LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	September 30 2009	December 31 2008 (audited)
Assets		
Income properties (Note 3)	**$452,719,989**	$432,393,182
Properties under development (Note 4)	**9,736,650**	35,957,774
Cash	**2,249,064**	3,549,892
Other assets (Note 5)	**6,066,978**	5,946,711
Future income taxes (Note 11)	**-**	3,035,861
Assets of properties held for sale (Note 6)	**124,009,321**	124,231,341
	$594,782,002	$605,114,761
Liabilities and Equity		
Mortgage loans payable (Note 7)	**$332,889,528**	$338,665,019
Convertible debentures (Note 8)	**44,999,782**	42,427,966
Accounts payable and accrued liabilities (Note 9)	**70,683,425**	60,957,430
Bank indebtedness (Note 10)	**4,875,000**	3,320,000
Liabilities of properties held for sale (Note 6)	**121,123,377**	122,314,862
	574,571,112	567,685,277
Equity	**20,210,890**	37,429,484
	$594,782,002	$605,114,761

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended September 30, 2009:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, June 30, 2009	$ 79,737,864	$ (30,416,801)	$ (39,131,543)	$ 13,104,637	$ 23,294,157
Unit-based compensation	63,332	-	-	-	63,332
Loss	-	(3,146,599)	-	-	(3,146,599)
Equity, September 30, 2009	$ 79,801,196	$ (33,563,400)	$ (39,131,543)	$ 13,104,637	$ 20,210,890

Three Months Ended September 30, 2008:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, June 30, 2008	79,991,818	(13,310,809)	(32,587,258)	13,104,637	47,198,388
Units purchased under normal course issuer bid	(729,395)	-	-	-	(729,395)
Issue costs	(23,881)	-	-	-	(23,881)
Unit-based compensation	45,138	-	-	-	45,138
Units issued on distribution reinvestment plan	499,157	-	-	-	499,157
Loss	-	(2,433,198)	-	-	(2,433,198)
Distributions declared	-	-	(2,460,011)	-	(2,460,011)
Equity, September 30, 2008	$ 79,782,837	$ (15,744,007)	$ (35,047,269)	$ 13,104,637	$ 42,096,198

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended September 30, 2009:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484
Units purchased under normal course issuer bid	(275,757)	-	-	-	(275,757)
Issue costs	(6,502)	-	-	-	(6,502)
Unit-based compensation	224,272	-	-	-	224,272
Units issued on distribution reinvestment plan	108,517	-	-	-	108,517
Loss and comprehensive loss	-	(15,634,045)	-	-	(15,634,045)
Distributions declared	-	-	(1,635,079)	-	(1,635,079)
Equity, September 30, 2009	$ 79,801,196	$ (33,563,400)	$ (39,131,543)	$ 13,104,637	$ 20,210,890

Nine Months Ended September 30, 2008:

	Units	Cumulative Income (loss)	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990
Maturity of Series D debentures	322,658	-	-	(322,658)	-
Units purchased under normal course issuer bid	(929,371)	-	-	-	(929,371)
Issue costs	(75,162)	-	-	-	(75,162)
Unit-based compensation	273,075	-	-	-	273,075
Units issued on distribution reinvestment plan	1,067,030	-	-	-	1,067,030
Loss	-	(7,421,708)	-	-	(7,421,708)
Distributions declared	-	-	(7,380,656)	-	(7,380,656)
Equity, September 30, 2008	$ 79,782,837	$ (15,744,007)	$ (35,047,269)	$ 13,104,637	$ 42,096,198

