LANESBOROUGH REIT

2012 SECOND QUARTER REPORT

TABLE OF CONTENTS

Unitholder Returns

	Six Months Ended June 30, 2012 (Per unit)	Year Ended December 31, 2011 (Per unit)
Opening price	$0.42	$0.44
Closing price	$0.52	$0.42

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

CHIEF EXECUTIVE OFFICER'S MESSAGE
2012 Q2 Report

Key Events

Reconstruction of Parsons Landing

In June 2012, agreements were finalized under which the builder has agreed to complete the reconstruction of the Parsons Landing and attend to the recovery of the insurance claim for property in a manner which is expected to result in the cost of reconstruction being fully funded from insurance proceeds. The builder has also agreed to extend the closing date of the acquisition to a date which is 90 days after the final occupancy permit is obtained. In addition, the builder has agreed to forgive any shortfall between the insurance proceeds for revenue losses and required monthly interest payment of $300,000 until the occupancy of the property recommences. Thereafter, interest in excess of the required monthly interest payment of $300,000 will continue to be forgiven, provided LREIT completes the acquisition of the property on the closing date, as extended.

As a result of the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the carrying value of Parsons Landing increased by $23,300,000 to $43,300,000 during the second quarter of 2012, representing the estimated fair value of the reconstructed property, discounted for the estimated time period of reconstruction. A corresponding amount was also recorded as income in the second quarter of 2012 under the line title "fair value adjustment of Parsons Landing".

In the first quarter of 2012 , in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, a fair value adjustment loss of $27.8 Million was recorded for Parsons Landing to account for the decrease in the fair value of the property due to the fire. The fair value adjustment gain, recorded in the second quarter of 2012, and additional fair value gains to be recorded in the future as reconstruction progresses, will offset the first quarter fair value loss.

Completion of Property Sales

During the second quarter of 2012, LREIT completed the sale of the Siena Apartments and the Clarington Seniors' Residence with the sales closing on May 1, 2012 and May 9, 2012, respectively. The combined sale price and net proceeds after repayment of mortgage financing were $54.5 Million and $13.4 Million, respectively.

Mortgage Financing

In June 2012, LREIT obtained a 4.95% first mortgage loan of $31.5 Million maturing in 2022, resulting in net proceeds of approximately $2 Million, after the repayment of debt including the prepayment penalty on the existing 6.19 % first mortgage loan. The net proceeds were used for working capital purposes.

Income from Operations

Continuing Operations

Net Income, excluding the fair value gain on Parsons Landing

Excluding the fair value gain related to the increase in the carrying value of Parsons Landing, LREIT completed the second quarter of 2012 with net income of $7.4 Million from continuing operations, representing an increase in income of $3.2 Million, compared to the second quarter of 2011. The increase in income from continuing operations, excluding the fair value gain related to the increase in the carrying value of Parsons Landing, mainly reflects an increase in income recovery on Parsons Landing, a decrease in interest expense and a gain on sale of investment property.

- **Income recovery on Parsons Landing:** As noted above, an agreement was finalized with the builder whereby the Trust will benefit from insurance proceeds in the minimum amount of $300,000 per month. As a result, the net income recovery on Parsons Landing in the second quarter was $1.5 Million.

- **Interest expense:** decreased by $1,410,733 or 16% during the second quarter of 2012, compared to the second quarter of 2011, mainly due to a decrease in mortgage loan interest expense and a decrease in accretion on the debt component of convertible debentures.

- **Profit on sale of investment properties:** During the second quarter of 2012, the profit on the sale of investment properties amounted to $721,082, comprised of the profit on the sale of Siena Apartments of $346,770 and the profit on the sale of 5 condominium units at Lakewood Townhomes of $374,312. During the second quarter of 2011, the Trust did not sell properties.

After including the gain related to the increase in the carrying value of Parsons Landing, LREIT completed the second quarter of 2012 with income from continuing operations of $30,695,526, compared to income from continuing operations of $4,192,666 during the second quarter of 2011.

Discontinued Operations

During the second quarter of 2012, income from discontinued operations increased by $893,449 or 126%, compared to the second quarter of 2011. The increase in income from discontinued operations reflects a $2,039,808 profit on the sale of the Clarington Seniors' Residence, an increase in net operating income of $260,184 and a decrease in income tax of $596,922, largely offset by a $2,003,465 increase in interest expense. The increase in interest expense includes early prepayment fees of approximately $1.3 Million in regard to refinancing of the mortgage loan debt for Riverside Terrace.

Comprehensive Income

LREIT completed the second quarter of 2012, with comprehensive income from total operations of $32,297,230, compared to comprehensive income of $4,900,921 during the second quarter of 2011.

Cash Flow from Operating Activities

During the second quarter of 2012, the cash outflow from operating activities, excluding working capital adjustments, amounted to $87,144 compared to a cash outflow of $2,229,883 during the second quarter of 2011, representing a decrease in cash outflow of $2,142,739. The decrease in the cash outflow, excluding working capital adjustments, is mainly due to the $1.5 Million income recovery on Parsons Landing, an increase in net operating income, on a cash basis, and an increase in the tax recovery. Including working capital adjustments, the cash outflow from operating activities increased by $3,348,010 during the second quarter of 2012, compared to the second quarter of 2011. After including regular payments of mortgage loan principal and capital expenditures, the cash "shortfall" amounted to $8,671,774. The cash shortfall was mainly funded by the net proceeds from property sales.

Resolution of Covenant Breaches

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt.

In July 2012, LREIT paid-down the swap mortgage loan on Millennium Village by $5.0 Million from the proceeds of a new mortgage loan of $3 Million, the application of collateral deposits of $1.7 Million and working capital. The pay down is expected to remedy the covenant breach on the mortgage loan.

A commitment is expected to be received for a new first mortgage loan of $22.7 Million secured by the Colony Square property in Winnipeg. The loan is expected to be advanced in the third quarter of 2012 and repay the existing first mortgage loan. The refinancing will extinguish the covenant breach.

After considering the above noted debt restructuring, LREIT will have three mortgage loans totaling $82.3 Million which are in breach of mortgage loan covenants, compared to seven mortgage loans as of December 31, 2011. A forbearance extension to September 30, 2012 has been received for the three mortgage loans. The covenant breach for one of the three remaining mortgages (Lakewood Townhomes) will be eliminated when the existing first mortgage loan is fully discharged from condominium sale proceeds.

Outlook

For the remainder of 2012, LREIT will continue to pursue property sales under its divestiture program. LREIT will also remain focused on improving NOI and arranging additional debt refinancing with the objective of reducing interest costs and eliminating the remaining covenant breaches.

The combination of future property sale proceeds and the $15 Million revolving loan commitment from 2668921 Manitoba Ltd. is expected to enable LREIT to continue to improve its financial position.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the condensed consolidated financial statements ("Financial Statements") of LREIT for the six months ended June 30, 2012 and with reference to the First Quarter Report for 2012 and the Annual Report for 2011.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

During the first six months of 2012, LREIT sold one investment property (Siena Apartments) and one seniors' housing complex (Clarington Seniors' Residence) under its divestiture program, as well as eight condominium units at Lakewood Townhomes. The sale of Siena Apartments occurred on May 1, 2012 and the sale of Clarington Seniors' Residence occurred on May 9, 2012. Property sales in 2011 consisted of the sale of four condominium units at Lakewood Townhomes during the fourth quarter of the year.

Number of Properties

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

FINANCIAL SUMMARY

	June 30 2012	December 31 2011
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	$ 510,987,122	$ 555,220,070
Total long-term financial liabilities **(1)**	$ 364,480,889	$ 399,176,274

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
KEY FINANCIAL PERFORMANCE INDICATORS (2)				
Operating Results				
Rentals from investment properties	$ 9,387,902	$ 10,363,052	$ 19,771,822	$ 19,513,569
Net operating income *	$ 5,820,776	$ 6,319,962	$ 11,779,490	$ 11,442,969
Income (loss) from continuing operations, before taxes *	$ 30,876,865	$ 4,103,543	$ 4,458,734	$ (484,305)
Income and comprehensive income	$ 32,297,230	$ 4,900,921	$ 6,211,335	$ 1,154,313
Cash Flows				
Cash flow from operating activities	$ (4,644,859)	$ (1,296,849)	$ (5,599,772)	$ (525,729)
Funds from Operations (FFO) *	$ (838,841)	$ (2,187,543)	$ (2,170,139)	$ (5,698,433)
Adjusted Funds from Operations (AFFO) *	$ (1,444,448)	$ (2,733,837)	$ (2,915,588)	$ (6,180,187)
Distributable loss *	$ (843,529)	$ (2,749,471)	$ (332,878)	$ (4,371,224)
Per Unit				
Net operating income *				
- basic	$ 0.314	$ 0.343	$ 0.635	$ 0.622
- diluted	$ 0.312	$ 0.343	$ 0.632	$ 0.622
Income (loss) from continuing operations, before income tax*				
- basic	$ 1.664	$ 0.223	$ 0.240	$ (0.026)
- diluted	$ 1.655	$ 0.223	$ 0.239	$ (0.026)
Income and comprehensive income				
- basic	$ 1.741	$ 0.266	$ 0.335	$ 0.063
- diluted	$ 1.731	$ 0.266	$ 0.333	$ 0.063
Cash flow from operating activities				
- basic	$ (0.250)	$ (0.070)	$ (0.302)	$ (0.029)
- diluted	$ (0.250)	$ (0.070)	$ (0.302)	$ (0.029)
Funds from Operations (FFO) *				
- basic	$ (0.045)	$ (0.119)	$ (0.117)	$ (0.310)
- diluted	$ (0.045)	$ (0.119)	$ (0.117)	$ (0.310)
Adjusted Funds from Operations (AFFO) *				
- basic	$ (0.078)	$ (0.148)	$ (0.157)	$ (0.336)
- diluted	$ (0.078)	$ (0.148)	$ (0.157)	$ (0.336)
Distributable loss *				
- basic	$ (0.045)	$ (0.149)	$ (0.018)	$ (0.237)
- diluted	$ (0.045)	$ (0.149)	$ (0.018)	$ (0.237)

(1) Long-Term Financial Liabilities

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

(2) Non-IFRS Measurements

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

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

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

As of June 30, 2012, 20 properties and 12 condominium units have been sold under the divestiture program. The property portfolio of LREIT, as of June 30, 2012 consists of the remaining 25 properties, comprised of 22 investment properties (including the unsold condominium units at Lakewood Townhomes) and three seniors' housing complexes. The operating results for the three seniors' housing complexes are classified under discontinued operations.

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

Highlights of 2012 Q2 Results and Key Issues/Events

1. Background Information

The revenues and expenses for the seniors' housing complexes are disclosed under one line item titled "Income from Discontinued Operations" in the Condensed Consolidated Statements of Comprehensive Income ("Statement of Comprehensive Income"). The following analysis of revenues and expenses does not include the revenues and expenses of the seniors' housing complexes, including the gain on the sale of the Clarington Seniors' Residence on May 9, 2012. As a result of the sale, the portfolio of seniors' housing complexes was reduced to three properties as of June 30, 2012.

The revenues and expenses disclosed in the analysis reflect the revenues and expenses of investment properties. There were not any changes to the number of properties in the property portfolio between January 1, 2011 and March 31, 2012. During the second quarter of 2012, LREIT sold one of the investment properties (Siena Apartments). Siena Apartments is disclosed as "Properties Sold" in the analyses throughout this report. In addition, 12 condominium units have been sold at the Lakewood Townhomes, comprised of the sale of four condominium units in the fourth quarter of 2011, three condominium units in the first quarter of 2012 and five condominium units in the second quarter of 2012. The fire at Parsons Landing also resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012. Parsons Landing is disclosed as an "Impaired Property" in the analyses throughout this report.

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

2. Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Average vacancy				
Fort McMurray	10%	21%	9%	29%
Other investment properties	3%	2%	2%	2%
Properties sold *	n/a	-%	n/a	-%
Impaired Property **	n/a	9%	n/a	23%
Total	8%	13%	6%	19%
Average rental rate				
Fort McMurray	$2,191	$2,211	$2,155	$2,235
Other investment properties	$1,069	$1,065	$1,071	$1,050
Properties sold *	n/a	$3,100	n/a	$3,100
Impaired Property **	n/a	$2,319	n/a	$2,345
Total	$1,684	$1,784	$1,693	$1,787

* The operating results of properties sold are analysed separately as the properties do not contribute to net operating income, subsequent to the closing date of sale. During the six months ended June 30, 2012, the operating results for "Properties sold" pertain solely to Siena Apartments.

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

3. Income and Cash Flow

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Net operating income				
Fort McMurray properties	$ 3,758,516	$ 3,024,383	$ 7,171,066	$ 5,324,994
Other investment properties	1,981,871	2,031,041	3,811,028	3,885,406
Sub-total	5,740,387	5,055,424	10,982,094	9,210,400
Properties sold	80,389	614,119	697,352	1,229,240
Impaired Property *	-	650,419	100,044	1,003,329
Total net operating income	5,820,776	6,319,962	11,779,490	11,442,969
Interest income	259,186	47,344	333,753	125,011
Forgiveness of debt	-	-	859,561	-
Interest expense	(7,241,022)	(8,651,755)	(14,358,954)	(17,367,825)
Trust expense	(585,876)	(661,170)	(1,164,759)	(1,432,915)
Income recovery on Parsons Landing *	1,524,111	-	1,524,111	-
Loss before the following	(222,825)	(2,945,619)	(1,026,798)	(7,232,760)
Profit on sale of investment properties	721,082	-	1,045,307	-
Fair value gains	7,078,608	7,049,162	8,940,225	6,748,455
Fair value adjustment of Parsons Landing	23,300,000	-	(4,500,000)	-
Income (loss) before taxes and discontinued operations	30,876,865	4,103,543	4,458,734	(484,305)
Deferred income tax expense (recovery)	181,339	(89,123)	181,339	(206,782)
Income (loss) before discontinued operations	30,695,526	4,192,666	4,277,395	(277,523)
Income from discontinued operations	1,601,704	708,255	1,933,940	1,431,836
Income and comprehensive income	$ 32,297,230	$ 4,900,921	$ 6,211,335	$ 1,154,313

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash provided by (used in) operating activities	$ (4,644,859)	$ (1,296,849)	$ (5,599,772)	$ (525,729)

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

* In accordance with IFRS, revenue recoveries at Parsons Landing are not recorded in revenue but are reflected in a separate income category after the calculation of net operating income. As a result, the revenue and net operating income for Parsons Landing in the second quarter of 2012 are significantly less than the same figures in the first quarter of 2012 and the second quarter of 2011. During the second quarter of 2012, Parsons Landing recorded a net revenue recovery of $1,524,111 in regard to recovery of insurance proceeds for revenue losses. Of the amount, $672,469 relates to the first quarter of 2012.

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing, discontinued operations and income taxes, the loss for the second quarter of 2012 decreased by $2.7 Million compared to the second quarter of 2011. The decrease in the loss is mainly due to a $1.5 Million income recovery on Parsons Landing, a $0.2 Million increase in interest income and a $1.4 Million decrease in interest expense, partially offset by a $0.5 Million decrease in net operating income.

The total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, increased by $639,991 during the second quarter of 2012 compared to the second quarter of 2011. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of $587,639 and an increase in revenue from the other investment properties of $52,352.

3. Income and Cash Flow (continued)

The increase in revenue from the Fort McMurray property portfolio reflects a decrease in the vacancy, partially offset by a decrease in the average rental rate. The vacancy for the Fort McMurray portfolio decreased from 21% during the second quarter of 2011, to 10% in the second quarter of 2012, while the average monthly rental rate decreased by $20 or 1.0%.

During the second quarter of 2012, revenue for "properties sold" decreased by $541,574 due to the sale of Siena Apartments. Revenue from the "Impaired property" decreased by $1,073,567 due to a requirement under IFRS to record the income recovery on Parsons Landing in a separate income category after the calculation of net operating income.

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

After excluding profit on property sales, fair value gains, fair value adjustment of Parsons Landing, discontinued operations and income taxes, the loss for the first six months of 2012 decreased by $6.2 Million compared to the first six months of 2011. The decrease in the loss is mainly due to a $1.5 Million income recovery on Parsons Landing, a $0.3 Million increase in net operating income, a $0.2 Million increase in interest income, a $0.9 Million increase in forgiveness of debt, a $3.0 Million decrease in interest expense and a $0.3 Million decrease in trust expense.

4. Fair Value Adjustment of Parsons Landing

The investment properties of LREIT are disclosed in the Financial Statements of the Trust at fair value. As a result of the fire at Parsons Landing in February 2012, a fair value adjustment of $27.8 Million was recorded during the first quarter of 2012. In the second quarter of 2012, an agreement was reached with the builder for the reconstruction of the property and a $23,300,000 fair value adjustment recovery was recorded.

5. Fair Value Gains

In accordance with the IFRS accounting policies which were adopted by LREIT, the carrying value of investment properties is adjusted to reflect changes in fair value. During the second quarter of 2012, the fair value of investment properties increased by $7.1 Million, resulting in a corresponding increase in the carrying value of investment properties.

The increase in fair value is supported by appraisals for eleven properties that were obtained in the first six months of 2012 and for seven properties in 2011 with an aggregate appraised value of $374.1 Million.

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

During the six months ended June 30, 2012, the fair value of investment properties increased by $8.9 Million.

6. Profit on Sale of Investment Properties

The profit on sale of investment properties represents the extent to which the net proceeds from the sale of an investment property exceeds the carrying value of the property as determined at the end of the preceding quarter.

During the first six months of 2012, LREIT sold one investment property (Siena Apartments) which resulted in a profit on sale of $346,770. Eight units were also sold under the condominium sales program at the Lakewood Townhomes, resulting in a profit on sale of $698,537. During the first six months of 2011, LREIT did not complete any property sales.

7. Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Interest expense	$ 7,241,022	$ 8,651,755	$ 14,358,954	$ 17,367,825

Key Variables	June 30 2012	December 31 2011
Weighted average interest rate of total mortgage loan debt		
Investment properties	6.5 %	6.9 %
Seniors' housing complexes	5.0 %	7.3 %
Combined operations	6.4 %	6.9 %

Key Events Affecting Interest Expense

Interest expense decreased by $1.4 Million or 16% during the second quarter of 2012 compared to the second quarter of 2011 as a result of the following factors:

- a decrease in mortgage loan interest of $0.71 Million;
- a decrease in swap mortgage loan interest of $0.21 Million;
- an increase in debenture interest of $0.12 Million; and
- a reduction of non-cash interest charges (amortization charges pertaining to transaction costs, accretion and the change in value of interest rate swaps) of $0.62 Million.

The decrease in mortgage loan interest is mainly due to a decrease of interest on mortgage loan debt of $0.4 Million and a decrease of interest on the revolving loan commitment from 2668921 Manitoba Ltd. of $0.3 Million. The decrease in interest on mortgage loan debt is mainly due to a decrease in the balance of mortgage loans payable during the 12 month period ended June 30, 2012.

The decrease in swap mortgage interest is a result of the sale of Siena Apartments.

