first quarter of 2011.

The increase in net operating income is comprised of an increase in the net operating income of the Fort McMurray portfolio, partially offset by a decrease in net operating income from the Other operating properties portfolio and the Impaired Property. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by $1,113,784 during the first quarter of 2012, compared to the first quarter of 2011, while the net operating income of the Other operating properties portfolio and the Impaired Property decreased by $25,211 and $252,866, respectively.

Overall, the operating margin for the property portfolio increased from 56% during 2010, to 57% during the first quarter of 2012. The increase in the overall operating margin reflects an improvement in the profit margin for the Fort McMurray property portfolio, partially offset by decrease in the profit margin for the Other investment properties portfolio and the Impaired Property.

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.

Interest Income

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

During the first quarter of 2012 interest income amounted to $74,567 compared to $77,667 during the first quarter of 2011.

Forgiveness of Debt

On January 39, 2012, a mortgage loan in the amount of $24,811,531 was retired by the application of restricted cash deposits in the amount of $2,701,970 and a cash payment of $21,250,000 resulting in the foregiveness of debt in the amount of $859,561.

Interest Expense

Total Interest Expense

Interest expense decreased by $1,598,138 or 18% during the first quarter of 2012, compared to the first quarter of 2011. As disclosed in the following chart, the decrease is comprised of a $894,049 decrease in interest expense related to mortgage loans, including swap mortgage loans, and a $772,178 decrease in interest expense related to debentures, partially offset by a $68,089 increase in interest expense related to the mortgage bonds

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. Of the $1,598,138 decrease in interest expense during the first quarter of 2012, compared to the first quarter of 2011, $1,026,532 relates to a decrease in "non-cash" expenses.

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

Analysis of Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
	2012	2011	Amount	%
Mortgage Loans				
Mortgage loan interest	$ 4,439,842	$ 4,861,557	$ (421,715)	(9)%
Swap mortgage loan interest	576,945	585,450	(8,505)	(1)%
Amortization of transaction costs	228,059	697,082	(469,023)	(67)%
Change in value of interest rate swaps	(184,675)	(189,869)	5,194	3 %
Total - mortgage loans	5,060,171	5,954,220	(894,049)	(15)%
Mortgage Bonds				
Mortgage bond interest	360,000	360,000	-	- %
Accretion of debt component	96,585	53,052	43,533	82 %
Amortization of transaction costs	55,349	30,793	24,556	80 %
Total - mortgage bonds	511,934	443,845	68,089	15 %
Debentures				
Interest on debentures	591,200	732,586	(141,386)	(19)%
Accretion of debt component	-	551,073	(551,073)	(100)%
Amortization of transaction costs	54,627	134,346	(79,719)	(59)%
Total - debentures	645,827	1,418,005	(772,178)	(54)%
Acquisition Payable				
Interest on acquisition payable	900,000	900,000	-	- %
Total - acquisition payable	900,000	900,000	-	- %
Total - interest expense	$ 7,117,932	$ 8,716,070	$ (1,598,138)	(18)%

Cash and Non-cash Component				
Non-cash component				
Accretion	$ 96,585	$ 604,125	$ (507,540)	(84)%
Amortization of transaction costs	338,035	862,221	(524,186)	(61)%
Change in value of interest rate swaps	(184,675)	(189,869)	5,194	3 %
Total non-cash component	249,945	1,276,477	(1,026,532)	(80)%
Total cash component	6,867,987	7,439,593	(571,606)	(8)%
Total - interest expense	$ 7,117,932	$ 8,716,070	$(1,598,138)	(18)%

Cash Component of Interest Expense

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

"Interest paid" on the Consolidated Statements of Cash Flows of $6,779,536 includes the cash component of interest expense of $6,867,987, plus the cash component of interest expense pertaining to the four seniors' housing complexes in discontinued operations of $1,256,511, less the increase in accrued interest between December 31, 2011 and March 31, 2012 of $1,344,962.

During the first quarter of 2012, the total cash component of interest expense decreased by $571,606 or 8%, compared to the first quarter of 2011.

As a percentage of net operating income, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, decreased from 124% during the first quarter of 2011 to 99% during the first quarter of 2012.

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

After including the cash component of interest on mortgage bonds and debentures, the ratio of the cash component of interest, relative to net operating income, is 115% for the first quarter of 2012, compared to 145% for the first quarter of 2011.

Mortgage Loan Interest

Mortgage loan interest decreased by $421,715 or 9% during the first quarter of 2012, compared to the first quarter of 2011, comprised of a decrease in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $105,745, a decrease in interest on bank line of credit of $71,970 and a decrease in interest on mortgage loan debt of $244,000. The decrease in interest on mortgage loan debt is mainly due to a decrease in the balance of mortgage loans payable from the first quarter of 2011 to the first quarter of 2012.

Mortgage Bond Interest

Interest on the mortgage bonds was equal to $360,000 for the first quarter of 2012 and the first quarter of 2011.

Debenture Interest

During the first quarter of 2012, interest on debentures decreased by $141,386, compared to the first quarter of 2011, due to the retirement of the Series F convertible debentures on March 11, 2011, partially offset by an increase in the interest rate for the Series G debentures from 7.5% to 9.5%, effective January 1, 2012.