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Revenue				
Rentals from income properties (Note 16)	**$ 11,882,501**	$ 14,077,766	**$ 39,897,487**	$ 34,802,075
Interest and other income	**79,222**	88,997	**399,274**	593,962
	11,961,723	14,166,763	**40,296,761**	35,396,037
Expenses				
Property operating costs	**4,820,359**	4,338,936	**15,133,737**	12,130,911
Income before the undernoted	**7,141,364**	9,827,827	**25,163,024**	23,265,126
Financing expense (Note 17)	**7,441,292**	5,906,632	**27,574,371**	16,866,716
Trust expense	**710,801**	580,409	**2,117,078**	1,867,312
Amortization (Note 18)	**2,620,168**	2,469,376	**7,883,530**	5,868,952
	10,772,261	8,956,417	**37,574,979**	24,602,980
Income (loss) from continuing operations before income taxes	**(3,630,897)**	871,410	**(12,411,955)**	(1,337,854)
Future income tax expense	**-**	2,769,455	**3,035,861**	5,174,723
Loss from continuing operations	**(3,630,897)**	(1,898,045)	**(15,447,816)**	(6,512,577)
Income (loss) from discontinued operations (Note 6)	**484,298**	(535,153)	**(186,229)**	(909,131)
Loss and comprehensive loss for the period	**$ (3,146,599)**	$ (2,433,198)	**$ (15,634,045)**	$ (7,421,708)
Income (loss) per unit (Note 20)				
Basic and diluted				
Continuing operations	**$ (0.206)**	$ (0.108)	**$ (0.884)**	$ (0.372)
Discontinued operations	**0.027**	(0.031)	**(0.011)**	(0.052)
Total	**$ (0.179)**	$ (0.139)	**$ (0.895)**	$ (0.424)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Cash provided by (used in) operating activities				
Loss from continuing operations for the period	**$ (3,630,897)**	$ (1,898,045)	**$ (15,447,816)**	$ (6,512,577)
Items not affecting cash				
Straight-line rent adjustment	**430**	431	**1,290**	2,298
Accretion on debt component of convertible debentures	**731,843**	623,514	**2,086,175**	1,815,815
Unit-based compensation	**63,332**	45,138	**224,272**	273,075
Amortization (Note 18)	**3,017,612**	2,744,827	**9,010,799**	6,686,362
Change in fair value of interest rate swaps	**(279,367)**	(1,152,973)	**2,581,180**	(1,204,002)
Future income taxes	**-**	2,769,455	**3,035,861**	5,174,723
	(97,047)	3,132,347	**1,491,761**	6,235,694
Changes in non-cash operating items	**(148,400)**	(458,167)	**1,382,766**	(45,522)
Tenant inducements and leasing expenditures incurred through leasing activity	**-**	(47,506)	**-**	-
	(245,447)	2,626,674	**2,874,527**	6,190,172
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**-**	76,539,062	**500,000**	107,985,288
Repayment of mortgage loans on refinancing	**(1,600,000)**	(38,066,146)	**(2,100,000)**	(38,066,146)
Repayment of Series D debentures	**-**	-	**-**	(1,593,000)
Repayment of principal on mortgage loans	**(1,554,881)**	(1,257,961)	**(4,368,216)**	(3,538,920)
Transaction costs	**(27,948)**	(203,207)	**(436,822)**	(872,003)
Draws against (repayment of) line of credit	**-**	-	**1,555,000**	(3,040,000)
Draws against revolving loan commitment from 2668921 Manitoba Ltd.	**4,341,192**	-	**4,341,192**	-
Units purchased and cancelled under normal course issuer bid	**-**	(729,395)	**(275,757)**	(929,371)
Distributions paid on units (Note 19)	**-**	(1,982,183)	**(1,530,736)**	(5,541,452)
	1,158,363	34,300,170	**(2,315,339)**	54,404,396
Cash provided by (used in) investing activities				
Acquisition of income properties	**-**	(25,500,000)	**-**	(47,220,000)
Construction of income properties	**-**	(3,236,907)	**-**	(3,654,061)
Improvements to income properties	**(338,940)**	(572,707)	**(750,176)**	(794,783)
Increase in properties under development	**15,511**	(467,974)	**(98,658)**	(9,497,950)
Deposits on potential acquisitions	**-**	(1,150,000)	**200,000**	(2,010,000)
Increase in restricted cash	**(80,758)**	(216,515)	**(55,494)**	(628,526)
	(404,187)	(31,144,103)	**(704,328)**	(63,805,320)
Sub-total	**508,729**	5,782,741	**(145,140)**	(3,210,752)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	**2008**	**2009**	**2008**
Balance forward	**508,729**	5,782,741	**(145,140)**	(3,210,752)
Cash provided by (used in) discontinued operations				
Income from discontinued operations for the period	**484,298**	(535,153)	**(186,229)**	(909,131)
Items not affecting cash				
Straight-line rent adjustment	**(12,157)**	(5,690)	**(20,146)**	(9,698)
Amortization	**72,012**	781,988	**1,706,592**	2,339,162
Future income taxes	**130,024**	64,001	**178,526**	(58,303)
Non-controlling interest	**66,531**	18,993	**156,528**	57,498
	740,708	324,139	**1,835,271**	1,419,528
Changes in non-cash operating items	**(79,973)**	(431,059)	**(348,656)**	(670,330)
Tenant inducements and leasing expenditures incurred through leasing activity	**(34,691)**	(235,823)	**(201,173)**	(285,507)
	626,044	(342,743)	**1,285,442**	463,691
Proceeds of mortgage loan financing	**-**	-	**4,400,000**	17,400,000
Repayment of mortgage loans on refinancing	**-**	-	**(4,492,566)**	-
Repayment of principal on mortgage loans	**(538,028)**	(415,974)	**(1,573,634)**	(1,231,378)
Transaction costs	**(7,912)**	(14,757)	**(458,746)**	(17,968)
Distributions paid on LP units of Village West LP	**-**	(49,927)	**(33,285)**	(133,137)
Improvements to income properties	**(75,039)**	(117,404)	**(141,248)**	(253,563)
Increase in restricted cash	**(51,731)**	(42,380)	**(141,652)**	(49,710)
	(46,666)	(983,185)	**(1,155,689)**	16,177,935
Cash increase (decrease)	**462,063**	4,799,556	**(1,300,829)**	12,967,183
Cash, beginning of period	**1,787,001**	9,583,976	**3,549,893**	1,416,349
Cash, end of period	**$ 2,249,064**	$ 14,383,532	**$ 2,249,064**	$ 14,383,532