The increase in debenture interest is due to the increase in the interest rate for the Series G debentures on January 1, 2012. The reduction of non-cash interest charges of $0.6 Million is comprised of a decrease in accretion of $0.4 Million and a decrease in amortization of transaction costs of $0.2 Million. The decrease in accretion expense is mainly attributable to the fact that accretion expense was comparatively high during the second quarter of 2011 due to the fact that the Series G debentures were restructured in December 2011 and are no longer convertible into trust units. The decrease in amortization of transaction costs is mainly attributable to the fact that amortization expense was comparatively high during the second quarter of 2011 due to the amortization expense in regard to transaction costs of mortgage loans with covenant breaches.

Total interest expense decreased by $3,008,871 or 17.3% during the first six months of 2012 compared to the first six months of 2011. In total, 53% of the six month decrease pertains to the first quarter of 2011. The proportionately higher decrease in financing expense in the first quarter is primarily related to the relative change in the value of interest rate swaps and to a proportionately higher decrease in debenture interest.

8. Financing

Mortgage Refinancing

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

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

On May 1, 2012, LREIT discharged $18.6 Million of swap mortgage loan debt on the sale of the Siena Apartments. On May 9, 2012, LREIT discharged $14.75 Million of first mortgage loan debt on the sale of a seniors' housing complex, the Clarington Seniors' Residence.

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the application of collateral deposits of $1.9 Million, working capital and a $10.2 Million interest-free advance from Shelter Canadian Properties Limited pending the receipt of proceeds from new mortgage loan debt of approximately $17.4 Million. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt. The interest-free advance was repaid in August 2012.

In July 2012, LREIT also paid-down the first mortgage loan on Millennium Village by approximately $5.0 Million from the proceeds of a new mortgage loan of $3 Million and the application of collateral deposits of $1.7 Million. The pay down will remedy the covenant breach on the first mortgage loan.

Subsequent to June 30, 2012, LREIT expects to receive new mortgage loan debt of approximately $22.7 Million secured by the Colony Square property in Winnipeg and repay the existing first mortgage loan. The refinancing will extinguish the covenant breach.

Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of June 30, 2012, interest in excess of $300,000 per month amounted to $17,261,396.

The $2,000,000 additional payment which was due on February 17, 2012 was paid on June 6, 2012. As of June 30, 2012, the balance owing in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. In June 2012, an agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses. The cost of reconstruction is expected to be fully covered under the insurance policy. All damaged materials have been removed from the property, the construction manager has been appointed and reconstruction work is expected to commence by September 2012. The time period for reconstruction of the property is estimated to be more than one year and occupancies are unlikely until the reconstruction has been completed.

8. Financing (continued)

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. To the extent that insurance proceeds for revenue losses are less than the interest payment, the shortfall shall be forgiven until such time as the occupancy of the building recommences.

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47,800,000 at December 31, 2011 to $20,000,000 at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire.

As a result of the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the estimated fair value of the property at June 30, 2012 has increased to $43,300,000 which represents the estimated value at the construction completion date, discounted for the estimated time period of reconstruction. The increase in fair value of $23,300,000 is reflected in the income of the Trust in the second quarter of 2012.

Debt Covenants

As of the date of this report, four mortgage loans and a swap mortgage loan are in breach of net operating income achievement, debt service coverage requirements or covenants restricting secondary financing (the "covenant breaches") comprised of five properties in Fort McMurray and one property in Winnipeg. Management expects the covenant breach for the property in Winnipeg will be remedied as a result of a refinancing to be completed in August 2012. A forbearance extension to September 30, 2012 has been received for the remaining three mortgage loans with a balance in the aggregate amount of $82,384,166.

Debentures

As of June 30, 2012, the total face value of the Series G debentures is $24.96 Million. The debentures mature on February 28, 2015. The terms of the debentures also provide for the net proceeds from property sales to be applied against the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment.

Revolving Loan with 2668921 Manitoba Ltd.

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

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

As of the date of this report, the amount available on revolving loan commitment was $4.4 Million.

9. Liquidity

	June 30 2012	December 31 2011
Unrestricted cash	$ 1,794,941	$ 1,170,619
Restricted cash	$ 12,167,799	$ 15,246,600
Working capital deficit	$ 1,436,605	$ 13,510,274

Key Events affecting liquidity

- Cash outflow from operations and "ongoing" financing and investing activities: During the first six months of 2012, the net cash outflow from operating activities, regular repayments of principal on mortgage loan debt and capital expenditures was $12.0 Million.
- Additional mortgage loan financing: During the first six months of 2012, the net proceeds from additional mortgage loan financing amounted to $7.6 Million. The net proceeds from the additional financing were used to partially repay the revolving loan commitment, repay interest-free advances from Shelter Canadian and for working capital purposes.
- Net proceeds from property sales: During the first six months of 2012, LREIT sold one investment property and one seniors' housing complex resulting in net proceeds of $13.2 Million. The net proceeds were used to partially repay the revolving loan commitment.
- Revolving loan: During the first six months of 2012, net repayments of the revolving loan amounted to $8.6 Million, resulting in a loan balance of $3.4 Million as of June 30, 2012.
- Transaction costs: During the first six months of 2012, expenditures on transaction costs associated with mortgage loan financing, amounted to $1.5 Million including $0.3 Million fees associated with mortgage loans with covenant breaches.

Liquidity summary

During the first six months of 2012, the net proceeds from property sales and additional mortgage loan financing represented the main source of financing of LREIT. The revolving loan, interest-free advances from Shelter Canadian Properties Limited and deferred payment of service fees and revolving loan interest served as an interim source of funds in the first quarter of 2012 prior to the completion of the additional mortgage loan financing. The working capital deficiency of LREIT decreased from a balance of $13.5 Million as of December 31, 2011, to a balance of $1.4 Million as of June 30, 2012.

10. Divestiture Program

	Properties Sold				
	2009	2010	2011	2012	Total
Number of properties sold	13	5	-	2	20
Number of condominium units sold	-	-	4	8	12
Gross proceeds	$ 90,392,000	$ 40,835,000	$ 1,927,100	$ 58,429,500	$ 191,583,600
Net proceeds at closing	$ 29,631,650	$ 17,563,501	$ 52,120	$ 13,167,279	$ 60,414,550
Vendor take-back financing received	6,300,000	3,790,650	-	-	10,090,650
Total proceeds	$ 35,931,650	$ 21,354,151	$ 52,120	$ 13,167,279	$ 70,505,200

LREIT is pursuing the sale of the seniors' housing complexes and/or other properties. During the first six months of 2012, LREIT sold one investment property and one seniors' housing complex under its divestiture program. In October 2011, LREIT also commenced a condominium sales program at Lakewood Townhomes. As of June 30, 2012 12 condominium units have been sold, including eight units which were sold during the first six months of 2012.

11. Risks and Uncertainties

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

- as of the date of this report, the breach of covenants which remain on four mortgage loans and a swap mortgage loan encompassing $117.8 Million of mortgage loan debt;
- the working capital deficiency of the Trust;
- the concentration of properties in Fort McMurray;
- the impact of the timing of the increase in rental rates in Fort McMurray on the ability of the Trust to renew mortgage loan financing;
- ability of the Trust to complete additional property sales;
- ability of Trust to complete additional upward refinancings; and
- reliance on Shelter Canadian Properties Limited and its parent 2668921 Manitoba Ltd. for interim funding.

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

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

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

CONTINUING OPERATIONS AND LIQUIDITY

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

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

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

Funding Requirements

Working Capital Deficiency

As at June 30, 2012, LREIT has a working capital deficiency of approximately $1.4 Million, representing a decrease of approximately $12.1 Million, compared to the working capital deficiency as of December 31, 2011. The working capital deficiency consists primarily of the amount drawn on the revolving loan commitment from 2668921 Manitoba Ltd. of $3.4 Million, accounts payable and other liabilities of approximately $3.3 Million, less unrestricted cash of approximately $1.8 Million, rent and other receivables of approximately $1.8 Million and deposits, prepaid's and other current assets of approximately $1.7 Million. The working capital calculation excludes the amount payable on Parsons

Landing.

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

Operating Activities

During the first six months of 2012, the cash inflow from operating activities was approximately $0.6 Million, excluding working capital adjustments. The cash inflow from operating activities, excluding working capital adjustments, increased by $4.1 Million during the first six months of 2012, compared to the first six months of 2011.

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

In general terms, and excluding the impact of property sales, the extent of the cash inflow from operating activities, excluding working capital adjustments, is expected to increase during 2012, as the anticipated improvement in net operating income from the Fort McMurray property portfolio is expected to exceed the increase in interest associated with upward refinancings and/or an increase in the loan amount utilized on the revolving loan commitment from 2668921 Manitoba Ltd. During the first six months of 2012, the increase in net operating income, on a cash basis, the $1.5 Million income recovery on Parsons Landing and an increase in the tax recovery, compared to the first six months of 2011, served to increase the cash inflow from operating activities, before working capital adjustments. After including working capital adjustments, LREIT completed the first six months of 2012 with a cash outflow of approximately $5.6 Million. For the remainder of 2012, LREIT will continue to require other sources of cash to fund the cash outflow from operating activities, regular payments of mortgage loan principal and capital improvements.

Ongoing Funding Commitments

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

During the first six months of 2012, long-term debt payments amounted to $5,426,967, representing an increase of $818,576 compared to the first six months of 2011. Capital improvements amounted to $929,747 during the first six months of 2012.

Capital improvements are expected to be approximately $2.1 Million for the remainder of 2012, including $481,000 for capital improvements for the six apartment properties which are located in downtown Fort McMurray.

Series G Debentures

The 9.5% Series G debentures provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The face value of the debentures is $24,961,000 as of June 30, 2012. The extent of debenture repayments during 2012, if any, is dependent on the extent of property sales, the amount of mortgage indebtedness related to the property sold and the balance of the revolving loan from 2668921 Manitoba Ltd.

Monthly Payments for Parsons Landing

As previously reported, a fire occurred at Parsons Landing in February 2012 which substantially destroyed one entire wing of the property and resulted in wide spread damage to the other two wings. Payment of the $300,000 monthly interest to the builder is being funded from insurance proceeds until the occupancy of the property recommences.

A more detailed description of the status of the Parsons Landing property is presented in the "Parsons Landing" section of the MD&A.

Sources of Capital

Mortgage Refinancing

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

The existing mortgage loans for Riverside Terrace were refinanced by a new $31.5 Million mortgage loan in June 2012. The excess funds after repaying the loans and payout penalty were used to pay down the revolving loan from 2668921 Manitoba Ltd.

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the application of collateral deposits of $1.9 Million, working capital and a $10.2 Million interest-free advance from Shelter Canadian Properties Limited pending the receipt of proceeds from new mortgage loan debt of approximately $17.4 Million. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt. The interest-free advance was repaid in August 2012.

Subsequent to June 30, 2012, the Trust paid down a first mortgage loan in the amount of $5,000,000 from the proceeds of a second mortgage loan of $3,000,000, the application of collateral deposits of $1,750,425, with the balance funded from working capital.

Subsequent to June 30, 2012, LREIT expects to receive new mortgage loan debt of approximately $22.7 Million secured by the Colony Square property in Winnipeg and repay the existing first mortgage loan. The refinancing will extinguish the covenant breach.

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

Revolving Loan Commitment

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). The 9.75% revolving loan commitment of $12 Million matured on March 31, 2012 and was renewed for a five month term to August 31, 2012 at an increased balance of $15 Million and at an interest rate of 10%. Based on the increased balance of $15 Million, $4.4 Million is available under the revolving loan commitment, as of the date of report.

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

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

Credit Support From Shelter Canadian Properties Limited

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

On July 31, 2012, an interest-free advance of $10.2 Million was received from Shelter Canadian Properties Limited which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was repaid on August 2, 2012 from the proceeds of new first mortgage financing.

Property Sales

The sale of properties under the divestiture sale program of LREIT represents a primary source of capital. Although the timing and completion of property sales is subject to uncertainty, the current expectation of management is that LREIT will complete the sale of the three remaining seniors' housing complexes and/or other properties in 2012. (As noted below, one of the four seniors' housing complexes and one investment property were sold during the second quarter of 2012). In addition, a condominium sales program for the Lakewood Townhomes is expected to be substantially completed in 2013.

On May 9, 2012, one of the seniors' housing complexes, the Clarington Seniors' Residence, was sold for gross proceeds of $24 Million and net proceeds of approximately $1.5 Million after repayment of mortgage loan debt, a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.9 Million after the assumption of mortgage loan debt and sales expenses.

The net proceeds from the two sales of $13.4 were used to partially repay the revolving loan.

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

Other Factors

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

Mortgage Loans in Breach of Covenant Requirements

As of June 30, 2012, there are five mortgage loans and a swap mortgage which are in breach of net operating income achievement, debt service coverage requirements and restrictions on secondary financing, comprised of eleven properties in Fort McMurray and one property in Winnipeg.

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the proceeds of new mortgage loan debt of approximately $17.4 Million, the application of collateral deposits of $1.9 Million with the balance of approximately $3 Million funded by working capital. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt.

In July 2012, LREIT paid-down the swap mortgage loan on Millennium Village by $5.0 Million from the proceeds of a new mortgage loan of $3 Million, the application of collateral deposits of $1.7 Million and working capital. The pay down is expected to remedy the covenant breach on the mortgage loan.

A commitment is expected to be received for a new first mortgage loan of $22.7 Million secured by Colony Square property in Winnipeg. The loan is expected to be advanced in the third quarter of 2012 and repay the existing first mortgage loan. The refinancing will extinguish the covenant breach.

After considering the above noted debt restructuring, LREIT will have three mortgage loans in breach of covenant requirements. A forbearance extension to September 30, 2012, has been received for the three mortgage loans.

Maturing Debt

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

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

Summary

It is anticipated that the proceeds from property sales and upward refinancings, supplemented by draws on the revolving loan and periodic credit support from Shelter Canadian, as required, will continue to be sufficient to fund the projected funding commitments of LREIT during 2012. As of the date of this report, the amount available under the revolving loan is $4.4 Million.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees, pursuant to the terms of the Declaration of Trust. Shelter Canadian Properties Limited ("Shelter Canadian") provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter Canadian is also responsible for the property management function for the investment 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 June 30, 2012, the real estate portfolio of LREIT consists of 19 multi-family residential properties, two commercial properties and one mixed residential/commercial property (the "investment properties"), as well as three seniors' housing complexes (the "discontinued operations") under "assets held for sale". Rental revenue from the leasing of the real estate properties is the primary source of revenue for LREIT.

Investment in Properties

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

The investment properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. In 2009 and 2010, the decline in economic conditions in Fort McMurray resulted in a reduction in the profitability of the Fort McMurray property portfolio and a decrease in the operating income of LREIT. As a result of an increase in activity in the oil sands industry, the occupancy levels and operating income from the Fort McMurray property portfolio have improved. The occupancy level in the second quarter of 2012 is slightly less than the occupancy level achieved in the later half of 2011 mostly due to an increase in vacancy at the downtown Fort McMurray properties (a major renovation project is underway, requiring that units be unoccupied) and at Lakewood Townhomes (a condominium sales program is underway, requiring that 13 units be unoccupied). Occupancy and rental revenue are expected to increase in 2012 as the demand for rental housing continues to grow.

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

Operations

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

In the third quarter of 2012, LREIT will complete an in-suite upgrade program for the six properties which are located in the downtown area of Fort McMurray. The total cost of the two year program is approximately $2.3 Million.

Financing

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

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 June 30, 2012, the total mortgage loan indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income to mortgage loan debt service costs is one of the measures utilized to assess the overall financial position of the Trust. During the second quarter of 2012, the mortgage loan debt service coverage ratio was 0.96, compared to 0.93 in the second quarter of 2011 and 0.97 for the entire year in 2011. The mortgage loan debt service coverage ratio excludes net operating income and mortgage loan debt service costs for discontinued operations and Parsons Landing.

Divestiture Program

General

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

During 2009 and 2010, LREIT sold 18 properties at a combined gross selling price of $131.2 Million. The total net proceeds from sale were approximately $57.3 Million, after accounting for expenses, the repayment or assumption of debt and the subsequent receipt of take-back financing provided to purchasers. The 2010 Annual Report provides a report on the disbursement of divestiture program proceeds. LREIT did not complete any property sales under its divestiture program during 2011 or in the first quarter of 2012, aside from the sale of seven condominium units at Lakewood Townhomes at a combined gross selling price of $3.9 Million.

In 2012, LREIT is pursuing the sale of the four seniors' housing complexes and/or other properties.

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.5 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.9 Million after assumption of mortgage loan debt and sales expenses.

Lakewood Townhomes Condominium Sales

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

Distributions

Due to the downturn in rental market conditions in Fort McMurray in 2008, LREIT suspended cash distributions in March 2009.

IMPACT OF INCOME TAX CHANGES ON NET SALE PROCEEDS

Effective January 1, 2011, in accordance with the federal income taxation policy for SIFT's ("specified investment flow-through" trusts), the distributions of LREIT are generally not deductible for purposes of determining the taxable income of LREIT, with certain exceptions*, until such time as the Trust qualifies as a qualifying REIT in accordance with the Income Tax Act.

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

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

PARSONS LANDING

Possession of Property and Closing/Financing Agreement

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of June 30, 2012, interest in excess of $300,000 per month amounted to $17,261,396.

The $2,000,000 additional payment which was due on February 17, 2012 was paid on June 6, 2012. As of June 30, 2012, the balance owing in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

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

Parsons Landing is classified as an investment property and is carried at fair value. The carrying value of the property at December 31, 2011 was $47,800,000.

Destruction of Property by Fire

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. In June 2012, an agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses. The cost of reconstruction is expected to be fully covered under the insurance policy. All damaged materials have been removed from the property, the construction manager has been appointed and reconstruction work is expected to commence by September 2012. The time period for reconstruction of the property is estimated to be more than one year and occupancies are unlikely until the reconstruction has been completed.

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. To the extent that insurance proceeds for revenue losses are less than the interest payment, the shortfall shall be forgiven until such time as the occupancy of the building recommences. The payment of the $300,000 monthly interest which was deferred since the date of the fire will be funded from the insurance proceeds for revenue losses.

Impact on Financial Statements

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

Fair value adjustment of Parsons Landing

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47,800,000 at December 31, 2011 to $20,000,000 at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire.

As a result of the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the estimated fair value of the property at June 30, 2012 has increased to $43,300,000 which represents the estimated value at the construction completion date, discounted for the estimated time period of reconstruction. The increase in fair value of $23,300,000 is reflected in the income of the Trust in the second quarter of 2012.

Insurance proceeds

An insurance policy for the furniture and equipment of the property was arranged by the Trust. As of June 30, 2012, the amount of insurance proceeds which will be paid as a result of the loss has not been determined. As a result, the Financial Statements do not reflect any insurance proceeds relating to the furniture and equipment loss.

Net operating income and interest expense

The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012, as well as the $300,000 monthly interest payment for January 2012.

Subsequent to February 5, 2012, the Financial Statements reflect the monthly interest in the amount of $300,000. As the monthly interest expense and occupancy fee are being funded from insurance proceeds until the reconstruction of the property is completed, there has been no cash outflow associated with the interest expense since January 2012. The monthly interest is offset by accrued revenue in regard to the recovery of insurance proceeds for revenue losses which is recorded under the caption "Income recovery on Parsons Landing" in the Condensed Consolidated Statement of Comprehensive Income".