Interest on Acquisition Payable

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

As previously noted in this report, in February 2012, interest expense in regard to the balance owing on Parsons Landing of $300,000 per month is being recorded, notwithstanding that the property was substantially destroyed by a fire in February 2012. Payment of the $300,000 monthly interest charge to the builder is being deferred pending the receipt of revenue loss insurance proceeds.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense decreased $1,026,532 during the first quarter of 2012, compared to the first quarter of 2011. The decrease is comprised of a decrease in accretion of $507,540, a decrease in amortization of transaction costs of $524,186, partially offset by an increase in expense of $5,194 in regard to the change in fair value of interest rate swaps.

Accretion

For the first quarter of 2012, accretion relates to the mortgage bonds and for the first quarter of 2011, accretion relates to the debentures and mortgage bonds. During 2011, accretion expense relating to the Series F and Series G convertible debentures was $551,073

Amortization of Transaction Costs

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

The decrease in amortization of transaction costs is mainly attributable to the fact that amortization of transaction cost expense was comparatively high during the first quarter of 2011 due to forbearance fees in regard to mortgage loans that were in breach of debt service covenants.

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the variance between the change in value of interest rate swaps in the first quarter of 2012, compared to the first quarter of 2011, served to increase interest expense by $5,194 during the first quarter of 2012.

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

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the first quarter of 2012, the fair value of the interest rate swaps decreased by $184,675 due to an increase in interest rates during the quarter. During the first quarter of 2011, the fair value of the interest rate swaps decreased by $189,869.

As the decrease in value in the first quarter of 2012 was less than the decrease in value in the first quarter of 2011, the change in value of the interest rate swaps resulted in an increase in interest expense in the first quarter of 2012 of $5,194, compared to the first quarter of 2011.

Although the change in the fair value of the interest rate swaps has served to increase interest expense during the first quarter of 2012, the change in value is a non-cash transaction which is excluded from the determination of cash flow from operating activities of the Trust. As a result of fluctuations in market interest rates, the fair value of the interest rate swaps may change significantly in the future, however, the change in value has no impact on cash outflows throughout the entire term of the swap agreements. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time.

Trust Expense

Trust expense decreased by $192,862 during the first quarter of 2012, compared to the first quarter of 2011.

Trust expense during the first quarter of 2011 included $183,000 final closing costs for properties sold in 2010.

Profit (Loss) on Sale of Investment Properties

The profit/loss on sale of investment properties 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 2012 and 2011, LREIT did not complete any property sales. During the first quarter of 2012, the sale of three units which were sold under the condominium sales program at the Lakewood Townhomes, resulted in a profit on sale of $324,225.

Fair Value Gains (Losses)

The valuation gain of $1,861,617 for the first quarter of 2012 represents a net increase in the fair value of investment properties during the quarter. When capital expenditures of $168,467 are added to the valuation gain, the carrying value of investment properties increased by $2,030,084 during the first quarter of 2012.

The fair value of investment properties is based on a comprehensive valuation process. See "Valuation Process".

Impairment of Investment Property

On February 5, 2012, a fire occurred at Parsons Landing, which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time period for reconstruction of the property is estimated to be more than one year, and occupancies are unlikely until the reconstruction has been completed.

In accordance with IFRS requirements, the land, building and paving and equipment of the investment property have been written down from the carrying value of $46,675,000 at December 31, 2011 to $20,000,000, which represents the value of the unaffected portion of the investment property. The furniture and equipment component was also written down from the carrying value of $1,125,000 to nil. In the Statement of Comprehensive Income a corresponding entry in the amount of $27,800,000 was recorded to the impairment of investment property.

Discontinued Operations

During the first quarter of 2012, LREIT generated income from discontinued operations of $332,236 compared to $723,581 during the first quarter of 2011, representing a decrease of $391,345. The income from discontinued operations includes the net operating income, interest expense and income tax for the four seniors' housing complexes.

Analysis of Income from Discontinued Operations

	Three Months Ended March 31		Increase (Decrease)
	2012	2011	in Income
Rental income	$ 4,005,251	$ 3,703,887	$ 301,364
Property operating costs	2,267,840	2,058,537	(209,303)
Net operating income	1,737,411	1,645,350	92,061
Interest expense	1,506,651	812,100	(694,551)
Current tax expense (recovery)	(101,476)	56,999	158,475
Deferred tax expense	-	52,670	52,670
Income from discontinued operations	$ 332,236	$ 723,581	$ (391,345)

The decrease in income from discontinued operations during the first quarter of 2012 reflects a $694,551 increase in interest expense as a result of an upward refinancing in 2011, partially offset by a $211,145 increase in income tax recoveries and a $92,061 increase in net operating income.

Deferred Taxes

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

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

At March 31, 2012, the Trust had approximately $10.5 Million in unused tax losses for which a deferred tax asset has not been recognized.

