MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2010

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Unitholder Returns

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
	(Per unit)	(Per unit)
Cash distribution	-	$0.09
Unit distribution	-	$1.09
Opening price	$0.81	$2.30
Closing price	$0.72	$0.81

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

Foreword

The operating results and cash flows of LREIT's portfolio of income-producing properties are disclosed under "continuing operations" in the financial statements of LREIT. As of September 30, 2010, the portfolio of income-producing properties consists of 19 properties, 13 of which are located in Fort McMurray, Alberta.

The operating results and cash flows for properties which were sold or classified as "held for sale" are disclosed under "discontinued operations" in the financial statements of LREIT. The results for the three and nine month periods ended September 30, 2009 for all sold or "held for sale" properties are also restated under "discontinued operations", for comparative purposes.

CHIEF EXECUTIVE OFFICER'S MESSAGE

Continuing Operations

During the third quarter of 2010, LREIT incurred a loss from continuing operations, which was virtually unchanged in comparison to the loss from continuing operations in the third quarter of 2009. Specifically, during the third quarter of 2010, LREIT incurred a loss from continuing operations of $3,434,514, compared to a loss of $3,455,124 during the third quarter of 2009. The decrease in the loss mainly reflects a decrease in financing expense, offset by a decrease in operating income.

The decrease in operating income mainly reflects a decrease in the overall occupancy level of the Fort McMurray property portfolio as a result of the expiry of the corporate lease agreement for Lakewood Manor. Under the corporate lease agreement all of the 175 units at the property were 100% leased for a three-year period from June 1, 2007 to May 31, 2010. Following the expiry of the lease agreement, there was a marked decrease in the occupancy level of Lakewood Manor and a corresponding decrease in the average occupancy level of the entire property portfolio. Lakewood Manor is currently 51% occupied.

The decrease in financing expense is mainly due to a decrease in "non-cash" financing charges related to the change in value of interest swap arrangements.

In regard to operating cash flow results, LREIT completed the third quarter of 2010, with a cash outflow from operating activities, before changes in non-cash operating items, of $1,491,447, representing a decrease of $982,612, compared to the third quarter of 2009. The decrease mainly reflects a decrease in operating income, on a cash basis and, to a lesser extent, an increase in financing expense, on a cash basis.

After providing for changes in non-cash operating items, as well as the net cash outflow from financing and investing activities, LREIT completed the third quarter of 2010 with a net cash outflow from continuing operations of $2,451,954. Cash inflows from investing and financing activities include proceeds of $6,340,000 from the collection of a mortgage loan receivable, net cash proceeds of $2,063,351 from new mortgage financing and additional advances on the revolving loan commitment and line of credit of $1,349,692. Cash outflows from investing and financing activities include $1,454,712 of regular mortgage loan principal payments, the retirement of $4,500,000 of second mortgage loan financing, an increase in restricted cash of $2,008,008 and the investment of $3,338,341 in a defeasance asset.

Discontinued Operations

During the third quarter of 2010, LREIT completed the sale of a two apartment properties, resulting in combined gain on sale of $4,247,095. After accounting for the gain on sale and the income from the rental operation "held for sale" properties, LREIT completed the third quarter of 2010 with income from discontinued operations of $4,691,563.

The two property sales generated net cash proceeds of $6,880,094. After accounting for interim mortgage loan repayments of $3,972,865 and the net cash outflow from other investing and financing activities, LREIT completed the third quarter of 2010 with a net cash inflow from discontinued operations of $2,221,445.

The net cash inflow from discontinued operations of $2,221,445, effectively served to fund the net cash outflow from continuing operations of $2,451,954.

Year-to-Date Results

During the first nine months of 2010, income from the discontinued operations of LREIT exceeded the loss from continuing operations by $955,835, primarily due to the sale of four properties and the resulting gain on sale of $11,839,214.

In comparison, the net cash outflow from continuing operations exceeded the total cash inflows from discontinued operations by $2,059,192 during the first nine months of 2010, largely due to the extent of long-term debt repayments and an increase in mortgage loan escrow deposits. The cash shortfall was funded by the existing cash resources of the Trust.

Sources of Cash

For the fourth quarter of 2010 and into 2011, the sale of properties is expected to continue to serve as main source of capital for LREIT. In this regard, LREIT completed the sale of a 50-suite townhouse property in Yellowknife, NWT on November 1, 2010. The net cash proceeds, after accounting for expenses and the assumption of mortgage debt, of approximately $4.15 Million will be used to partially repay the mortgage bond liability in December 2010.

Key Financing Issues

Although LREIT continues to experience a delay in obtaining sufficient financing to complete the closing of a 160-suite apartment development in Fort McMurray (Parsons Landing), the payment extension deadline has been extended from January 3, 2011 to June 30, 2011. LREIT is also continuing to address the breach of debt service coverage covenants for approximately $145 Million of mortgage loan debt. The expectation is that all of the covenant breaches will be resolved through forbearance agreements, waivers or modified loan terms.

During the first nine months of 2010, approximately $41.8 Million of the mortgage loan debt of LREIT matured and all of the debt was renewed, refinanced or repaid/eliminated on the sale of properties, with the exception of one of the "breach of covenant" mortgage loans in the amount of $18,524,849 which matured on July 18, 2010. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Subsequent to September 30, 2010, $33.3 Million of the mortgage loan debt of LREIT matured. After applying $400,000 sale proceeds to one of the maturing loans, renewal or replacement financing has been arranged for $15.5 Million. The remaining $17.4 Million loan is one of the "breach of covenant" mortgage loans. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Divestiture Program

As of September 30, 2010, LREIT has seven properties, which are designated for sale under LREIT's divestiture sales program, excluding the apartment property in Yellowknife, NWT, which was sold on November 1, 2010. The estimated gross selling price and net cash proceeds of the seven properties is $150.6 Million and $65.1 Million, respectively. The proceeds from the sale of the properties are expected to be sufficient to enable LREIT to meet all of its funding requirements through 2011.

Outlook

During the nine month period ended September 30, 2010, the Fort McMurray property portfolio accounted for approximately 77% of the net operating income of LREIT. Occupancy levels in Fort McMurray are approximately 70%.

Management believes that the Fort McMurray rental housing market will demonstrate higher occupancy rates in future years as the oil sands industry continues to increase daily production and construct significant additional capacity in the Fort McMurray region. Engineering and procurement activities related to a number of these expansions are underway.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements of LREIT for the nine months ended September 30, 2010 and with reference to the 2010 First and Second Quarter Reports and the 2009 Annual Report.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

During the first nine months of 2010, LREIT sold 4 properties under its divestiture program, while an additional 8 properties are classified as "properties held for sale" as of September 30, 2010. The operating results for the "sold" and "held for sale" properties, as well as the sale results for the "sold" properties are reported separately in the consolidated financial statements under "discontinued operations", in accordance with generally accepted accounting principles (refer to Note 7 to the consolidated financial statements). The carrying value of "properties held for sale", as reported in accordance with generally accepted accounting principles in the consolidated financial statements, differ from the projected sale price of the properties as disclosed in the MD&A. The number of properties actually sold by LREIT may differ from the number of properties which are classified as "held for sale".

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

The operating results for the 19 income-producing properties of LREIT are reflected in the consolidated financial statements under continuing operations. Assets, liabilities, revenues, expenses and cash flows reflected in this MD&A are in regard to continuing operations, unless otherwise indicated.

FINANCIAL SUMMARY

	September 30 2010	December 31 2009
BALANCE SHEET		
Total assets	$ 516,217,762	$ 537,144,566
Total long-term financial liabilities **(1)**	$ 402,783,959	$ 434,466,995

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
DISTRIBUTIONS				
Distributions paid in cash	$ -	$ -	$ -	$ 1,530,736
Value of trust units issued under DRIP	-	-	-	104,343
Distributions paid on LP units	-	-	-	33,285
	$ -	$ -	$ -	$ 1,668,364
Per unit	$ -	$ -	$ -	$ 0.09
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Total revenue	$ 7,931,902	$ 8,966,037	$ 24,329,611	$ 31,594,052
Net operating income *	$ 5,066,605	$ 5,882,896	$ 14,958,244	$ 21,856,702
Loss from continuing operations, before future income tax *	$ (3,434,514)	$ (3,455,124)	$ (11,981,673)	$ (11,522,583)
Income (loss) and comprehensive loss	$ 1,257,049	$ (3,146,599)	$ 955,835	$ (15,634,045)
Cash Flows				
Cash flow from operating activities, including discontinued operations	$ (756,804)	$ 380,597	$ (559,253)	$ 4,159,969
Funds from Operations (FFO) *	$ (696,386)	$ (265,623)	$ (4,093,996)	$ (3,062,019)
Adjusted Funds from Operations (AFFO) *	$ (1,339,957)	$ 179,236	$ (4,400,175)	$ 1,421,735
Distributable income (loss) *	$ (773,257)	$ 645,570	$ (2,591,856)	$ 3,219,854
Per Unit				
Net operating income *				
- basic	$ 0.277	$ 0.334	$ 0.820	$ 1.251
- diluted	$ 0.213	$ 0.230	$ 0.630	$ 0.865
Loss from continuing operations, before future income tax*				
- basic	$ (0.188)	$ (0.196)	$ (0.657)	$ (0.660)
- diluted	$ (0.188)	$ (0.196)	$ (0.657)	$ (0.660)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.069	$ (0.179)	$ 0.052	$ (0.895)
- diluted	$ 0.069	$ (0.179)	$ 0.052	$ (0.895)
Distributable income (loss) *				
- basic	$ (0.042)	$ 0.036	$ (0.142)	$ 0.184
- diluted	$ (0.042)	$ 0.032	$ (0.142)	$ 0.171
Funds from Operations (FFO) *				
- basic	$ (0.038)	$ (0.015)	$ (0.225)	$ (0.175)
- diluted	$ (0.038)	$ (0.015)	$ (0.225)	$ (0.175)
Adjusted Funds from Operations (AFFO) *				
- basic	$ (0.073)	$ 0.010	$ (0.241)	$ 0.081
- diluted	$ (0.073)	$ 0.006	$ (0.241)	$ 0.071

(1) Long-Term Financial Liabilities

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

(2) Non-GAAP Measurements

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

SUMMARY

Core Business and Strategy

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

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

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

As of September 30, 2010, 17 properties have been sold under the divestiture program and 8 other properties are classified as "held for sale". The "income-producing" property portfolio is comprised of the remaining 19 properties.

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

Highlights of 2010 Q3 Results and Key Issues/Events

1. Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Income properties:				
Average vacancy loss				
Fort McMurray	33 %	30 %	31 %	19 %
Yellowknife	1 %	1 %	- %	1
Other	7 %	7 %	9 %	5 %
Total	27 %	26 %	26 %	17 %
Average rental rate				
Fort McMurray	$2,380	$2,733	$2,339	$2,927
Yellowknife	$1,936	$1,990	$1,934	$1,875
Other	$857	$843	$854	$838
Total	$2,135	$2,400	$2,104	$2,525

2. Financial *

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net operating income from continuing operations				
Fort McMurray properties	$ 3,815,301	$ 4,686,759	$ 11,349,568	$ 18,517,568
Other properties	1,156,307	1,195,972	3,308,705	3,320,099
Trust	94,997	165	299,971	19,035
Total net operating income	$ 5,066,605	$ 5,882,896	$ 14,958,244	$ 21,856,702
Financing expense	$ 5,713,882	$ 6,505,543	$ 18,245,147	$ 24,919,791
Net income (loss)				
Income (loss) from continuing operations, before taxes	$ (3,434,514)	$ (3,455,124)	$ (11,981,673)	$ (11,522,583)
Future income taxes	-	-	-	(2,698,804)
Income (loss) from discontinued operations	4,691,563	308,525	12,937,508	(1,412,658)
Income (loss) and comprehensive income (loss)	$ 1,257,049	$ (3,146,599)	$ 955,835	$ (15,634,045)
Operating cash flow				
Cash provided by (used in) operating activities in continuing operations	$ (366,796)	$ (630,164)	$ (3,337,416)	$ 3,442,829

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

The marginal decrease in the loss from continuing operations for the third quarter of 2010 of $20,610 mainly reflects a decrease in financing expense, offset by a decrease in the net operating income of the Fort McMurray property portfolio. For the nine month period ended September 30, 2010, LREIT experienced an increase in the loss from continuing operations before income taxes of $459,090. The increase in the loss for the nine month period is mainly due to two variables as follows:

- during the first six months of 2010, the quarterly decrease in net operating income from the Fort McMurray portfolio was significantly greater than the third quarter of 2010, as a result of a higher variance in the quarterly vacancy rate and as the second quarter included a rent credit and rent abatement for Lakewood Manor which resulted in a non-recurring reduction to rental revenue of $1 Million.

- the decrease in financing expense for the nine month period ended September 30, 2010 mainly pertains to the change in value of interest rate swap agreements and the forgiveness of interest on the amount payable for Parson's Landing. During the first six months of 2010, the quarterly decrease in financing expense was significantly greater than the third quarter of 2010 as the majority of the decrease related to the change in value of interest rate swap agreements and the forgiveness of interest occurred in the first six months of the year.

As noted above, the decrease in operating income and the decrease in financing expense were roughly equivalent during the third quarter of 2010. During the first six months of 2010, the decrease in operating income exceeded the decrease in financing expense, resulting in an increase in the net loss from continuing operations for the nine month period.

3. Liquidity

	September 30 2010	December 31 2009
Cash	$ 2,228,672	$ 4,287,864
Working capital (deficit)	$ (7,767,444)	$ 1,723,212

Key events affecting liquidity

Nine months ended September 30, 2010

- On February 17, 2010, the 8% Series E convertible debenture debt of $11.95 Million matured. The debt was retired utilizing $5 Million from the revolving loan with 2668921 Manitoba Ltd. and $4.8 Million from the line of credit with the Royal Bank of Canada, with the balance paid from cash reserves.
- During the first quarter of 2010, LREIT generated net proceeds of $6,445,841 from the sale of two properties, after accounting for expenses, the repayment of mortgage debt and the provision of a $3 Million second mortgage loan to the purchaser.
- On March 9, 2010, LREIT generated gross proceeds of $6,780,000 from a public offering of investment units, with each unit consisting of a five year, 9% second mortgage bond in the principal amount of $1,000 and 1,000 trust unit purchase warrants.
- On July 22, 2010, LREIT accepted a payment of $6,340,000 as full payment of the 6% $6,550,000 second mortgage loan receivable. The proceeds from the collection of the loan were used to retire $4,500,000 of second mortgage loan financing.
- On July 28, 2010, LREIT obtained $2.1 Million of additional first mortgage loan financing. The proceeds from the upward refinancing were used to retire second mortgage debt of $1,000,000.
- During the third quarter of 2010, LREIT generated net proceeds of $6,880,094 from the sale of two properties, after accounting for expenses, the repayment of mortgage debt. A portion of the proceeds was subsequently used to acquire defeasance assets at a cost of $3,338,341.