Supplementary cash flow information (Note 19)

1 Basis of presentation and continuing operations

The consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the settlement of liabilities for the next fiscal year. Should the Trust be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of Canadian generally accepted accounting principles (GAAP) applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust sustained net losses in the year ended December 31, 2008 and the first nine months of 2009, has been in breach of the debt service coverage requirements since March 31, 2009, has a working capital deficit, and is in breach of certain debt service coverage requirements at September 30, 2009.

The Trust is in breach of the 1.4 times debt service coverage requirement on two first mortgage loans totaling $46,454,162 in Fort McMurray and of the 1.2 times debt service coverage requirement on a $55,000,000 first mortgage loan in Fort McMurray. The breaches of the debt service covenant requirements are a result of the negative impact of the slow down of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Given that the rental market conditions may not improve substantially in the near future, the breach in the debt service covenant requirements may continue for the next 12 months.

The Trust has received notice from the lender of the first mortgage loans totaling $46,454,162 that the breach must be cured. The Trust has continued to communicate with the lender for modification and waiver of the debt service covenants. The Trust has also been in communication with the lender of the $55,000,000 mortgage loan and has received indication that the lender is receptive to providing a forbearance letter, subject to the Trust providing additional security . The breaches of the debt service covenant requirements have not resulted in an acceleration of the repayment of the mortgage loans. There is no assurance, however, that the lenders will not accelerate repayment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

The cross-default clauses of the Series E and F secured convertible debentures provide that the convertible debentures may become payable, on demand, if the repayment of a mortgage loan is accelerated by a lender. If the lender demands the repayment of the loans, the secured convertible debentures, with a face value of $25,630,000, may become payable on demand. If the convertible debentures become payable on demand, in accordance with GAAP, the carrying value of the liability component of the convertible debentures would be increased to the face value of the convertible debentures of $25,630,000. The amount of the increase in the face value of the convertible debentures would be recorded as financing expense in the period that the debentures become payable on demand.

Management believes the going concern assumption to be appropriate for the financial statements as the Trust has been able to refinance its lending facilities at appropriate rates and has implemented a divestiture strategy. The increased vacancy rates and reduced rental rates experienced in a portion of the Fort McMurray property portfolio in 2009, however, have created uncertainty as to the Trust's ability to secure the necessary financing required to maintain the existing mortgage debt on these properties.

1 Basis of presentation and continuing operations (continued)

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

The interim financial statements have been prepared by management in accordance with GAAP. The interim financial statements reflect the operations of the Trust, wholly owned operating subsidiaries and LREIT Village West Limited Partnership ("Village West LP"). The interim financial statements have been prepared on a consistent basis with the December 31, 2008 audited financial statements. These financial statements do not include all the information and disclosure required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the December 31, 2008 audited financial statements and notes thereto.

2 Accounting policy development

Goodwill and intangible assets

In February 2008, the CICA issued a new Handbook Section 3064, "Goodwill and Intangible Assets". This new section replaces Section 3062, "Goodwill and Intangible Assets", and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Trust's 2009 fiscal year, and were adopted on a retroactive basis with restatement of the prior years.

On January 20, 2009, the CICA issued Emerging Issues Committee ("EIC") abstract EIC-173- Credit Risks and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on CICA Handbook Section 3855 Financial Instruments - Recognition and Measurement and requires an entity to consider its own credit risk as well as the credit risk of the counter party when determining the fair value of financial assets and liabilities, including derivative instruments. The Trust has adopted EIC-173 on a retroactive basis without restatement of prior periods.

The adoption of these standards did not have an impact on the Consolidated Financial Statements.

Future changes to significant accounting policies

(a) Financial Instruments - Disclosure

CICA Handbook Section 3862 - Financial Instruments - Disclosures has been amended to include additional disclosure requirements about fair value measures and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009.

2 Accounting policy development (continued)

Future changes to significant accounting policies (continued)

(b) International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. IFRS will replace Canada's current GAAP for public companies.

The Trust is currently in the process of effecting the future impact of IFRS to the consolidated financial statements. This will be an ongoing process as the International Accounting Standards Board ("IASB") and the CICA issue new standards and recommendations. The consolidated financial performance and position as disclosed in the current GAAP financial statements may be significantly different when presented in accordance with IFRS.

The CICA has provided public companies with the option to early adopt International Financial Reporting Standards effective January 1, 2009. The Trust has not adopted these standards on January 1, 2009.