Comparison to Preceding Quarter

Analysis of Income (Loss)

	Three Months Ended March 31, 2012	Three Months Ended December 31, 2011	Increase (Decrease) in Income	Change
Rentals from investment properties	10,383,920	11,196,590	(812,670)	(7.3)%
Property operating costs	4,425,206	4,013,791	(411,415)	10.3 %
Net operating income	5,958,714	7,182,799	(1,224,085)	(17.0)%
Interest income	74,567	162,836	(88,269)	(54.2)%
Forgiveness of debt	859,561	-	859,561	- %
Interest expense	(7,117,932)	(7,709,989)	592,057	(7.7)%
Trust expense	(578,883)	(560,688)	(18,195)	3.2 %
Loss before the following	(803,973)	(925,042)	121,069	13.1 %
Profit on sale of investment properties	324,225	487,095	(162,870)	(33.4)%
Fair value gains (losses)	1,861,617	1,709,960	151,657	8.9 %
Impairment of investment property	(27,800,000)	-	(27,800,000)	- %
Income (loss) for the period before taxes and discontinued operations	(26,418,131)	1,272,013	(27,690,144)	(2,176.9)%
Income tax expense (recovery)	-	-	-	- %
Income (loss) for the period before discontinued operations	(26,418,131)	1,272,013	(27,690,144)	2,176.9 %
Income from discontinued operations	332,236	333,267	(1,031)	(0.3)%
Comprehensive income (loss)	$ (26,085,895)	$ 1,605,280	$ (27,691,175)	(1,725.0)%

During the first quarter of 2012, the loss of LREIT, before profit on sale of investment properties, fair value gains (losses), impairment of investment property, income taxes and discontinued operations, decreased by $121,069 compared to the fourth quarter of 2011. The decrease in the loss mainly reflects a decrease in interest expense of $592,057, forgiveness of debt of $859,561, partially offset by a decrease in net operating income of $1,224,085.

The decrease in interest expense of $592,057 is mainly due to the fact that accretion charges were comparatively high during the fourth quarter of 2011.

After accounting for profit on sale of investment properties, fair value gains, impairment of investment property, income tax expense and income from discontinued operations, LREIT completed the first quarter of 2012 with a comprehensive loss of $26,085,895, compared to comprehensive income of $1,605,280 during the fourth quarter of 2011.

Revenue and Net Operating Income Analysis

The following analysis provides comparative results for the first quarter of 2012, compared to the fourth quarter of 2011 for the investment properties of LREIT, as well as the four seniors' housing complexes in discontinued operations.

	Three Months Ended		Increase (Decrease)	
	March 31, 2012	December 31, 2011	Amount	%
Revenue				
Fort McMurray	$ 6,362,137	$ 6,500,837	$ (138,700)	(2.1)%
Other operating properties	3,627,356	3,585,293	42,063	1.2 %
Impaired Property	394,427	1,110,460	(716,033)	(64.5)%
Total revenue - continuing operations	10,383,920	11,196,590	(812,670)	(7.3)%
Total revenue - discontinued operations	4,005,251	3,994,295	10,956	0.3 %
Total revenue	$ 14,389,171	$ 15,190,885	$ (801,714)	(5.3)%
Net operating income				
Fort McMurray	$ 4,029,513	$ 4,463,260	$ (433,747)	(9.7)%
Other operating properties	1,829,157	1,990,637	(161,480)	(8.1)%
Impaired Property	100,044	728,902	(628,858)	(86.3)%
Total net operating income - continuing operations	5,958,714	7,182,799	(1,224,085)	(17.0)%
Total net operating income - discontinued operations	1,737,411	1,617,080	120,331	7.4 %
Total net operating income	$ 7,696,125	$ 8,799,879	$ (1,103,754)	(12.5)%

As noted in the chart above, the decrease in net operating income is comprised of a decrease in NOI at the Fort McMurray properties of 433,747, a $628,855 decrease in NOI at Parsons Landing and a $161,480 decrease in NOI at other operating properties.

Summary of Quarterly Results

Quarterly Analysis

	2012	2011		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 10,383,920	$ 11,196,590	$ 11,142,567	$ 10,363,052
Net operating income	$ 5,958,714	$ 7,182,799	$ 7,103,623	$ 6,319,962
Income (loss) for the period before taxes and discontinued operations	$(26,418,131)	$ 1,272,013	$ 1,594,954	$ 4,103,543
Income (loss) and comprehensive income (loss)	$(26,085,895)	$ 1,605,280	$ 2,275,638	$ 4,900,921
PER UNIT				
Net operating income				
- basic	$ 0.321	$ 0.388	$ 0.384	$ 0.343
- diluted	$ 0.320	$ 0.387	$ 0.384	$ 0.343
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (1.425)	$ 0.069	$ 0.086	$ 0.223
- diluted	$ (1.425)	$ 0.069	$ 0.086	$ 0.223
Income (loss) and comprehensive income (loss)				
- basic	$ (1.407)	$ 0.087	$ 0.123	$ 0.266
- diluted	$ (1.407)	$ 0.087	$ 0.123	$ 0.266