Subsequent to September 30, 2010

- On November 1, 2010, LREIT sold an apartment property in Yellowknife known as Three Lakes Village, generating net cash proceeds of approximately $4.15 Million, after expenses and the assumption of mortgage loan debt. The net cash proceeds will be used to partially repay the mortgage bond liability in December 2010.

As of September 30, 2010, the total debt for continuing operations decreased by $6.9 Million or 3% compared to December 31, 2009 and working capital decreased by $9.5 Million. Total debt for continuing operations includes mortgage loans payable, convertible debenture debt, mortgage bonds payable and acquisition payable.

4. Financing

Key Variables	September 30 2010	December 31 2009
Weighted average interest rate of mortgage loan debt - Income Properties		
Continuing operations	6.0 %	5.9 %
Discontinued operations	6.1 %	6.6 %
Combined operations	6.1 %	6.1 %

Key Financing Issues

Parsons Landing

Although LREIT acquired possession of Parsons Landing on September 1, 2008, the purchase agreement provided for a portion of the purchase price to be paid by February 28, 2009. As LREIT has experienced delays in completing financing, the vendor has agreed to multiple extensions of the payment deadline, subject to certain conditions, including the remittance of monthly interest payments of $300,000 and a lump-sum principal payment of $500,000. In October 2010, the payment deadline was extended to June 30, 2011. On closing, the vendor has also agreed to forgive accrued interest in excess of the $300,000 monthly payments for the period from January 1, 2010 to June 30, 2011. The third quarter financial statements reflect the forgiveness of excess interest for the nine month period ended September 30, 2010 in the amount of $5,161,141.

The vendor has also extended its agreement to provide second mortgage loan financing of $12 Million provided that LREIT obtains a commitment by April 30, 2011, for sufficient mortgage loan funding to complete the purchase of the property.

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

Debt Covenants

As of September 30, 2010, eleven properties have mortgage loans which are in breach of debt service coverage requirements including the "held for sale" property in Moose Jaw and ten of the income-producing properties in Fort McMurray. In total, the mortgage loan debt which is in breach of debt service coverage requirements amounts to $144,968,743.

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

Mortgage Financing

Subsequent to September 30, 2010, $29.3 Million of the mortgage loan debt of LREIT matured, of which $0.4 Million was retired from sale proceeds and $11.5 Million was renewed. The remaining debt is comprised of a $17.4 Million first mortgage loan which is one of the loans in breach of debt service coverage requirements. The lender has offered an extension of the forbearance to January 15, 2011 and the terms are being finalized.

5. Divestiture Program

	Properties Sold in 2009	Properties Sold First Nine Months 2010	Total
Number of properties	13	4	17
Gross proceeds	$ 90,392,000	$ 29,185,000	$ 119,577,000
Net proceeds	$ 29,631,650	$ 13,332,371	$ 42,964,021

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

As noted above, the sale of Three Lakes Village in November 2010 resulted in gross proceeds of $11.2 Million and net proceeds of approximately $4.15 Million, after expenses and the assumption of mortgage loan debt, which will be used used to partially repay the mortgage bond liability in December 2010.

Risks and Uncertainties

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

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

  - the net losses sustained by LREIT in 2009 and during the first nine months of 2010;
  - the breach of the debt service coverage requirements on six mortgage loans (relating to eleven properties) encompassing $145 Million of mortgage loan debt;
  - the working capital deficiency of the Trust;
  - the cross-default clause of the Series F convertible debentures;
  - the cross-default terms of the mortgage bonds; and
  - the impact of the continuation of high vacancy rates and reduced rental rates in Fort McMurray on the ability of the Trust to secure mortgage loan financing.

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

- Other key risk factors include the following:

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

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

PARSONS LANDING FINANCING

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

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

As the new mortgage loan financing arrangements were delayed, the vendor agreed to extend the deadline for payment of the balance owing until May 29, 2009, with several subsequent extensions, with the most recent payment deadline being set at June 30, 2011. Each payment extension date has also encompassed an extension of the deadline date for LREIT to obtain a commitment for the mortgage loan financing for the property and a condition that LREIT submit payments of $300,000 per month on account of interest. The $300,000 monthly interest payments have been submitted by LREIT from March 2009 to October 2010, inclusive. LREIT was also required to remit a principal payment of $500,000 on May 12, 2009.

Subject to LREIT remitting an additional payment of $5 Million prior to closing, the Vendor has agreed to provide a second mortgage loan on closing, to a maximum of $12 Million, for a term of 15 months, at an interest rate of 8% per annum for the first eight months, 12% for the next four months and 24% thereafter. The Vendor has also agreed to provide a credit of $1,440,000 for furniture purchased by LREIT, on closing. The current agreement to extend the payment deadline date to June 30, 2011 is conditional upon LREIT obtaining a commitment, by April 30, 2011, for sufficient mortgage loan funding to complete the purchase of the property. After providing for $12 Million of second mortgage loan financing, a minimum payment of $5 Million to the vendor and a $1.44 Million furniture credit, LREIT will require approximately $29.3 Million of funding to complete the purchase of the property.

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

Subject to the attainment of the required mortgage funding commitment by April 30, 2011, the Vendor has agreed to forgive interest in excess of the $300,000 monthly interest payment for the period from January 1, 2010 to June 30, 2011, on closing. Accrued interest on the balance owing for the period from January 1, 2010 to June 30, 2011 amounts to $15,722,287 of which $7,861,141 pertains to the first nine months of 2010. Management estimates that the entire amount of the interest in excess of the $300,000 monthly interest payments will be forgiven and, as such, the financial statements for the nine month period ended September 30, 2010 reflect the forgiveness of interest in the amount of $5,161,141.

As of September 30, 2010, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47.7 Million.

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

Timing of Interest Forgiveness - 2009

Due to the timing of the deadline extension agreements, the total interest forgiven in 2009 was not reflected in the financial results of LREIT until the second half of the year. For the period from March 1, 2009 to September 30, 2009, the total interest forgiveness amounted to $4,092,462 of which $1,609,373 was reflected in the financial statements during the third quarter of 2009 and $2,483,089 was reflected in the financial statements during the fourth quarter of 2009.

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

The primary investment objectives of LREIT are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments through the ongoing investment, development, management and divestiture activities 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 September 30, 2010, the real estate portfolio of LREIT consists of 18 multi-family residential properties and one commercial property (the "income properties"), as well as eight properties which are classified as "held for sale". Rental revenue from the leasing of the income properties is the primary source of revenue for LREIT.

Investment in Properties

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

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

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

Operations

LREIT 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.

Financing

The purchase price of new property acquisitions is typically funded from the proceeds of mortgage loans with the remaining balance, or the equity component, funded from other investment capital. The investment capital of LREIT has been primarily raised through the completion of trust unit or convertible debenture offerings, although LREIT also utilizes second and third mortgage loans, bridge financing and an operating line of credit as a source of investment capital. The upward refinancing of mortgage loan debt has also served as a source of investment capital. In March 2010, LREIT raised additional capital from a public offering of investment units, comprised of second mortgage bonds and trust unit purchase warrants.

Pursuant to the terms of the Declaration of Trust, the total mortgage loan indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of September 30, 2010, 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 nine months of 2010, the mortgage loan debt service coverage ratio for continuing properties was 0.85, compared to 0.84 for the first six months of 2010 and 1.08 for the year ended December 31, 2009.

Divestiture Program

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

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

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

During the nine month period ended September 30, 2010, LREIT sold four additional properties at a combined gross selling price of $29.2 Million, with two sales occurring during the first quarter of the year and two sales occurring during the third quarter of the year. The total net proceeds from sale were approximately $13.3 Million, after accounting for expenses, the repayment, assumption or defeasance of mortgage debt and the provision of take-back financing to a purchaser. The net proceeds from the two first quarter property sales, combined with other cash resources, enabled LREIT to repay $11.95 Million of convertible debenture debt during the first quarter of 2010. The proceeds from the third quarter sales were used to purchase defeasance assets.

On November 1, 2010, LREIT sold a property in Yellowknife, Northwest Territories, known as Three Lakes Village, for $11.2 Million generating net cash proceeds of approximately $4.15 Million, after accounting for expenses and the assumption of debt. The net cash proceeds will be used to partially repay the mortgage bond liability in December 2010.

Distributions

In March 2009, after paying a distribution of $0.04667 per unit for January 2009 and February 2009, LREIT implemented a change in its distribution policy from monthly distributions to quarterly distributions. Under the revised distribution policy, the Trust planned to pay quarterly distributions of $0.06 per unit commencing in the second quarter of 2009. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT did not proceed with the planned distribution for the second quarter of 2009 and, since then, cash distributions have been suspended.

As a result of the extent of property sales, LREIT incurred significant taxable capital gains in 2009, which resulted in a corresponding increase in taxable income, before deducting distributions. As a result of its taxable income position, LREIT paid a "special" distribution in the form of additional trust units on December 31, 2009. The distribution was intended to reduce the taxable income of LREIT for 2009 to nil, based on the best estimates of the income tax position of LREIT as of December 31, 2009. The distribution was followed by an immediate consolidation of units, resulting in Unitholders holding the same number of units after the distribution as were held prior to the distribution.

During 2010, the sale of income properties, including the November 1, 2010 sale of Three Lakes Village, resulted in a capital gain of approximately $8.8 Million. The Trust intends, subject to TSX approval, to declare a special distribution of additional trust units followed by an immediate consolidation of units in order to reduce the taxable income of LREIT to nil for the 2010 year.

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2010

As of September 30, 2010, the property portfolio of LREIT consists of 19 income-producing properties, and 8 properties which are classified as "held for sale". (The 8 "held for sale" properties are disclosed under "Assets held for sale" on the balance sheet of the Trust.) The entire property portfolio, including "held for sale" properties, has a total purchase price of approximately $506.3 Million and encompasses 2,672 suites and 139,243 square feet of leasable area.

The following changes to the property portfolio occurred during the first nine months of 2010:

- Two properties which were classified as "held for sale" as of December 31, 2009 were sold during the first quarter of 2010.
- One property which was classified as an "income-producing" property as of June 30, 2010, (Woodlily Court) was sold during the third quarter of 2010.
- One property which was classified as a "held for sale" property as of June 30, 2010, (Nova Manor) was sold during the third quarter of 2010.
- One property which was classified as an "income-producing" property as of June 30, 2010 (Three Lakes Village) was reclassified as a "held for sale" property during the third quarter of 2010, as LREIT sold the property on November 1, 2010.

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

Composition of Income-Producing Property Portfolio

The 19 properties which are classified as income-producing properties in continuing operations consist of 13 multi-family residential properties in Fort McMurray, Alberta, two multi-family properties in Yellowknife, Northwest Territories, three multi-family properties located in Thompson, Manitoba, Edson, Alberta and Peace River, Alberta and a commercial property located in Burlington, Ontario.

After considering reclassifications, the income-producing property portfolio consisted of the same 19 properties during the first nine months of 2009 and 2010.

Properties Sold During 2010

As previously disclosed, LREIT sold 2 properties during the first quarter of 2010, and two properties during the third quarter of 2010, at a combined gross selling price of $29.2 Million. Chancellor Gate, a 48-suite apartment property in Winnipeg, Manitoba was sold, effective March 1, 2010. McIvor Mall, a 65,283 square foot shopping centre property in Winnipeg, Manitoba was sold on March 1, 2010. Woodlily Court, a 102-suite apartment complex in Moose Jaw, Saskatchewan was sold on September 1, 2010. Nova Manor, a 32-suite apartment complex in Edmonton, Alberta was sold on September 30, 2010.

After accounting for expenses, the repayment or assumption of mortgage debt and the provision of "take-back" financing to a purchaser, the sales resulted in net cash proceeds of approximately $13.3 Million, of which $3,907,229 pertains to the two sales in the third quarter of 2010.

The net cash proceeds from the sale of the two properties in the third quarter of 2010 were partially used to purchase "defeasance" assets of $3,338,341.

Properties Held for Sale

A property is classified by the Trust as held for sale when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. As of September 30, 2010, the following 8 properties are classified as "held for sale".

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

As previously disclosed in this report, LREIT sold Three Lakes Village on November 1, 2010. The operating results of the property are included in discontinued operations to September 30, 2010.

Analysis of Operating Results for Properties Held For Sale

The operating results for all properties which were sold during the year, or are being held for sale as of September 30, 2010, are disclosed separately on the Consolidated Statements of Loss and Comprehensive Loss under the line "Income (loss) from discontinued operations".

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

Mortgage Loans Receivable

As of December 31, 2009, the mortgage loans receivable of LREIT amounted to $7,050,000, comprised of a 5% second mortgage loan of $500,000, due October 1, 2014, which was provided on a property sale on October 1, 2009, and a 6% second mortgage loan in the amount of $6.55 Million, due June 1, 2011, which was provided on a property sale on December 1, 2009. A 5.5% second mortgage loan of $3 Million, with a due date of July 1, 2014, was provided on a property sale on March 1, 2010, which increased the balance of mortgage loans receivable to $10,050,000 as of March 31, 2010.

In July 2010, LREIT accepted a prepayment of $6.34 Million in regard to the $6.55 Million loan receivable. The prepayment discount of $210,000, which was recorded in June 2010, served to reduce the balance of mortgage loans receivable to $9.84 Million as of June 30, 2010.

On September 30, 2010, LREIT provided a 6% second mortgage loan in the amount of $790,650, due January 1, 2014, on the sale of Nova Manor. After considering the discounted payment of the $6.55 Million loan receivable and the provision of the second mortgage loan of $790,650, the balance of mortgage loans receivable was reduced to $4,290,650 as of September 30, 2010.

CAPITAL STRUCTURE

Capital Structure - September 30, 2010

	September 30, 2010		December 31, 2009	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	$ 265,461,901	64.6 %	$ 272,574,737	64.5 %
Mortgage bonds - face value	6,780,000	1.7 %	-	-
Convertible debentures - face value	39,268,000	9.6 %	51,362,000	12.1 %
Trust units (net of issue costs)	99,045,955	24.1 %	98,966,638	23.4 %
Total capitalization	$ 410,555,856	100.0 %	$ 422,903,375	100.0 %

Mortgage Loans Payable

Change in Total Mortgage Loan Debt during First Nine Months of 2010

The mortgage loans payable of LREIT are comprised of two components, namely mortgage loans payable for continuing operations and mortgage loans payable for properties "held for sale". The mortgage loans payable for continuing operations are disclosed on the balance sheet of LREIT as "Mortgage Loans Payable", while the mortgage loans payable for properties "held for sale" are included in "Liabilities of properties held for sale" on the balance sheet. The mortgage loans payable component of "Liabilities of properties held for sale" is disclosed in note 7 of the financial statements.