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2012

As of June 30, 2012, the property portfolio of LREIT consists of 25 rental properties, 22 of which are classified as "Investment properties" on the Statement of Financial Position of the Trust. The investment properties include all of the unsold condominium units at Lakewood Townhomes. The remaining three properties consist of three seniors' housing complexes which are accounted for as "property and equipment" under "discontinued operations" and classified under "Non-current assets classified as held for sale" on the Statement of Financial Position of the Trust. The entire portfolio of 25 properties has a total purchase price of approximately $438.3 Million and encompasses 2,426 suites and 139,243 square feet of leasable area.

There were not any changes to the number of properties in the property portfolio between January 1, 2011 and March 31, 2012. During the second quarter of 2012, LREIT sold one of the investment properties (Siena Apartments) and one of the seniors' housing complexes (Clarington Seniors' Residence). In addition, 12 condominium units have been sold at the Lakewood Townhomes, comprised of the sale of four condominium units in the fourth quarter of 2011, three condominium units in the first quarter of 2012 and five condominium units in the second quarter of 2012. The fire at Parsons Landing also resulted in the temporary removal of 160 suites from rental operations at the beginning of February 2012.

After accounting for the two property sales, the condominium sales program at Lakewood Townhomes and the fire at Parsons Landing, the number of "revenue generating" suites in the investment property portfolio decreased by 238 suites or 11.3% as of June 30, 2012, compared to June 30, 2011, while the number of "revenue generating" suites in discontinued operations decreased by 112 suites or 22.0%

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

Composition of Property Portfolio of Investment Properties

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

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

Properties Held for Sale/Discontinued Operations

Discontinued operations is a geographic segment or distinct line of business which is being disposed of by the Trust under a coordinated plan, or a subsidiary which was acquired for resale purposes. As LREIT is actively pursuing the disposition of all of its seniors' housing complexes, the three seniors' housing complexes of LREIT are categorized as "discontinued operations". All of the assets and liabilities of properties in discontinued operations are reflected on the Statement of Financial Position as "Non-current assets or liabilities classified as held for sale" properties.

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

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

In regard to the condominium sales program at Lakewood Townhomes, the rental revenues, operating costs and interest expense which are attributable to units sold, as well as the profit on sale of condominium units, are included in continuing operations.

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

Analysis of Operating Results

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

During the first six months of 2012, the operating results for continuing operations include the operating results for 23 investment properties for the period from January 1, 2012 to the sale date of the Siena Apartments on May 1, 2012. For the period from May 1, 2012 to June 30, 2012 the operating results for continuing operations include the operating results for 22 investment properties. The sale of twelve condominium units at Lakewood Townhomes and the fire at Parsons Landing also affected the comparability of the six month and second quarter results for 2012 and 2011.

During the first six months of 2011, the operating results for continuing operations include the operating results for 23 investment properties. There were no investment properties classified as "held-for-sale" as of March 31, 2012 or June 30, 2012 or at the end of any of the quarterly reporting periods in 2011.

Loans and Receivables

As of June 30, 2012, "Loans and receivables" consisted of a 12.5% second mortgage loan of $7.6 Million and an interest free mortgage loan of $275,000, due May 8, 2014 arising from the sale of Clarington Seniors' Residence on May 9, 2012, a 5% second mortgage loan of $500,000 arising from the sale of a property, due October 1, 2014 and a 12% $250,000 secured note receivable from a previous tenant which is due on demand.

CAPITAL STRUCTURE

Capital Structure - June 30, 2012

	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Long-term debt	$ 146,017,479	33.6 %	$ 130,476,452	31.1 %
Current portion of long-term debt	201,285,336	46.4 %	208,484,873	49.7 %
Equity	86,755,413	20.0 %	80,510,813	19.2 %
Total capitalization	$ 434,058,228	100.0 %	$ 419,472,138	100.0 %

Long-term Debt

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

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

Change in Total Long-term Debt

As disclosed in the following chart, the total debt of the investment properties of LREIT as of June 30, 2012, before accrued interest payable and unamortized transaction costs, increased by $9,119,186 or 2.7% compared to the long-term debt as of December 31, 2011. The increase mainly reflects an increase in mortgage loan debt, partially offset by a decrease in swap mortgage loans and debentures.

	June 30 2012	December 31 2011	Increase (Decrease)
Secured debt			
Mortgages loans	$ 284,051,470	$ 254,863,171	$ 29,188,299
Swap mortgage loans	23,058,086	42,942,356	(19,884,270)
Mortgage bonds	14,250,996	14,058,307	192,689
Debentures	24,961,000	25,312,000	(351,000)
Defeased liability	2,728,793	2,755,325	(26,532)
Total secured debt	349,050,345	339,931,159	9,119,186
Accrued interest payable	1,717,921	2,019,182	(301,261)
Unamortized transaction costs	(3,465,451)	(2,989,016)	(476,435)
Total debt	$ 347,302,815	$ 338,961,325	$ 8,341,490
Total debt is comprised of the following:			
Current portion of long-term debt	$ 201,285,336	$ 208,484,873	$ (7,199,537)
Long-term debt	146,017,479	130,476,452	15,541,027
Total debt	$ 347,302,815	$ 338,961,325	$ 8,341,490

Discontinued Operations - Long-term Debt

As of June 30, 2012, the long-term debt for discontinued operations consisted of the mortgage loan debt for two of the seniors' housing complexes in the amount of $15,779,696 less unamortized transaction costs of $11,550. An analysis of the mortgage loan debt for discontinued operations is provided in the following section of this report.

Mortgage Loans Payable

Change in Total Mortgage Loan Debt

As of June 30, 2012, the mortgage loan debt of LREIT decreased by $15,184,802 compared to the amount payable as of December 31, 2011. As disclosed in the following chart, the decrease is comprised of an increase in mortgage loan debt of $29,188,299 for investment properties in continuing operations and a decrease in the mortgage loan debt of $44,373,101 for the seniors' housing complexes in discontinued operations.

	Six Months Ended June 30, 2012		
	Total	Investment Properties	Seniors' Housing Complexes
Proceeds of mortgage loan financing	$ 62,350,000	$ 62,350,000	$ -
Repayment of mortgage loans on refinancing *	(53,394,008)	(25,486,971)	(27,907,037)
Forgiveness of debt	(859,561)	(859,561)	-
Net proceeds (repayment)	8,096,431	36,003,468	(27,907,037)
Regular repayment of principal on mortgage loans	(4,861,109)	(3,145,045)	(1,716,064)
Reduction of mortgage loans on sale of properties	(18,420,124)	(3,670,124)	(14,750,000)
Increase (decrease) in mortgage loans	(15,184,802)	29,188,299	(44,373,101)
Total mortgage loans - December 31, 2011	315,015,968	254,863,171	60,152,797
Total mortgage loans - June 30, 2012	$ 299,831,166	$ 284,051,470	$ 15,779,696

* Repayment of mortgage loans on refinancing excludes the mortgage prepayment penalty in the amount of $1,324,354 which was required in order to repay the first mortgage loan of Riverside Terrace.

Investment properties

Mortgage loan proceeds, as disclosed in the preceding chart, are comprised of additional mortgage loan financing of $12 Million obtained in February 2012, the new mortgage financing for Lakewood Apartments in the amount of $18.85 Million and the additional mortgage financing obtained in June 2012 in the amount of $31.5 Million. The repayment of mortgage loans on refinancing is comprised of the repayment of the previous mortgage loan for Lakewood Apartments at refinancing of $23.95 Million and the retirement of $1.5 Million of interim mortgage debt. The reduction of mortgage loan debt on sale of properties is comprised of $3.7 Million of first mortgage loan debt discharged on condominium sales at Lakewood Townhomes. The proceeds of the $31.5 Million first mortgage loan were used to repay the mortgage loan debt of Riverside Terrace and for general working capital purposes. In accordance with IFRS, the new loan is classified as mortgage loan debt for investment properties.

The repayment of the previous mortgage loan for Lakewood Apartments was funded from the proceeds of the new first mortgage loan in the amount of $18.85 Million, interest-free advances from Shelter Canadian Properties Limited in the amount of $2.4 Million, the application of restricted cash deposits of $2,701,970 and the forgiveness of debt in the amount of $859,561.

On May 1, 2012, LREIT discharged $18.6 Million of swap mortgage loan debt on the sale of the Siena Apartments. (Please refer to the section titled "Swap Mortgage Loans" later in this report)

Discontinued Operations

The decrease in the mortgage loan debt for discontinued operations, as disclosed on the "Change in Total Mortgage Loan Debt" chart, consists of $27.91 Million of first and second mortgage loan debt which was discharged on Riverside Terrace, $14.75 Million of first mortgage loan debt which was discharged on the sale of the Clarington Seniors' Residence and regular repayments of principal of $1,716,064.

The mortgage debt at Riverside Terrace was retired from the proceeds of a new $31.5 Million mortgage loan. The new mortgage loan was arranged by LREIT with the proceeds to be used to repay the mortgage loan debt of Riverside Terrace and for general working capital purposes.

The total balance of $15,779,696 is comprised of first mortgage loans in respect of Chateau St. Michael's and Elgin Lodge. The first and second mortgage loans payable debt have a weighted average interest rate of 5.0% as of June 30, 2012, compared to 6.6% as of June 30, 2011 and 7.3% as of December 31, 2011.

Composition of Mortgage Loan Debt - June 30, 2012

Summary of Mortgage Loans Payable - Investment Properties

Year of Maturity (Note 1)	Weighted Average Interest Rate	Amount June 30, 2012	Percentage of Total
Fixed rate			
2013	4.4 %	$ 52,464,432	18.5 %
2014	5.0 %	9,133,166	3.2 %
2015	5.3 %	25,936,601	9.1 %
2016	5.1 %	34,027,346	12.0 %
2017	5.7 %	20,305,759	7.1 %
2022	5.0 %	31,500,000	11.1 %
		173,367,304	61.0 %
Demand/variable rate	8.9 %	110,684,166	39.0 %
Principal amount		$ 284,051,470	100.0 %

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

Mortgage Loan Debt Summary *

	2012 Q 2	2012 Q 1	2011 Q 4	2011 Q 3
Weighted average interest rate				
Fixed rate mortgage loans	5.0%	5.5%	5.7%	5.7%
Variable rate mortgage loans	8.9%	8.9%	8.5%	8.5%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	73%	74%	74%	74%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	83%	82%	82%	83%

	2011 Q 2	2011 Q 1	2010 Q 4	2010 Q 3
Weighted average interest rate				
Fixed rate mortgage loans	6.0%	6.3%	6.2%	6.0%
Variable rate mortgage loans	8.6%	8.6%	6.7%	6.7%
Ratio of mortgage loans and swap mortgage loans, compared to carrying value of income-producing properties and discontinued operations *	73%	73%	74%	76%
Ratio of mortgage loans, swap mortgage loans, debentures (at face value) and mortgage bonds (at face value) compared to carrying value of income-producing properties and discontinued operations *	81%	82%	85%	85%

* Excludes debt and property values for Parsons Landing.

Debt Maturities

Investment properties

With the exception of three mortgage loans in breach of debt service coverage requirements, all of the mortgage loans on the investment properties which matured as of June 30, 2012 have been renewed or refinanced. The three matured loans in breach of debt service coverage requirements have a total principal balance of $82,384,166 as of June 30, 2012 and are secured by four investment properties in Fort McMurray. The loans are repayable on demand. The status of three mortgage loans and other loans in breach of debt service coverage requirements is provided in the next section of this report.

As of June 30, 2012, the amount of mortgage loan principal which is classified as "current", as disclosed in the Financial Statements in accordance with IFRS, includes all mortgage loans which are payable on demand and all mortgage loans which are in breach of covenant requirements, including a swap mortgage loan, as well as fixed term mortgages which mature on or before June 30, 2013. An analysis of the total mortgage loan principal which is classified as "current" for Financial Statement reporting purposes is provided in the "Capital Resources and Liquidity" section of the MD&A.

Discontinued Operations

There is a $11,014,012 first mortgage loan which expires on December 31, 2012.

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

Debt Covenant Breaches

Investment Properties

As of June 30, 2012, there were five mortgage loans and a swap mortgage which are in breach of net operating income achievement, debt service coverage requirements and restrictions on secondary financing, comprised of eleven properties in Fort McMurray and one property in Winnipeg.

In July 2012, LREIT discharged mortgage loan debt of approximately $22.3 Million which was encumbered against the six apartment properties in downtown Fort McMurray. The debt was discharged from the proceeds of new mortgage loan debt of approximately $17.4 Million, the application of collateral deposits of $1.9 Million with the balance of approximately $3 Million funded by working capital. The debt restructuring served to eliminate the covenant breach in regard to the discharged debt.

In July 2012, LREIT paid-down the swap mortgage loan on Millennium Village by $5.0 Million from the proceeds of a new mortgage loan of $3 Million, the application of collateral deposits of $1.7 Million and working capital. The pay down is expected to remedy the covenant breach on the mortgage loan.

A commitment is expected to be received for a new first mortgage loan of $22.7 Million secured by the Colony Square property in Winnipeg. The loan is expected to be advanced in the third quarter of 2012 and repay the existing first mortgage loan. The refinancing will extinguish the covenant breach.

After considering the above noted debt restructuring, LREIT will have three mortgage loans in breach of covenant requirements. A forbearance extension to September 30, 2012, has been received for the three mortgage loans.

The status of the mortgage loans which are in breach of covenant requirements as of June 30, 2012 is provided below.

Property	Covenant Requirement	Type of Mortgage	Mortgage Balance June 30, 2012	Maturity Date	Status
Mortgage Loans					
Fort McMurray					
Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor, Whimbrel Terrace	(5)	First	$ 22,341,558	September 1, 2016	(1)
Lakewood Townhomes	1.1	First	12,349,450	July 18, 2010	(2)
Laird's Landing	1.2	First	53,165,550	October 1, 2011	(2)
Woodland Park, Nelson Ridge Estates	1.2	Second	16,869,166	October 31, 2010	(2)
			104,725,724		
Winnipeg					
Colony Square		First	19,444,917	April 1, 2015	(3)
Subtotal			124,170,641		
Swap mortgage loan					
Fort McMurray					
Millennium Village	(5)	First	20,959,930	May 1, 2018	(4)
			$ 145,130,571		

(1) Subsequent to June 30, 2012, the mortgage loan was refinanced with another lender and the breach was extinguished.
(2) The lender provided a forbearance extension to September 30, 2012.
(3) The lender issued notice regarding the breach demanding that secondary financing be removed from the title to the property. Management expects that the breach will be extinguished upon refinancing the property in the third quarter of 2012.
(4) Subsequent to June 30, 2012, the swap mortgage loan was paid down by $5.0 Million. The pay-down of the loan is expected to remedy the covenant breach.
(5) The covenant requirement is a 1.15 debt service coverage for all Trust operations.

Discontinued Operations

As at June 30, 2012, the Trust is in compliance with all mortgage loan covenants for discontinued operations.

Summary

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

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

As of June 30, 2012, the cash deposits on mortgage loans with covenant breaches amounted to $8,072,142. Subsequent to June 30, 2012, cash deposits of $3,672,784 were applied to partially repay a mortgage loan and a swap mortgage loan.

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

During the first six months of 2012, the total fees related to covenant breaches and forbearance agreements amounted to $265,801. The fees are initially recorded as transaction costs and amortized over the term of the applicable mortgage. During the first six months of 2012, interest expense includes amortization charges related to fees on covenant breaches and forbearance agreements of $273,604, compared to $691,158 during the first six months of 2011.

Weighted Average Interest Rates

As of June 30, 2012, the weighted average interest rate of the mortgage loan debt for investment properties, discontinued operations and total mortgage loan debt is 6.5%, 5.0% and 6.4%, respectively, compared to 6.9%, 7.3% and 6.9% at December 31, 2011.

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

Swap Mortgage Loans

During the first six months of 2012, the balance of the swap mortgage loans decreased by $19,884,270, comprised of the following:

	Six Months Ended June 30, 2012
Regular repayment of principal on swap mortgage loans	$ (539,328)
Decrease in the fair value of interest rate swaps	(404,449)
Reduction of swap mortgage loans on sale of property	(18,593,723)
Reduction of fair value of interest rate swaps on sale of property	(346,770)
Decrease in swap mortgage loans	(19,884,270)
Swap mortgage loans - December 31, 2011	42,942,356
Swap mortgage loan - June 30, 2012	$ 23,058,086

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

Mortgage Bonds

The long-term debt of LREIT includes mortgage bonds with a face value of $16,000,000. The mortgage bonds mature on December 23, 2015. Interest is payable semi-annually on May 31 and November 30 in each year, as well as on the maturity date . The bonds are secured by second mortgages registered against five investment properties. The mortgage bonds were issued pursuant to a public offering which had a final closing date of January 28, 2011. The first interest payment occurred on May 31, 2011.

For Financial Statement purposes, the initial book value of the mortgage bonds was determined to be $13,699,574 based on the valuation methodology as established under IFRS. The carrying value of the mortgage bonds, as of June 30, 2012, of $13,094,377 is based on the initial book value plus accretion from the date of issue, net of unamortized transaction costs.

Trust Unit Purchase Warrants

The $16 Million mortgage bond offering included the issuance of 16,000,000 trust unit purchase warrants ("Warrants"). Each Warrant entitles the holder to purchase one unit of LREIT at a price of $0.75 per unit at any time for a period of five years expiring December 23, 2015. On June 1, 2012, 50,000 units were issued on the exercise of warrants. As a result, 15,950,000 warrants remain outstanding.

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

Debentures

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

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

The Series G convertible debentures were issued in December 2006 with a maturity date of December 31, 2011. In October 2011, the debenture holders approved an extension of the maturity date to February 28, 2015, with an increase in the interest rate to 9.5%. The restructured debentures are not convertible and interest or principal may not be paid through the issuance of trust units. The net proceeds from property sales after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing from time to time to 2668921 Manitoba Ltd. under the revolving loan commitment are to be used to redeem the Series G debentures on a pro rata basis.

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

Summary of Debenture Offering

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Purchased and Cancelled: Six Months Ended June 30 2012	Purchased and Cancelled: As of December 31 2011	Net Amount Outstanding June 30 2012
Debentures						
Jan. 1/12/Feb. 28/15	G	9.5 %	$ 25,312,000	$ (351,000)	$ -	$ 24,961,000
Unamortized transaction costs						(728,679)
Book value, June 30, 2012						$ 24,232,321
Allocation of book value						
Debt component						$ 24,961,000
Unamortized transaction costs						(728,679)
June 30, 2012						$ 24,232,321

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- December 31, 2011	17,988,339
- June 30, 2012	17,959,011
- August 13, 2012	17,959,011

As of June 30, 2012, LREIT had 17,959,011 units outstanding, representing a decrease of 29,328 units or 0.2%, compared to the number of units outstanding as of December 31, 2011. The decrease is comprised of 79,328 units which were purchased and cancelled under the normal course issuer bid during the first quarter of 2012 net of 50,000 units which were issued on the exercise of warrants.

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

OTHER LIABILITIES

Acquisition Payable

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

As of June 30, 2012, the amount payable in regard to the acquisition of Parsons Landing, excluding accrued interest, is $45,720,000.

During the period from March 1, 2009 to December 31, 2009, interest charges in excess of $300,000 per month totaling $5,841,638 were forgiven by the vendor in regard to the amount payable. In total, $5,841,638 of interest was forgiven during 2009.