Quarterly Analysis

	2011	2010		
	Q1	Q4	Q3	Q2
Rentals from investment properties	$ 9,150,517	$ 9,612,269	$ 9,865,921	$ 9,672,356
Net operating income	$ 5,123,007	$ 5,694,805	$ 6,097,309	$ 5,663,667
Income (loss) for the period before taxes and discontinued operations	$ (4,587,848)	$ (6,239,806)	$ (1,513,884)	$ (1,493,002)
Income (loss) and comprehensive income (loss)	$ (3,746,608)	$ (5,796,072)	$ (989,289)	$ (839,350)
PER UNIT				
Net operating income				
- basic	$ 0.279	$ 0.310	$ 0.333	$ 0.311
- diluted	$ 0.279	$ 0.310	$ 0.333	$ 0.311
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (0.250)	$ (0.340)	$ (0.083)	$ (0.082)
- diluted	$ (0.250)	$ (0.340)	$ (0.083)	$ (0.082)
Income (loss) and comprehensive income (loss)				
- basic	$ (0.204)	$ (0.316)	$ (0.054)	$ (0.046)
- diluted	$ (0.204)	$ (0.316)	$ (0.054)	$ (0.046)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Three Months Ended March 31			
	2012	2011	Change	
Income (loss) and comprehensive income (loss)				
- basic	$ (1.407)	$ (0.204)	$ (1.203)	(590)%
- diluted	$ (1.407)	$ (0.204)	$ (1.203)	(590)%
Income (loss) for the period before taxes and discontinued operations				
- basic	$ (1.425)	$ (0.250)	$ (1.175)	(470)%
- diluted	$ (1.425)	$ (0.250)	$ (1.175)	(470)%

Excluding income taxes and discontinued operations, LREIT incurred a loss of $26,418,131 ($1.425 per unit) during the first quarter of 2012, compared to a loss of $4,587,848 ($0.250 per unit) during the first quarter of 2011, representing an increase in loss of $21,830,283 ($1.175 per unit). As the weighted average number of units has only increased by 0.8% since March 31, 2011, the increase in the loss per unit mainly reflects the increase in the overall loss of the Trust before income tax expense and discontinued operations.

The increase in the overall loss of the Trust includes an increase in the loss of $25,637,676 ($1.383 per unit) attributable to the fair value gains and impairment of investment property. Excluding the fair value gains and impairment of investment property the loss of the Trust decreased by $3,298,389 ($0.178 per unit) during the first quarter of 2012.

ANALYSIS OF CASH FLOWS

Operating Activities

Q1 2012 vs Q1 2011 Comparatives

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

During the first quarter of 2012, the net cash inflow from operating activities for the portfolio of investment properties in continuing operations was $101,637, before working capital adjustments, and a cash outflow of $1,360,540 after including working capital adjustments. The cash inflow from the operations of the seniors' housing complexes in discontinued operations for the first quarter of 2012 was $582,376, before working capital adjustments and $405,627 after including working capital adjustments. Overall, the net cash inflow from continuing and discontinued operations excluding working capital adjustments, increased by $1,974,955 during the first quarter of 2012, compared to the first quarter of 2011. The improvement in operating cash flow results is mainly due to an increase in net operating income, on a cash basis, and a decrease in interest paid.

Cash from Operating Activities

	Three Months Ended March 31			
	2012			2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,958,714	$ 1,737,411	$ 7,696,125	$ 6,768,357
Accrued rent receivable	(102,860)	-	(102,860)	39,908
Net operating income - cash basis	6,061,574	1,737,411	7,798,985	6,728,449
Trust expense	(578,883)	-	(578,883)	(771,745)
Non-cash component of trust expense	18,750	-	18,750	21,003
Trust expense - cash basis	(560,133)	-	(560,133)	(750,742)
Interest paid	(5,523,025)	(1,256,511)	(6,779,536)	(7,289,317)
Interest received	123,221	-	123,221	77,667
Interest expense - cash basis	(5,399,804)	(1,256,511)	(6,656,315)	(7,211,650)
Income tax recovery (expense) - current	-	101,476	101,476	(56,999)
Cash from operating activities, before working capital adjustments	101,637	582,376	684,013	(1,290,942)
Working capital adjustments, net	(1,462,177)	(176,749)	(1,638,926)	2,062,062
Cash provided by (used in) operating activities	$ (1,360,540)	$ 405,627	$ (954,913)	$ 771,120

Comparison to Fourth Quarter of 2011

Cash from Operating Activities

	Three Months Ended			
	March 31, 2012			December 31, 2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,958,714	$ 1,737,411	$ 7,696,125	$ 8,822,493
Accrued rent receivable	(102,860)	-	(102,860)	76,774
Net operating income - cash basis	6,061,574	1,737,411	7,798,985	8,745,719
Trust expense	(578,883)	-	(578,883)	(560,688)
Non-cash component of trust expense	18,750	-	18,750	27,376
Trust expense - cash basis	(560,133)	-	(560,133)	(533,312)
Interest paid	(5,523,025)	(1,256,511)	(6,779,536)	(8,564,985)
Interest received	123,221	-	123,221	115,113
Interest expense - cash basis	(5,399,804)	(1,256,511)	(6,656,315)	(8,449,872)
Income tax recovery (expense) - current	-	101,476	101,476	111,958
Cash from operating activities, before working capital adjustments	101,637	582,376	684,013	(125,507)
Working capital adjustments, net	(1,462,177)	(176,749)	(1,638,926)	2,843,955
Cash provided by (used in) operating activities	$ (1,360,540)	$ 405,627	$ (954,913)	$ 2,718,448

In comparison to the fourth quarter of 2011, the net cash from continuing and discontinued operations excluding working capital adjustments, increased by $809,520 in the first quarter of 2012. The increase in cash provided by operating activities excluding working capital adjustments, is mainly due to a decrease in interest paid.