In total, the mortgage loan debt of LREIT was reduced by approximately $26.1 Million during the nine months ended September 30, 2010, of which approximately $6.9 Million pertains to continuing operations. An analysis of the total debt reduction during the nine months ended September 30, 2010 is included in the following chart.

	Nine Months Ended September 30, 2010		
	Total	Continuing Operations	Discontinued Operations
Proceeds of mortgage loan financing	$ 5,000,000	$ 5,000,000	$ -
Repayment of mortgage loans on refinancing	(2,936,649)	(2,936,649)	-
Net proceeds (repayment)	2,063,351	2,063,351	-
Regular repayment of principal on mortgage loans	(5,750,737)	(4,676,190)	(1,074,547)
Repayment of interim loans	(3,972,865)	-	(3,972,865)
Repayment of mortgage loans on mortgage loan receivable repayment	(4,500,000)	(4,500,000)	-
Mortgage loans retired, assumed by purchasers or defeased	(14,264,065)	-	(14,264,065)
Total debt repaid/eliminated	(26,424,316)	(7,112,839)	(19,311,477)
Transaction cost/market interest rate adjustments*	355,092	214,548	140,544
Total debt reduction	(26,069,224)	(6,898,291)	(19,170,933)
Total mortgage and interim loans payable - December 31, 2009	381,844,877	271,414,070	110,430,807
Total mortgage and interim loans payable - September 30, 2010	$ 355,775,653	$ 264,515,779	$ 91,259,874

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

The total debt reduction in the third quarter of 2010 was $5,703,184 or 21.6% of the total reduction for the nine months ended September 30, 2010. The third quarter debt reduction consisted of regular repayments of principal of $1,454,712, the repayment of $4,500,000 of second mortgage loan debt in continuing operations and the repayment of $3,972,865 of interim loan debt in discontinued operations.

Composition of Mortgage Loan Debt - September 30, 2010

Continuing Operations

Summary of Mortgage Loans Payable - Continuing Operations

Year of Maturity	Weighted Average Interest Rate	Amount September 30, 2010	Percentage of Total
Fixed rate			
2011 [1]	5.6 %	$ 25,042,494	9.5 %
2012	5.5 %	29,325,324	11.0 %
2013 [2]	5.8 %	42,806,328	16.1 %
2014	6.3 %	35,062,109	13.2 %
2015	4.8 %	6,834,150	2.6 %
2016	5.2 %	32,230,111	12.1 %
2018 [2]	5.8 %	21,809,114	8.2 %
		193,109,630	72.7 %
Demand/variable rate	6.7 %	72,352,271	27.3 %
Principal amount		265,461,901	100.0 %
Unamortized transaction costs		(946,122)	
		$ 264,515,779	

(1) Mortgage loans payable includes a 7.5% second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd., the parent company of Shelter Canadian, with a due date of January 1, 2011.

(2) Includes swap interest rate mortgages of $21,809,114 and $19,705,021, with interest rates fixed at 5.82% and 5.74% respectively by use of interest rate swap arrangements.

Mortgage Loan Debt Summary *

	2010			2009			
	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate							
Fixed rate mortgage loans	5.7%	5.8%	5.8%	5.8%	5.9%	5.9%	5.9%
Variable rate mortgage loans	6.7%	6.2%	5.9%	5.9%	3.7%	3.7%	4.0%
Ratio of mortgage loans payable, compared to: Purchase price of income-producing properties	83%	84%	85%	86%	84%	85%	86%
Ratio of mortgage loans payable, convertible debenture debt (at face value) and mortgage bonds (at face value) compared to purchase price of income-producing properties	98%	99%	100%	102%	101%	102%	102%

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

Discontinued Operations

As disclosed in the analysis at the beginning of the "mortgage loans payable" section of this report, the mortgage loan debt for discontinued operations was reduced by $19,170,933 during the nine months ended September 30, 2010, resulting in a balance of $91,259,874 as of September 30, 2010.

The total balance of $91,259,874 is comprised of first and second mortgage loan debt with a face value of $79,428,048 net of unamortized transaction costs of $14,184 and interim loans payable with a face value of $11,900,000 net of unamortized transaction costs of $53,990. The first and second mortgage loan debt has a weighted average interest rate of 6.6% as of September 30, 2010.

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

Amount	Maturity Date	Interest Rate
$2,000,000	September 1, 2011	12.00%
$9,900,000	October 30, 2010	11.00%
$11,900,000		

The $9,900,000 interim mortgage loan is secured by a charge registered against two income properties, and the $2,000,000 loan is registered against one income property. Both of the interim mortgage loans require monthly payments of interest only. The weighted average interest rate of the interim mortgage loan debt for discontinued properties is 11.2%.

Subsequent to September 30, 2010, a payment of $400,000 was made on the interim loan from the proceeds of sale of Nova Manor and the remaining $11.5 Million was refinanced by a new interim loan, due November 1, 2011.

Debt Maturities

Continuing Operations

All of the mortgage loans for continuing operations which matured to September 30, 2010 have been renewed, refinanced or repaid/eliminated on sale with the exception of a 5.5% first mortgage loan of $18,524,849 which matured on July 18, 2010. The loan is in breach of its debt service coverage requirements and the status of the loan is discussed in the following commentary in this section of the MD&A.

As of September 30, 2010, the amount of mortgage loan principal which is considered repayable during the remainder of 2010, as disclosed in the third quarter financial statements in accordance with GAAP, includes all mortgage loans which are payable on demand and all mortgage loans which are in default of debt service covenant breaches, as well as fixed term mortgages which mature during the fourth quarter of 2010. An analysis of the total mortgage loan principal which is considered repayable for financial statement reporting purposes is provided in the "Capital Resources and Liquidity" section of the MD&A.

A $17.4 Million mortgage, which is one of the mortgage loans in breach of debt service coverage requirements and which is secured by properties in continuing operations matured on October 31, 2010. The lender has offered an extension of the forbearance to January 15, 2011 and the terms are being finalized. A maturing second mortgage loan on Siena Apartments in the amount of $4,000,000 was refinanced from the proceeds of a second mortgage loan bearing interest at 12% and maturing May 1, 2012.

The current status of the matured loans is also discussed in the following commentary in this section of the MD&A.

Discontinued Operations

As of September 30, 2010, the amount of long-term debt for discontinued operations which is considered "due" during the fourth quarter of 2010 in accordance with GAAP, includes $5,008,561 of first mortgage loan debt which is in breach of debt service coverage requirements and $22.7 Million of mortgage loan debt which matures during the fourth quarter of 2010.

Of the $22.7 Million of long-term debt in discontinued operations which matures during the fourth quarter of 2010, $9.9 Million has matured as of the date of this report and along with another interim loan, was refinanced from the proceeds of a new $11.5 Million interim second mortgage loan. A $12.8 Million mortgage matures on December 31, 2010 for a property in discontinued operations and management expects the mortgage to be renewed.

Debt Service Coverage Covenants

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

Of the 12 properties in Fort McMurray which are encumbered by mortgage loan debt, 10 of the properties have mortgage loans which are in breach of the debt service coverage requirements. The breach of the debt service coverage requirements for the 10 Fort McMurray properties is a result of the negative impact of the slow down of development activity in the oil sands industry and the associated decline in rental market conditions in Fort McMurray.

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

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

Property	Debt Service Coverage Requirement	Type of Mortgage	Mortgage Balance September 30, 2010	Maturity Date	Status
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	NOI threshold	First	$ 23,552,964	September 1, 2016	(1)
Lakewood					
Apartments	1.1	First	25,530,098	July 17, 2014	(3)
Townhouses	1.1	First	18,524,849	July 18, 2010	(2)
			67,607,911		
Laird's Landing	1.2	First	55,000,000	Demand	(2)
Woodland Park, Nelson Ridge Estates	1.2	Second	17,352,271	Demand	(2)
			72,352,271		
Moose Jaw					
Chateau St. Michael's	1.3	First	5,008,561	March 1, 2011	(4)
			$ 144,968,743		

(1) The lender has been notified of the breach and is being provided with operating information on a monthly basis.
(2) The lender has provided a forbearance to April 30, 2010. The lender has offered an extension of the forbearance to January 15, 2011 and the terms are being finalized.
(3) The terms of the forbearance are under negotiation.
(4) The lender has been advised of the breach and a waiver has been requested.

The debt service coverage breach for three of the properties was temporarily resolved under the terms of a forbearance agreement which expired on April 30, 2010. As disclosed in the preceding chart, negotiations with lenders in regard to a forbearance agreement or modification of the debt service coverage requirements are in process and management believes that all of the covenant breaches will be resolved. As rental market conditions in Fort McMurray may not improve substantially in the near future, all of the affected properties may not attain income levels in 2010 which satisfy the existing debt service coverage requirements. LREIT intends to sell the Moose Jaw property.

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

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

Based on the above, there is a risk that the Series F convertible debentures, due March 11, 2011, with a face value of $13,645,000, will become payable on demand in the event that a lender demands the repayment of any of the first mortgage loans which are in breach of the debt service coverage requirements.

As disclosed in the chart above, the 5.5% first mortgage loan on the Lakewood Townhouses in the amount of $18,524,849 matured on July 18, 2010. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

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

Weighted Average Interest Rates

As of September 30, 2010, the weighted average interest rate of the mortgage loan debt for continuing operations, discontinued operations and combined operations is 6.0%, 6.6% and 6.2%, respectively.

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

Acquisition Payable

As previously advised, the amount payable in regard to the acquisition of Parsons Landing is $45.2 Million, excluding GST. The amount payable was originally due on February 28, 2009. During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor. Interest charges in excess of $300,000 per month for the period from January 1, 2010 to June 30, 2011 will be forgiven by the vendor, on closing, provided that LREIT obtains a commitment for sufficient mortgage loan funding to complete the acquisition of the property by April 30, 2011. Interest charges of $300,000 per month represent an effective interest rate of 8%.

Interest charges in excess of $300,000 per month for the period from January 1, 2010 to June 30, 2011 amount to $10,322,287 of which $5,161,141 pertains to the first nine months of 2010. Management estimates that the entire amount of the excess interest will be forgiven and, as such, the financial statements for the nine month period ended September 30, 2010 reflect the forgiveness of interest in the amount of $5,161,141.

The amount payable on the acquisition of Parsons Landing is included in "Accounts payable and accrued liabilities" on the Consolidated Balance Sheet of LREIT.

Mortgage Bonds and Warrants

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

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

For financial statement purposes, the initial book value of the warrants and second mortgage bonds was determined to $4,668,016 and $2,111,984, respectively, based on valuation methodology as established under GAAP. See Note 9 in the third quarter financial statements for additional details.

The carrying value of the second mortgage bonds, as of September 30, 2010, of $3,982,825 is based on the initial book value, net of accretion and transaction costs. The second mortgage bonds are disclosed on the Consolidated Balance Sheet of LREIT. The warrants are disclosed in the Consolidated Statement of Equity.

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

As previously disclosed in this report, LREIT sold Three Lakes Village on November 1, 2010, a property which is held as security under the mortgage bonds. The net proceeds, after funding sales costs and retiring the first mortgage loan, of approximately $4.15 Million will be used to partially repay the mortgage bond liability in December 2010.

Convertible Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of September 30, 2010.

Summary of Debenture Offerings

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Nine Months Ended September 30 2010	As of December 31 2009	Net Amount Outstanding September 30 2010
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	(11,950,000)	(50,000)	-
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	(35,000)	-	13,645,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	(109,000)	-	25,623,000
Face value			$ 69,543,000	$ (12,094,000)	$ (18,181,000)	39,268,000
Net accumulated accretion						7,738,593
Unamortized transaction costs						(574,374)
Book value, September 30, 2010						$ 46,432,219
Allocation of book value						
Debt component						$ 36,775,127
Equity component						10,231,466
Unamortized transaction costs						(574,374)
						$ 46,432,219

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

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

Defeasance Assets and Liability

On the closing date of sale of Woodlily Courts on September 1, 2010, an existing 5.649% mortgage loan of $2,818,509 was not discharged due to the nature of the loan security, and, as a result, the loan was defeased. In this regard, LREIT placed Government of Canada Bonds in escrow to fully secure the loan in replacement of the mortgage security which was discharged. The purchase price of the bonds, including transaction costs, was $3,338,341. The purchase of the bonds was funded from the net sale proceeds from Woodlily Courts.

The defeased loan is disclosed on the balance sheet of LREIT as a "defeased liability". The Government of Canada bonds in escrow are disclosed as "defeasance assets".

The defeasance assets and the defeased liability will be measured at amortized cost using the effective interest rate method of calculation until the maturity date of the defeased loan on July 1, 2016. On July 1, 2016, the defeased mortgage will be retired from the proceeds from the realization of the bonds.

Interest on the Government of Canada bonds is included in interest income of the Trust. Interest payments in regard to the defeased loan and amortization of transaction cost are included in financing expense of the Trust.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- September 30, 2010	17,988,339
- November 9, 2010	17,988,339

As of September 30, 2010, LREIT had 17,988,339 units outstanding, which reflects 94,572 units issued upon the redemption of deferred units.

A summary of the Distribution Reinvestment Plan (DRIP), the Normal Course Issuer Bid (NCIB), Unit Option Plan and the Deferred Unit Plan are provided on Schedule II.

ANALYSIS OF INCOME/LOSS

Overall Results

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Rental revenue	$ 7,759,469	$ 8,909,457	$ 23,793,699	$ 31,255,021
Interest and other income	172,433	56,580	535,912	339,031
Property operating costs	2,865,297	3,083,141	9,371,367	9,737,350
Net operating income (NOI) *	5,066,605	5,882,896	14,958,244	21,856,702
Trust expense	657,467	710,801	2,311,728	2,117,078
Income before financing expense, amortization, and taxes (EBITDA) *	4,409,138	5,172,095	12,646,516	19,739,624
Financing expense	5,713,882	6,505,543	18,245,147	24,919,791
Income before amortization and taxes *	(1,304,744)	(1,333,448)	(5,598,631)	(5,180,167)
Amortization	2,129,770	2,121,676	6,383,042	6,342,416
Loss before future income tax *	(3,434,514)	(3,455,124)	(11,981,673)	(11,522,583)
Future income tax expense	-	-	-	2,698,804
Loss from continuing operations	(3,434,514)	(3,455,124)	(11,981,673)	(14,221,387)
Income (loss) from discontinued operations	4,691,563	308,525	12,937,508	(1,412,658)
Income (loss) and comprehensive income (loss)	$ 1,257,049	$ (3,146,599)	$ 955,835	$ (15,634,045)

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

Continuing Operations

Three Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations before taxes of $3,434,514 during the third quarter of 2010, compared to a loss from continuing operations before taxes of $3,455,124 during the third quarter of 2009, representing a decrease in the loss from continuing operations before taxes of $20,610. The decrease in the loss mainly reflects a decrease in financing largely offset by a decrease in net operating income.