(c) Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

3 Income properties

September 30, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 74,567,230	$ -	$ 74,567,230
Buildings and improvements	391,676,998	(21,874,385)	369,802,613
Furniture, equipment and appliances	11,413,334	(3,114,619)	8,298,715
Intangible assets	1,123,792	(1,072,361)	51,431
	$478,781,354	$ (26,061,365)	$452,719,989

3 *Income properties (continued)*

December 31, 2008 (audited)	Cost	Accumulated Amortization	Net Book Value
Land	$ 73,483,230	$ -	$ 73,483,230
Buildings and improvements	365,163,598	(15,177,210)	349,986,388
Furniture, equipment and appliances	10,800,390	(2,070,968)	8,729,422
Intangible assets	1,123,792	(929,650)	194,142
	$450,571,010	$ (18,177,828)	$432,393,182

On February 1, 2009, Clarington Seniors Residence was re-classified from properties under development to income properties. As a result, costs totaling $26,319,782 were transferred to income properties and amortization commenced.

The tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $27,667,200 until June 30, 2010. The net book value of the townhouse portion of Lakewood Manor at September 30, 2009 is $24,964,699.

At September 30, 2009, the carrying value of the income properties was not impaired.

4 *Properties under development*

	September 30 2009	December 31 2008 (audited)
Clarington Seniors Residence	$ -	$ 26,164,803
Elgin Lodge	9,736,650	9,792,971
	$ 9,736,650	$ 35,957,774

Properties under development includes rental revenue less property operating costs and financing expense of $56,321 for the nine months ended September 30, 2009 (2008 property operating costs and financing expense less rental revenue - $1,052,216).

On October 1, 2009, Elgin Lodge was re-classified from properties under development to income properties.

5 *Other assets*

	September 30 2009	December 31 2008 (audited)
Amounts receivable	$ 810,334	$ 774,740
Prepaid expenses, deposits and other	1,445,340	1,214,871
Deposits on potential acquisitions	10,000	210,000
Straight-line rent receivable	5,192	6,482
Restricted cash	3,796,112	3,740,618
	$ 6,066,978	$ 5,946,711

5. *Other assets (continued)*

Amounts receivable includes rent receivable of $717,414 (2008 - $488,056) net of an allowance for doubtful accounts of $164,589 (2008 - $72,921).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by mortgage lenders of $1,496,855 (2008 - $324,231).

6 Discontinued operations

A property is classified by the Trust as held for sale on the consolidated balance sheet when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and net realizable value, less selling costs. No amortization is recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes, and have been reported in discontinued operations.

The Trust is pursuing a divestiture program. The Trust has initiated actions to dispose of twelve income properties, including two in the third quarter. As a result, the Trust has classified the income properties as held for sale and reported them separately as discontinued operations. The Trust has valued the properties at the lower of their carrying amount and net realizable value less costs to sell, which did not lead to an impairment loss.

The following table discloses the balance sheets and statements of income for properties classified as held for sale. The properties involved in discontinued operations were previously included under Commercial, Light Industrial, and Residential, and Alberta, British Columbia, Manitoba, and Saskatchewan for segmented reporting purposes.

	September 30 2009	December 31 2008
Balance sheets		
Assets		
Income properties (net of accumulated amortization of $11,685,431 (2008 - $9,941,412))	$ 121,264,101	$ 121,697,104
All other assets	2,745,220	2,534,237
	124,009,321	124,231,341
Liabilities		
Mortgage loans payable	113,523,415	115,262,142
Accounts payable and accrued liabilities	2,747,860	2,354,834
Future income taxes	3,155,601	3,124,628
Non-controlling interest	1,696,501	1,573,258
	121,123,377	122,314,862
	$ 2,885,944	$ 1,916,479

Mortgage loans payable includes mortgage loans to be assumed by purchaser and mortgage loans to be repaid on sale of the income properties.

6 Discontinued operations (continued)

Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of LREIT Village West LP, an entity controlled by the Trust, which is consolidated in the financial statements.

Amounts receivable includes rent receivable of $717,414 (2008 - $488,056) net of an allowance for doubtful accounts of $164,589 (2008 - $72,921).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by mortgage lenders of $1,496,855 (2008 - $324,231).
The change in non-controlling interest is summarized as follows:

	September 30 2009	December 31 2008 (audited)
Balance, beginning of period	$ 1,573,258	$ 1,685,103
Share of income of Village West Townhouses	156,528	87,860
Distributions on LP Units of Village West LP	(33,285)	(199,705)
Balance, end of period	$ 1,696,501	$ 1,573,258

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Statements of income				
Revenue				
Rentals from income properties	$ 5,145,721	$ 3,739,310	$ 15,366,444	$ 11,060,651
Interest and other income	29,342	16,550	89,268	70,186
	5,175,063	3,755,860	15,455,712	11,130,837
Expenses				
Property operating costs	2,327,314	1,787,406	7,276,856	5,537,741
Financing expense	2,102,643	1,804,519	6,712,450	4,563,586
Amortization of income properties	64,253	616,094	1,317,581	1,939,446
Future income tax expense (recovery)	130,024	64,001	178,526	(58,303)
	550,829	(516,160)	(29,701)	(851,633)
Non-controlling interest	(66,531)	(18,993)	(156,528)	(57,498)
Income (loss) from discontinued operations	$ 484,298	$ (535,153)	$ (186,229)	$ (909,131)

Financing expense includes amortization of transaction costs of $7,759 (2008 - $165,894) for the three months ended September 30, 2009, and $389,011 (2008 - $399,716) for the nine months ended September 30, 2009.