The amount of interest paid on the Series G debentures and mortgage bonds is approximately $1.7 Million lower in the first quarter of the year, compared to the fourth quarter of the year due to the timing of interest payments. For the second quarter of 2012, interest paid on the Series G debentures and mortgage bonds is expected to increase by approximately $1.9 Million compared to the first quarter of 2012.

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 2012, the FFO deficiency decreased by $2,179,592, compared to the first quarter of 2011, while the AFFO deficiency decreased by $1,975,210. On a basic per unit basis, the FFO deficiency decreased by $0.119 per unit, while the AFFO deficiency decreased by $0.108 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	
	2012	2011
Comprehensive income (loss)	$ (26,085,895)	$ (3,746,608)
Add (deduct):		
Deferred taxes	-	(64,989)
Profit (loss) on sale of investment properties	(324,225)	-
Fair value gains (losses)	(1,861,617)	300,707
Impairment of investment property	27,800,000	-
Forgiveness of debt	(859,561)	-
Funds from operations *	(1,331,298)	(3,510,890)
Add (deduct):		
Straight-line rent adjustment	102,860	(39,908)
Accretion of debt component of debentures and mortgage bonds	96,585	604,125
Unit-based compensation	18,750	21,003
Change in fair value of interest rate swaps	(184,675)	(189,869)
Capital expenditures on investment properties	(168,467)	(300,707)
Capital expenditures on property and equipment	(4,895)	(30,104)
Adjusted funds from operations *	$ (1,471,140)	$ (3,446,350)
FFO per unit *		
- basic and diluted	$ (0.072)	$ (0.191)
AFFO per unit *		
- basic and diluted	$ (0.079)	$ (0.187)

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended March 31	
	2012	2011
Cash provided by operating activities	$ (954,913)	$ 771,120
Changes in non-cash operating items	1,638,926	(2,062,062)
	684,013	(1,290,942)
Add (deduct):		
Capital expenditures on investment properties	(168,467)	(300,707)
Capital expenditures on property and equipment	(4,895)	(30,104)
Distributable income (loss)	$ 510,651	$ (1,621,753)
Per unit		
- basic	$ 0.028	$ (0.088)
- diluted	$ 0.027	$ (0.088)

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

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

During the first quarter of 2012, the distributable income of LREIT was $510,651, representing an increase in distributable income of $2,132,404 compared to the first quarter of 2011.

Distributions

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

CAPITAL RESOURCES AND LIQUIDITY

Source and Use of Funds - General

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

The net cash inflow from upward refinancing of properties and the revolving loan facility from 2668921 Manitoba Ltd., represent the primary funding sources for the cash outflow from operating activities, regular mortgage loan principal payments and capital expenditures.

Source and Use of Funds - 2012 First Quarter Summary

An analysis of the cash flows of LREIT for the first quarter of 2012 is provided in the chart which follows this section of the MD&A. The analysis discloses the following:

(i) the cash outflow from operating activities amounted to $954,913;

(ii) after accounting for regular monthly long-term debt principal payments and capital expenditures the net cash shortfall increased to $3,284,712;

(iii) after including the cash flows from other financing and investing activities, there was a net cash outflow of $50,260. As disclosed in the Consolidated Statements of Cash Flows, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:

- proceeds from mortgage loan financing of $30,850,000, less repayment of mortgage loans of refinancing of $25,486,971 for net proceeds of $5,363,029;
- change in restricted cash of $2,554,051 comprised of the application of $2,525,045 of reserves to the Lakewood Apartments mortgage loan balance at refinancing, repayment of Parsons Landing security deposits of $387,250 and $358,244 of new reserve deposits.

Outflows:

- expenditures on transaction costs of $983,269;
- net repayments on the revolving loan commitment of $1,800,000;
- net repayment of advances from Shelter Canadian Properties Limited of $1,183,000.

After accounting for the cash balance at December 31, 2011 of $1,170,619, LREIT completed the first quarter of 2012 with a cash balance of $1,120,359.

Cash Flow Analysis (Note 1) - Three Months Ended March 31, 2012

Cash provided by (used in) operating activities		$ (954,913)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on long term debt	(2,156,437)	
Capital expenditures (Note 2)	(173,362)	(2,329,799)
Shortfall in cash provided by operating activities		(3,284,712)
Main sources of funds, net of transaction costs		
Proceeds of mortgage loan financing	30,850,000	
Transaction costs	(983,269)	
Restricted cash	2,553,653	
	32,420,384	
Less: Lump-sum debt repayments		
Repayment of mortgage loans on refinancing	(25,486,971)	
Net repayment of revolving loan commitment (Note 1)	(1,800,000)	
Net repayment of advances from Shelter Canadian Properties Limited	(1,183,000)	
Units purchased under normal course issuer bid	(41,732)	
Debentures purchased under normal course issuer bid	(351,000)	
	(28,862,703)	3,557,681
		272,969
Other sources of funds		
Defeasance assets	35,597	
Net proceeds from sale (Note 1)	(38,318)	
Cash from discontinued operations	(320,508)	(323,229)
Cash increase		(50,260)
Cash, beginning of period		1,170,619
Cash, end of period		$ 1,120,359

Note 1 - IFRS Measurements

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

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

Note 2 - Capital Expenditures

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

Sources and Use of Funds - Remainder of 2012

Sources

Working Capital/Existing Cash

As of March 31, 2012, the unrestricted cash balance of LREIT was $1,120,359 and the working capital deficit was $9,670,150. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash.