The decrease in financing expense is mainly due to a decrease in financing charges related to mortgage loans and convertible debentures, partially offset by an increase in financing charges related to mortgage bonds.

The decrease in operating income mainly reflects the decrease in operating income from the property portfolio in Fort McMurray, as a result of the decline in rental market conditions. The expiry of the "entire property" lease agreement at Lakewood manor, effective May 31, 2010, also resulted in an increase in the vacancy loss of the property in the third quarter of 2010 and served to increase the overall vacancy loss of the Fort McMurray property portfolio.

After including income from discontinued operations and future income tax expense, LREIT recorded an income of $1,257,049 during the third quarter of 2010, compared to a loss of $3,146,599 during the third quarter of 2009.

Nine Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations before taxes of $11,981,673 during the first nine months of 2010, compared to a loss from continuing operations before taxes of $11,522,583 during the first nine months of 2009, representing an increase in the loss from continuing operations of $459,090. The increase in the loss for the nine month period is comprised of an decrease in the loss for the third quarter of 2010 of $20,610, an increase in the loss for the second quarter of 2010 of $852,195 and an decrease in the loss for the first quarter of 2010 of $372,494. In general terms, the increase in the loss reflects a decrease in operating income, largely offset by a decrease in financing expense.

The variation in the amount in which the loss increased of decreased in each quarter mainly reflects quarterly variations in operating income and financing expense. The quarterly variation in financing expense is mainly due to two factors:

(i) variations in the comparative change in the value of interest rate swap agreements; and

(ii) quarterly variations in interest expense associated with the amount payable on Parsons Landing.

The variation in operating income is also mainly due to two factors:

(i) during the second quarter of 2010, the provision of a rental abatement and rent credit at the expiry of the "entire property" lease agreement at Lakewood Manor served to reduce rental revenue by $1 Million; and

(ii) as market conditions in Fort McMurray declined on a gradual basis during 2009, the impact of the change in market conditions on operating income has become less significant over the course of 2010.

After including income from discontinued operations and future income taxes, LREIT recorded an income of $955,835 during the first nine months of 2010, compared to a loss of $15,634,045 during the first nine months of 2009.

Discontinued Operations

As disclosed in the preceding chart, LREIT generated income from discontinued operations of $12,937,508 during the first nine months of 2010, compared to a loss of $1,412,658 during the first nine months of 2009. The income from discontinued operations includes revenues, property operating costs, financing expenses, and amortization charges for all properties which are held for sale as of September 30, 2010; revenues, property operating costs, financing expenses, and amortization charges for the four properties which were sold during the first nine months of 2010, and the total gain on sale in regard to the four properties which were sold during the first nine months of 2010.

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

The income from discontinued operations for the first nine months of 2010 includes amortization charges of $204,396, whereas amortization charges for discontinued operations for the first nine months of 2009 amounted to $2,858,695. Excluding amortization charges and the gain on sale of approximately $11.8 Million, the Trust generated income from discontinued operations of $1,302,690 during the first nine months of 2010, compared to $1,446,037 during the first nine months of 2009. The decrease is mainly due to a decrease in rental revenue as properties are sold.

The total increase in income from discontinued operations during the first nine months of 2010 of $14,350,166, is mainly attributable to the first and third quarters of the year which corresponds to the timing of property sales and the recognition of the associated gain on sale.

Revenue

Market Conditions

Fort McMurray (13 properties)

Accounting for approximately 74% of the total available rental units, the Fort McMurray property portfolio represents the most significant revenue component in LREIT's continuing operations.

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

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

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

Yellowknife (Two Properties)

Yellowknife has experienced a stable market for rental accommodation since the beginning of 2009. The overall vacancy rate has remained at a low level, and the average overall monthly rental rate for the Yellowknife rental market has increased since the beginning of 2009.

Other Locations (Four Properties)

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

Total Revenue

Analysis of Total Revenue

	Total Revenues			
	Nine Months Ended September 30		Increase (Decrease)	
	2010	2009	Amount	% of Total
Income Properties:				
Rental revenue	$ 23,793,699	$ 31,255,021	$ (7,461,322)	103 %
Interest and other income	235,941	319,996	(84,055)	1 %
Sub-total	24,029,640	31,575,017	(7,545,377)	104 %
Trust: Interest and other income	299,971	19,035	280,936	(4)%
Total	$ 24,329,611	$ 31,594,052	$ (7,264,441)	100 %

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

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

As disclosed in the chart above, the total revenue of LREIT decreased by $7,264,441, during the first nine months of 2010, compared to the first nine months of 2009, comprised of a $7,545,377 decrease in revenue from income properties and $280,936 increase in revenue from Trust operations. The decrease in revenue from income properties is comprised of a $7,461,322 decrease in rental revenue and a $84,055 decrease in interest and other income.

During the first nine months of 2009, LREIT did not have any mortgage loans receivable, whereas during the first nine months of 2010, LREIT's investments in mortgage loans receivable ranged from $4,290,650 to $10,050,000.

Rental Revenue

Analysis of Total Revenue from Income Properties

	Three Months Ended September 30			Nine Months Ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Fort McMurray	$ 5,970,350	$ 7,079,222	$ (1,108,872)	$ 18,401,440	$ 26,096,931	$ (7,695,491)
Yellowknife	1,343,524	1,371,582	(28,058)	4,103,562	3,910,037	193,525
Other	523,031	515,061	7,970	1,524,638	1,568,049	(43,411)
Total	$ 7,836,905	$ 8,965,865	$ (1,128,960)	$ 24,029,640	$ 31,575,017	$ (7,545,377)

As disclosed in the chart above, the total revenue from income properties decreased by $1,128,960 during the third quarter of 2010, comprised of a decrease in revenue from the income properties in Fort McMurray of $1,108,872, a decrease in revenue from the Yellowknife portfolio of $28,058 and an increase in revenue from the Other portfolio of $7,970.

The decrease in revenue from the Fort McMurray portfolio reflects an increase in the vacancy loss as well as a decrease in the average rental rate. As disclosed in the chart below, the vacancy loss for the Fort McMurray portfolio increased from 30% during the third quarter of 2009, to 33% during the third quarter of 2010, while the average monthly rental rate decreased by $353 or 12.9% during the third quarter of 2010, compared to the third quarter of 2009.

Due to a number of factors, including the timing of lease expiry dates and the time lag between the decline in general economic conditions and the slowdown of new construction activity in the oil sands industry, the increase in the vacancy loss for the Fort McMurray property portfolio occurred on a gradual basis in 2009. As disclosed in the chart below, the vacancy loss for the Fort McMurray property portfolio increased from 10% in the first quarter of 2009 to 31% in the fourth quarter of 2009. Although the vacancy loss has remained at a high level averaging 31% during the first nine months of 2010, occupancy levels in Fort McMurray are 70%.

The increase in the vacancy loss for the Fort McMurray property portfolio in the third quarter of 2010 mainly reflects the expiry of the corporate lease agreement for Lakewood Manor. Under the corporate lease agreement, all of the suites at the property were 100% leased for a three-year period from June 1, 2007 to May 31, 2010. Following the expiry of the lease agreement there was a marked increase in vacancy loss of Lakewood Manor and a corresponding increase in the average vacancy loss of the Fort McMurray property portfolio. Given the current state of rental market conditions in Fort McMurray and the time required to lease individual suites, the vacancy loss for the Fort McMurray property portfolio is expected to remain at, or near, current levels for the fourth quarter of 2010. Over time, the vacancy loss is expected to improve on a gradual basis, in the same manner as the vacancy loss gradually declined from the fourth quarter of 2008 to the third quarter of 2009.

Analysis of Vacancy Loss for Income Properties

	2010			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	30 %	30 %	33 %	31 %
Yellowknife	- %	- %	1 %	- %
Other	9 %	9 %	7 %	9 %
Total	25 %	24 %	27 %	26 %

	2009					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	10 %	18 %	30 %	19 %	31 %	22 %
Yellowknife	- %	1 %	1 %	1 %	1 %	1 %
Other	2 %	5 %	7 %	5 %	6 %	4 %
Total	9 %	15 %	26 %	17 %	25 %	18 %

Analysis of Average Monthly Rents for Income Properties

	2010			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	$2,495	$2,143	$2,380	$2,339
Yellowknife	$1,941	$1,915	$1,936	$1,934
Other	$753	$761	$857	$854
Total	$2,114	$1,958	$2,135	$2,104

	2009					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	$2,993	$2,904	$2,733	$2,927	$2,595	$2,806
Yellowknife	$1,810	$1,828	$1,990	$1,875	$1,854	$1,863
Other	$728	$739	$843	$838	$743	$738
Total	$2,530	$2,502	$2,400	$2,525	$2,166	$2,308

Rental Abatement and Rent Credit for Lakewood Manor

Effective June 1, 2007, all of the units at Lakewood Manor were leased to a major oil sands company, pursuant to a three year lease agreement, under which the leasee was also responsible for all property operating costs. The lease agreement expired on May 31, 2010.

As disclosed in the 2010 Second Quarter Report, a provision for a rental abatement of $325,000 and a rent credit of $675,000 was established for the tenant during the second quarter of 2010, as result of a dispute regarding operating cost billings and other matters. The provision for the rental abatement and rent credit served to reduce rental revenue by $1 Million in the second quarter of 2010. As per the proposal, the rent credit is effective for a three year period ending May 31, 2013 and is to be applied against amounts owing on future accommodations. The credit of $675,000 increased the total of non-cash operating items at September 30, 2010 and will reduce non-cash operating items in future periods, based on the extent and timing of future lease agreements.

Operating Costs

Analysis of Operating Costs

	Three Months Ended September 30		Increase	Nine Months Ended September 30		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
Fort McMurray	$ 2,155,049	$ 2,392,464	$ (237,415)	$ 7,051,872	$ 7,579,363	$ (527,491)
Yellowknife	475,454	502,347	(26,893)	1,619,992	1,573,439	46,553
Other	234,794	188,330	46,464	699,503	584,548	114,955
Total	$ 2,865,297	$ 3,083,141	$ (217,844)	$ 9,371,367	$ 9,737,350	$ (365,983)

During the third quarter of 2010, property operating costs for the portfolio decreased by $217,844 or 7.1%, compared to the third quarter of 2009. The decrease is comprised of a $237,415 and $26,893 decrease in the operating costs of the "Fort McMurray" and "Yellowknife" portfolios, respectively, and an increase of $46,464 in the "Other" property portfolio. The decrease in operating costs for the Fort McMurray portfolio is mainly due to decreased utility expenses and property management fees, both of which decreased primarily due to the increase in the vacancy rate in the Fort McMurray portfolio.

Net Operating Income and Operating Margin

Analysis of Net Operating Income - Income Properties

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Fort McMurray	$ 3,815,301	$ 4,686,759	$ (871,458)	$ 11,349,568	$ 18,517,568	$ (7,168,000)
Yellowknife	868,070	869,235	(1,165)	2,483,570	2,336,598	146,972
Other	288,237	326,737	(38,500)	825,135	983,501	(158,366)
Total	$ 4,971,608	$ 5,882,731	$ (911,123)	$ 14,658,273	$ 21,837,667	$ (7,179,394)

After considering the revenue and operating cost decreases as analyzed in the preceding sections of this report, the NOI for the portfolio of income properties decreased by $911,123 or 15% during the third quarter of 2010.

As with the decrease in revenue from income properties, the decrease in NOI is almost entirely attributable to a decrease in the NOI of the Fort McMurray portfolio. As disclosed in the chart above, the NOI of the Fort McMurray portfolio decreased by $871,458 during the third quarter of 2010.

The NOI for the portfolio of income properties decreased by $7,179,394 or 32.9% for the nine month period ended September 30, 2010, compared to the nine month period ended September 30, 2009. The decrease for the nine month period is comprised of a decrease in NOI for the first quarter of 2010 of $3,340,397, a decrease in NOI for the second quarter of 2010 of $2,927,874 and a decrease in NOI for the third quarter of 2010 of $911,123. As previously disclosed in the analysis for the overall loss from continuing operations, the variance in quarterly NOI results is mainly due to a non-recurring adjustment to revenue of $1,000,000 which was recorded in the second quarter of 2010 in regard to the rental abatement and rent credit for Lakewood Manor and a lessening of the impact of the relative change in market conditions over the course of the first nine months of 2010.

Analysis of Operating Margin - Income Properties

	Operating Margin			
	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Fort McMurray	64 %	66 %	62 %	71 %
Yellowknife	65 %	63 %	61 %	60 %
Other	55 %	63 %	54 %	63 %
Total	63 %	66 %	61 %	69 %

Overall, the operating margin for the property portfolio decreased from 66% during the third quarter of 2009, to 63% during the third quarter of 2010. The decline in the operating margin is primarily due to a decline in the profitability of the Fort McMurray property portfolio. For the nine month period ended September 30, 2009, the property portfolio achieved a profit margin of 69% compared to 61% for the nine month period ended September 30, 2010.

Financing Expense

Three Month Comparatives

Total Financing Expense

Financing expense decreased by $791,661 or 12% during the third quarter of 2010, compared to the third quarter of 2009. As disclosed in the following chart, the decrease is comprised of a $537,083 decrease in mortgage loan financing expense, which includes a decrease in financing charges of $1,026,476 relating to the change in value of interest swap agreements, a $377,959 decrease in convertible debenture financing expense and a $139,803 decrease in interest expense on acquisition payable, partially offset by $250,070 of financing charges related to the mortgage bonds.

Financing expense encompasses mortgage loan interest, mortgage bond interest, interest expense on acquisition payable, convertible debenture interest, as well as a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the third quarter of 2010, "non-cash" expenses accounted for $978,742 or 124% of the total decrease in financing expense.