7 Mortgage loans payable

	Interest Rates at September 30, 2009			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	September 30 2009
Income properties				
Fixed rate mortgages	4.5% - 16.0%	6.0%	4.2 years	$243,062,739
Floating rate mortgages	3.5% - 6.3%	3.7%	Demand	84,221,530
				327,284,269
Properties under development				
Floating rate mortgages	3.5%	3.5%	Demand	6,935,570
				334,219,839
Difference between contractual and market interest rates on mortgage loans assumed				77,094
Unamortized transaction costs				(1,407,405)
				$332,889,528

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $20,322,676 and $22,257,000 have been fixed at 5.74% and 5.82% for the five and ten year terms of the respective mortgages.

	Interest Rates at December 31, 2008			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2008 (audited)
Income properties				
Fixed rate mortgages	4.5% - 7.3%	5.8%	5.1 years	$235,882,485
Floating rate mortgages	4.5% - 6.3%	4.6%	Demand	80,500,000
				316,382,485
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	0.7 years	11,370,000
Floating rate mortgages	4.5% - 5.5%	4.9%	Demand	12,435,570
				23,805,570
				340,188,055
Difference between contractual and market interest rates on mortgage loans assumed				110,798
Unamortized transaction costs				(1,633,834)
				$338,665,019

7 *Mortgage loans payable (continued)*

Approximate principal repayments are as follows:

Year ending December 31	
2009 - Remainder of year	$140,535,214
2010	45,606,795
2011	11,182,143
2012	34,755,656
2013	39,976,544
Thereafter	62,163,487
	$334,219,839

The difference between contractual and market interest rates on mortgage loans assumed upon acquisition is amortized over the term of the respective mortgages. The balance of $77,094 (2008 - $110,798) is net of accumulated amortization of $781,579 at September 30, 2009 (2008 - $737,019). The difference relates to mortgage loans assumed on acquisition of a property under development. The property under development was classified to income properties on February 1, 2009. Amortization of $11,437 was recorded to mortgage loan expense for the three months ended September 30, 2009 and $30,044 for the nine months ended September 30, 2009. During the nine months ended September 30, 2009, amortization of $3,660 related to January 2009 was recorded as a reduction of the carrying value of properties under development and amortization.

Certain of the mortgage loans payable are subject to covenants, including minimum debt service ratios. The Trust is not in compliance with three first mortgage loans totaling $101,454,162, as a result of the breach of the debt service coverage requirements. In accordance with GAAP, the total of the three first mortgage loans has been included in principal repayments in 2009.

One mortgage loan in the amount of $2,385,332 has matured subsequent to September 30, 2009 and has not been renewed. Management believes that the mortgage loan will be refinanced on comparable terms.

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

8 *Convertible debentures*

The face value of the outstanding convertible debentures is as follows:

	September 30 2009	December 31 2008 (audited)
Series E	$ 11,950,000	$ 11,950,000
Series F	13,680,000	13,680,000
Series G	25,732,000	25,732,000
	$ 51,362,000	$ 51,362,000

8 *Convertible debentures (continued)*

During the nine months ended September 30, 2009 and the year ended December 31, 2008 there were not any conversions of convertible debentures.

September 30, 2009	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,612,322	$ 2,835,690	$ 14,448,012
Series F - 7.5%, due March 11, 2011	12,377,085	3,564,376	15,941,461
Series G - 7.5%, due December 31, 2011	22,187,165	6,704,571	28,891,736
	46,176,572	13,104,637	59,281,209
Unamortized transaction costs	(1,176,790)	-	(1,176,790)
	$ 44,999,782	$ 13,104,637	$ 58,104,419

December 31, 2008 (audited)	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,081,742	$ 2,835,690	$ 13,917,432
Series F - 7.5%, due March 11, 2011	11,791,848	3,564,376	15,356,224
Series G - 7.5%, due December 31, 2011	21,216,807	6,704,571	27,921,378
	44,090,397	13,104,637	57,195,034
Unamortized transaction costs	(1,662,431)	-	(1,662,431)
	$ 42,427,966	$ 13,104,637	$ 55,532,603

The Series E and F convertible debentures of the Trust are secured by a security interest on all the property and assets of the Trust. The security interest ranks senior to the trust units and subordinate to mortgage loans payable and related collateral security.

The allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 15% for Series E, Series F and Series G debentures.

The accretion of the debt component for the three months ended September 30, 2009 of $731,843 (2008 - $623,514) and for the nine months ended September 30, 2009 of $2,086,175 (2008 - $1,815,815), which increases the debt component from the initial carrying amount, is included in financing expense.

The Series E and F debentures provide that the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. The Trust is not in compliance with three first mortgage loans totaling $101,454,162, as a result of the breach of the debt service coverage requirements.

If the lenders demand the repayment of any of the loans, the secured convertible debentures, with a face value of $25,630,000, may become payable on demand.

9 Accounts payable and accrued liabilities

	September 30 2009	December 31 2008 (audited)
Accounts payable and accrued liabilities	$ 5,522,273	$ 3,189,447
Revolving loan from 2668921 Manitoba Ltd.	4,341,192	-
Payable on acquisition of Parsons Landing	47,720,000	48,220,000
Construction costs payable	1,518,174	254,432
Mortgage and debenture interest payable	2,021,566	2,136,463
Mortgage guarantee fees payable	304,731	-
Tenant security deposits	2,661,906	3,144,685
Interest rate swaps	6,593,583	4,012,403
	$ 70,683,425	$ 60,957,430

The amount payable on the acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,233,000 expected to be paid December 15, 2009.

Interest Rate Swaps
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. Included in financing expense is a recovery of $279,367 for the three months ended September 30, 2009 and a charge of $2,581,180 for the nine months ended September 30, 2009.

10 Bank indebtedness

Bank indebtedness consists of a revolving line of credit that the Trust obtained from a Canadian chartered bank in 2007 in the maximum amount of $5,000,000, bearing interest at prime and repayable on demand. The line of credit is secured by a second mortgage on an income property. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at September 30, 2009, the line of credit is fully drawn compared to $1,555,000 available at December 31, 2008.

11 Future income taxes

Future income taxes consists of the following components:

	September 30 2009	December 31 2008 (audited)
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis held in the Trust expected to reverse after 2010 for:		
Income properties	$ 4,838,136	$ 288,696
Transaction costs	(101,992)	(89,554)
	4,736,144	199,142
Future tax asset relating to discontinued operations	556,164	3,230,289
Valuation allowance	(5,292,308)	-
	$ -	$ 3,429,431
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax asset (liability) relating to the temporary differences between the accounting and tax basis of income properties held in wholly owned subsidiaries	$ 403,570	$ (393,570)
Future income tax asset relating to operating losses of wholly owned subsidiaries	2,283,387	1,569,605
	2,686,957	1,176,035
Valuation allowance	(2,686,957)	(1,569,605)
	$ -	$ (393,570)
	$ -	$ 3,035,861

In recognition of the uncertainty with respect to the realization of the income tax asset, a full valuation allowance was recorded to reduce the future income tax asset to nil at September 30, 2009.

Future income tax liability relating to the wholly owned subsidiaries of discontinued operations	$ 3,155,601	$ 3,124,628

11 Future income taxes (continued)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Future income tax expenses (recoveries):				
Trust				
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:				
Income properties	$ (291,051)	$ (2,990,657)	$ (1,319,151)	$ (5,692,544)
Transaction costs	184,624	(15,349)	12,438	25,899
Valuation allowance	106,427	-	4,736,144	-
	-	(3,006,006)	3,429,431	(5,666,645)
Wholly owned subsidiaries				
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	(69,042)	8,578	(799,853)	172,646
Increase (decrease) in future income tax liability resulting from changes in tax rates	-	(3,360)	2,713	(10,497)
Increase in future income tax asset resulting from operating losses	(528,514)	(241,768)	(713,782)	(654,071)
Valuation	597,556	-	1,117,352	-
	-	(236,550)	(393,570)	(491,922)
Current income taxes at statutory tax rates	(41,023)	-	-	-
	(41,023)	(236,550)	(393,570)	(491,922)
	$ (41,023)	$ (3,242,556)	$ 3,035,861	$ (6,158,567)
Future income tax (recovery) for discontinued operations	$ 130,024	$ 64,001	$ 178,526	$ (58,303)

The wholly owned subsidiaries have the following operating losses available to reduce income for tax purposes in future years. The potential benefit of these losses has not been reflected in the consolidated financial statements.

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,353,597
2028	2,437,741
2029	2,260,981
	$ 7,165,575

12 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 and services agreements with the Trust.

Management agreement
The Trust has renewed the property management agreement with Shelter Canadian Properties Limited with the same terms and conditions, for a five year term expiring on August 30, 2012. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regards to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited in continuing operations of $564,769 for the three months ended September 30, 2009 (2008 - $655,596) and $1,876,183 for the nine months ended September 30, 2009 (2008 - $1,693,700). Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development. The total property management fees include fees of $156,787 for the three months ended September 30, 2009 (2008 - $102,026) and $465,414 for the nine months ended September 30, 2009 (2008 - $300,452) relating to discontinued operations.