Interest charges for the period from January 1, 2010 to June 30, 2012, amounted to $26,261,402 of which $21,020,640 pertains to 2010 and 2011 and $5,240,762 pertains to the first six months of 2012. Based on the actual events which have occurred since the initial payment deadline date, management expects that the entire amount of the "excess interest" which has accrued since January 1, 2010 will be forgiven and, as such, the financial statements for the six month period ended June 30, 2012 reflect the forgiveness of interest in the amount of $3,440,762. The recognition of the forgiveness of interest has resulted in the reduction of accrued interest payable by $17,261,402 for the 30 month period ended June 30, 2012. "Excess interest" represents the interest charges in excess of the $300,000 monthly interest payments which are required by the vendor. The interest payments of $300,000 per month represent an effective interest rate of 8%.

Revolving Loan Commitment

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

During the first quarter of 2012, the loan had an interest rate of 9.75%, subject to a maximum interest charge of $162,594 to March 31, 2012, and a maximum balance of $12 Million. As of March 31, 2012, the loan balance was $10.2 Million. Effective April 1, 2012, the loan was renewed to August 31, 2012, and the maximum loan amount was increased to $15 Million, at an interest rate of 10%. As of June 30, 2012, the loan balance was $3,425,000.

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

During the second quarter of 2012, the total interest expense associated with the revolving loan commitment was $239,759, compared to $498,667 for the second quarter of 2011. During the first six months of 2012, the total interest expense associated with the revolving loan commitment was $402,353, compared to $767,004 during the first six months of 2011. The revolving loan is included in "Trade and other payables" on the Statement of Financial Position of LREIT.

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

ANALYSIS OF INCOME

Overall Results

Analysis of Income

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Rentals from investment properties	$ 9,387,902	$ 10,363,052	$ 19,771,822	$ 19,513,569
Property operating costs	3,567,126	4,043,090	7,992,332	8,070,600
Net operating income	5,820,776	6,319,962	11,779,490	11,442,969
Interest income	259,186	47,344	333,753	125,011
Forgiveness of debt	-	-	859,561	-
Interest expense	(7,241,022)	(8,651,755)	(14,358,954)	(17,367,825)
Trust expense	(585,876)	(661,170)	(1,164,759)	(1,432,915)
Income recovery on Parsons Landing	1,524,111	-	1,524,111	-
Loss before the following	(222,825)	(2,945,619)	(1,026,798)	(7,232,760)
Profit on sale of investment properties	721,082	-	1,045,307	-
Fair value gains	7,078,608	7,049,162	8,940,225	6,748,455
Fair value adjustment of Parsons Landing	23,300,000	-	(4,500,000)	-
Income (loss) before taxes and discontinued operations	30,876,865	4,103,543	4,458,734	(484,305)
Deferred income tax expense (recovery)	181,339	(89,123)	181,339	(206,782)
Income (loss) before discontinued operations	30,695,526	4,192,666	4,277,395	(277,523)
Income from discontinued operations	1,601,704	708,255	1,933,940	1,431,836
Income and comprehensive income	$ 32,297,230	$ 4,900,921	$ 6,211,335	$ 1,154,313

During the second quarter of 2012, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations decreased by $2,722,794 compared to the second quarter of 2011. The decrease in the loss is mainly due to a $1.5 Million income recovery on Parsons Landing, a $1.4 Million decrease in interest expense and a $0.2 Million increase in interest income, partially offset by a $0.5 Million decrease in net operating income.

After accounting for fair value gains, profit on property sales, fair value adjustment of Parsons Landing, income taxes and discontinued operations, LREIT completed the second quarter of 2012 with comprehensive income of $32,297,230 compared to comprehensive income of $4,900,921 during the second quarter of 2011.

During the first six months, the loss of LREIT, before profit on property sales, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations decreased by $6,205,962 compared to the first six months of 2011. The decrease in the loss is mainly due to a $1.5 Million income recovery on Parsons Landing, a $0.3 Million increase in net operating income, a $0.9 Million forgiveness of debt, a $3.0 Million decrease in interest expense and a $0.3 Million decrease in trust expense.

The proportionately higher decrease in the loss in the first quarter of 2012 (56% of the six month decrease) mainly reflects the non-recurring income transaction of $859,561 in regard to the forgiveness of debt which was recorded in the first quarter.

After accounting for fair value gains, profit on property sales, fair value adjustment of Parsons Landing, income taxes and discontinued operations, LREIT completed the first six months of 2012 with comprehensive income of $6,211,335 compared to comprehensive income of $1,154,313 during the first six months of 2011.

Net Operating Income

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

Rental Revenue

Investment Properties

The investment properties of LREIT are separated in four categories, as noted below.

Fort McMurray (Twelve properties)

Accounting for approximately 46% of the residential suites in the portfolio of investment properties, the twelve multi-residential buildings in the Fort McMurray property portfolio, excluding Parsons Landing, represent the most significant revenue component in LREIT's overall operations.

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

During 2011 occupancy levels of the investment properties in Fort McMurray improved substantially, as a result of a significant increase in activity in the oil sand industry. Occupancy levels in Fort McMurray during the first six months of 2012 were 91% which compares favourably to the 82% average occupancy which was achieved for the entire year in 2011. Rental rates in the Fort McMurray portfolio are expected to rise gradually as the demand for rental housing in Fort McMurray continues to grow.

Other Investment Properties (Nine Properties)

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

Impaired Property (One Property)

Pending reconstruction of Parsons Landing, the revenue generating capacity of the property is impaired and the revenue of the property consists of accrued revenue in regard to the recovery of insurance proceeds for revenue losses. As a result, and in accordance with IFRS, Parsons Landing has been segregated from operating properties and analysed separately under the caption "Impaired Property". Parsons Landing will continue to be classified as an Impaired Property for segmented reporting purposes until the completion of reconstruction and re-occupancy of the building.

Pending the re-occupancy of the property, the monthly interest payment of $300,000 is being funded from insurance proceeds for revenue losses.

In accordance with IFRS, revenue recoveries at Parsons Landing are not recorded in revenue but are reflected in a separate income category after the calculation of net operating income. As a result, the net operating income of impaired property decreased in the second quarter of 2012 by $650,419 in comparison to the second quarter of 2011.

Properties Sold (One Property)

The operating results of properties sold are analysed separately as the properties do not contribute to the net operating income of the Trust, subsequent to the closing date of sale. The operating results for properties sold for the six months ended June 30, 2012 pertain solely to the Siena Apartments.

An analysis of the average monthly rents and vacancy for the investment properties is provided in the following sections of this report.

Discontinued Operations (Three Properties)

At June 30, 2012, the property portfolio also includes three seniors' housing complexes (December 31, 2011 - four seniors' housing complexes) which are classified under discontinued operations. The following analyses exclude the revenue and operating costs of the seniors' housing complexes.

Sources of Rental Revenue

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

Rental Revenue Results

Analysis of Total Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 5,715,755	$ 5,128,116	$ 587,639	$ 11,407,288	$ 9,372,014	$ 2,035,274
Other investment properties	3,545,890	3,493,538	52,352	7,173,246	6,975,359	197,887
Sub-total	9,261,645	8,621,654	639,991	18,580,534	16,347,373	2,233,161
Properties sold	126,257	667,831	(541,574)	796,861	1,336,227	(539,366)
Impaired property	-	1,073,567	(1,073,567)	394,427	1,829,969	(1,435,542)
Total	$ 9,387,902	$10,363,052	$ (975,150)	$ 19,771,822	$ 19,513,569	$ 258,253

As disclosed in the chart above, the total revenue from the investment properties of LREIT, excluding properties sold and the impaired property, increased by $639,991 during the second quarter of 2012 compared to the second quarter of 2011. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of $587,639 and an increase in revenue from the other investment properties of $52,352.

The increase in revenue from the Fort McMurray property portfolio reflects a decrease in the vacancy, partially offset by a decrease in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio decreased from 21% during the second quarter of 2011, to 10% in the second quarter of 2012, while the average monthly rental rate decreased by $20 or 1.0%.

During the second quarter of 2012, revenue for "properties sold" decreased by $541,574 due to the sale of Siena Apartments. Revenue from the "Impaired property" decreased by $1,073,567 due to the requirement under IFRS to record the recovery of insurance proceeds for revenue losses as a separate income category after the calculation of net operating income.

During the six month period ended June 30, 2012, the total revenue from investment properties, excluding properties sold and the impaired property, increased by $2,233,161, compared to the six month period ended June 30, 2011. The increase in total revenue for the six month period is comprised of a $1,593,170 increase in the first quarter of 2012 and a $639,991 increase in the second quarter of 2012. The variance between the first and second quarter comparative results mainly reflects a proportionately lower variance in the revenue results for the Fort McMurray property portfolio in the second quarter of 2012.

Vacancy, by Quarter

	2012		
	Q1	Q2	6 Month Average
Fort McMurray	8 %	10 %	9 %
Other investment properties	2 %	3 %	2 %
Properties sold	- %	n/a	n/a
Impaired property	n/a	n/a	n/a
Total	5 %	8 %	6 %

Vacancy, by Quarter

	2011					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	36 %	21 %	29 %	6 %	7 %	18 %
Other investment properties	2 %	2 %	2 %	2 %	1 %	2 %
Properties sold	- %	- %	- %	- %	- %	- %
Impaired property	37 %	9 %	23 %	6 %	3 %	14 %
Total	25 %	13 %	19 %	5 %	5 %	12 %

Vacancy represents the revenue potential of vacant suites.

Average Monthly Rents, by Quarter

	2012		
	Q1	Q2	6 Month Average
Fort McMurray	$2,124	$2,191	$2,155
Other investment properties	$1,075	$1,069	$1,071
Properties sold	$3,100	n/a	n/a
Impaired property	n/a	n/a	n/a
Total	$1,704	$1,684	$1,693

Average Monthly Rents, by Quarter

	2011					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	$2,260	$2,211	$2,235	$2,180	$2,129	$2,195
Other investment properties	$1,034	$1,065	$1,050	$1,050	$1,064	$1,050
Properties sold	$3,100	$3,100	$3,100	$3,100	$3,100	$3,100
Impaired property	$2,370	$2,319	$2,345	$2,282	$2,241	$2,303
Total	$1,790	$1,784	$1,787	$1,759	$1,743	$1,767

Property Operating Costs

Analysis of Property Operating Costs

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 1,957,239	$ 2,103,733	$ (146,494)	$ 4,236,222	$ 4,047,020	$ 189,202
Other investment properties	1,564,019	1,462,497	101,522	3,362,218	3,089,953	272,265
Sub-total	3,521,258	3,566,230	(44,972)	7,598,440	7,136,973	461,467
Properties sold	45,868	53,712	(7,844)	99,509	106,987	(7,478)
Impaired property	-	423,148	(423,148)	294,383	826,640	(532,257)
Total	$ 3,567,126	$ 4,043,090	$ (475,964)	$ 7,992,332	$ 8,070,600	$ (78,268)

During the second quarter of 2012, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, decreased by $44,972 or 1%, compared to the second quarter of 2011. The decrease is comprised of $146,494 decrease in the Fort McMurray portfolio, partially offset by an increase of $101,522 in the operating costs of the other investment properties portfolio.

The decrease in operating costs for the Fort McMurray portfolio mainly reflects a decrease in property tax expense, partially offset by an increase in variable costs such as maintenance, advertising and leasing, which increased in response to the improvement in occupancy. The increase in operating costs for the Other investment property portfolio reflects an increase in maintenance expense.

During the six month period ended June 30, 2012, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $461,467, comprised of a $506,439 increase in the first quarter of 2012 and a $44,972 decrease in the second quarter of 2012. The variance in the operating costs from the first quarter to the second quarter of 2012 is mainly due to the reduction in operating costs for the Fort McMurray property portfolio during the second quarter of 2012.

Summary of Net Operating Income and Operating Margin

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Fort McMurray	$ 3,758,516	$ 3,024,383	$ 734,133	$ 7,171,066	$ 5,324,994	$ 1,846,072
Other investment properties	1,981,871	2,031,041	(49,170)	3,811,028	3,885,406	(74,378)
Sub-total	5,740,387	5,055,424	684,963	10,982,094	9,210,400	1,771,694
Properties sold	80,389	614,119	(533,730)	697,352	1,229,240	(531,888)
Impaired property	-	650,419	(650,419)	100,044	1,003,329	(903,285)
Total	$ 5,820,776	$ 6,319,962	$ (499,186)	$11,779,490	$11,442,969	$ 336,521

After considering the increase in rental revenue and a decrease in property operating costs, as analysed in the preceding sections of this report, the net operating income for the portfolio of investment properties, excluding properties sold and the impaired property, increased by $684,963 or 14% during the second quarter of 2012, compared to the second quarter of 2011.

The increase in net operating income is comprised of an increase in net operating income from the Fort McMurray properties, partially offset by a decrease in the net operating income from the other investment properties. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by $734,133 during the second quarter of 2012, compared to the second quarter of 2011, while the net operating income of the Other Investment Properties portfolio decreased by $49,170.

For the six month period ended June 30, 2012, the net operating income from investment properties, excluding properties sold and the impaired property, increased by $1,771,694 or 19% compared to the same period in 2011. The six month increase is comprised of an increase of $1,086,731 in the first quarter of 2012 and an increase of $684,963 in the second quarter of 2012.

Analysis of Operating Margin

	Operating Margin			
	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Fort McMurray	66 %	59 %	63 %	57 %
Other investment properties	56 %	58 %	53 %	56 %
Total	62 %	59 %	60 %	56 %

Overall, the operating margin for the property portfolio increased from 59% during the second quarter of 2011, to 62% during the second quarter of 2012. The increase in the overall operating margin reflects an improvement in the profit margin for the Fort McMurray property portfolio, partially offset by decrease in the profit margin for the Other investment properties portfolio. For the six month period ended June 30, 2012, the portfolio of investment properties achieved a profit margin of 60% compared to 56% for the six month period ended June 30, 2011.

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

Interest Income

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

During the second quarter of 2012 interest income amounted to $259,186 compared to $47,344 during the second quarter of 2011. For the six month period ended June 30, 2012, interest income amounted to $333,753 compared to $125,011 for the six month period ended June 30, 2011.

Forgiveness of Debt

The refinancing of the first mortgage loan for the Lakewood Apartments in January 2012 encompassed the forgiveness of debt in the amount of $859,561. In accordance with IFRS, the entire amount of the debt forgiveness is recognized as income in the first quarter of 2012.

Interest Expense

Second Quarter Comparatives

Interest expense decreased by $1,410,733 or 16% during the second quarter of 2012, compared to the second quarter of 2011. As disclosed in the following chart, the decrease is comprised of a $1,076,543 decrease in interest expense related to mortgage loans, including swap mortgage loans and a $358,812 decrease in interest expense related to debentures, partially offset by a $24,622 increase in interest expense related to the mortgage bonds.

Interest expense encompasses a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. Of the $1,410,733 decrease in interest expense during the second quarter of 2012, compared to the second quarter of 2011, $615,215 relates to a decrease in "non-cash" expenses.

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

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Mortgage Loans						
Mortgage loan interest	$ 4,428,277	$ 5,135,156	$ (706,879)	$ 8,868,119	$ 9,996,713	$ (1,128,594)
Swap mortgage loan interest	391,934	597,046	(205,112)	968,879	1,182,496	(213,617)
Amortization of transaction costs	577,008	704,522	(127,514)	805,067	1,401,604	(596,537)
Change in value of interest rate swaps	(219,774)	(182,736)	(37,038)	(404,449)	(372,605)	(31,844)
Total - mortgage loans	5,177,445	6,253,988	(1,076,543)	10,237,616	12,208,208	(1,970,592)
Mortgage Bonds						
Mortgage bond interest	360,000	360,000	-	720,000	720,000	-
Accretion of debt component	96,104	84,731	11,373	192,689	137,783	54,906
Amortization of transaction costs	57,710	44,461	13,249	113,059	75,253	37,806
Total - mortgage bonds	513,814	489,192	24,622	1,025,748	933,036	92,712
Debentures						
Interest on debentures	594,448	477,975	116,473	1,185,648	1,210,561	(24,913)
Accretion of debt component	-	426,076	(426,076)	-	977,149	(977,149)
Amortization of transaction costs	55,315	104,524	(49,209)	109,942	238,871	(128,929)
Total - debentures	649,763	1,008,575	(358,812)	1,295,590	2,426,581	(1,130,991)
Acquisition Payable						
Interest on acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Total - acquisition payable	900,000	900,000	-	1,800,000	1,800,000	-
Total - interest expense	$ 7,241,022	$ 8,651,755	$ (1,410,733)	$ 14,358,954	$ 17,367,825	$ (3,008,871)

Cash and Non-cash Component

Non-cash component						
Accretion	$ 96,104	$ 510,807	$ (414,703)	$ 192,689	$ 1,114,932	$ (922,243)
Amortization of transaction costs	690,033	853,507	(163,474)	1,028,068	1,715,728	(687,660)
Change in value of interest rate swaps	(219,774)	(182,736)	(37,038)	(404,449)	(372,605)	(31,844)
Total non-cash component	566,363	1,181,578	(615,215)	816,308	2,458,055	(1,641,747)
Total cash component	6,674,659	7,470,177	(795,518)	13,542,646	14,909,770	(1,367,124)
Total - interest expense	$ 7,241,022	$ 8,651,755	$ (1,410,733)	$ 14,358,954	$ 17,367,825	$ (3,008,871)

Cash Component of Interest Expense

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

"Interest paid" on the Consolidated Statements of Cash Flows of $9,345,766 includes the cash component of interest expense of $6,674,659, plus the cash component of interest expense pertaining to the seniors' housing complexes in discontinued operations of $1,024,887, plus the decrease in accrued interest between March 31, 2012 and June 30, 2012 of $1,646,220.

During the second quarter of 2012, the total cash component of interest expense decreased by $795,518 or 11%, compared to the second quarter of 2011.

As a percentage of net operating income, the cash component of interest on mortgage loans, swap mortgage loans and acquisition payable, decreased from 105% during the second quarter of 2011 to 78% during the second quarter of 2012.

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

After including the cash component of interest on mortgage bonds and debentures, the ratio of the cash component of interest, relative to net operating income, is 91% for the second quarter of 2012, compared to 118% for the second quarter of 2011.

Mortgage Loan Interest

Mortgage loan interest decreased by $706,879 or 14% during the second quarter of 2012, compared to the second quarter of 2011, comprised of a decrease in interest expense on the revolving loan from 2668921 Manitoba Ltd. of $364,651, a decrease in interest on bank line of credit of $151,560 and a decrease in interest on mortgage loan debt of $190,668. The decrease in interest on mortgage loan debt reflects a lower balance of mortgage loans payable during the second quarter of 2012, compared to the second quarter of 2011 and a decrease in interest charges in regard to the revolving loan.

Swap Mortgage Loan Interest

Swap mortgage loan interest decreased by $205,112 during the second quarter of 2012, compared to the second quarter of 2011 as a result of the sale of Siena Apartments and the assumption of the swap mortgage by the purchaser.

Mortgage Bond Interest

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

Debenture Interest

During the second quarter of 2012, interest on debentures increased by $116,473, compared to the second quarter of 2011, due to the increase in the interest rate for the Series G debentures from 7.5% to 9.5%, effective January 1, 2012.

Interest on Acquisition Payable

Interest expense associated with the balance owing on Parsons Landing is reflected in "interest on acquisition payable". After deducting the forgiveness of interest, interest on acquisition payable was equal to $900,000 for both the second quarter of 2012 and 2011.