Analysis of Financing Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Mortgage Loans						
Interest expense	$ 4,129,179	$ 3,726,484	$ 402,695	$ 12,287,127	$ 10,778,560	$ 1,508,567
Amortization of transaction costs	227,735	141,037	86,698	489,577	394,450	95,127
Change in value - interest rate swaps	(1,305,843)	(279,367)	(1,026,476)	(2,484,059)	2,581,180	(5,065,239)
Total - mortgage loans	3,051,071	3,588,154	(537,083)	10,292,645	13,754,190	(3,461,545)
Mortgage Bonds						
Interest expense	152,550	-	152,550	341,880	-	341,880
Accretion of debt component	69,680	-	69,680	153,232	-	153,232
Amortization of transaction costs	27,840	-	27,840	63,058	-	63,058
Total - mortgage bonds	250,070	-	250,070	558,170	-	558,170
Acquisition Payable						
Interest expense	900,000	1,039,803	(139,803)	2,700,000	5,659,860	(2,959,860)
Total - acquisition payable	900,000	1,039,803	(139,803)	2,700,000	5,659,860	(2,959,860)
Debentures						
Interest expense	736,500	977,975	(241,475)	2,341,884	2,933,925	(592,041)
Accretion of debt component	621,309	731,843	(110,534)	1,913,668	2,086,175	(172,507)
Amortization of transaction costs	141,818	167,768	(25,950)	425,666	485,641	(59,975)
Total - debentures	1,499,627	1,877,586	(377,959)	4,681,218	5,505,741	(824,523)
Defeased Liability						
Interest expense	13,114	-	13,114	13,114	-	13,114
Total - financing expense	$ 5,713,882	$ 6,505,543	$ (791,661)	$ 18,245,147	$ 24,919,791	$ (6,674,644)

Interest Expense

Interest Expense - Mortgage Loans

Mortgage loan interest increased by $402,695 or 11% during the third quarter of 2010, compared to the third quarter of 2009. The increase mainly reflects an increase in the weighted average interest rate for variable rate mortgage loans compared to the third quarter of 2009.

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

Interest on Acquisition Payable

During the third quarter of 2010, interest on acquisition payable decreased by $139,803. The decrease is due to the timing of the forgiveness of accrued interest in excess of monthly payments. During the third quarter of 2010, interest on acquisition payable reflects payments of $300,000 per month, net of interest forgiven of $1,749,176. During the third quarter of 2009, interest on acquisition payable includes $139,803 of accrued interest which was subsequently forgiven. After excluding interest which was subsequently forgiven, interest on acquisition payable was equal to $900,000 for both the third quarter of 2009 and 2010.

Interest Expense - Mortgage Bonds

During the third quarter of 2010, interest on the mortgage bonds amounted to $152,550, representing interest for an entire quarter.

Interest Expense - Debentures

During the third quarter of 2010, interest on convertible debentures decreased by $241,475 or 25%, compared to the third quarter of 2009. The decrease mainly reflects the effect of the retirement of $11.95 Million of Series E Convertible Debentures in February 2010.

Total Interest Expense

During the third quarter of 2010, total interest expense increased by $187,081 or 3%, compared to the third quarter of 2009. After excluding interest which was subsequently forgiven, total interest expense increased by $47,278 or 6%.

Interest Expense Ratio

As a percentage of operating income from continuing operations, total interest in regard to mortgage loans and acquisition payable, excluding interest of $139,803 which was subsequently forgiven, increased from 79% during the third quarter of 2009 to 99% during the third quarter of 2010.

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

After including interest on convertible debentures and mortgage bonds, the ratio of interest expense, relative to operating income from continuing operations, excluding interest of $139,803 which was subsequently forgiven, is 117% for the third quarter of 2010, compared to 95% for the third quarter of 2009.

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the decrease in financing expense for the nine month period ended September 30, 2010 includes a decrease in the amount related to the change in value of the "interest rate swaps" of $5,065,239.

During 2008, LREIT entered into interest rate swap arrangements whereby the interest rate on two floating rate mortgages were fixed for the five and ten year terms of the mortgages. The main purpose of the interest rate swap arrangement is to reduce the risk associated with floating interest rates. In accordance with GAAP, the interest rate swap agreements are derivative financial instruments and are recorded at "fair value" on the balance sheet of the Trust. Changes in fair value are recognized as earnings/losses through charges to financing expense. Increases in fair value serve to decrease financing expense, while decreases in fair value serve to increase financing expense.

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. As a result of the decline in market interest rates, the fair value of the interest rate swap arrangements decreased by $2,581,180 during the first nine months of 2009. During the first nine months of 2010, the fair value of the interest rate swap arrangements increased by $2,484,059, as a result of an increase in market interest rates between December 31, 2009 and September 30, 2010.

On a quarterly basis, the decrease in financing expense related to the change in value of interest rate swaps is $2,960,478 for the first quarter of 2010, $1,215,491 for the second quarter of 2010 and $1,026,476 for the third quarter of 2010.

Although the change in the fair value of the interest rate swaps has served to decrease financing expense during the first nine months of 2010, the change in value is a non-cash transaction which is excluded from the determination of the operating cash flow of the Trust. As a result of fluctuations in market interest rates, the fair value of the interest rate swaps may change significantly in the future, however, the change in value has no impact on cash outflows throughout the entire term of the swap agreements. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a variable rate mortgage, during a specified period of time.

Nine Month Comparatives

Total Financing Expense

Financing expense decreased by $6,674,644 or 26.8% during the first nine months of 2010 compared to the first nine months of 2009. As disclosed in the "Analysis of Financing Expense" the decrease for the nine month period in 2010, is mainly due to the relative change in the value of interest rate swaps and to a decrease in interest on acquisition payable. The decrease in interest on acquisition payable is almost entirely related to the timing of the forgiveness of accrued interest.

Total Interest Expense

During the nine month period ended September 30, 2010, total interest expense decreased by $1,688,340, compared to the first nine months of 2009. As with the third quarter comparatives, the decrease for the first nine months of 2010, reflects a decrease in interest on acquisition payable and convertible debentures, partially offset by an increase in mortgage loan and mortgage bond interest. After excluding interest which was subsequently forgiven, total interest expense increased by $794,749 or 4.6% during the first nine months of 2010.

Trust Expense

Trust expense increased by $194,650 during the first nine months of 2010, compared to the first nine months of 2009. The increase is mainly due to a prepayment discount of $210,000 on the settlement of a mortgage loan receivable as well as an increase in professional and accounting fees, partially offset by a decrease in the service fees of Shelter Canadian. During the first nine months of 2010, the service fee of Shelter Canadian decreased by $173,578 compared to the first nine months of 2009.

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

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

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

Amortization Expense

During the first nine months of 2010, amortization expense increased by $40,626 or 1%, compared to the first nine months of 2009. The increase mainly reflects amortization charges on improvements to income properties. Amortization charges for transaction costs are recorded as a financing expense on the Consolidated Statement of Loss and Comprehensive Loss.

Future Income Taxes

LREIT qualifies as a "Mutual Fund Trust" for income tax purposes. If circumstances permit and subject to the application of the SIFT Rules (discussed below under "Changes to Tax Treatment of Trusts") it is the intent of the Trust to distribute an amount which is not less than all of its taxable income (if any) to its unitholders and to deduct these distributions for income tax purposes. The deductibility of distributions has to date served to reduce the taxable income of the Trust to nil.

LREIT is subject to the SIFT Rules and, subject to earlier application (discussed below under "Operating Risks and Uncertainties - Changes to Tax Treatment of Trusts" and "Taxation")), commencing in 2011, certain distributions will no longer be deductible in computing LREIT's taxable income and LREIT will be subject to a tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Please refer to the Annual Information Form for a more detailed discussion of the SIFT Rules. In accordance with generally accepted accounting principles, LREIT has recorded a future income tax asset based on the temporary difference between the accounting and tax basis of assets held by the Trust, net of a valuation allowance to recognize the uncertainty of the future income tax asset. During 2009 and 2010, the valuation allowance served to reduce the change in the tax asset for the nine months ended September 30, 2009 and 2010, to nil.

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

As of September 30, 2010, a valuation allowance of $5,605,939 has been recorded in recognition of the uncertainty of realization of the future income tax asset, which arises from the temporary differences between the accounting and tax basis held in the Trust, which are expected to reverse after 2010.

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

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

Comparison to Preceding Quarter

Analysis of Loss -Third Quarter 2010 vs. Second Quarter 2010

	Three Months Ended		Increase (Decrease)	
	September 30, 2010	June 30, 2010	Amount	%
Rental revenue	$ 7,759,469	$ 7,609,363	$ 150,106	2.0 %
Interest and other income	172,433	158,001	14,432	9.1 %
Property operating costs	2,865,297	2,996,832	(131,535)	(4.4)%
Net Operating Income (NOI)	5,066,605	4,770,532	296,073	6.2 %
Trust expense	657,467	957,472	(300,005)	(31.3)%
Income before financing expense, amortization, and taxes (EBITDA)	4,409,138	3,813,060	596,078	15.6 %
Financing expense	5,713,882	6,107,325	(393,443)	(6.4)%
Income (loss) before amortization	(1,304,744)	(2,294,265)	989,521	(43.1)%
Amortization	2,129,770	2,127,951	1,819	0.1 %
Loss from continuing operations for the period	(3,434,514)	(4,422,216)	987,702	(22.3)%
Income from discontinued operations for the period	4,691,563	490,982	4,200,581	856 %
Income (loss) and comprehensive income (loss) for the period	$ 1,257,049	$ (3,931,234)	$ 5,188,283	(132.0)%

Overview

During the third quarter of 2010, LREIT incurred a loss from continuing operations of $3,434,514, compared to a loss from continuing operations of $4,422,216 during the second quarter of 2010, representing a decrease in the loss from continuing operations of $987,702. The decrease in the loss from continuing operations mainly reflects an increase in net operating income of $296,073 and a decrease in trust and financing expense of $300,005 and $393,443, respectively.

The increase in net operating income mainly reflects an increase in the net operating income of the Fort McMurray property portfolio. As disclosed in the analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio increased by $300,978 during the third quarter of 2010.

The increase in the NOI for the Fort McMurray portfolio mainly reflects the fact that the revenue for the Fort McMurray portfolio was comparatively low during the second quarter of 2010, as a result of the rental abatement and rent credit provision for Lakewood Manor.

The decrease in financing expense reflects a reduction in the mortgage loan debt of the Trust as well as a decrease in the interest rate of variable rate mortgage loan financing. The decrease in Trust expense was comparatively high during the second quarter of 2010, as the prepayment discount of $210,000 on the settlement of the mortgage loan receivable was included in Trust expense in the second quarter of 2010.

After providing for income from discontinued operations, LREIT completed the third quarter of 2010 with income of $1,257,049, compared to a loss of $3,931,234 during the second quarter of 2010. The bottom-line results for the third quarter of 2010 reflect income from discontinued operations of $4,691,563, compared to $490,982 during the second quarter of 2010. Excluding the $4,247,095 relating to gains on sale, compared to nil in the second quarter of 2010, income from discontinued operations was $444,468 compared to $490,982 in the second quarter.

Revenue and NOI Analysis

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

	2010				
	Q3	Q2	Increase (Decrease)	Q1	Increase (Decrease)
Revenue					
Fort McMurray	$ 5,970,350	$ 5,740,767	$ 229,583	$ 6,690,323	$ (719,973)
Yellowknife	1,343,524	1,404,041	(60,517)	1,355,996	(12,472)
Other	523,031	507,983	15,048	493,626	29,405
Total revenue	$ 7,836,905	$ 7,652,791	$ 184,114	$ 8,539,945	$ (703,040)
Net operating income					
Fort McMurray	$ 3,815,301	$ 3,514,323	$ 300,978	$ 4,025,951	$ (210,650)
Yellowknife	868,070	843,280	24,790	772,219	95,851
Other	288,237	298,356	(10,119)	238,536	49,701
Total net operating income	$ 4,971,608	$ 4,655,959	$ 315,649	$ 5,036,706	$ (65,098)

Summary of Quarterly Results

Quarterly Analysis

	2010			2009
	Q3	Q2 (restated)	Q1 (restated)	Q4 (restated)
Total revenue	$ 7,931,902	$ 7,767,364	$ 8,630,346	$ 8,460,620
Net operating income	$ 5,066,605	$ 4,764,532	$ 5,127,107	$ 5,470,624
Loss from continuing operations, before future income tax	$ (3,434,514)	$ (4,548,216)	$ (3,998,943)	$ (1,445,050)
Income (loss) and comprehensive income (loss) for the period	$ 1,257,049	$ (3,931,234)	$ 3,630,020	$ 19,131,118
PER UNIT				
Net operating income				
- basic	$ 0.277	$ 0.261	$ 0.283	$ 0.307
- diluted	$ 0.213	$ 0.200	$ 0.215	$ 0.218
Loss from continuing operations before future income tax				
- basic	$ (0.188)	$ (0.249)	$ (0.221)	$ (0.081)
- diluted	$ (0.188)	$ (0.249)	$ (0.221)	$ (0.081)
Income (loss) and comprehensive income (loss) for the period				
- basic	$ 0.069	$ (0.216)	$ 0.200	$ 1.072
- diluted	$ 0.069	$ (0.216)	$ 0.200	$ 1.072

Quarterly Analysis

	2009			2008
	Q3 (restated)	Q2 (restated)	Q1 (restated)	Q4 (restated)
Total revenue	$ 8,966,037	$ 10,589,265	$ 12,038,750	$ 12,892,962
Net operating income	$ 5,882,898	$ 7,580,670	$ 8,393,134	$ 9,500,972
Income (loss) from continuing operations for the period, before future income tax	$ (3,455,122)	$ (3,696,021)	$ (4,371,440)	$ (5,452,845)
Loss and comprehensive loss for the period	$ (3,146,599)	$ (3,956,727)	$ (8,530,719)	$ (2,185,348)

PER UNIT

Net operating income								
- basic	$	0.334	$	0.434	$	0.480	$	0.545
- diluted	$	0.230	$	0.300	$	0.333	$	0.373
Income (loss) from continuing operations for the period, before future income tax								
- basic	$	(0.196)	$	(0.212)	$	(0.250)	$	(0.313)
- diluted	$	(0.196)	$	(0.212)	$	(0.250)	$	(0.313)
Loss and comprehensive loss for the period								
- basic	$	(0.179)	$	(0.227)	$	(0.488)	$	(0.125)
- diluted	$	(0.179)	$	(0.227)	$	(0.488)	$	(0.125)

Notes
(1) The restatement of the quarterly results reflects a reduction to total revenue, net operating income, income (loss) from continuing operations pertaining to discontinued operations.

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30				Change		
		2010		2009			
Income (loss) and comprehensive income (loss)							
- basic	$	0.052	$	(0.895)	$	0.947	106 %
- diluted	$	0.052	$	(0.895)	$	0.947	106 %
Income (loss) from continuing operations, before future income tax							
- basic	$	(0.657)	$	(0.660)	$	0.003	- %
- diluted	$	(0.657)	$	(0.660)	$	0.003	- %

Excluding future income tax, LREIT incurred a loss of $0.657 per unit during the first nine months of 2010, compared to a loss of $0.660 per unit during the first nine months of 2009. The decrease in loss per unit is mainly due to a minimal increase in the loss before future income tax, fully offset by a 4.37% increase in the weighted average number of units.