The Trust incurred, relating to discontinued operations, leasing commissions on commercial properties to Shelter Canadian Properties Limited of $7,402 for the three months ended September 30, 2009 (2008 - nil) and $97,649 for the nine months ended September 30, 2009 (2008 - nil). The amounts are capitalized to income properties.

Included in accounts payable and accrued liabilities at September 30, 2009 in continuing operations is a recoverable balance of $15,544 (2008 - payable balance of $34,173), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Included in accounts payable and accrued liabilities at September 30, 2009 in discontinued operations is a balance of $4,658 (2008 - $17,705), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust has renewed the services agreement with Shelter Canadian Properties Limited, with the same terms and conditions, for a term expiring December 31, 2009. 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.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $487,253 for the three months ended September 30, 2009 (2008 - $417,103) and $1,475,939 for the nine months ended September 30, 2009 (2008 - $1,197,586). Service fees are included in trust expense.

12 Related party transactions (continued)

Services agreement (continued)
Included in accounts payable and accrued liabilities at September 30, 2009 is a balance of $162,757 (2008 - nil), payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Financing
On June 30, 2009, LREIT obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. The loan bears interest at 7.5%, is due on June 1, 2010 and is secured by a second mortgage charge on an income property. The loan is included in mortgage loans payable at September 30, 2009. A processing fee of $15,000 was paid to 2668921 Manitoba Ltd. in regard to the loan. The fee was included in transaction costs.

The proceeds of the loan were used to reduce the first mortgage loan of an income property in conjunction with the renewal of the first mortgage loan for a one year term, effective June 1, 2009.

On June 30, 2009, the Trust obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $5 Million on September 2, 2009. The loan bears interest at 7.5%, is due on June 30, 2010 and is secured by a third mortgage charge on an income property. As at September 30, 2009, $4,341,192 has been drawn.

The loans were approved by the independent Trustees of LREIT. 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 the approval of the loans.

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited. There were not any fees charged to the Trust in regard to the guarantees.

13 Units

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

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008 (audited)	
	Units Issued	Equity Raised	Units Issued	Equity Raised
Outstanding, beginning of period	17,588,081	66,481,152	17,529,894	66,457,466
Issued on distribution reinvestment plan	48,576	108,517	514,387	1,802,126
Purchased and cancelled under normal course issuer bid	(99,507)	(275,757)	(456,200)	(1,778,440)
Outstanding, end of period	17,537,150	66,313,912	17,588,081	66,481,152

13 Units (continued)

Distribution Reinvestment Plan
Pursuant to the distribution reinvestment plan ("DRIP"), holders of Units may elect to have all or a portion of their distributions automatically reinvested in additional Units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the Units for the five trading days immediately preceding the distribution payment date. During the nine months ended September 30, 2009, 48,576 (2008 - 514,387) units have been issued pursuant to the DRIP.

Units purchased and cancelled under normal course issuer bid
On January 16, 2008, the Trust announced its intention to make a normal course issuer bid to acquire up to 876,494 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ended January 20, 2009, in accordance with the policies of the Toronto Stock Exchange. Units purchased by the Trust under its normal course issuer bid are cancelled. During the nine months ended September 30, 2009 the Trust has purchased and cancelled 99,507 units under its normal course issuer bid at a weighted average price of $2.77 per unit.

On January 21, 2009, the Trust announced its intention to make a normal course issuer bid to acquire up to 877,404 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ending January 22, 2010.

14 Unit option plan

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the Exchange on the date of grant. The options will have a maximum term of five years from the date of grant.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model.

Unit-based compensation expense of $22,206 for the three months ended September 30, 2009 (2008 - $45,138) and $85,803 for the nine months ended September 30, 2009 (2008 - $273,075), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

14 Unit option plan (continued)

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

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008	
	Units	Weighted Average Exercise Price	Units (audited)	Weighted Average Exercise Price
Outstanding, beginning of period	1,452,000	$ 5.56	1,110,000	$ 5.72
Granted, January 7, 2008	-	-	370,000	5.10
Expired, August 11, 2008	-	-	(28,000)	5.73
Outstanding, end of period	1,452,000	$ 5.56	1,452,000	$ 5.56
Vested, end of period	1,156,800		960,400	

At September 30, 2009 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	30,000	30,000	January 17, 2011
5.80	935,000	788,000	July 26, 2011
5.30	120,000	120,000	June 8, 2012
5.10	367,000	218,800	January 7, 2013
	1,452,000	1,156,800	

15 Deferred unit plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

15 Deferred unit plan (continued)

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 88,177 and 162,871 for the three and nine months ended September 30, 2009, respectively, and 186,668 aggregate deferred units were outstanding at September 30, 2009.