Non-cash Component of Interest Expense

Summary

As indicated in the preceding chart, the non-cash component of interest expense decreased $615,215 during the second quarter of 2012, compared to the second quarter of 2011. The decrease is comprised of a decrease in accretion of $414,703, a decrease in amortization of transaction costs of $163,474 and a decrease in expense of $37,038 in regard to the change in fair value of interest rate swaps.

Accretion

For the second quarter of 2012, accretion relates to the mortgage bonds and for the second quarter of 2011, accretion relates to mortgage bonds and debentures. Accretion expense relating to debentures in the second quarter of 2011, in the amount of $426,076 relates to the accretion of the Series G debentures.

Amortization of Transaction Costs

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

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

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

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the variance between the change in value of interest rate swaps in the second quarter of 2012, compared to the second quarter of 2011, served to decrease interest expense by $37,038 during the second quarter of 2012.

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

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the second quarter of 2012, the fair value of the interest rate swaps decreased by $219,774 due to an increase in interest rates during the quarter. During the second quarter of 2011, the fair value of the interest rate swaps decreased by $182,736.

As the decrease in value in the second quarter of 2012 was greater than the decrease in value in the second quarter of 2011, the change in value of the interest rate swaps resulted in a decrease in interest expense in the second quarter of 2012 of $37,038, compared to the second quarter of 2011.

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

Six Month Comparatives

Total interest expense decreased by $3,008,871 or 17.3% during the first six months of 2012 compared to the first six months of 2011. In total, 53% of the six month decrease pertains to the first quarter of 2012. The proportionately higher decrease in financing expense in the first quarter is primarily related to a proportionately higher decrease in mortgage loan interest.

Trust Expense

Trust expense decreased by $75,294 during the second quarter of 2012, compared to the second quarter of 2011.

For the six months ended June 30, 2012, trust expense decreased by $268,156, compared to the six months ended June 30, 2011. The decrease is mainly due to the $232,700 final closing costs for properties sold in 2010 that were included in the trust expense of the first quarter of 2011.

Profit on Sale of Investment Properties

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

During the first six months of 2012, LREIT sold one investment property which resulted in a profit on sale of $346,770. Eight units were also sold under the condominium sales program at the Lakewood Townhomes, resulting in a profit on sale of $698,537. During the first six months of 2011, LREIT did not complete any property sales.

Fair Value Gains

The valuation gain of $7,078,608 for the second quarter of 2012 represents a net increase in the fair value of investment properties during the quarter. When capital expenditures of $744,105 are added to the valuation gain, the carrying value of investment properties increased by $7,822,713 during the second quarter of 2012.

For the six months ended June 30, 2012, the carrying value of investment properties increased by $9,852,797, comprised of a valuation gain of $8,940,225 and capital expenditures of $912,572.

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

Fair Value Adjustment of Parsons Landing

As a result of commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the carrying value of Parsons Landing increased by $23,300,000 during the second quarter of 2012, representing the estimated fair value of the reconstructed property, discounted for the estimated time period of reconstruction. A corresponding amount was also recorded as income in the second quarter of 2012 under the line title "fair value adjustment of Parsons Landing".

In the first quarter of 2012, in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, an impairment loss of $27.8 Million was recorded for Parsons Landing to account for the decrease in the fair value of the property due to the fire. The income recorded in the second quarter of 2012 in regard to increase in value will serve to substantially offset the first quarter impairment loss.

Discontinued Operations

During the second quarter of 2012, LREIT generated income from discontinued operations of $1,601,704 compared to $708,255 during the second quarter of 2011, representing an increase of $893,449. The income from discontinued operations includes the net operating income, interest expense and income tax for the seniors' housing complexes, as well as the gain on sale in regard to the Clarington Seniors' Residence. In the second quarter of 2012, the Clarington Seniors' Residence contributed to net operating for the month of April 2012, as the property was sold effective May 9, 2012.

Analysis of Income from Discontinued Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Rental income	$ 3,546,796	$ 3,772,148	$ 7,552,047	$ 7,476,035
Property operating costs	1,699,876	2,185,412	3,967,716	4,243,949
Net operating income	1,846,920	1,586,736	3,584,331	3,232,086
Interest expense	2,719,675	716,210	4,226,326	1,528,310
Profit on sale	2,039,808	-	2,039,808	-
Current tax expense (recovery)	(256,739)	43,813	(358,215)	100,812
Deferred tax expense	(177,912)	118,458	(177,912)	171,128
Income from discontinued operations	$ 1,601,704	$ 708,255	$ 1,933,940	$ 1,431,836

The increase in income from discontinued operations during the second quarter of 2012 reflects a gain on sale of $2,039,808, a $260,184 increase in net operating income and a $596,922 increase in income tax recoveries, partially offset by a $2,003,465 increase in interest expense. The increase in interest expense is mainly due to the upward refinancing of Riverside Terrace in the third quarter of 2011 and the $1,324,352 mortgage prepayment penalty incurred for the payout of the first mortgage loan, partially offset by the interest reduction related to the discharge of the first mortgage loan of the Clarington Seniors' Residence on sale.

For the six month period ended June 30, 2012, income from discontinued operations increased by $502,104, compared to the six month period ended June 30, 2011.

The mortgage prepayment penalty of $1,324,352, which resulted from the repayment of the first mortgage loan at Riverside Terrace, is included in repayment of mortgage loans on refinancing on the Statement of Cash Flows.

Deferred Taxes

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

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

At June 30, 2012, temporary differences between the carrying values and tax values of investment properties and mortgage bonds has created deferred tax liabilities of $1,716,298 and $454,741, respectively. The deferred taxes are partially offset by deferred tax assets created by temporary differences between tax values and carrying values of transaction costs, interest rate swaps and unused tax losses available for carry forward, leaving a deferred tax liability of $181,339.

Comparison to Preceding Quarter

Analysis of Income (Loss)

	Three Months Ended		Increase (Decrease)	
	June 30, 2012	March 31, 2012	Amount	%
Rentals from investment properties	9,387,902	10,383,920	(996,018)	(9.6)%
Property operating costs	3,567,126	4,425,206	858,080	(19.4)%
Net operating income	5,820,776	5,958,714	(137,938)	(2.3)%
Interest income	259,186	74,567	184,619	247.6 %
Forgiveness of debt	-	859,561	(859,561)	- %
Interest expense	(7,241,022)	(7,117,932)	(123,090)	1.7 %
Trust expense	(585,876)	(578,883)	(6,993)	1.2 %
Income recovery on Parsons Landing	1,524,111	-	1,524,111	- %
Loss before the following	(222,825)	(803,973)	581,148	72.3 %
Profit on sale of investment properties	721,082	324,225	396,857	122.4 %
Fair value gains	7,078,608	1,861,617	5,216,991	280.2 %
Fair value adjustment of Parsons Landing	23,300,000	(27,800,000)	51,100,000	- %
Income (loss) for the period before taxes and discontinued operations	30,876,865	(26,418,131)	57,294,996	(216.9)%
Deferred income tax expense (recovery)	181,339	-	181,339	- %
Income (loss) for the period before discontinued operations	30,695,526	(26,418,131)	57,113,657	216.2 %
Income from discontinued operations	1,601,704	332,236	1,269,468	382.1 %
Comprehensive income (loss)	$ 32,297,230	$ (26,085,895)	$ 58,383,125	(223.8)%

During the second quarter of 2012, the loss of LREIT, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, decreased by $581,148 compared to the first quarter of 2012. The decrease in the loss mainly reflects an income recovery on Parsons Landing of $1,524,111, partially offset by a $859,561 non-recurring income transaction recorded in the first quarter in regard to the forgiveness of debt.

After excluding "properties sold" and "Impaired property", the net operating income increased by $498,680 during the second quarter of 2012, compared to the first quarter of 2012. The net operating income of the impaired property decreased by $100,044 as the property achieved net operating income from January 1, 2012 to the date of the fire, February 5, 2012 and there is no net operating income between the date of the fire and the completion of reconstruction.

After accounting for profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income tax expense and income from discontinued operations, LREIT completed the second quarter of 2012 with comprehensive income of $32,297,230, compared to a comprehensive loss of $26,085,895 during the first quarter of 2012.

Revenue and Net Operating Income Analysis

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

	Three Months Ended		Increase (Decrease)	
	June 30, 2012	March 31, 2012	Amount	%
Revenue				
Fort McMurray	$ 5,715,755	$ 5,691,533	$ 24,222	0.4 %
Other investment properties	3,545,890	3,627,356	(81,466)	(2.2)%
Sub-total	9,261,645	9,318,889	(57,244)	(0.6)%
Properties sold	126,257	670,604	(544,347)	(81.2)%
Impaired property	-	394,427	(394,427)	(100.0)%
Total revenue - continuing operations	9,387,902	10,383,920	(996,018)	(9.6)%
Total revenue - discontinued operations	3,546,796	4,005,251	(458,455)	(11.4)%
Total revenue	$ 12,934,698	$ 14,389,171	$ (1,454,473)	(10.1)%
Net operating income				
Fort McMurray	$ 3,758,516	$ 3,412,550	$ 345,966	10.1 %
Other investment properties	1,981,871	1,829,157	152,714	8.3 %
Sub-total	5,740,387	5,241,707	498,680	9.5 %
Properties sold	80,389	616,963	(536,574)	(87.0)%
Impaired property	-	100,044	(100,044)	(100.0)%
Total net operating income - continuing operations	5,820,776	5,958,714	(137,938)	(2.3)%
Total net operating income - discontinued operations	1,846,920	1,737,411	109,509	6.3 %
Total net operating income	$ 7,667,696	$ 7,696,125	$ (28,429)	(0.4)%

As noted in the chart above, the decrease in net operating income is comprised of a $100,044 decrease in NOI at Parsons Landing and a $536,574 decrease in NOI for the sold property (Siena Apartments), partially offset by an increase in NOI at the Fort McMurray properties of $345,966 and a $152,714 increase in NOI at the Other Investment Properties.

Summary of Quarterly Results

Quarterly Analysis

	2012		2011	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 9,387,902	$ 10,383,920	$ 11,196,590	$ 11,142,567
Net operating income	$ 5,820,776	$ 5,958,714	$ 7,182,799	$ 7,103,623
Income (loss) for the period before taxes and discontinued operations	$ 30,876,865	$ (26,418,131)	$ 1,272,013	$ 1,594,954
Income (loss) and comprehensive income (loss)	$ 32,297,230	$ (26,085,895)	$ 1,605,280	$ 2,275,638
PER UNIT				
Net operating income				
- basic	$ 0.314	$ 0.321	$ 0.388	$ 0.384
- diluted	$ 0.312	$ 0.320	$ 0.387	$ 0.384
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 1.664	$ (1.425)	$ 0.069	$ 0.086
- diluted	$ 1.655	$ (1.425)	$ 0.069	$ 0.086
Income (loss) and comprehensive income (loss)				
- basic	$ 1.741	$ (1.407)	$ 0.087	$ 0.123
- diluted	$ 1.731	$ (1.407)	$ 0.087	$ 0.123

Quarterly Analysis

	2011		2010	
	Q2	Q1	Q4	Q3
Rentals from investment properties	$ 10,363,052	$ 9,150,517	$ 9,612,269	$ 9,865,921
Net operating income	$ 6,319,962	$ 5,123,007	$ 5,694,805	$ 6,097,309
Income (loss) for the period before taxes and discontinued operations	$ 4,103,543	$ (4,587,848)	$ (6,239,806)	$ (1,513,884)
Income (loss) and comprehensive income (loss)	$ 4,900,921	$ (3,746,608)	$ (5,796,072)	$ (989,289)
PER UNIT				
Net operating income				
- basic	$ 0.343	$ 0.279	$ 0.310	$ 0.333
- diluted	$ 0.343	$ 0.279	$ 0.310	$ 0.333
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.223	$ (0.250)	$ (0.340)	$ (0.083)
- diluted	$ 0.223	$ (0.250)	$ (0.340)	$ (0.083)
Income (loss) and comprehensive income (loss)				
- basic	$ 0.266	$ (0.204)	$ (0.316)	$ (0.054)
- diluted	$ 0.266	$ (0.204)	$ (0.316)	$ (0.054)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Six Months Ended June 30			
	2012	2011	Change	
Income and comprehensive income				
- basic	$ 0.335	$ 0.063	$ 0.272	432 %
- diluted	$ 0.333	$ 0.063	$ 0.270	429 %
Income (loss) for the period before taxes and discontinued operations				
- basic	$ 0.240	$ (0.026)	$ 0.266	n/m
- diluted	$ 0.239	$ (0.026)	$ 0.265	n/m

Excluding income taxes and discontinued operations, LREIT generated income of $30,876,865 ($1.664 per unit) during the second quarter of 2012, compared to income of $4,103,543 ($0.223 per unit) during the second quarter of 2011, representing an increase in income of $26,773,322 ($1.441 per unit). For the six months ended June 30, 2012, income increased by $4,943,039 ($0.267 per unit). As the weighted average number of units has increased by 0.5% since January 1, 2011, the increase in income per unit mainly reflects the increase in the overall income of the Trust before income tax expense and discontinued operations.

The increase in the overall income of the Trust for the six months ended June 30, 2012 includes a decrease in income of $2,308,230 ($0.124 per unit) attributable to the fair value gains and fair value adjustment of Parsons Landing. Excluding the fair value gains and fair value adjustment of Parsons Landing, income of the Trust increased by $3,443,876 ($0.186 per unit) during the second quarter of 2012 and by $3,807,353 ($0.205 per unit) during the first quarter of 2012, for a total of $7,251,269 ($0.391 per unit) for the six month period ended June 30, 2012.

ANALYSIS OF CASH FLOWS

Operating Activities

Second Quarter Comparatives

Cash from Operating Activities

	Three Months Ended June 30			
	2012			2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,820,776	$ 1,846,920	$ 7,667,696	$ 7,906,698
Accrued rent receivable	255,698	-	255,698	(375,569)
Net operating income - cash basis	6,076,474	1,846,920	7,923,394	7,531,129
Income recovery on Parsons Landing	1,524,111	-	1,524,111	-
Trust expense	(585,876)	-	(585,876)	(661,170)
Non-cash component of trust expense	18,750	-	18,750	20,792
Trust expense - cash basis	(567,126)	-	(567,126)	(640,378)
Interest paid	(8,148,121)	(1,197,645)	(9,345,766)	(9,055,528)
Interest received	121,504	-	121,504	47,344
Interest expense - cash basis	(8,026,617)	(1,197,645)	(9,224,262)	(9,008,184)
Income tax recovery (expense) - current	-	256,739	256,739	(112,450)
Cash from operating activities, before working capital adjustments	(993,158)	906,014	(87,144)	(2,229,883)
Working capital adjustments, net	(3,554,340)	(1,003,375)	(4,557,715)	933,034
Cash provided by (used in) operating activities	$ (4,547,498)	$ (97,361)	$ (4,644,859)	$ (1,296,849)

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

During the second quarter of 2012, the net cash outflow from operating activities for the portfolio of investment properties in continuing operations was $993,158, before working capital adjustments, and $4,547,498 after including working capital adjustments. The cash inflow from the operations of the seniors' housing complexes in discontinued operations for the second quarter of 2012 was $906,014, before working capital adjustments. After including working capital adjustments, there was a cash outflow of $97,361 for discontinued operations. Overall, the net cash outflow from continuing and discontinued operations excluding working capital adjustments, decreased by $2,142,739 during the second quarter of 2012, compared to the second quarter of 2011. The improvement in operating cash flow results is mainly due to an increase in net operating income, on a cash basis.

Six Month Comparatives

Cash from Operating Activities

	Six Months Ended June 30			
	2012			2011
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 11,779,490	$ 3,584,331	$ 15,363,821	$ 14,675,055
Accrued rent receivable	358,558	-	358,558	(415,477)
Net operating income - cash basis	12,138,048	3,584,331	15,722,379	14,259,578
Income recovery on Parsons Landing	1,524,111	-	1,524,111	-
Trust expense	(1,164,759)	-	(1,164,759)	(1,432,915)
Non-cash component of trust expense	37,500	-	37,500	41,795
Trust expense - cash basis	(1,127,259)	-	(1,127,259)	(1,391,120)
Interest paid	(13,671,146)	(2,454,156)	(16,125,302)	(16,344,845)
Interest received	244,725	-	244,725	125,011
Interest expense - cash basis	(13,426,421)	(2,454,156)	(15,880,577)	(16,219,834)
Income tax recovery (expense) - current	-	358,215	358,215	(169,449)
Cash from operating activities, before working capital adjustments	(891,521)	1,488,390	596,869	(3,520,825)
Working capital adjustments, net	(5,016,517)	(1,180,124)	(6,196,641)	2,995,096
Cash provided by (used in) operating activities	$ (5,908,038)	$ 308,266	$ (5,599,772)	$ (525,729)

During the first six months of 2012, the net cash from continuing operations and discontinued operations excluding working capital adjustments, increased by $4,117,694 in the first six months of 2012. The increase in cash provided by operating activities excluding working capital adjustments, is mainly due to an increase in net operating income, on a cash basis.

Comparison to First Quarter of 2012

Cash from Operating Activities

	Three Months Ended			
	June 30, 2012			March 31, 2012
	Investment Properties	Seniors' Housing Complexes	Total	Total
Net operating income	$ 5,820,776	$ 1,846,920	$ 7,667,696	$ 7,696,125
Accrued rent receivable	(255,698)	-	(255,698)	(102,860)
Net operating income - cash basis	6,076,474	1,846,920	7,923,394	7,798,985
Income recovery on Parsons Landing	1,524,111	-	1,524,111	-
Trust expense	(585,876)	-	(585,876)	(578,883)
Non-cash component of trust expense	18,750	-	18,750	18,750
Trust expense - cash basis	(567,126)	-	(567,126)	(560,133)
Interest paid	(8,148,121)	(1,197,645)	(9,345,766)	(6,779,536)
Interest received	121,504	-	121,504	123,221
Net interest - cash basis	(8,026,617)	(1,197,645)	(9,224,262)	(6,656,315)
Income tax recovery (expense) - current	-	256,739	256,739	101,476
Cash from operating activities, before working capital adjustments	(993,158)	906,014	(87,144)	684,013
Working capital adjustments, net	(3,554,340)	(1,003,375)	(4,557,715)	(1,638,926)
Cash provided by (used in) operating activities	$ (4,547,498)	$ (97,361)	$ (4,644,859)	$ (954,913)

In comparison to the first quarter of 2012, the net cash from continuing and discontinued operations excluding working capital adjustments, decreased by $771,157 in the second quarter of 2012. The decrease in cash provided by operating activities excluding working capital adjustments, is mainly due to a $2,566,230 increase in interest paid, partially offset by a $1,524,111 increase in income recovery on Parsons Landing and a $124,409 increase in net operating income, on a cash basis.

The amount of interest paid on the Series G debentures and mortgage bonds is approximately $2.1 Million higher in the second and fourth quarters of the year, compared to the first and third quarters of the year due to the timing of interest payments. For the third quarter of 2012, interest paid on the Series G debentures and mortgage bonds is expected to decrease by approximately $2.1 Million compared to the second quarter of 2012.

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

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

During the first six months of 2012, the FFO deficiency decreased by $3,528,294, compared to the first six months of 2011, while the AFFO deficiency decreased by $3,264,599. On a basic per unit basis, the FFO deficiency decreased by $0.193 per unit, while the AFFO deficiency decreased by $0.179 per unit.