ANALYSIS OF CASH FLOWS

Operating Activities

Third Quarter Comparatives

Cash from Operating Activities

Continuing Operations	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Increase (Decrease)
Rental revenue	$ 7,759,469	$ 8,909,457	$ (1,149,988)
Interest and other income	172,433	56,580	115,853
Property operating costs	2,865,297	3,083,141	(217,844)
Net operating income (NOI)	5,066,605	5,882,896	(816,291)
Less:			
Financing expense	5,713,882	6,505,543	(791,661)
Non-cash component of financing expense	(217,461)	761,281	(978,742)
	5,931,343	5,744,262	187,081
Trust expense	657,467	710,801	(53,334)
Non-cash component of trust expense	30,758	63,332	(32,574)
	626,709	647,469	(20,760)
	(1,491,447)	(508,835)	(982,612)
Changes in non-cash operating items	1,124,651	(121,329)	1,245,980
Cash provided by (used in) operating activities - continuing operations	$ (366,796)	$ (630,164)	$ 263,368
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items	$ 703,670	$ 1,147,771	$ (444,101)
Cash used in leasing activities	-	(34,691)	34,691
Cash provided by operating activities, before changes in non-cash operating items	703,670	1,113,080	(409,410)
Changes in non-cash operating items	(1,093,678)	(102,319)	(991,359)
Cash provided by operating activities	$ (390,008)	$ 1,010,761	$ (1,400,769)

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Increase (Decrease)
Summary			
Cash provided by (used in) operating activities, before changes in non-cash operating items			
-continuing operations	$ (1,491,447)	$ (508,835)	$ (982,612)
-discontinued operations	703,670	1,113,080	(409,410)
Total - continuing and discontinued operations	$ (787,777)	$ 604,245	$ (1,392,022)
Cash provided by (used in) operating activities			
-continuing operations	$ (366,796)	$ (630,164)	$ 263,368
-discontinued operations	(390,008)	1,010,761	(1,400,769)
Total - continuing and discontinued operations	$ (756,804)	$ 380,597	$ (1,137,401)

Continuing Operations

During the third quarter of 2010, the operating activities from the continuing operations of LREIT resulted in a net cash outflow of $366,796. After excluding changes in non-cash operating items, cash from operating activities decreased by $982,612 during the third quarter of 2010, compared to the third quarter of 2009. The decrease in cash flow mainly reflects a decrease in net operating income, on a cash basis, and, to a lesser extent, an increase in financing expense, on a cash basis.

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

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

Discontinued Operations

During the third quarter of 2010, "operating" cash flow from discontinued operations, before changes in non-cash operating items, decreased by $409,410, compared to the third quarter of 2009. The decrease mainly reflects a decrease in the cash component of operating income for "held for sale" properties partially offset by a decrease in mortgage loan interest for "held for sale" properties.

Nine Month Comparatives

Cash from Operating Activities

	Nine Months Ended September 30		Increase
Continuing Operations	2010	2009	(Decrease)
Rental revenue	$ 23,793,699	$ 31,255,021	$ (7,461,322)
Interest and other income	535,912	339,031	196,881
Property operating costs	9,371,367	9,737,350	(365,983)
Net operating income (NOI)	14,958,244	21,856,702	(6,898,458)
Less:			
Financing expense	18,245,147	24,919,791	(6,674,644)
Non-cash component of financing expense	561,142	5,547,446	(4,986,304)
	17,684,005	19,372,345	(1,688,340)
Trust expense	2,311,728	2,117,078	194,650
Non-cash component of trust expense	362,754	224,272	138,482
	1,948,974	1,892,806	56,168
Cash provided by (used in) operating activities, before changes in non-cash operating activities	(4,674,735)	591,551	(5,266,286)
Changes in non-cash operating items	1,337,319	2,851,278	(1,513,959)
Cash provided by (used in) operating activities - continuing operations	$ (3,337,416)	$ 3,442,829	$ (6,780,245)
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items	$ 2,039,399	$ 2,717,298	$ (677,899)
Cash used in leasing activities	-	(201,173)	201,173
Cash provided by operating activities, before changes in non-cash operating items	2,039,399	2,516,125	(476,726)
Changes in non-cash operating items	738,764	(1,798,985)	2,537,749
Cash provided by operating activities	$ 2,778,163	$ 717,140	$ 2,061,023

Summary

Cash provided by (used in) operating activities, before changes in non-cash operating items			
-continuing operations	$ (4,674,735)	$ 591,551	$ (5,266,286)
-discontinued operations	2,039,399	2,516,125	(476,726)
Total - continuing and discontinued operations	$ (2,635,336)	$ 3,107,676	$ (5,743,012)
Cash provided by (used in) operating activities			
-continuing operations	$ (3,337,416)	$ 3,442,829	$ (6,780,245)
-discontinued operations	2,778,163	717,140	2,061,023
Total - continuing and discontinued operations	$ (559,253)	$ 4,159,969	$ (4,719,222)

Continuing Operations

During the first nine months of 2010, cash provided by operating activities, before changes in non-cash operating items, decreased by $5,266,286, compared to the first nine months of 2009. The decrease in cash flow mainly reflects a decrease in net operating income on a cash basis, partially offset by a decrease in financing expense, on a cash basis.

The variance in amount of the quarterly decrease is directly related to the quarterly variances in operating income and financing expense as discussed in the previous sections of this report.

Discontinued Operations

During the first nine months of 2010, "operating" cash flow from discontinued operations, before changes in non-cash operating items, decreased by $476,726 compared to the first nine months of 2009. As with the third quarter comparatives the decrease mainly reflects a decrease in the cash component of operating income for "held for sale" properties, partially offset by a decrease in mortgage loan interest for "held for sale" properties.

Comparison to Second Quarter of 2010

Cash from Operating Activities

Continuing Operations	Three Months Ended September 30 2010	Three Months Ended June 30 2010	Increase (Decrease)
Rental revenue	$ 7,759,469	$ 7,609,363	$ 150,106
Interest and other income	172,433	158,001	14,432
Property operating costs	2,865,297	3,002,832	(137,535)
Net operating income (NOI)	5,066,605	4,764,532	302,073
Less:			
Financing expense	5,713,882	6,227,325	(513,443)
Non-cash component of financing expense	(217,461)	160,866	(378,327)
	5,931,343	6,066,459	(135,116)
Trust expense	657,467	957,472	(300,005)
Non-cash component of trust expense	30,758	49,591	(18,833)
	626,709	907,881	(281,172)
	(1,491,447)	(2,209,808)	718,361
Changes in non-cash operating items	1,124,651	(221,710)	1,346,361
Cash provided by (used in) operating activities - continuing operations	$ (366,796)	$ (2,431,518)	$ 2,064,722

Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items	$ 703,670	$ 947,665	$ (243,995)
Cash used in leasing activities	-	-	-
Cash provided by operating activities, before changes in non-cash operating items	703,670	947,665	(243,995)
Changes in non-cash operating items	(1,093,678)	41,658	(1,135,336)
Cash provided by operating activities	$ (390,008)	$ 989,323	$ (1,379,331)

	Three Months Ended		
	September 30 2010	June 30 2010	Increase (Decrease)
Summary			
Cash provided by (used in) operating activities, before changes in non-cash operating items			
-continuing operations	$ (1,491,447)	$ (2,209,808)	$ 718,361
-discontinued operations	703,670	947,665	(243,995)
Total - continuing and discontinued operations	$ (787,777)	$ (1,262,143)	$ 474,366
Cash provided by (used in) operating activities			
-continuing operations	$ (366,796)	$ (2,431,518)	$ 2,064,722
-discontinued operations	(390,008)	989,323	(1,379,331)
Total - continuing and discontinued operations	$ (756,804)	$ (1,442,195)	$ 685,391

Continuing Operations

During the third quarter of 2010, cash provided by operating activities, before changes in non-cash operating items, increased by $718,361, compared to the second quarter of 2010. The increase mainly reflects an increase in net operating income, on a cash basis, as well as a decrease in financing expense, on a cash basis.

Discontinued Operations

During the third quarter of 2010, "operating" cash flow from discontinued operations, before changes in non-cash operating items, decreased by $243,995, compared to the second quarter of 2010.

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 nine months of 2010, FFO decreased by $1,031,977, compared to the first nine months of 2009, while AFFO decreased by $5,821,910. On a basic per unit basis, FFO decreased by $0.050 per unit, while AFFO decreased by $0.322 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Income (loss)	$ 1,257,049	$ (3,146,599)	$ 955,835	$ (15,634,045)
Add (deduct):				
Amortization expense - continuing operations	2,129,770	2,121,676	6,383,042	6,342,416
Amortization expense - discontinued operations	-	562,745	204,396	2,858,695
Income tax - continuing operations	-	-	-	2,698,804
Income tax - discontinued operations	163,890	130,024	201,945	515,583
Non-controlling interest - discontinued operations	-	66,531	-	156,528
Gain on sale - discontinued operations	(4,247,095)	-	(11,839,214)	-
Funds from operations *	(696,386)	(265,623)	(4,093,996)	(3,062,019)
Add (deduct):				
Straight-line rent adjustment - discontinued operations	-	(12,157)	164,736	(20,146)
Net amortization of above/below market in-place leases - discontinued operations	-	-	-	2,788
Accretion of debt component of convertible debentures and mortgage bonds payable	690,990	731,843	2,066,900	2,086,175
Unit-based compensation	30,758	63,332	152,754	224,272
Change in fair value of interest rate swaps	(1,305,843)	(279,367)	(2,484,059)	2,581,180
Tenant inducement and leasing expenses - discontinued operations	-	(34,691)	-	(201,173)
Ongoing improvements to income properties - continuing operations	(20,550)	(11,466)	(136,603)	(107,437)
Ongoing improvements to income properties - discontinued operations	(38,926)	(12,635)	(69,907)	(81,905)
Adjusted funds from operations *	$ (1,339,957)	$ 179,236	$ (4,400,175)	$ 1,421,735
FFO per unit *				
- basic	$ (0.038)	$ (0.015)	$ (0.225)	$ (0.175)
- diluted	$ (0.038)	$ (0.015)	$ (0.225)	$ (0.175)
AFFO per unit *				
- basic	$ (0.073)	$ 0.010	$ (0.241)	$ 0.081
- diluted	$ (0.073)	$ 0.006	$ (0.241)	$ 0.071

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Cash provided by continuing operating activities	$ (366,796)	$ (630,164)	$ (3,337,416)	$ 3,442,829
Changes in non-cash operating items	(1,124,651)	121,329	(1,337,319)	(2,851,278)
	(1,491,447)	(508,835)	(4,674,735)	591,551
Add (deduct):				
Cash flow from discontinued operations - net of changes in non-cash operating items	703,670	1,113,080	2,039,399	2,516,125
Difference between contract/market rates	19,274	11,427	57,821	33,704
Tenant inducement and leasing expenses	-	34,691	-	201,173
Amortization of tenant inducement and leasing expenses	(4,754)	(4,793)	(14,341)	(122,699)
Distributable income (loss)	$ (773,257)	$ 645,570	$ (2,591,856)	$ 3,219,854
Per unit				
- Basic	$ (0.042)	$ 0.036	$ (0.142)	$ 0.184
- Diluted	$ (0.042)	$ 0.032	$ (0.142)	$ 0.171

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

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

During the first nine months of 2010, distributable income decreased by $5,811,710 compared to the first nine months of 2009. The decrease in distributable income generally coincides with the total decrease in cash provided by operating activities from continuing and discontinued operations, excluding changes in non-cash operating items.

Cash Distributions

For the months of January and February 2009, LREIT declared a cash distribution of $0.04667 per unit, representing a total cash distribution of $0.9334 per unit. Subsequent to the payment of the distribution for February 2009, LREIT suspended cash distributions due to the decline in rental market conditions in Fort McMurray and the impact on operating cash flow. After considering the value of units issued under the distribution reinvestment plan ("DRIP") of LREIT Village West Limited Partnership ("Village West LP"), the total distributions of LREIT for the first nine months of 2009 amounted to $1,668,364. The distribution for January and February 2009 of Village West LP amounted to a total cash outlay of $1,564,021.

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

Pending an improvement in rental housing market conditions, it is anticipated that LREIT will continue to require a source of cash to fund the cash deficiency from operating activities. LREIT also requires an ongoing source of cash to fund regular mortgage loan principal payments and improvements to income properties. In addition, LREIT requires additional capital on a periodic basis to fund lump-sum convertible debenture repayments. As distributions on units were suspended subsequent to February 2009, the current funding requirements of LREIT do not encompass the funding of such distributions.

The net cash inflow from the divestiture program and the "operation" of held for sale properties, as reflected under discontinued operations, effectively represents the primary funding source for the net cash deficiency from operating activities in continuing operations, as well as regular mortgage loan principal repayments and improvements to income properties. The secondary funding source is the ability of the Trust to borrow approximately $8.3 Million under the revolving loan from 2668921 Manitoba Ltd. and $2.5 Million under the line of credit with the Royal Bank of Canada. The remaining net cash inflow from discontinued operations is primarily designated for lump-sum debt repayments, including the retirement of convertible debenture debt, to the extent that there is a net cash outflow from other financing and investing activities in continuing operations.

Source and Use of Funds - 2010 Summary

Continuing Operations

An analysis of the cash flows of LREIT for the nine months ended September 30, 2010, separated into "continuing operations" and "discontinued operations" is provided in the chart which follows this section of the MD&A. The analysis discloses the following:

(i) regular monthly principal payments and improvements to income properties exceeded cash from operating activities by $8,619,351.

(ii) after including other financing and investing activities, there was a net cash outflow of $11,126,535 from continuing operations. As disclosed in the Consolidated Statements of Cash Flows in the financial statements, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:
- net proceeds from mortgage loan financing of $2.06 Million;
- gross proceeds of $6.78 Million from the second mortgage bond/investment unit offering in March 2010;
- net proceeds of $6.34 Million from the collection of a mortgage loan receivable in July 2010;
- a net draw on the line of credit of $4.88 Million;
- a net draw on the revolving loan commitment of $1.73 Million;

Outflows:
- the repayment of $11.95 Million of convertible debentures in March 2010;
- the repayment of $4.5 Million of second mortgage loan debt in July 2010;
- an increase in restricted cash of approximately $3.15 Million; and
- an investment in defeasance assets of $3.3 Million.

Discontinued Operations

As disclosed in the cash flow analysis, the net cash inflow from discontinued operations was $9,067,343, comprised of the following components:

(i) a net cash inflow of $2,778,163 from the "operations" of discontinued properties;

(ii) a net cash inflow from property sales of $13,332,371. The net cash inflow from property sales is net of selling expenses and any mortgage loan debt which was discharged on sale or assumed by or provided to the Purchaser;

(iii) a net cash outflow of $3,972,865 in regard to interim loans retired; and

(iv) a net cash outflow of $3,070,326 from other financing and investing activities.

Ending Cash Position

The net cash outflow from continuing and discontinued operations amounted to $2,059,192 during the first nine months of 2010. After accounting for the opening bank balance of $4,287,864, LREIT completed the first nine months of 2010 with a cash balance of $2,228,672.