The working capital deficiency is mainly comprised of the amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $10.2 Million.

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

Revolving Loan Commitment from 2668921 Manitoba Ltd.

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). The 9.75% revolving loan commitment of $12 Million matured on March 31, 2012 and was renewed for a five month term to August 31, 2012 at an increased balance of $15 Million and at an interest rate of 10%. Based on the increased balance of $15 Million, $4.8 Million is available under the revolving loan commitment, as of the date of this report.

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

Cash Outflow from Operating Activities

During the first quarter of 2012, the net cash outflow from operating activities was $954,913. The main components of the cash outflow from operating activities are net operating income on a cash basis, interest paid and working capital adjustments, from both continuing and discontinued operations.

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

Sale Proceeds

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.3 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.4 Million after assumption of mortgage loan debt and sales expenses. The sale transaction is subject to the receipt of mortgagee approval for the assumption of the first mortgage loan by the purchaser.

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

In addition to four condominium units which were sold in 2011 and three condominium units which were sold to in the first quarter of 2012, three additional condominium units were sold subsequent to March 31, 2012. Total proceeds from all condominium sales is $4,869,600.

Mortgage Loans Receivable

As of March 31, 2012, LREIT has a $500,000 mortgage loan receivable which matures in 2014 and provides for payments of interest only. The mortgage loan receivable arose as a result of providing vendor take-back financing on sale of an investment property in 2009.

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

The funding commitments under the purchase agreement for Parsons Landing are comprised of:

- a $2,000,000 payment due February 17, 2012 as a reduction of the amount payable;
- a $3,000,000 payment on closing as a final reduction of the amount payable; and
- payments of $300,000 per month as interest on the amount payable.

The payments of $2,000,000 and $3,000,000 would reduce the amount payable on closing to $42,720,000 excluding GST.

As a result of the fire, The additional payment of $2,000,000, which was due on February 17, 2012, was deferred by LREIT due to the destruction of the property.

Payment of the $300,000 monthly interest charge has been deferred pending the receipt of revenue loss insurance proceeds.

Long-term Debt Principal Payments

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2012	2013/2014	2015/2016	2017 and beyond
Regular mortgage loans	$ 171,308,127	$72,285,759	$ 62,794,643	$ 17,858,341	$ 18,369,384
Variable rate demand loans	85,127,937	85,127,937	-	-	-
Sub-total	256,436,064	157,413,696	62,794,643	17,858,341	18,369,384
Swap mortgage loans	39,796,270	21,617,220	18,179,050	-	-
Debentures and mortgage bonds	40,961,000	-	-	40,961,000	-
Total	$ 337,193,334	$179,030,916	$ 80,973,693	$ 58,819,341	$ 18,369,384

Summary of Mortgage Loan Debt "Due in 2012"

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

An analysis of the mortgage loan debt which is considered due in the remainder of 2012 in the amount of $157,413,696 is provided on the following chart.

	Investment Properties		Seniors' Housing Complexes	Total
Mortgages				
Demand loans with covenant breaches	$ 85,127,937	(1)	$ -	$ 85,127,937
Fixed term mortgages with covenant breaches	42,073,225	(1)	-	42,073,225
	127,201,162		-	127,201,162
Fixed term mortgages which mature in 2012	28,306,403	(2)	17,038,771	45,345,174
	155,507,565		17,038,771	172,546,336
Principal repayments	1,906,131		436,857	2,342,988
	$ 157,413,696		$ 17,475,628	$ 174,889,324

(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.
(2) The first mortgage loan is expected to be renewed for a one year term at 3%.

Investing Activities

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $3.1 Million for 2012, including approximately $734,000 for capital expenditures in regard to the in-suite upgrade program for the properties located in downtown Fort McMurray. During the first quarter of 2012, capital expenditures amounted to $168,467.

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, 2012, cash deposits of $10,279,915 have been deposited, of which $8,054,366 pertains to mortgage loans which are in breach of debt service coverage requirements.

Principal Payments - Debentures and Mortgage Bonds

All of the debenture debt of LREIT was retired as of March 31, 2012 with the exception of the 9.5% Series G convertible debentures. As of March 31, 2012, the total face value of the restructured Series G debentures is $24,961,000. The debentures mature on February 28, 2015. The term of the debentures also provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment.

The 9% second mortgage bonds of LREIT mature on December 23, 2015. As of March 31, 2012 the total face value of the mortgage bonds is $16,000,000.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan, additional interest-free advances and the deferral of payments of service fees and revolving loan interest, as required, will continue to be sufficient to fund the projected funding commitments of LREIT for the next twelve months. As of the date of this report, the amount available under the revolving loan is $4.8 Million.