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

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Comprehensive income	$ 32,297,230	$ 4,900,921	$ 6,211,335	$ 1,154,313
Add (deduct):				
Deferred taxes	3,427	(39,302)	3,427	(104,291)
Profit on sale of investment properties	(2,760,890)	-	(3,085,115)	-
Fair value gains	(7,078,608)	(7,049,162)	(8,940,225)	(6,748,455)
Fair value adjustment of Parsons Landing	(23,300,000)	-	4,500,000	-
Forgiveness of debt	-	-	(859,561)	-
Funds from operations *	(838,841)	(2,187,543)	(2,170,139)	(5,698,433)
Add (deduct):				
Straight-line rent adjustment	255,698	(375,569)	358,558	(415,477)
Accretion of debt component of debentures and mortgage bonds	96,104	510,807	192,689	1,114,932
Unit-based compensation	18,750	20,792	37,500	41,795
Change in fair value of interest rate swaps	(219,774)	(182,736)	(404,449)	(372,605)
Capital expenditures on investment properties	(744,105)	(487,890)	(912,572)	(788,597)
Capital expenditures on property and equipment	(12,280)	(31,698)	(17,175)	(61,802)
Adjusted funds from operations *	$ (1,444,448)	$ (2,733,837)	$ (2,915,588)	$ (6,180,187)
FFO per unit * - basic and diluted	$ (0.045)	$ (0.119)	$ (0.117)	$ (0.310)
AFFO per unit * - basic and diluted	$ (0.078)	$ (0.148)	$ (0.157)	$ (0.336)

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Loss

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Cash provided by (used in) operating activities	$ (4,644,859)	$ (1,296,849)	$ (5,599,772)	$ (525,729)
Changes in non-cash operating items	4,557,715	(933,034)	6,196,641	(2,995,096)
	(87,144)	(2,229,883)	596,869	(3,520,825)
Add (deduct):				
Capital expenditures on investment properties	(744,105)	(487,890)	(912,572)	(788,597)
Capital expenditures on property and equipment	(12,280)	(31,698)	(17,175)	(61,802)
Distributable loss	$ (843,529)	$ (2,749,471)	$ (332,878)	$ (4,371,224)
Per unit				
- basic and diluted	$ (0.045)	$ (0.149)	$ (0.018)	$ (0.237)

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

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

During the first six months of 2012, the distributable loss of LREIT was $332,878, representing a decrease in the distributable loss of $4,038,346 compared to the first six months of 2011.

Distributions

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

CAPITAL RESOURCES AND LIQUIDITY

Source and Use of Funds - General

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

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

Source and Use of Funds - 2012 First Six Months Summary

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

(i) the cash outflow from operating activities amounted to $5,599,772;

(ii) after accounting for regular monthly long-term debt principal payments and capital expenditures the net cash shortfall increased to $11,956,486;

(iii) after including the cash flows from other financing and investing activities, there was a net cash inflow of $624,322. As disclosed in the Statement of Cash Flows, the cash inflows and outflows for other financing and investing activities, include the following items:

Inflows:

- proceeds from mortgage loan financing of $62,350,000, less repayment of mortgage loans on refinancing of $54,718,362 for net proceeds of $7,631,638;
- net proceeds from property sales of $13,167,279. The net proceeds from property sales are net of selling expenses and any mortgage loan debt which was discharged on sale or assumed by or provided to the Purchaser.
- change in restricted cash of $3,375,216 is mainly comprised of the application of $2,525,045 of reserves to the Lakewood Apartments mortgage loan balance at refinancing and the repayment of Parsons Landing security deposits of $387,250.

Outflows:

- expenditures on transaction costs of $1,527,602;
- net repayments on the revolving loan commitment of $8,575,000;
- net repayment of advances from Shelter Canadian Properties Limited of $1,183,000.

After accounting for the cash balance at December 31, 2011 of $1,170,619, LREIT completed the first six months of 2012 with a cash balance of $1,794,941.

Cash Flow Analysis (Note 1) - Six Months Ended June 30, 2012

Cash provided by (used in) operating activities		$ (5,599,772)
Cash provided by (used in) on-going financing and investment activities		
Regular repayment of principal on long term debt	(5,426,967)	
Capital expenditures (Note 2)	(929,747)	(6,356,714)
Shortfall in cash provided by operating activities		(11,956,486)
Main sources of funds, net of transaction costs		
Proceeds of mortgage loan financing	62,350,000	
Transaction costs	(1,527,602)	
Restricted cash	3,375,216	
	64,197,614	
Less: Lump-sum debt repayments		
Repayment of mortgage loans on refinancing	(54,718,362)	
Net repayment of revolving loan commitment (Note 1)	(8,575,000)	
Net repayment of advances from Shelter Canadian Properties Limited	(1,183,000)	
Units purchased under normal course issuer bid	(41,732)	
Debentures purchased under normal course issuer bid	(351,000)	
	(64,869,094)	(671,480)
		(12,627,966)
Other sources of funds		
Defeasance assets	71,319	
Net proceeds from sale (Note 1)	13,167,279	
Exercise of warrants	37,500	
Cash from (to) discontinued operations	(23,810)	13,252,288
Cash increase		624,322
Cash, beginning of period		1,170,619
Cash, end of period		$ 1,794,941

Note 1 - IFRS Measurements

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

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

Note 2 - Capital Expenditures

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

Sources and Use of Funds - Remainder of 2012

Sources

Working Capital/Existing Cash

As of June 30, 2012, the unrestricted cash balance of LREIT was $1,794,941 and the working capital deficit was $1,436,605. The working capital deficit consists of current assets less current liabilities, excluding the amount payable on acquisition of Parsons Landing, the current portion of long-term debt, and assets and liabilities of a long-term nature which are included in current assets or liabilities under the "held for sale" classification. Working capital also includes the tenant security deposit liability net of the security deposit balance in restricted cash. The amount due on the revolving loan from 2668921 Manitoba Ltd. in the amount of $3,425,000 is included in the calculation of the working capital deficit.

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

Revolving Loan Commitment from 2668921 Manitoba Ltd.

The Trust utilizes a revolving loan commitment from 2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited). The 9.75% revolving loan commitment of $12 Million matured on March 31, 2012 and was renewed for a five month term to August 31, 2012 at an increased balance of $15 Million and at an interest rate of 10%. Based on the increased balance of $15 Million, $4.4 Million is available under the revolving loan commitment, as of the date of this report.

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

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

Cash Outflow from Operating Activities

During the first six months of 2012, the net cash outflow from operating activities was $5,599,772. The main components of the cash outflow from operating activities are net operating income on a cash basis, interest paid and working capital adjustments, from both continuing and discontinued operations.

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

Sale Proceeds

During the first six months of 2012, LREIT sold one investment property and one seniors' housing complex.

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

Eight condominium units were sold during the first six months of 2012.

Mortgage Loans Receivable

As of June, 2012, LREIT has mortgage loan receivables of $8.4 Million, comprised of three loans.

Debt and/or Equity Offerings

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

Uses

Parsons Landing

The funding commitments under the purchase agreement for Parsons Landing are comprised of a $3,000,000 payment on closing as a final reduction of the amount payable and payments of $300,000 per month as interest on the amount payable.

The payment of $3,000,000 at closing would reduce the amount payable on closing to $42,720,000.

Payment of the $300,000 monthly interest charge is being funded from insurance proceeds until the occupancy of the property recommences.

Long-term Debt Principal Payments

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

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	Remainder of 2012	2013/2014	2015/2016	2017 and beyond
Regular mortgage loans	$ 201,667,304	$43,844,997	$ 91,743,668	$ 19,378,774	$ 46,699,865
Variable rate demand loans	82,384,166	82,384,166	-	-	-
Sub-total	284,051,470	126,229,163	91,743,668	19,378,774	46,699,865
Swap mortgage loans *	20,959,930	20,959,930	-	-	-
Debentures and mortgage bonds *	40,961,000	-	-	40,961,000	-
Total	$ 345,972,400	$147,189,093	$ 91,743,668	$ 60,339,774	$ 46,699,865

* Swap mortgage loans, debentures and mortgage bonds are reflected at face value.

Summary of Mortgage Loan Debt "Due in 2012"

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

An analysis of the mortgage loan debt which is considered due in the remainder of 2012 in the amount of $126,229,163 is provided on the following chart.

	Investment Properties		Seniors' Housing Complexes	Total
Mortgages				
Demand loans with covenant breaches	$ 82,384,166	(1)	$ -	$ 82,384,166
Fixed term mortgages with covenant breaches	41,786,474	(1)	-	41,786,474
	124,170,640		-	124,170,640
Fixed term mortgages which mature in 2012	-		15,779,696	15,779,696
	124,170,640		15,779,696	139,950,336
Principal repayments	2,058,523		-	2,058,523
	$ 126,229,163		$ 15,779,696	$ 142,008,859

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

Investing Activities

Capital expenditures for investment properties and the seniors' housing complexes are expected to be approximately $3.1 Million for 2012, including approximately $734,000 for capital expenditures in regard to the in-suite upgrade program for the properties located in downtown Fort McMurray. During the first six months of 2012, capital expenditures amounted to $912,572.

Reserves Required by Mortgage Loan Agreements

In accordance with mortgage loan agreements, cash deposits are provided to certain lenders to fund future capital repairs and/or as additional security relating to breaches of debt service coverage requirements. As of June 30, 2012, cash deposits in regard to mortgage loans amount to $9,847,099, of which $8,072,142 pertains to mortgage loans which were in breach of debt service coverage requirements. Subsequent to June 30, 2012, cash deposits of $3,672,784 were applied to partially repay a mortgage loan and a swap mortgage loan.

Principal Payments - Debentures and Mortgage Bonds

As of June 30, 2012, the total face value of the restructured Series G debentures is $24,961,000. The debentures mature on February 28, 2015. The term of the debentures also provide for the net proceeds from property sales to be applied to prepay the principal amount of the debentures after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. from time to time under the revolving loan commitment.

The 9% second mortgage bonds of LREIT mature on December 23, 2015. As of June 30, 2012 the total face value of the mortgage bonds is $16,000,000.

Summary

Management expects that the proceeds from upward refinancings, supplemented by draws on the revolving loan commitment, additional interest-free advances and the deferral of payments of service fees and revolving loan interest, as required, will continue to be sufficient to fund the projected funding commitments of LREIT for the next twelve months. As of the date of this report, the amount available under the revolving loan is $4,400,000.

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

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

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

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

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

During the first six months of 2012, the fees payable to Shelter Canadian for continuing operations included service fees of $822,713 and property management fees of $770,635.

Loans

LREIT utilizes a revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The revolving loan commitment is secured by mortgage charges against the title to six investment properties, one seniors' housing complex and the assignment of a mortgage loan in the amount of $7,635,758. Effective April 1, 2012, the revolving loan commitment was increased to $15 Million at an interest rate of 10% and with a due date of August 31, 2012. A renewal commitment fee of $75,000 was charged at the renewal.

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

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

Interest on the revolving loan for the six months ended June 30, 2012 of $402,353 is included in interest expense.

During 2011, the Trust obtained interest-free advances from Shelter Canadian Properties Limited. Included in trade and other payables at December 31, 2011 is a balance of $1,183,000 payable to Shelter Canadian Properties Limited in regard to interest-free advances. The interest-free advances payable, as at December 31, 2011, as well as $5,594,000 of additional interest-free advances obtained in January and February 2012, were repaid in full in February 2012. As of June 30, 2012, all interest-free advances were repaid.

On July 31, 2012, an interest-free advance of $10.2 Million was received from Shelter Canadian Properties Limited which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was repaid on August 2, 2012 from the proceeds of new first mortgage financing.

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

Services fee and renovation fee for Lakewood Townhomes condominium sales program

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

The Trust incurred service fees of $281,883 for the six months ended June 30, 2012 (2011 - nil) and renovation fees of $3,534 for the six months ended June 30, 2012 (2011 - nil).

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there are a number of variables and risk factors that have been identified in regard to the assessing whether LREIT has the ability to continue to operate, including: (i) the cash deficiency from operations sustained by LREIT during the first six months of 2012 and prior years, (ii) the breach of debt covenant requirements which, as of the date of this report, remain on four mortgage loans and a swap mortgage loan, encompassing $117.8 Million of mortgage debt, (iii) the impact of the timing of increased rental rates and changes in vacancy losses in Fort McMurray and the ability of the Trust to continue to secure financing on the Fort McMurray properties, (iv) the working capital deficit of the Trust, as of June 30, 2012 in the amount of $1,436,605, (v) the reliance on Shelter Canadian Properties Limited and its parent company 2668921 Manitoba Ltd. for interim funding, (vi) the significant concentration of properties in Fort McMurray, (vii) the successful completion of additional property sales under the divestiture program, and (viii) the ability to complete upward refinancings to generate additional funds in the event that the net proceeds from property sales are not sufficient to fund operating losses.

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

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

Real Property Ownership

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

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

Credit Support from Shelter Canadian Properties Limited

Shelter Canadian Properties Limited has provided LREIT with interim funding on a periodic basis, pending the receipt of funds from financing activities. The interim funding has been provided in the form of interest-free advances and deferred service fees. As of December 31, 2011, interim funding consisted of interest-free advances of $1,183,000 and deferred service fees of $425,833. During the first quarter of 2012, all of the interim funding was fully repaid.

On July 31, 2012, an interest-free advance of $10.2 Million was received from Shelter Canadian Properties Limited which partially funded the repayment of a $22.3 Million first mortgage loan. The advance was repaid on August 2, 2012 from the proceeds of new first mortgage financing.

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

Revolving Loan Commitment From 2668921 Manitoba Ltd.

2668921 Manitoba Ltd. (the parent company of Shelter Canadian Properties Limited) has periodically deferred interest payments on the revolving loan. As of December 31, 2011, deferred interest on the revolving loan amounted to $294,000. The deferred interest was fully repaid during the first quarter of 2012.

The financial capacity of LREIT to continue operations is partially dependent on the ongoing renewal of the revolving loan commitment from 2668921 Manitoba Ltd.

Public Market Risk

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

Completion of Divestiture Program

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

During 2009, LREIT sold 13 properties under the divestiture program at a combined gross selling price of $90.4 Million. During 2010, LREIT sold five additional properties at a combined gross selling price of $40.4 Million. During 2011, LREIT did not complete any property sales. During 2011, LREIT sold four condominium units at Lakewood Townhomes at a gross selling price of $1.9 Million.

During the first six months of 2012, LREIT sold one investment property and one seniors' housing complex at a combined gross selling price of $54.5 Million, as well as eight condominium units at Lakewood Townhomes at a gross selling price of $3.9 Million.

The current expectations of management are that the three remaining seniors' housing complexes and/or other properties will be sold by December 31, 2012. In addition, the condominium sale program for the Lakewood Townhomes is expected to be substantially completed in 2013.

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

Completion of Parsons Landing Acquisition

In June 2012, agreements were finalized under which the builder has agreed to complete the reconstruction of the Parsons Landing and attend to the recovery of the insurance claim for property in a manner which is expected to result in the cost of reconstruction being fully funded from insurance proceeds. The builder has also agreed to extend the closing date of the acquisition to a date which is 90 days after the final occupancy permit is obtained.

There is a risk that financing arrangements for Parsons Landing will not be completed by the extended closing date and the property may be listed for sale. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments made to the vendor. Interest charges in the amount of $17,261,396 as at June 30, 2012 which have been recorded as forgiven, may also become payable. See "Parsons Landing".

Concentration of LREIT's Portfolio in One Market

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

At June 30, 2012, there were 25 properties in the real estate portfolio of LREIT comprised of 22 properties in the investment property portfolio and 3 seniors' housing complexes which are reflected in discontinued operations. The investment property portfolio consists of two commercial properties, 19 residential properties and one mixed residential/commercial property, comprising a total of 2,028 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, one of which is an impaired property (Parsons Landing). The remaining 12 properties comprise a total of 929 suites, or 46% of the total residential suites in the investment property portfolio. The 12 properties have an aggregate carrying value of $262.1 Million, which represents approximately 61% of the total aggregate carrying value of the investment property portfolio.

The 12 properties in Fort McMurray accounted for 53% of the total revenue of LREIT during the first six months of 2012 and 54% of the net operating income.

Oil Sands Industry

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

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

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

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

Financing

General

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

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

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

Mortgage Maturities

With the exception of the first mortgage loan of $12,349,450 for the Lakewood Townhomes which matured on July 18, 2010, the second mortgage loan of $16,869,166 for Woodland Park and Nelson Ridge Estates which matured on October 31, 2010 and the $53,165,550 first mortgage loan for Laird's Landing, which matured October 1, 2011, all of which are in breach of the debt service coverage requirements, all of the mortgage loans for continuing operations which matured to the date of this report were renewed, or refinanced. The three loans are repayable on demand. A forbearance extension has been received from the lender in regard to the covenant breaches for the three loans to September 30, 2012. The first mortgage loan for the Lakewood Townhomes will be repaid from the net proceeds of the condominium sales program.

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

Covenant Breaches

As previously disclosed, as of the date of this report, LREIT is in breach in regard to net operating income requirements; debt service coverage requirements; and restrictions on the registration of secondary charges against the title to the property for four mortgage loans and a swap mortgage loan, with a total balance of $117.8 Million.

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

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

At June 30, 2012, $8,072,142 is on deposit with the mortgage lenders in order to increase the cash reserve requirements for four of the mortgage loans which were in breach of debt service coverage requirements. During 2012, 2011 and 2010, fees of $265,801, $625,245 and $1.2 Million, respectively, were incurred in regard to mortgage loans in breach of debt covenant requirements. There is a risk that significant additional cash reserve deposits may be required and/or that significant additional fees may be incurred.

During the first six months of 2012, LREIT was not required to remit any additional deposits in regard to the mortgage loans with covenant breaches.

Payment of Cash Distributions

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

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

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

Changes to Tax Treatment of Trusts

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

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial Statement items which encompass estimates include the following:

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

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

- determination of recoverable amount for rent and other receivables: rent and other receivables are recognized at the lower of the original invoiced value or recoverable amount. An allowance for uncollectible receivables is recorded when there is objective evidence that the Trust will not be able to recover the amount in full;

- interest expense on the acquisition payable: interest expense on the acquisition payable reflects the estimate that excess interest will be forgiven. Excess interest for the six months ended June 30, 2012 is $3,440,762. Cumulative excess interest from January 1, 2010 to June 30, 2012 is $17,261,396;

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

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

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

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

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to June 30, 2012, have represented a reduction in adjusted cost base of the units, with the exception of the special distributions paid by LREIT in December 2009 and December 2010.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 13, 2012

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

SCHEDULE I

Real Estate Portfolio as of June 30, 2012

Property Portfolio - June 30, 2012

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2012
INVESTMENT PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	94 %
Colony Square (2)	Winnipeg	29,907,700	October 2008	428	100 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	97 %
Alberta					
Norglen Terrace	Peace River	2,500,000	October 2004	72	86 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	92 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	86 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	83 %
Parkland Apartments (3)	Fort McMurray	2,230,200	June 2006	12	25 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	52 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	82 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	84 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	96 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	99 %
Lakewood Apartments (4)	Fort McMurray	34,527,719	July 2007	111	93 %
Lakewood Townhomes (4) (5)	Fort McMurray	20,614,978	July 2007	52	79 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	99 %
Parsons Landing (6)	Fort McMurray	60,733,000	September 2008	160	n/a
Westhaven Manor	Edson	4,050,000	May 2007	48	83 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	96 %
Nova Court (7)	Yellowknife	15,000,000	March 2007	106	98 %
Total - Residential		**$ 377,804,397**	Total suites	**2,028**	
COMMERCIAL					
Retail and Office					
Colony Square (2)	Winnipeg, MB	$ 7,931,600	October 2008	83,190	95 %
Light Industrial					
156 / 204 East Lake Blvd.	Airdrie, AB	1,600,000	June 2003	39,936	- %
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**10,731,600**	Total leasable area	**139,243**	
Total investment properties		**$ 388,535,997**			

Property Portfolio - June 30, 2012

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2012
SENIORS' HOUSING COMPLEXES					
Saskatchewan					
Chateau St. Michael's	Moose Jaw	$ 7,600,000	June 2006	93	94 %
Riverside Terrace	Saskatoon	24,000,000	July 2005	181	94 %
Ontario					
Elgin Lodge	Port Elgin	18,122,000	June 2006	124	67 %
Total seniors' housing complexes		**$ 49,722,000**	Total suites	**398**	
Total real estate portfolio		**$ 438,257,997**			

Notes to the Property Portfolio:

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

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

(3) Parkland Apartments has undergone extensive renovations requiring that the suites be unoccupied. The renovations were completed in August 2012.