Cash Flow Analysis (Note 1) - Nine Months Ended September 30, 2010

CONTINUING OPERATIONS		
Cash provided by (used in) operating activities		$ (3,337,416)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on mortgage loans	(4,676,190)	
Improvements to income properties (Note 2)	(605,745)	(5,281,935)*
Shortfall in cash provided by operating activities		(8,619,351)*
Cash provided by (used in) other financing and investment activities		
Total cash used in financing activities	(7,036,839)	
Total cash used in investing activities	(752,280)	
Add back: Financing/investing cash outflows deducted above	5,281,935 *	(2,507,184)*
Net cash outflow from continuing operations		(11,126,535)
DISCONTINUED OPERATIONS		
Cash provided by (used in) operations of properties sold and held for sale		2,778,163
Net cash proceeds from property sales		13,332,371
Interim loans retired		(3,972,865)
Cash provided by (used in) other activities in discontinued operations		(3,070,326)
Net cash inflow from discontinued operations		9,067,343
Cash decrease		(2,059,192)
Cash, beginning of period		4,287,864
Cash, end of period		$ 2,228,672

Note 1 - GAAP Measurements

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

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

Note 2 - Improvements to Income Properties

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

Sources and Use of Funds - Remainder of 2010

Sources

Existing Cash/Working Capital

As of September 30, 2010, the cash balance of LREIT was $2,228,672.

As of September 30, 2010, the working capital deficit of LREIT was $7,767,444. The working capital deficit consists of cash and other assets, excluding restricted cash, less bank indebtedness and accounts payable and accrued liabilities, excluding the liability for tenant security deposits and the amount payable on acquisition of Parsons Landing. Including the amount payable on acquisition of Parsons Landing of $47,720,000, the working capital deficit of LREIT was $55.5 Million as of September 30, 2010.

The liability for tenant security deposits is excluded as cash held in escrow for tenant security deposits is included in restricted cash. Mortgage principal payments and convertible debenture payments due within the twelve month period ending September 30, 2011 are not included in the calculation of the working capital deficit.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities, excluding short-term debt. Working capital is a non-GAAP 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 Line of Credit

The Trust utilizes a revolving line of credit from a Canadian chartered bank with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate plus 3.5%. The amount available under the line of credit at September 30, 2010 was fully utilized. The amount available on the line of credit is reduced by $125,000 securing a letter of credit.

Revolving Loan Commitment from 2668921 Manitoba Ltd.

LREIT utilizes a $5 Million revolving loan commitment from 2668921 Manitoba Ltd. The loan commitment bears interest at 7.5%, matures on December 31, 2010 and is secured by a $6 Million third mortgage charge on Beck Court and the assignment of a $500,000 mortgage loan receivable. As of September 30, 2010, $3,265,308 of the revolving loan was available to the Trust.

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

Subsequent to September 30, 2010, the revolving loan commitment was increased by $5,000,000 to $10,000,000 and the expiry date was extended to June 30, 2011. The extended loan bears interest at 14% subject to a 1/2 of 1% refinancing fee of $50,000 and is secured by mortgage charges against the title to six income properties and an assignment of a mortgage loan note receivable in the amount of $500,000. Approximately $8.3 Million of credit is available to the Trust.

Cash from Operating Activities

During the first nine months of 2010, cash provided by operating activities, excluding changes in non-cash operating items, decreased by $5,266,286, compared to the first nine months of 2009. The extent of the unfavourable variance is expected to increase during the fourth quarter of 2010. An update on the four main factors which have affected cash from operating activities is provided below.

(i) Rental market conditions in Fort McMurray: As a result of the time lag between the decline in general economic conditions in North America and the impact on the rental market in Fort McMurray, the vacancy rates for the Fort McMurray property portfolio gradually declined throughout the first three quarters of 2009. The overall vacancy rate for the Fort McMurray portfolio has been relatively stable since the latter part of 2009 and throughout 2010, and it is generally anticipated that vacancy rates will gradually improve in 2011. In comparison to the first two quarters of 2009, however, the vacancy rate for the Fort McMurray portfolio was significantly higher during the first two quarters of 2010.

    The reduction in operating income for the first nine months of 2010 is largely attributable to the unfavourable variance in the vacancy loss for the first two quarters of the year, and to the lump-sum revenue adjustment to Lakewood Manor in the second quarter of the year. The extent of the reduction in operating income for the entire year in 2010, compared to 2009, is not expected to change significantly, in comparison to the year-to-date reduction as of September 30, 2010.

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

(iii) Change in mortgage rates: During the first nine months of 2010, $27.4 Million of mortgage loan debt matured for continuing operations. The debt had a weighted average interest rate of 5.6% and was renewed at a weighted average interest rate of 6.6%. During the first nine months of 2010, the average interest rate for variable rate mortgage debt was 6.7%, compared to 3.7% during the first nine months of 2009.

(iv) Property sales and the pay down of debt for continuing operations: The total debt for continuing operations includes mortgage loans payable, convertible debenture debt, mortgage bonds payable and acquisition payable. During the first nine months of 2010, the total debt for continuing operations, decreased by $12.5 Million compared to the amounts payable as of December 31, 2009, primarily due to the repayment of $11.95 Million of 8% convertible debenture debt, partially offset by the issuance of $6.78 Million of 9% mortgage bonds. The net proceeds from the first quarter property sales represented a significant factor in terms of funding the repayment of the convertible debenture debt.

After considering the increase in the weighted average rate of the total debt for continuing operations, the cash component of financing expense, net of interest expense which was subsequently forgiven, increased by $794,749, during the first nine months of 2010, compared to the first nine months of 2009.

Discontinued Operations

As of September 30, 2010, 8 properties were classified as held for sale by LREIT. The estimated gross selling price and net cash proceeds of the properties is $161.8 Million and $70 Million, respectively.

Mortgage Loans Receivable

As of September 30, 2010, LREIT has $4,290,650 invested in mortgage loans receivable, comprised of three loans, all of which mature in 2014 and provide for payments of interest only.

Mortgage Loan Financing

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

Debt and/or Equity Offerings

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

Uses

Parsons Landing

As previously disclosed in this report, the deadline for payment of the balance owing for Parsons Landing of approximately $47.7 Million was extended to June 30, 2011, subject to the completion of mortgage financing arrangements by LREIT by April 30, 2011. After providing for $1.4 Million of furniture credits and $12 Million of second mortgage loan financing from the vendor, the amount required to complete the purchase of the property is approximately $29.3 Million. Based on anticipated first mortgage loan financing of $29.3 Million, the amount payable in cash will be approximately $5 Million.

Mortgage Loan Principal Payments

Continuing Operations

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2010	2011/2012	2013/2014	2015 and beyond
Regular mortgage loans	$ 189,109,630	$ 68,541,861	$ 37,848,998	$ 49,347,030	$ 33,371,741
Variable rate demand loans	72,352,271	72,352,271	-	-	-
Vendor take-back mortgage loan	4,000,000	4,000,000	-	-	-
Total	$ 265,461,901	$ 144,894,132	$ 37,848,998	$ 49,347,030	$ 33,371,741

Discontinued Operations

The mortgage loan debt for the eight properties which are classified as "held for sale" as of September 30, 2010, amounts to $92.3 Million, of which $33,636,264 is considered "repayable" during the remainder of 2010.

Summary of Mortgage Loan Debt "Due in 2010"

As previously noted, the amount of long-term debt which is considered "due" during the remainder of 2010 in accordance with GAAP, includes all mortgage loans which are payable on demand and all mortgage loans which are in default of debt service covenant breaches, as well as the fixed term mortgages which mature during the fourth quarter of the year.

An analysis of the mortgage loan debt which is considered due for the remainder of 2010 for continuing operations and for discontinued operations in the amount of $144,894,132 and $33,636,264, respectively, is provided on the following chart.

	Continuing Operations		Discontinued Operations	Total	
Mortgages					
Demand loans	$ 76,352,271		$ 18,335,570	$ 94,687,841	
Fixed term mortgage which mature in the third quarter of 2010	18,524,849	(1)	-	18,524,849	(2)
Fixed term mortgages which mature after 2010 with debt service covenant breaches	49,083,062		5,008,561	54,091,623	(1)
	143,960,182		23,344,131	167,304,313	
Fixed term mortgages which mature in the fourth quarter of 2010	-		9,900,000	9,900,000	
	143,960,182		33,244,131	177,204,313	
Principal repayments	933,950		392,133	1,326,083	
	$ 144,894,132		$ 33,636,264	$ 178,530,396	

(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 status of the fixed term mortgage loans which mature in the fourth quarter of 2010 is provided in the "Mortgage Loans Payable" section of the MD &A.

Investing Activities

Property improvement costs to September 30, 2010 were $605,745. In the fourth quarter of 2010, property improvement costs are not expected to exceed $450,000.

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 under the loan agreements. In the first nine months of 2010, cash deposits of $5,778,818 have been deposited with lenders, of which $4,296,000 pertains to mortgage loans which are in breach of debt service coverage requirements. Subsequent to September 30, 2010, an additional deposit of $2 Million was provided and a future deposit of $1.7 Million is payable on or before December 31, 2010.

Convertible Debenture/Principal Payments

A summary of the net amount outstanding as of September 30, 2010 in regard to the two remaining series of convertible debentures is provided in the following chart. As previously disclosed, the Series E convertible debenture debt of $11.95 Million matured on February 17, 2010. The debt was retired using proceeds from the $5 Million revolving loan with 2668921 Manitoba Ltd. and $4.8 Million from the line of credit with the Royal Bank of Canada, with the balance paid from cash reserves.

Issue Date/Maturity Date	Series	Amount Issued	Net Amount Outstanding September 30, 2010
Mar. 10/06/Mar. 11/11	F	$ 13,680,000	$ 13,645,000
Dec. 8/06/Dec. 31/11	G	25,732,000	25,623,000
Face value		$ 39,412,000	$ 39,268,000

The Series F debentures provide for the outstanding amount of the debentures to become payable on demand upon default and acceleration of repayment, under certain terms and conditions, of a mortgage loan or a convertible debenture. As previously disclosed in this report, the Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $144,968,743, as a result of a breach of the debt service coverage requirements. If any of the mortgage lenders demand the repayment of the loans, the Series F debentures may become payable on demand.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash. Payment of the fee occurs on a monthly basis, on the last day of each month. The current term of the Services Agreement expires on December 31, 2015. During the nine months ended September 30, 2010, LREIT incurred service fees payable to Shelter Canadian of $1,302,361. Service fees are included in trust expense.

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

Property management fees are included in property operating costs. Leasing commissions and tenant improvement and renovation fees are capitalized to income 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 nine months ended September 30, 2010, LREIT incurred property management fees on continuing operations payable to Shelter Canadian of $956,409. LREIT did not incur any leasing commissions for continuing operations during the first nine months of 2010. LREIT did not incur any tenant improvement and renovation fees for continuing or discontinued operations during the first nine months of 2010.

During the nine months ended September 30, 2010, LREIT incurred property management fees on discontinued operations payable to Shelter Canadian of $268,170, as well as leasing commissions of $2,407.

Loans

During 2009, LREIT obtained a $500,000 second mortgage loan and a $5 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The second mortgage loan bears interest at 7.5%, is due on January 1, 2011.

The revolving loan commitment bears interest at 7.5%, is due December 31, 2010, and is secured by a third mortgage charge on Beck Court and the assignment of a $500,000 mortgage loan receivable.

Subsequent to September 30, 2010, the revolving loan commitment was increased by $5,000,000 to $10,000,000 and the expiry date was extended to June 30, 2011. The extended loan bears interest at 14% subject to a 1/2 of 1% refinancing fee of $50,000 and is secured by mortgage charges against the title to six income properties and an assignment of a mortgage loan note receivable in the amount of $500,000. Approximately $8.3 Million of credit is available to the Trust.

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

REVENUE/INCOME AND OTHER COMMITMENTS

Lakewood Manor

All of the units at Lakewood Manor were leased by a major oil sands company, pursuant to a three year lease agreement, under which the lessee was also responsible for all property operating costs. The lease agreement with the oil sands company expired on May 31, 2010 and was not renewed. The rental revenue for Lakewood Manor was reduced by the provision for a $1 Million rental abatement in the second quarter of 2010 comprised of a $325,000 rent adjustment and a $675,000 credit against future rental accommodations by the tenant through 2013.

Given the current state of market conditions in Fort McMurray and the time required to lease individual units at the property, the net operating income of Lakewood Manor will decline during the second half of 2010. Excluding the $1 Million adjustment, the net operating income of Lakewood Manor decreased by $17,335 during the third quarter of 2010, compared to the second quarter of 2010.

Siena Apartments

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

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

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

Elgin Lodge

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

A 60-suite expansion was completed at Elgin Lodge during 2007. During the five year period from June 1, 2006, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded property exceeds the total of the cost of the property to LREIT, including the cost of the expansion and the unpaid portion of a 12% annual return on the LREIT equity investment. Consideration recorded at September 30, 2010, of $434,982 is included in the liabilities of properties held for sale, as accounts payable and accrued liabilities.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term, expiring on February 12, 2017. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the original acquisition cost to LREIT and the unpaid portion of a 8% annual return on the LREIT equity investment. Consideration recorded at September 30, 2010, of $477,901 is included in the liabilities of properties held for sale, as accounts payable and accrued liabilities.

CHANGES IN ACCOUNTING POLICIES

Future Changes to Significant Accounting Policies

International Financial Reporting Standards ("IFRS")

The Trust has undertaken a number of activities in regard to identifying differences between Canadian GAAP and IFRS, evaluating alternative methods of adoption of specific IFRS accounting policies, assessing the expected effects of IFRS on the financial statements of the Trust and identifying the impact of the changeover to IFRS on the business activities of Trust, including the impact on the control system, IT systems and training requirements of the Trust.

A summary of the key activities related to the IFRS changeover, including the timing and status of each key activity, is provided in the following chart. More detailed information in regard to two of the specific accounting standards that are to be adopted by the Trust under IFRS is provided in the section of the MD&A which follows the chart.