The proceeds from property sales will be used to repay advances from 2668921 Manitoba Ltd. with any remaining proceeds to be applied to the redemption of the Series G debentures.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued Financial Statements, excluding cash, valuation adjustments and defeasance assets. The Services Agreement provides for payment of the fee to occur on a monthly basis, on the last day of each month. The Services Agreement expires December 31, 2019.

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

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

During the first quarter of 2012, the fees payable to Shelter Canadian for continuing operations included service fees of $423,442, property management fees of $389,361, leasing commissions of nil and tenant improvement and renovation fees of $426.

Loans

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment is secured by a mortgage charge on nine investment properties. Effective April 1, 2012, $4.8 Million was available on the revolving loan.

Effective April 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was increased to $15 Million bearing interest at 10% and is due August 31, 2012. A renewal commitment fee of $75,000 was charged at the renewal.

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

Interest on the revolving loan for the three months ended March 31, 2012 of $162,594 is included in interest expense.

During 2011, the Trust obtained interest-free advances from Shelter Canadian Properties Limited. Included in trade and other payables at December 31, 2011 is a balance of $1,183,000 payable to Shelter Canadian Properties Limited in regard to interest-free advances. The interest-free advances payable, as at December 31, 2011, as well as $5,594,000 of additional interest-free advances obtained in January and February 2012, were repaid in full in February 2012. As of March 31, 2012, all interest-free advances were repaid and there have been no additional interest-free advances subsequent to March 31, 2012 to the date of this report.

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

Services Fee and Renovation Fee for Lakewood Townhomes Condominium Sales Program

The Trust has entered into an agreement with Shelter Canadian Properties Limited, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian Properties Limited will administer the sales program and completion of the in-suite renovations. The Trust pays a service fee equal to 5% of the gross sales proceeds and Shelter Canadian Properties Limited is responsible for the payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed rate. The Trust also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

The Trust incurred service fees of $77,213 for the three months ended March 31, 2012 (2011 - nil) and renovation fees of $426 for the three months ended March 31, 2012 (2011 - nil).

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

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 operating losses sustained by LREIT during the first quarter of 2012 and prior years, (ii) the breach of debt covenant requirements which remain on five mortgage loans and one swap mortgage loan, encompassing $148.3 Million of mortgage loan and swap mortgage loan debt, (iii) the impact of the timing of increased rental rates and changes in vacancy losses in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit of the Trust, as of March 31, 2012 in the amount of $9,670,156, (v) the reliance on Shelter Canadian Properties Limited and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) the successful completion of additional property sales under the divestiture program (viii) the ability to complete upward refinancings to generate additional funds in the event that the net proceeds from property sales are not sufficient to fund operating losses, and (ix) the ability of the Trust to reach an agreement with the builder of Parsons Landing in regard to an amended purchase agreement, including an extended closing date.

As a result of the substantial improvement in the occupancy level of the Fort McMurray portfolio, the extension of the Series G debentures in December 2011; the renewal or refinancing of mortgage loans and ongoing discussions with lenders for mortgages which have matured to the date of this report; and two property sales subsequent to March 31, 2012, management believes that LREIT has the financial capacity to continue operations for the next twelve months.

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

Real Property Ownership

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

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

Credit Support from Shelter Canadian Properties Limited

Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. have provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances, deferred services fees, revolving loan advances and deferred interest payments. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000, deferred service fees of $425,833, revolving loan advances of $12 Million and deferred interest on the revolving loan of $294,000. During the first quarter of 2012, the revolving loan was paid down to a balance of $10.2 Million as of March 31, 2012 and all of the other interim funding was fully repaid.

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

Public Market Risk

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

Completion of Divestiture Program

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

During 2009, LREIT sold 13 properties under the divestiture program at a combined gross selling price of $90.4 Million. During 2010, LREIT sold five additional properties at a combined gross selling price of $40.4 Million. During 2011, LREIT did not complete any property sales. During 2011, LREIT sold four condominium units at Lakewood Townhomes at a gross selling price of $1,927,100.

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.3 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.4 Million after assumption of mortgage loan debt and sales expenses. The sale is subject to the receipt of mortgagee approval for the assumption of the first mortgage loan by the purchaser.

The current expectations of management are that the three remaining seniors' housing complexes and/or other properties will be sold by December 31, 2012. In addition, the condominium sale program for the Lakewood Townhomes is expected to be substantially completed in 2013. During the first quarter of 2012, the property sales of LREIT consisted of the sale of three condominium units at Lakewood Townhomes at a gross selling price of $1,470,700.

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

Completion of Parsons Landing Acquisition

Although LREIT obtained possession of Parsons Landing on September 1, 2008, the deadline for the payment of the purchase price has been extended on an ongoing basis, subject to certain conditions.

As previously reported, a fire occurred at Parsons Landing in February 2012 which substantially destroyed one entire wing of the property and resulted in wide spread damage to the other two wings.

The Trust is entitled under the terms of the purchase agreement to benefit from the proceeds of insurance which are applied to reconstructing the building and replace revenue losses. In addition, the Trust is entitled to proceeds of an insurance policy retained by the Trust which provides for the replacement of furniture and equipment which is owned by the Trust and was destroyed by the fire.

As the agreements with the builder and with the insurer for the Trust have not have not been completed, the Trust has not accrued any amounts receivable in this regard.