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

(5) Lakewood Townhomes is comprised of 64 condominium units. The number of suites as of June 30, 2012 reflects the sale of 4 condominium units in 2011 and 8 condominium units in 2012.

(6) LREIT obtained possession and the right to operate of Parsons Landing on September 1, 2008. In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. The closing date for Parsons Landing will occur 90 days following the issuance of an occupancy permit for the reconstructed property.

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30 2012	December 31 2011
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$423,950,000**	$451,857,370
Loans and receivables (Note 5)	**8,410,758**	500,000
Defeasance assets	**3,096,874**	3,168,193
Restricted cash (Note 6)	**12,167,799**	15,246,600
Total non-current assets	**447,625,431**	470,772,163
Current assets		
Cash	**1,794,941**	1,170,619
Rent and other receivables	**1,850,707**	2,328,256
Deposits and prepaids	**1,683,571**	1,209,170
	5,329,219	4,708,045
Non-current assets classified as held for sale (Note 7)	**58,032,472**	79,739,862
Total current assets	**63,361,691**	84,447,907
TOTAL ASSETS	**$510,987,122**	$555,220,070
LIABILITIES AND EQUITY		
Non-current liabilities		
Long-term debt (Note 8)	**$146,017,479**	$130,476,452
Deferred tax liabilities	**181,339**	-
Total non-current liabilities	**146,198,818**	130,476,452
Current liabilities		
Trade and other payables (Note 9)	**52,450,491**	65,901,274
Current portion of long-term debt (Note 8)	**201,285,336**	208,484,873
Deposits from tenants	**2,356,033**	2,829,861
	256,091,860	277,216,008
Non-current liabilities classified as held for sale (Note 7)	**21,941,031**	67,016,797
Total current liabilities	**278,032,891**	344,232,805
Total liabilities	**424,231,709**	474,709,257
Total equity	**86,755,413**	80,510,813
TOTAL LIABILITIES AND EQUITY	**$510,987,122**	$555,220,070

(unaudited)

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Rentals from investment properties	**$ 9,387,902**	$ 10,363,052	**$ 19,771,822**	$ 19,513,569
Property operating costs	**3,567,126**	4,043,090	**7,992,332**	8,070,600
Net operating income	**5,820,776**	6,319,962	**11,779,490**	11,442,969
Interest income	**259,186**	47,344	**333,753**	125,011
Forgiveness of debt (Note 8)	**-**	-	**859,561**	-
Interest expense (Note 10)	**(7,241,022)**	(8,651,755)	**(14,358,954)**	(17,367,825)
Trust expense	**(585,876)**	(661,170)	**(1,164,759)**	(1,432,915)
Profit on sale of investment properties	**721,082**	-	**1,045,307**	-
Fair value gains (Note 4)	**7,078,608**	7,049,162	**8,940,225**	6,748,455
Fair value adjustment of Parsons Landing (Note 4)	**23,300,000**	-	**(4,500,000)**	-
Income recovery on Parsons Landing (Note 4)	**1,524,111**	-	**1,524,111**	-
Income (loss) before taxes and discontinued operations	**30,876,865**	4,103,543	**4,458,734**	(484,305)
Deferred income tax expense (recovery)	**181,339**	(89,123)	**181,339**	(206,782)
Income (loss) before discontinued operations	**30,695,526**	4,192,666	**4,277,395**	(277,523)
Income from discontinued operations (Note 7)	**1,601,704**	708,255	**1,933,940**	1,431,836
Income and comprehensive income	**$ 32,297,230**	$ 4,900,921	**$ 6,211,335**	$ 1,154,313
Income (loss) per unit before discontinued operations:				
Basic	**$ 1.655**	$ 0.228	**$ 0.231**	$ (0.015)
Diluted	**$ 1.645**	$ 0.228	**$ 0.229**	$ (0.015)
Income per unit from discontinued operations:				
Basic and diluted	**$ 0.086**	$ 0.038	**$ 0.104**	$ 0.078
Income per unit:				
Basic	**$ 1.741**	$ 0.266	**$ 0.335**	$ 0.063
Diluted	**$ 1.731**	$ 0.266	**$ 0.333**	$ 0.063

(unaudited)
The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Issued capital (Note 12)				
Balance, beginning of period	**$107,818,506**	$107,860,241	**$107,860,241**	$107,860,241
Issue of units on exercise of warrants	**45,770**	-	**45,770**	-
Units purchased under normal course issuer bid	**-**	-	**(41,735)**	-
Balance, end of period	**107,864,276**	107,860,241	**107,864,276**	107,860,241
Contributed surplus				
Balance, beginning of period	**17,127,447**	10,811,716	**17,108,697**	6,936,834
Value of deferred units granted	**18,750**	18,750	**37,500**	37,500
Value of unit options granted	**-**	2,042	**-**	4,295
Maturity of Series F debentures	**-**	-	**-**	3,507,495
Issue of warrants	**-**	-	**-**	334,874
Warrants exercised	**(8,270)**	-	**(8,270)**	-
Debentures purchased under normal course issuer bid	**-**	15,372	**-**	26,882
Balance, end of period	**17,137,927**	10,847,880	**17,137,927**	10,847,880
Equity component of debentures				
Balance, beginning of period	**-**	6,230,063	**-**	9,749,068
Debentures purchased under normal course issuer bid	**-**	(15,372)	**-**	(26,882)
Maturity of Series F debentures	**-**	-	**-**	(3,507,495)
Balance, end of period	**-**	6,214,691	**-**	6,214,691
Cumulative earnings (losses)				
Balance, beginning of period	**(3,093,985)**	14,210,071	**22,991,910**	17,956,679
Income and comprehensive income	**32,297,230**	4,900,921	**6,211,335**	1,154,313
Balance, end of period	**29,203,245**	19,110,992	**29,203,245**	19,110,992
Cumulative distributions to unitholders				
Balance, beginning and end of period	**(67,450,035)**	(67,450,035)	**(67,450,035)**	(67,450,035)
Total equity	**$ 86,755,413**	$ 76,583,769	**$ 86,755,413**	$ 76,583,769

(unaudited)

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Operating activities				
Income and comprehensive income	**$ 32,297,230**	$ 4,900,921	**$ 6,211,335**	$ 1,154,313
Adjustments to reconcile income to cash flows				
Fair value gains	**(7,078,608)**	(7,049,162)	**(8,940,225)**	(6,748,455)
Profit on sale of properties	**(2,760,890)**	-	**(3,085,115)**	-
Fair value adjustment of Parsons Landing	**(23,300,000)**	-	**4,500,000**	-
Forgiveness of debt	**-**	-	**(859,561)**	-
Accrued rental revenue	**255,698**	(375,569)	**358,558**	(415,477)
Unit-based compensation	**18,750**	20,792	**37,500**	41,795
Deferred income taxes	**3,427**	(39,302)	**3,427**	(104,291)
Interest income	**(259,186)**	(47,344)	**(333,753)**	(125,011)
Interest received	**121,504**	47,344	**244,725**	125,011
Interest expense	**9,960,697**	9,367,965	**18,585,280**	18,896,135
Interest paid	**(9,345,766)**	(9,055,528)	**(16,125,302)**	(16,344,845)
Cash from operations	**(87,144)**	(2,229,883)	**596,869**	(3,520,825)
Decrease (increase) in rent and other receivables	**(49,421)**	52,981	**(366,815)**	(231,979)
Decrease (increase) in deposits and prepaids	**(407,165)**	(737,861)	**(363,104)**	(683,867)
Increase (decrease) in tenant deposits	**(425,891)**	389,041	**(823,750)**	747,060
Increase (decrease) in trade and other payables	**(3,675,238)**	1,228,873	**(4,642,972)**	3,163,882
	(4,644,859)	(1,296,849)	**(5,599,772)**	(525,729)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**31,500,000**	16,300,000	**62,350,000**	16,700,000
Repayment of mortgage loans on refinancing	**(29,231,391)**	(12,250,000)	**(54,718,362)**	(12,250,000)
Repayment of long-term debt	**(3,270,530)**	(2,466,777)	**(5,426,967)**	(4,608,391)
Proceeds of revolving loan commitment	**7,545,000**	4,700,000	**11,745,000**	8,350,000
Repayment of revolving loan commitment	**(14,320,000)**	(2,700,000)	**(20,320,000)**	(3,700,000)
Proceeds of Shelter Canadian Properties Limited advances	**-**	-	**5,594,000**	-
Repayment of Shelter Canadian Properties Limited advances	**-**	-	**(6,777,000)**	-
Expenditures on transaction costs	**(544,333)**	(637,839)	**(1,527,602)**	(1,288,989)
Exercise of warrants	**37,500**	-	**37,500**	-
Units purchased and cancelled under normal course issuer bid	**-**	-	**(41,732)**	-
Debentures purchased and cancelled under normal course issuer bid	**-**	(15,373)	**(351,000)**	(27,619)
Proceeds (repayment) of line of credit	**-**	(10,000)	**-**	1,905,000
Proceeds of mortgage bond financing	**-**	-	**-**	3,363,000
Repayment of debentures	**-**	-	**-**	(13,598,000)
	(8,283,754)	2,920,011	**(9,436,163)**	(5,154,999)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(744,105)**	(487,890)	**(912,572)**	(788,597)
Capital expenditures on property and equipment	**(12,280)**	(31,698)	**(17,175)**	(61,802)
Decrease (increase) in defeasance assets	**35,722**	27,802	**71,319**	48,592
Proceeds of sale	**13,205,597**	-	**13,167,279**	-
Change in restricted cash	**821,563**	(347,542)	**3,375,216**	7,846,646
	13,306,497	(839,328)	**15,684,067**	7,044,839
Cash increase	**377,884**	783,834	**648,132**	1,364,111
Add (deduct) decrease (increase) in cash from discontinued operations (Note 7)	**296,698**	(307,445)	**(23,810)**	(249,880)
	674,582	476,389	**624,322**	1,114,231
Cash, beginning of period	**1,120,359**	1,562,888	**1,170,619**	925,046
Cash, end of period	**$ 1,794,941**	$ 2,039,277	**$ 1,794,941**	$ 2,039,277

(unaudited)

The accompanying notes are an integral part of these financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

1 Organization

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

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

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

The Trust and its subsidiaries earn income from real estate investments in Canada.

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the six months ended June 30, 2012 ("Financial Statements"), have been prepared in accordance with International Accounting Standards ("IAS") 34. The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on August 13, 2012.

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

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. Although the Trust recorded income from investment properties of $30,695,526 for the three months ended June 30, 2012 (2011 - $4,192,666) and $4,277,395 for the six months ended June 30, 2012 (2011 - loss of $277,523), the Trust incurred a cash deficiency from operations of $4,644,859 for the three months ended June 30, 2012 (2011 - $1,296,849) and $5,599,772 for the six months ended June 30, 2012 (2011 - $525,729). In addition, the Trust has a working capital deficit of $1,436,605 as at June 30, 2012 (December 31, 2011 - $13,510,274); and was in breach of net operating income achievement, debt service coverage and other covenant requirements on six mortgage loans and a swap mortgage loan during 2010 and 2011. The Trust was in breach of net operating income achievement, debt service coverage and other covenant requirements on five mortgage loans and a swap mortgage loan as of June 30, 2012.

As of June 30, 2012, the Trust was in breach of a net operating income achievement requirement of a $22,341,558 first mortgage loan for six properties in Fort McMurray, Alberta. The Trust is also in breach of a 1.15 debt service coverage requirement of a $20,959,930 swap mortgage loan on a property in Fort McMurray, Alberta with the same lender. Subsequent to June 30, 2012, the $22,341,558 mortgage loan was retired from the proceeds of new mortgage financing from another lender and the breach was extinguished. Subsequent to June 30, 2012, a $5,000,000 prepayment was made on the $20,959,930 swap mortgage loan. The prepayment is expected to remedy the covenant breach.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $70,034,716, on three properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $12,349,450 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The three mortgage loans in breach of debt coverage requirements, in the aggregate amount of $82,384,166 have matured. A forbearance extension to September 30, 2012 has been obtained for the three mortgage loans.

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

The Trust is in breach of a covenant of a $19,444,917 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of a secondary mortgage charge. The lender demanded that the secondary mortgage charge be discharged and the Trust has not complied. A commitment is expected to be received for a new first mortgage loan in the amount of $22.7 Million, the proceeds of which will be used to repay the existing first mortgage loan in the third quarter of 2012. On completion of the financing, the covenant breach will be extinguished.

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

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt, the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees and the ability of the Trust to successfully negotiate mortgages.

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, the Trust has successfully sold 20 properties, including 2 properties during the six months ended June 30, 2012, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust extended the maturity date for the Series G debentures to 2015 and the Trust has successfully refinanced three first mortgage loans with covenant breaches and the covenant breach at another property has been satisfied through improved operations.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

2 Basis of presentation and continuing operations (continued)

Statement of compliance
The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same presentation and accounting policies under International Financial Reporting Standards ("IFRS") as disclosed in the December 31, 2011 audited financial statements. The Financial Statements are based on IFRS standards issued and outstanding as at August 13, 2012.

The December 31, 2011 annual report is available on SEDAR at www.sedar.com.

3 Significant accounting judgments, estimates and assumptions

In addition to the significant judgments, estimates and assumptions which are outlined in the December 31, 2011 audited financial statements, the preparation of the Financial Statements required judgments and estimates concerning the fair value of Parsons Landing in regard to impaired value of the property as a result of the February 2012 fire.

4 Investment properties

The carrying amount of investment properties is summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Balance, beginning of period	$ 425,052,391	$ 439,300,000	$ 451,857,370	$ 439,300,000
Additions - capital expenditures	744,105	487,890	912,572	788,597
Fair value gains (losses)	7,078,608	7,049,162	8,940,225	6,748,455
Dispositions (a)	(32,225,104)	-	(33,260,167)	-
Fair value adjustment of Parsons Landing (b)	23,300,000	-	(4,500,000)	-
Balance, end of period	$ 423,950,000	$ 446,837,052	$ 423,950,000	$ 446,837,052

The Trust values investment properties at fair value using recognized valuation techniques and, on a periodic basis, external property valuations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

4 *Investment properties (continued)*

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

	June 30 2012		December 31 2011	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	7.50 %	7.50 %	7.50 %
Yellowknife	7.50 %	8.75 %	7.50 %	8.75 %
Major Canadian cities	5.25 %	5.25 %	5.25 %	5.25 %
Impaired property	7.00 %	7.00 %	n/a	n/a
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	7.25 %	7.50 %	7.50 %	7.50 %

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

	June 30 2012		December 31 2011	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.00 %	9.50 %	8.75 %	8.75 %
Yellowknife	9.50 %	10.75 %	8.75 %	10.00 %
Major Canadian cities	7.25 %	7.25 %	6.25 %	6.25 %
Impaired property	9.00 %	9.00 %	n/a	n/a
Other	8.25 %	10.00 %	7.25 %	9.25 %
Commercial properties	9.25 %	9.50 %	8.50 %	8.50 %

To assist in the determination of fair value at June 30, 2012, external appraisals were obtained in 2012 for eleven properties having an appraised value of $150.7 Million representing 36% of the total carrying value of investment properties. Appraisals were obtained in 2011 for seven properties having an aggregate appraised value of $223.4 Million representing 53% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 15% of the total carrying value of investment properties and in 2009 for one property having an appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

4 Investment properties (continued)

(a) Property dispositions

On May 1, 2012, the Trust sold Siena Apartments for gross proceeds of $30,500,000 resulting in a gain on sale of $346,770. Revenue and expenses of Siena Apartments is carried in "Properties Sold" in the June 30, 2012 Financial Statements and was previously carried in "Fort McMurray" for segmented reporting purposes.

The following table reflects the results of the sale of condominium units at Lakewood Townhomes:

	Three Months Ended June 30,2012	Six Months Ended June 30,2012
Units sold	5	8
Gross proceeds	$2,458,800	$3,959,500
Gain on sale	$374,312	$698,537

There were not any sales during the six months ended June 30, 2011.

(b) Fair value adjustment of Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. In June 2012, an agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses. The cost of reconstruction is expected to be fully covered under the insurance policy. All damaged materials have been removed from the property, the construction manager has been appointed and reconstruction work is expected to commence by September 2012. The time period for reconstruction of the property is estimated to be more than one year and occupancies are unlikely until the reconstruction has been completed.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million, at closing. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of June 30, 2012, interest in excess of $300,000 per month amounted to $17,261,396.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

4 Investment properties (continued)

(b) Fair value adjustment of Parsons Landing (continued)

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. To the extent that insurance proceeds for revenue losses are less than the interest payment during the reconstruction period, the shortfall shall be forgiven.

In conjunction with the finalization of the amended purchase agreement, LREIT remitted the payment of $2 Million which was originally due on February 17, 2012. The payment of $300,000 monthly interest, which was deferred since the date of the fire, will be funded from insurance proceeds as noted above.

As of June 30, 2012, the balance owing in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $45,720,000.

Impact on Financial Statements
The Financial Statements reflect the following:

Fair value adjustment of Parsons Landing
Parsons Landing is classified as an investment property and is carried at fair value. The carrying value of the property at December 31, 2011 was $47,800,000.

During the first quarter of 2012 and in the absence of an agreement with the builder to reconstruct the property in a coordinated manner with the insurer, the investment property was written down from the carrying value of $47,800,000 at December 31, 2011 to $20,000,000 at March 31, 2012, which represented the fair value of the investment property after accounting for the loss in value resulting from the fire.

As a result of the commitment by the builder to reconstruct the property and pursue recovery of all construction costs from the insurer, the estimated fair value of the property at June 30, 2012 has increased to $43,300,000 which represents the estimated value at the construction completion date, discounted at 8.5% for the estimated time period of reconstruction. The increase in fair value of $23,300,000 is reflected in the income of the Trust in the second quarter of 2012.

Insurance proceeds
An insurance policy for the furniture and equipment of the property was arranged by the Trust. As of June 30, 2012, the amount of insurance proceeds which will be paid as a result of the loss has not been determined. As a result, the Financial Statements do not reflect any insurance proceeds relating to the furniture and equipment loss.