Key Activity	Timing	Status
Financial Statement Preparation • Identify changes in accounting policy between Canadian GAAP and IFRS • Evaluate and select accounting method for accounting policies that encompass options • Identify differences in recognition, measurement and financial statement disclosure under IFRS • Prepare financial statements for 2010IFRS comparatives	• Selection and approval of new accounting policies by August 31, 2010 • Completion of IFRS financial statement template and Q1 2010 comparatives by September 8, 2010 • Completion of IFRS Q2 2010 comparatives by November 30, 2010 • Completion of IFRS Q3 2010 comparatives by December 15, 2010 • Completion of IFRS 2010 year end comparatives by March 31, 2010	• Completed • Substantially completed • In process
Training • Provide comprehensive technical training to senior staff members in the accounting and investor reporting departments • Provide specific job-related training to other accounting staff members following the identification of new accounting policies and methods • Communicate impact of IFRS to trustees	• In-house seminars conducted in December 2008 and December 2009 • On-going, as needed • On-going, with more specific information provided over time. Focus to be on updates to Audit Committee at quarterly meetings	• Completed • Generally proceeding, as planned • Generally proceeding, as planned
Business Impacts • Determine impact of IFRS financial statement presentation and disclosure on MD&A • Identify impact of IFRS on business activities, including asset and property management fee structures and debt covenants	• Completion of IFRS template for MD&A by December 31, 2010 • Assessment and recommendations in respect of major issues to be completed by December 31, 2010	• In progress • In progress
IT Systems • Implement changes to general ledger and financial statement accounting systems • Identify and implement any other changes required to the IT system	• No changes to general ledger and financial statement accounting systems • None	• Completed • Completed
Control Environment • Identify impact of IFRS on internal controls and disclosure controls and procedures • Implement changes to control systems, as required	• On-going • All incremental controls to be implemented by January 1, 2011	• In progress
Other • Classification of trust units: During the initial review of accounting policies under IFRS, it was determined that the Trust units of LREIT could potentially be regarded as a liability rather than equity, with the associated distributions classified as interest expense, as a result of the mandatory distribution requirements which were established in the Declaration of Trust. In order to continue to present units as equity, the Unitholders approved an amendment to the Declaration of Trust in December 2009 to provide for distributions to be established at the discretion of the Trustees.		

Investment Properties

New accounting standard

Income properties as reflected in the September 30, 2010 interim financial statements will be considered to be "Investment Properties" and the accounting principles enumerated under IAS 40 "Investment Property" (IAS 40) will apply.

The only exception will be that the four senior housing properties will be classified under "discontinued operations", as the Trust is actively pursuing a sale of all the senior housing properties as part of the process to become a "Qualifying REIT" for income tax purposes.

In accordance with ASI 16, rental properties held in discontinued operations will be classified as "property, plant and equipment". Under ASI 16, property, plant and equipment is measured at cost, less accumulated amortization and any accumulated impairment losses. Amortization is not recorded for property, plant and equipment held in discontinued operations.

In addition to the senior housing properties, the Trust has other properties which are being held for sale which are not part of "discontinued operations". The other "held for sale" properties will be classified as investment properties and will be accounted for in accordance with IAS 40.

Choices and Method Selected

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

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

The Trust intends to select the fair value method of presenting investment properties in the financial statements.

The fair value of investment properties will be determined using the "valuation process" of the Trust. The valuation process will encompass the use of appraisal reports from independent third party appraisers, as well as internal estimates of value based on capitalization and discount rates provided by external valuators. The fair value of "held for sale" investment properties which are under contract for sale will be based on the contractual sales price, less estimated selling costs.

Financial statement impact

On-going

Income properties as reflected in the September 30, 2010 interim financial statements are measured at amortized cost, in accordance with Canadian GAAP.

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

The disclosure of investment properties at fair value will also result in a higher carrying value for rental properties on the balance sheet of the Trust, in comparison to the carrying values which are disclosed under Canadian GAAP.

The adoption of the fair value measurement method for investment properties under IAS 40 will not affect the net cash flows of the Trust.

Prior Year Comparatives

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

The carrying value of the investment properties as at January 1, 2010 will reflect the initial acquisition cost, adjusted to fair value as at January 1, 2010. The fair value adjustment will be offset by an increase to the balance of retained earnings, as at January 1, 2010. The fair value as at January 1, 2010 will be based on the valuation process of the Trust. For "held for sale" investment properties which are sold during 2010, the fair value, as at January 1, 2010, will be based on the selling price, less selling costs.

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

Business impact

The review of the impact of the adoption of the fair value measurement method for investment properties under IAS 40 on the business activities of the Trust has not been fully completed as of the date of this MD&A.

The adoption of the fair value measurement method for investment properties will result in a change in the gross book value of the total assets of the Trust. As the service fee of Shelter Canadian Properties Limited is based on the gross book value of the total assets of the Trust, it will be necessary to revise the basis for determining the service fee, as stated in the Services Agreement, in a manner which results in the amount of the fee remaining unchanged.

The extent to which the adoption of the fair value measurement method for investment properties impacts other aspects of the business of the Trust will be disclosed as the review process progresses.

Lease Incentives

New accounting standard

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

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

Financial statement impact

In general terms, the adoption of SIC 15 results in a reduction rental income and a corresponding reduction in amortization expense. As rental income from the commercial property portfolio of LREIT represents less than 1% of the total rental income of the Trust and as lease incentives for the commercial properties are expected to be minimal, the adoption of SIC 15 is not expected to have any significant impact on the financial statements of LREIT.

Business impact

The adoption of SIC 15 is not expected to have any impact on the business activities of the Trust.

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors that have been identified in regard to the assessing whether LREIT has the ability to continue to operate, including: (i) the net losses sustained by LREIT in 2009 and during the nine months ended September 30, 2010, (ii) the breach of debt service coverage requirements on six mortgage loans which could potentially result in $13.65 Million of convertible debenture debt becoming payable on demand and $6.78 Million of mortgage bonds becoming payable on demand, (iii) the impact of the continuation of high vacancy rates and reduced rental rates in Fort McMurray on the ability of LREIT to continue to secure financing on the Fort McMurray properties, and (iv) the working capital deficit of the Trust, as of September 30, 2010 in the amount of $21,249,026.

Management believes that LREIT has the ability to continue operations as LREIT has implemented a divestiture strategy and has been able to refinance its lending facilities at appropriate rates or is in positive ongoing discussions with lenders .

Real Property Ownership

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

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

Public Market Risk

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

Completion of Divestiture Program

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

During 2009, LREIT sold 13 properties under the divestiture program at a combined gross selling price of $90.4 Million. As a result of the sales, the Trust repaid $17.1 Million of interim mortgage loan financing during 2009. During the nine months ended September 30, 2010, LREIT sold four additional properties at a combined gross selling price of $29,185,000. On November 1, 2010, LREIT sold an apartment property in Yellowknife, Northwest Territories for gross proceeds of $11.2 Million.

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

Completion of Parsons Landing Acquisition

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and the property may be listed for sale by the vendor during the fourth quarter of 2010 or in 2011. See "Parsons Landing Financing".

Concentration of LREIT's Portfolio in One Market

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

Excluding the 8 properties which are classified as "held for sale", there were 19 properties in the real estate portfolio of LREIT as of September 30, 2010, including one commercial property and 18 residential properties, comprising 1,590 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 73% of the total residential suites in the income-producing property portfolio. The 13 properties have an aggregate acquisition price of $336.8 Million, which represents approximately 89% of the total aggregate purchase price of the portfolio of income-producing properties.

The 13 properties in Fort McMurray accounted for 76% of the total revenue of LREIT during the nine months ended September 30, 2010 and 76% of the net operating income.

None of the properties which are classified as "held for sale" as of September 30, 2010 are located in Fort McMurray.

Oil Sands Industry

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

As a result of current reduced construction activity in the oil sands industry, there is an increased risk that leases will not be renewed for suites which are leased to oil sands companies or to the employees of oil sands companies. As previously disclosed the lease agreement for Lakewood Manor was not renewed on the expiry date of May 31, 2010.

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

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

Financing

General

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

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

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

Debt Service Covenant Breaches

As previously disclosed in this report, LREIT is in breach of a debt service coverage covenant in regard to five first mortgage loans and a second mortgage loan with a total balance of $144,968,743 as of September 30, 2010. One of the first mortgage loans is for a "held for sale" property in Moose Jaw. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that secured convertible debentures, with a face value of $13,645,000, and mortgage bonds, with a face value of $6,780,000, may become payable on demand.

Management believes the default for all of the mortgage loans which are in breach of the debt service coverage requirements will be waived or satisfactorily resolved through forbearance agreements or modified loan terms. The anticipated sale of the Moose Jaw property would effectively reduce the amount of the "defaulted" debt by approximately $5 Million.

During the nine months ended September 30, 2010, the cash reserve requirements for four of the mortgage loans which were in breach of debt service coverage requirements have increased by $4.3 Million. Subsequent to September 30, 2010, an additional $2 Million cash reserve requirement was paid in October 2010 and an additional deposit of $1.6 Million is payable on or before December 31, 2010. There is a risk that significant additional cash reserve deposits may be required.

Mortgage Maturities

During the first nine months of 2010, approximately $41.8 Million of the mortgage loan debt of LREIT matured and all of the debt was renewed, refinanced or repaid/eliminated on the sale of properties, with the exception of one of the "breach of covenant" mortgage loans in the amount of $18,524,849 which matured on July 18, 2010. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Subsequent to September 30, 2010 $33.3 Million of the mortgage loan debt of LREIT matured. After applying $400,000 sale proceeds to one of the maturing loans, renewal or replacement financing has been arranged for $15.5 Million. The remaining $17.4 Million loan is one of the "breach of covenant" mortgage loans. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Interim and Second Mortgage Loans

Prior to 2009 LREIT utilized second mortgage and interim financing as a source of funds in order to supplement the funding of distributions as well as the funding of income property improvements and unit repurchases under the normal course issuer bid. As of September 30, 2010, the second mortgage loans and interim mortgage loans of LREIT amounted to $33.8 Million. Although it is anticipated that LREIT will be able to renew its existing interim mortgage loan financing at maturity, it is unlikely that LREIT will undertake additional interim financing.

Payment of Cash Distributions

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

LREIT currently qualifies as a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of Trust, as amended pursuant to the Special Resolution which was approved at the special meeting of the Unitholders in December 2009, the cash distributions of LREIT are established at the discretion of the Trustees. If circumstances permit 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 and to deduct these distributions for income tax purposes.

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

Changes to Tax Treatment of Trusts

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. Under the SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. 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 provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, LREIT may increase its equity capital by $50 Million for the period November 1, 2006 to December 31, 2007 and for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, LREIT's equity capital has not increased beyond the Safe Harbour Limit.

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

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

- the classification of properties held for sale;

- interest expense on the acquisition payable;

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

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

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

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

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

TAXATION

Taxation of LREIT

LREIT qualifies as a mutual fund trust for income tax purposes. Subject to the 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.

Under the SIFT Rules, if LREIT does not meet the REIT Conditions to become a Qualifying REIT, it will be 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 September 30, 2010, have represented a reduction in adjusted cost base of the units; with the exception of the special distribution paid by LREIT in December 2009 which represented a capital gain.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

LREIT will be implementing additional controls, as necessary, to ensure the reliability of any financial information which is materially affected as a result of the adoption of International Financial Reporting Standards. In addition, IFRS record-keeping will be implemented within the company's financial information system to enable the capturing of financial information under multiple sets of accounting principles and required changes to data collection mechanisms are being identified as each work stream progresses.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
November 9, 2010

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

SCHEDULE I

Real Estate Portfolio as of September 30, 2010

Property Portfolio - September 30, 2010

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2010
INCOME PRODUCING PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	98 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	92 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	69 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	78 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	34 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	17 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	76 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	21 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	54 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	83 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	79 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	48 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	65 %
Parsons Landing (3)	Fort McMurray	60,733,000	September 2008	160	69 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	85 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	99 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Total - Residential		**$ 378,328,000**	Total suites	**1,590**	
COMMERCIAL					
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
Total income producing properties		**$ 379,528,000**			

Property Portfolio - September 30, 2010

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2010
PROPERTIES HELD FOR SALE					
RESIDENTIAL					
Manitoba					
Colony Square	Winnipeg	$ 29,907,700	October 2008	428	95 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	98 %
Saskatchewan					
Chateau St. Michael's (2)	Moose Jaw	7,600,000	June 2006	93	99 %
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	96 %
Ontario					
Elgin Lodge (2)	Port Elgin	18,122,000	June 2006	124	66 %
Clarington Seniors Residence (2)	Bowmanville	22,400,000	February 2007	118	72 %
Northwest Territories					
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	99 %
Total - Residential		**$ 117,255,700**	Total suites	**1,082**	
COMMERCIAL					
Retail and Office					
Colony Square	Winnipeg	$ 7,931,600	October 2008	83,190	99 %
		7,931,600		83,190	
Light Industrial					
156 / 204 East Lake Blvd. (5)	Aidrie	1,600,000	June 2003	39,936	- %
Total - Commercial		**$ 9,531,600**	Total leasable area	**123,126**	
Total discontinued operations		**$ 126,787,300**			
Total real estate portfolio		**$ 506,315,300**			

Notes to the Property Portfolio:

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

(2) Seniors housing complex.

(3) LREIT took possession of Parsons Landing on September 1, 2008 and is expected to close the purchase transaction on August 31, 2011. See "Property Acquisitions - Parsons Landing" above.

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

(5) 100% leased to a single tenant with occupancy on October 1, 2010.

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

SCHEDULE II

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

Distribution Reinvestment Plan ("DRIP")

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

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

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

Normal Course Issuer Bid

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

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

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

During the period from January 13, 2010 to September 30, 2010, the Trust purchased and cancelled $35,000 Series F debentures at an average price of $84.69 per $100.00 and $109,000 Series G debentures at an average price of $73.89 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

Subsequent to September 30, 2010, the Trust purchased and cancelled $20,000 Series F debentures at an average price of $91.25 per $100.00 and $12,000 Series G debentures at an average price of $73.33 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

Unit Options

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

As of September 30, 2010, LREIT had 971,500 options outstanding of which 913,300 or 94% had vested, 8,600 of which vested during the three months ended September 30, 2010. LREIT has not granted any options under the Unit Option Plan since January 2008.

In accordance with Canadian generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Loss and Comprehensive Loss. During the nine months ended September 30, 2010, unit-based compensation expense related to unit options amounted to $152,754.

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

Deferred Unit Plan

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

The Trustees have also approved a compensation package, whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair and attending meetings. During the nine months ended September 30, 2010, the total fees payable to independent Trustees under the compensation package amounted to $116,000.

All of the independent Trustees elected to have their compensation for the nine months ended September 30, 2010 paid in the form of deferred units. The number of deferred units received is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable. Based on an average market price of $0.55, there were 210,016 deferred units granted to the independent Trustees during the nine months ended September 30, 2010.

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

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

UNITHOLDER INFORMATION

Trustees and Officers

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

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr Loewen is the Chief Executive Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the President of Big Freight Systems Inc. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in 2006. Mr. Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

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

Administrator of the Trust

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

Property Management

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

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Email: info@lreit.com
Website: www.lreit.com

Unit Listing

Toronto Stock Exchange (TSX)

Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.F
	LRT.DB.G
Mortgage bonds trading symbol:	LRT.NT
Warrants trading symbol:	LRT.WT

Unitholder and Investor Contact

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