There are inherent uncertainties related to the resolution of the insurance claim which could potentially have adverse financial consequences on LREIT.

The extension agreement provides for payment terms in regard to the balance due including payment of $2,000,000 which was due on February 17, 2012.

The additional payment of $2,000,000, which was due on February 17, 2012, was deferred by LREIT due to the destruction of the property.

The builder has commenced a legal claim for payment of all amounts due under the purchase agreement, or an order of foreclosure. The Trust is contesting the claim and seeking an agreement which addresses the extension of the closing date to 90 days after the reconstruction period; the commitment of the builder to deliver the property at closing in accordance with the term of the original construction specifications and a determination of revenue loss proceeds under the terms of the insurance policies.

Management expects that an agreement will be negotiated.

Concentration of LREIT's Portfolio in One Market

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

At March 31, 2012, there were 27 properties in the real estate portfolio of LREIT comprised of 23 properties in the investment property portfolio and 4 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of two commercial properties, 20 residential properties and one mixed residential/commercial property, comprising a total of 2,099 rental units. Including the impaired property, the residential property portfolio includes 14 properties that are located in Fort McMurray, comprising a total of 1,160 suites, or 55% of the total residential suites in the investment property portfolio. The 14 properties have an aggregate carrying value of $306.0 Million, which represents approximately 72% of the total aggregate carrying value of the investment property portfolio.

The 14 properties in Fort McMurray accounted for 65% of the total revenue of LREIT during the first quarter of 2012 and 69% of the net operating income.

Oil Sands Industry

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

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

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

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

Financing

General

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

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

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

Mortgage Maturities

With the exception of the first mortgage loan of $14,782,637 for the Lakewood Townhomes which matured on July 18, 2010, the second mortgage loan of $16,976,015 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010 the $53,369,285 first mortgage loan for Laird's Landing which matured October 1, 2011, all of which are in breach of the debt service coverage requirements, and the $28,306,403 first mortgage loan for Woodland Park which matured on April 5, 2012, all of the mortgage loans for continuing operations which matured to the date of this report were renewed, or refinanced. The three loans, which matured in 2010 and 2011, are repayable on demand. A forbearance agreement has been obtained from the lender in regard to the covenant breaches for the three loans with the expiry date of December 31, 2011. The first mortgage loan for the Lakewood Townhomes will be repaid from the net proceeds of the condominium sales program. Management expects that the first mortgage loan for Woodland Park will be renewed for a one year term at 3%.

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

Covenant Breaches

As previously disclosed in this report, as of March 31, 2012, LREIT was is in breach in regard to net operating income requirements; debt service coverage requirements; and restrictions on the registration of secondary charges against the title to the property for five mortgage loans, encompassing three first mortgage loans, a second mortgage loan and a swap mortgage loan with a total balance of $148,287,750.

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

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

During 2010, LREIT was required to deposit $7.9 Million with the mortgage lenders in order to increase the cash reserve requirements for four of the mortgage loans which were in breach of debt service coverage requirements. During 2011 and 2010, fees of $625,245 and $1.2 Million, respectively, 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.

During the first quarter of 2012, LREIT was not required to remit any additional deposits in regard to the six mortgage loans with covenant breaches and no additional fees were incurred.

Payment of Cash Distributions

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

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

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

Changes to Tax Treatment of Trusts

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

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

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

- determination of "fair value" of swap mortgage loans: The fair value of interest rate swap arrangements is based on the difference 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. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for 2011 is $1,720,381. Cumulative excess interest from January 1, 2010 to March 31, 2012 is $15,541,015;

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

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

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

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

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to March 31, 2012, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010. As explained more fully in the preceding sections of this report, the special distributions were issued to reduce the taxable income of LREIT to nil.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the first quarter of 2012 that have materially affected, or are reasonable likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2012 First Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 11, 2012

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
2012 FIRST QUARTER REPORT

SCHEDULE I

Real Estate Portfolio as of March 31, 2012

Property Portfolio - March 31, 2012

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2012
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	96 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	100 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	90 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	92 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	84 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	79 %
Parkland Apartments (3)	Fort McMurray	2,230,200	June 2006	12	8 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	69 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	53 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	78 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	94 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	93 %
Lakewood Apartments (4)	Fort McMurray	34,527,719	July 2007	111	75 %
Lakewood Townhomes (4) (5)	Fort McMurray	22,597,188	July 2007	57	98 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	100 %
Parsons Landing (6)	Fort McMurray	60,733,000	September 2008	160	N/A
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	92 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	94 %
Nova Court (7)	Yellowknife	15,000,000	March 2007	106	100 %
Total - Residential		**$ 409,786,607**	Total suites	**2,099**	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	$ 7,931,600	October 2008	83,190	97 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 420,518,207**			

Property Portfolio - March 31, 2012

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2012
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	92 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	93 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	69 %
Clarington Seniors' Residence	Bowmanville	22,400,000	February 2007	112	87 %
Total seniors' housing complexes		**$ 72,122,000**	Total suites	**510**	
Total real estate portfolio		**$ 492,640,207**			

Notes to the Property Portfolio:

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

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

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

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

(5) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of March 31, 2012 reflects the sale of 4 condominium units in 2011 and 3 condominium units in 2012.

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

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