Income recovery and interest expense
The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012.

Subsequent to February 5, 2012, the Financial Statements reflect the monthly interest in the amount of $300,000 and the accrued revenue in regard to recovery of insurance proceeds for revenue losses. The accrued revenue is recorded under "Income recovery on Parsons Landing" on the Condensed Consolidated Statement of Comprehensive Income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

5 Loans and receivables

	June 30 2012	December 31 2011
Second mortgage loan due May 8, 2014, bearing interest at 12.5%, of which 5% shall be payable monthly and 7.5% shall be capitalized and added to the outstanding principal amount	$ 7,635,758	$ -
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	500,000	500,000
Interest free mortgage loan due on the earlier of the sale date of a condominium unit or the maturity date of May 8, 2014	275,000	-
Note receivable from a previous tenant. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	250,000	250,000
	8,660,758	750,000
Current portion of loans and receivables	(250,000)	(250,000)
	$ 8,410,758	$ 500,000

6 Restricted cash

	June 30 2012	December 31 2011
Tenant security deposits	$ 2,320,700	$ 2,792,816
Reserves required by mortgage loan agreements	9,847,099	12,453,784
	$ 12,167,799	$ 15,246,600

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at June 30, 2012, are as follows:

	June 30 2012	December 31 2011
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 56,896,307	$ 78,383,871
Cash	411,886	388,076
Restricted cash	34,734	331,149
Rent and other receivables	472,268	33,192
Deposits, prepaids and other	217,277	603,574
Non-current assets classified as held for sale	$ 58,032,472	$ 79,739,862
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 15,768,146	$ 59,543,769
Deferred tax	5,476,221	5,654,133
Trade and other payables	425,709	1,198,018
Deposits from tenants	270,955	620,877
Non-current liabilities classified as held for sale	$ 21,941,031	$ 67,016,797

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

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

Income and cash flow information relating to discontinued operations are as follows.

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Rental income	$ 3,546,796	$ 3,772,148	$ 7,552,047	$ 7,476,035
Property operating expenses	1,699,876	2,185,412	3,967,716	4,243,949
Net operating income	1,846,920	1,586,736	3,584,331	3,232,086
Interest expense (b)	2,719,675	716,210	4,226,326	1,528,310
Profit on sale	2,039,808	-	2,039,808	-
Current tax expense (recovery)	(256,739)	43,813	(358,215)	100,812
Deferred tax expense	(177,912)	118,458	(177,912)	171,128
Income from discontinued operations	$ 1,601,704	$ 708,255	$ 1,933,940	$ 1,431,836
Cash inflow (outflow) from operating activities	$ (97,361)	$ 753,827	$ 308,266	$ 1,577,660
Cash outflow from financing activities	(9,456,292)	(394,001)	(9,536,118)	(439,271)
Cash inflow (outflow) from investing activities	9,256,955	(52,381)	9,251,662	(888,509)
Increase (decrease) in cash from discontinued operations	$ (296,698)	$ 307,445	$ 23,810	$ 249,880

(a) Property and equipment

On May 9, 2012, Clarington Seniors Residence was sold for gross proceeds of $24,000,000 resulting in a gain on sale of $2,039,808.

(b) Interest expense

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Mortgage loan interest	$ 1,024,887	$ 768,710	$ 2,281,397	$ 1,528,310
Mortgage prepayment penalty	1,324,352	-	1,324,352	-
Amortization of transaction costs	370,436	(52,500)	620,577	-
	$ 2,719,675	$ 716,210	$ 4,226,326	$ 1,528,310

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

8 *Long-term debt*

	June 30 2012	December 31 2011
Secured debt		
Mortgage loans (a)	$ 284,051,470	$ 254,863,171
Swap mortgage loan (b)	23,058,086	42,942,356
Mortgage bonds (c)	14,250,996	14,058,307
Debentures (d)	24,961,000	25,312,000
Defeased liability	2,728,793	2,755,325
Total secured debt	349,050,345	339,931,159
Accrued interest payable	1,717,921	2,019,182
Unamortized transaction costs		
Mortgage loans	(1,470,977)	(731,004)
Swap mortgage loan	(70,362)	(95,187)
Mortgage bonds	(1,156,619)	(1,269,679)
Debentures	(728,679)	(849,554)
Defeased liability	(38,814)	(43,592)
Total unamortized transaction costs	(3,465,451)	(2,989,016)
	347,302,815	338,961,325
Less current portion		
Mortgage loans	(180,240,515)	(185,523,843)
Swap mortgage loan	(20,959,930)	(21,913,931)
Defeased liability	(55,333)	(53,813)
Accrued interest payable	(1,717,921)	(2,019,182)
Transaction costs	1,688,363	1,025,896
Total current portion	(201,285,336)	(208,484,873)
	$ 146,017,479	$ 130,476,452
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,109,394	$ 458,322
Swap mortgage loan	70,362	113,145
Mortgage bonds	256,545	235,975
Debentures	242,393	208,905
Defeased liability	9,669	9,549
	$ 1,688,363	$ 1,025,896

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

8 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates June 30 2012	Weighted average interest rates December 31 2011	June 30 2012	December 31 2011
First mortgage loans				
Fixed rate	5.0%	5.6%	$ 172,967,304	$ 149,648,260
Variable rate	8.7%	8.6%	65,515,000	69,895,499
Total first mortgage loans	6.0%	6.6%	238,482,304	219,543,759
Second mortgage loans				
Fixed rate	9.0%	11.4%	400,000	1,935,000
Variable rate	9.3%	8.3%	45,169,166	33,384,412
Total second mortgage loans	9.3%	8.4%	45,569,166	35,319,412
Total	6.5%	6.9%	$ 284,051,470	$ 254,863,171

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $124,170,641, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $124,170,641 is included in current portion of long-term debt. A forbearance to September 30, 2012 was obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $82,384,166. These loans have matured and are payable on demand.

Except for the three mortgage loans in the amount of $82,384,166, all mortgages which have matured prior to August 13, 2012 have been renewed or refinanced.

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

On January 30, 2012, a mortgage loan in the amount of $24,811,531 was retired by the application of restricted cash deposits in the amount of $2,701,970 and a cash payment of $21,250,000 resulting in the forgiveness of debt in the amount of $859,561.

(b) Swap mortgage loan

	June 30 2012	December 31 2011
Face value of mortgage loan, subject to swap	$ 20,959,930	$ 40,092,981
Fair value of interest rate swap	2,098,156	2,849,375
	$ 23,058,086	$ 42,942,356

The Trust is not in compliance with a debt service coverage requirement for the swap mortgage loan. In accordance with IFRS the total balance of $20,959,930 is included in current portion of long-term debt.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

8 *Long-term debt (continued)*

(c) Mortgage bonds

The face value of the 9% mortgage bonds due December 23, 2015 is $16,000,000 (December 31, 2011 - $16,000,000).

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

	June 30 2012	December 31 2011
Balance, beginning of period	$ 14,058,307	$ 10,826,910
Value at issue	-	2,910,467
Accretion	192,689	320,930
Balance, end of period	$ 14,250,996	$ 14,058,307

(d) Debentures

At June 30, 2012, the carrying value and face value of the 9.5% Series G debentures due February 28, 2015 is $24,961,000 (December 31, 2011 - $25,312,000).

9 *Trade and other payables*

	June 30 2012	December 31 2011
Accounts payable - vendor invoices	$ 981,383	$ 2,468,534
Accrued payables	1,227,769	1,139,695
Prepaid rent	1,096,339	1,390,045
Payable on acquisition of Parsons Landing	45,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	3,425,000	12,000,000
Interest-free advances from Shelter Canadian Properties Limited	-	1,183,000
	$ 52,450,491	$ 65,901,274

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

10 *Interest expense*

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Mortgage loan interest	$ 4,428,277	$ 5,135,156	$ 8,868,119	$ 9,996,713
Swap mortgage loan interest	391,934	597,046	968,879	1,182,496
Change in fair value of interest rate swaps	(219,774)	(182,736)	(404,449)	(372,605)
Mortgage bond interest	360,000	360,000	720,000	720,000
Accretion of mortgage bonds	96,104	84,731	192,689	137,783
Debenture interest	594,448	477,975	1,185,648	1,210,561
Accretion of the debt component of debentures	-	426,076	-	977,149
Amortization of transaction costs	690,033	853,507	1,028,068	1,715,728
Interest on acquisition payable	900,000	900,000	1,800,000	1,800,000
	$ 7,241,022	$ 8,651,755	$ 14,358,954	$ 17,367,825

11 *Per unit calculations*

Per unit calculations reflect the following:

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Income (loss) and diluted income (loss) before discontinued operations	$ 30,695,526	$ 4,192,666	$ 4,277,395	$ (277,523)
Income and diluted income from discontinued operations	1,601,704	708,255	1,933,940	1,431,836
Income (loss) and diluted income (loss)	$ 32,297,230	$ 4,900,921	$ 6,211,335	$ 1,154,313

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Weighted average number of units:				
Units	17,924,945	17,988,339	17,934,160	17,988,339
Deferred units	631,019	436,184	614,278	417,903
Total basic	18,555,964	18,424,523	18,548,438	18,406,242
Weighted average diluted number of units	18,654,178	18,424,523	18,643,893	18,406,242

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

12 Units

	Six Months Ended June 30, 2012		Year Ended December 31, 2011	
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,988,339	$107,860,241	17,988,339	$107,860,241
Units issued on exercise of warrants	50,000	45,770	-	-
Purchased and cancelled under normal course issuer bid	(79,328)	(41,735)	-	-
Outstanding, end of period	17,959,011	$107,864,276	17,988,339	$107,860,241

13 Unit option plan

Unit-based compensation expense for the three months ended June 30, 2012 of nil (2011 - $2,042) and for the six months ended June 30, 2012 of nil (2011 - $4,295), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

14 Deferred unit plan

Deferred units granted to Trustees, and fully vested, totaled 35,377 for the three months ended June 30, 2012 (2011 - 50,676) and 68,859 for the six months ended June 30, 2012 (2011 - 87,440) and 666,396 aggregate deferred units were outstanding at June 30, 2012 (2011 - 486,859).

Unit-based compensation expense of $18,750 for the three months ended June 30, 2012 (2011 - $18,750) and $37,500 for the six months ended June 30, 2012 (2011 - $37,500) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

15 Related party transactions

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

15 Related party transactions (continued)

Management agreement

The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the investment properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to investment properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $381,274 for the three months ended June 30, 2012 (2011 - $426,313) and $770,635 for the six months ended June 30, 2012 (2011 - $794,381). Property management fees are included in property operating costs.

The Trust incurred leasing commissions on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of nil for the three months ended June 30, 2012 (2011 - $8,770) and nil for the six months ended June 30, 2012 (2011 - $10,867).

The Trust incurred renovation fees on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of nil for the three months ended June 30, 2012 (2011 - nil) and nil for the six months ended June 30, 2012 (2011 - nil).

Included in trade and other payables at June 30, 2012 is a balance of $19,554 (December 31, 2011 - $13,641), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement

The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, fair value gains (losses) and defeasance assets.

The Trust incurred service fees of $399,271 for the three months ended June 30, 2012 (2011 - $425,833) and $822,713 for the six months ended June 30, 2012 (2011 - $852,532). Service fees are included in trust expense.

Included in trade and other payables at June 30, 2012 is a recoverable balance of $24,171 (December 31, 2011- payable balance of $425,833) receivable from Shelter Canadian Properties Limited in regard to outstanding service fees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

15 Related party transactions (continued)

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

The Trust incurred service fees of $204,470 for the three months ended June 30, 2012 (2011 - nil) and $281,883 for the six months ended June 30, 2012 (2011 - nil). The Trust incurred renovation fees of $3,108 for the three months ended June 30, 2012 (2011 - nil) and $3,534 for the six months ended June 30, 2012 (2011 - nil).

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

Financing
On January 1, 2011, the Trust had a $10 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $12 Million on June 8, 2011 and to $15 Million on April 1, 2012. The revolving loan bears interest at 9.75%, subject to a maximum of $162,594 to March 31, 2012, and 10% from April 1, 2012 (2011 - 14% to June 30 and 11% from July 1 to December 31), is due on August 31, 2012 and is secured by mortgage charges against the title to six investment properties, one seniors' housing complex and the assignment of a mortgage loan receivable in the amount of $7,635,758. As of June 30, 2012, $3,425,000 has been drawn and is included in trade and other payables. The renewal encompassed the payment of a $75,000 extension fee.

Interest on the revolving loan of $239,759 for the three months ended June 30, 2012 (2011 - $498,667) and $402,353 for the six months ended June 30, 2012 (2011 - $767,004) is included in interest expense.

Included in accrued interest payable at June 30, 2012 is a balance of nil (2011- $293,943) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

During the six months ended June 30, 2012, Shelter Canadian Properties Limited advanced $6,777,000 on an interest-free basis as an interim funding measure. The Trust repaid the balance in full, resulting in an outstanding balance of nil (2011 - $1,183,000) at June 30, 2012.

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee, subject to regulatory approval.

The revolving loan commitment and the interest-free advances from Shelter Canadian Properties Limited were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the revolving loan commitment and the interest-free advances from Shelter Canadian Properties Limited.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

15 Related party transactions (continued)

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited. No fees were charged to the Trust in regard to the guarantees.

16 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties").

Commencing in the first quarter of 2012, an Impaired Property segment has been established to disclose the operations of Parsons Landing.

Commencing in the second quarter of 2012, a Properties Sold segment has been established to disclosed the operations of the investment properties which have been sold under the divestiture program.

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

Three months ended June 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	5,715,755	3,545,890	126,257	-	-	9,387,902
Property operating costs	1,957,239	1,564,019	45,868	-	-	3,567,126
Net operating income	3,758,516	1,981,871	80,389	-	-	5,820,776
Interest income	9,723	1,383	70,052	520	177,508	259,186
Interest expense	2,835,168	1,065,965	38,620	900,000	2,401,269	7,241,022
Income (loss) before discontinued operations	8,877,063	517,115	458,591	23,833,268	(2,990,511)	30,695,526
Cash from operating activities	441,666	935,622	(308,352)	(1,946,597)	(3,669,837)	(4,547,498)
Cash from financing activities	(520,644)	(425,721)	(11,919,095)	2,220,000	11,817,998	1,172,538
Cash from investing activities	139,957	(515,181)	12,010,281	(91,364)	(7,494,151)	4,049,542
Total assets excluding non-current assets held for sale at June 30, 2012	265,988,175	122,021,457	90,385	43,588,585	21,266,048	452,954,650

Three Months ended June 30, 2011:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	5,128,116	3,493,538	667,831	1,073,567	-	10,363,052
Property operating costs	2,103,733	1,462,497	53,712	423,148	-	4,043,090
Net operating income	3,024,383	2,031,041	614,119	650,419	-	6,319,962
Interest income	6,551	4,701	142	1,640	34,310	47,344
Interest expense	3,423,624	1,067,500	199,281	900,015	3,061,335	8,651,755
Income (loss) before discontinued operations	4,484,639	2,033,126	1,014,980	247,866	(3,587,945)	4,192,666
Cash from operating activities	4,997,945	16,177,199)	363,116	(312,528)	9,742,398	(1,386,268)
Cash from financing activities	(4,055,366)	16,451,067	(361,249)	361,620	(9,684,602)	2,711,470
Cash from investing activities	(734,262)	(121,598)	(4,500)	16,422	48,590	(795,348)
Total assets excluding non-current assets held for sale at December 31, 2011	265,001,883	120,661,605	30,473,992	46,374,100	12,968,628	475,480,208

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

16 Segmented financial information (continued)

Six months ended June 30, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	11,407,288	7,173,246	796,861	394,427	-	19,771,822
Property operating costs	4,236,222	3,362,218	99,509	294,383	-	7,992,332
Net operating income	7,171,066	3,811,028	697,352	100,044	-	11,779,490
Interest income	17,280	5,568	70,193	1,317	239,395	333,753
Interest expense	5,920,357	2,132,320	227,472	1,800,011	4,278,794	14,358,954
Income (loss) before discontinued operations	11,066,323	2,171,323	1,186,843	(4,765,903)	(5,381,191)	4,277,395
Cash from operating activities	1,356,084	1,712,503	61,218	(2,471,757)	(6,566,086)	(5,908,038)
Cash from financing activities	(3,554,737)	(954,669)	(12,259,923)	2,400,000	14,469,284	99,955
Cash from investing activities	2,284,256	(614,863)	12,005,781	295,886	(7,538,655)	6,432,405

Six Months ended June 30, 2011:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	9,372,014	6,975,359	1,336,227	1,829,969	-	19,513,569
Property operating costs	4,047,020	3,089,953	106,987	826,640	-	8,070,600
Net operating income	5,324,994	3,885,406	1,229,240	1,003,329	-	11,442,969
Interest income	17,011	8,950	330	2,815	95,905	125,011
Interest expense	7,092,384	1,764,335	390,460	1,800,026	6,320,620	17,367,825
Income (loss) before discontinued operations	2,896,801	3,122,870	1,439,110	(298,060)	(7,438,244)	(277,523)
Cash from operating activities	5,147,644	14,680,441)	735,084	(653,593)	8,012,324	(1,438,982)
Cash from financing activities	(3,326,541)	15,256,215	(732,227)	852,962	(16,577,820)	(4,527,411)
Cash from investing activities	(1,414,309)	(300,542)	(9,000)	(141,178)	8,999,118	7,134,089

17 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.

18 Contingency

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012

19 Subsequent events

Mortgage financing
Subsequent to June 30, 2012, a first mortgage loan in the amount of $22,279,397 was retired from the application of collateral deposits of $1,922,359, a $10,132,038 advance under the 2668921 Manitoba Ltd., revolving loan commitment and a $10,225,000 interest-free advance from Shelter Canadian Properties Limited pending the receipt of a new first mortgage loan in the amount of $20,400,000. The interest-free advance and $4,400,000 of the revolving loan were repaid upon receipt of the new first mortgage loan.

Subsequent to June 30, 2012, the Trust paid down a first mortgage loan in the amount of $5,000,000 from the proceeds of a second mortgage loan of $3,000,000, the application of collateral deposits of $1,750,425, with the balance funded from working capital.

Subsequent to June 30, 2012, the Trust paid down a second mortgage loan in the amount of $2,500,000. The repayment was funded from working capital.

Revolving loan
Subsequent to June 30, 2012, the Trust received advances of $11,575,000 of the revolving loan from 2668921 Manitoba Ltd. and repaid $4,400,000, resulting in a balance of $10,600,000 as of the date of the financial statements.

Effective September 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was renewed at an interest rate of 12% to December 31, 2012. The renewal encompassed the payment of a $150,000 extension fee. The renewal has been approved by the independent Trustees and is subject to regulatory approval.

UNITHOLDER INFORMATION

Trustees and Officers

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

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

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

Administrator of the Trust

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

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the investment properties in the LREIT portfolio. Shelter Canadian Properties Limited manages all of the investment properties except for 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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Unit Listing

Toronto Stock Exchange (TSX)

Unit trading symbol:	LRT.UN
Debenture trading symbol:	LRT.DB.G
Mortgage bond trading symbol:	LRT.NT.A
Trust unit purchase warrants trading symbols:	LRT.WT
	LRT.WT.A

Unitholder and Investor Contact

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