Unit-based compensation expense of $41,125 and $138,469 for the three and nine months ended September 30, 2009, respectively, relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

16 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $295,373 (2008 - $348,700) for the three months ended September 30, 2009 and $1,071,418 (2008 - $1,065,548) for the nine months ended September 30, 2009.

17 Financing expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Interest on acquisition payable	$ 2,649,176	$ 854,889	$ 7,269,233	$ 1,452,586
Forgiveness of interest on acquisition payable	(1,609,373)	-	(1,609,373)	-
	1,039,803	854,889	5,659,860	1,452,586
Mortgage loan interest	4,566,462	4,327,776	13,171,939	11,019,122
Convertible debenture interest	977,975	977,975	2,933,925	2,965,785
Accretion of the debt component of convertible debentures	731,843	623,514	2,086,175	1,815,815
Amortization of transaction costs	404,576	275,451	1,141,292	817,410
Change in fair value of interest rate swaps	(279,367)	(1,152,973)	2,581,180	(1,204,002)
	$ 7,441,292	$ 5,906,632	$ 27,574,371	$ 16,866,716

18 Amortization

	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Building	$ 2,264,699	$ 2,114,553	$ 6,697,175	$ 4,944,072
Furniture, equipment and appliances	350,327	273,296	1,043,644	645,515
Intangible assets, except for in-place leases	5,142	81,527	142,711	279,365
	2,620,168	2,469,376	7,883,530	5,868,952
Transaction costs	397,444	275,451	1,127,269	817,410
	3,017,612	2,744,827	9,010,799	6,686,362
Difference between contractual and market interest rates on mortgage loans assumed	(11,427)	(10,672)	(33,704)	(179,407)
	$ 3,006,185	$ 2,734,155	$ 8,977,095	$ 6,506,955

19 Supplementary cash flow information

	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Interest paid and received				
Interest paid on mortgage loans	$ 6,518,596	$ 4,363,733	$ 15,214,609	$ 10,927,767
Interest paid on acquisition payable	$ 900,000	$ 854,889	$ 3,376,772	$ 1,554,223
Interest paid on convertible debentures	$ 991,000	$ 991,000	$ 2,946,950	$ 2,985,876
Interest received on mortgage loans receivable	$ -	$ 55,460	$ -	$ 313,865
Other interest received	$ 79,223	$ 81,083	$ 399,274	$ 308,523
Cash distributions				
Distributions declared	$ -	$ 2,460,011	$ 1,635,079	$ 7,380,656
Distributions payable beginning of period	-	821,599	-	-
Distributions payable end of period	-	(819,476)	-	(819,476)
Distributions to participants in the DRIP	-	(479,951)	(104,343)	(1,019,728)
Distributions paid on units	$ -	$ 1,982,183	$ 1,530,736	$ 5,541,452

20 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the year, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the year, considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive and the potential conversion of the outstanding Class B units of LREIT Village West LP to the extent that the units are dilutive.

Loss per unit calculations are based on the following:

Continuing Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Loss	$ (3,630,897)	$ (1,898,045)	$ (15,447,816)	$ (6,512,577)
Diluted loss	$ (3,630,897)	$ (1,898,045)	$ (15,447,816)	$ (6,512,577)
Units	17,537,150	17,515,717	17,428,306	17,501,083
Vested deferred units	87,752	-	41,034	-
Weighted average basic number of units	17,624,902	17,515,717	17,469,340	17,501,083
Weighted average diluted number of units	17,624,902	17,515,717	17,469,340	17,501,083

Discontinued Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Income	$ 484,298	$ (535,153)	$ (186,229)	$ (909,131)
Diluted income	$ 484,298	$ (535,153)	$ (186,229)	$ (909,131)
Units	17,537,150	17,515,717	17,428,306	17,501,083
Vested deferred units	87,752	-	41,034	-
Weighted average basic number of units	17,624,902	17,515,717	17,469,340	17,501,083
Weighted average diluted number of units	17,624,902	17,515,717	17,469,340	17,501,083

21 Financial instruments and risk management

Risk management

In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk

The Trust is in breach of the 1.4 times debt service coverage requirement on two first mortgage loans totaling $46,454,162 in Fort McMurray and of the 1.2 times debt service coverage requirement on a $55,000,000 first mortgage loan in Fort McMurray . The Trust has received notice from the lender of the first mortgage loans totaling $46,454,162 that the breach must be cured. The Trust has requested the lender waive or modify the existing debt service covenant. The Trust has also been in communication with the lender of the $55,000,000 mortgage loan and has received indication that the lender is receptive to providing a forbearance letter, subject to the Trust providing additional security. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

The cross-default clauses of the Series E and F secured convertible debentures provide that the convertible debentures may become payable, on demand, if the repayment of a mortgage loan is accelerated by a lender. If the lender demands the repayment of the loans, the secured convertible debentures, with a face value of $25,630,000, may become payable on demand.

In addition to the liquidity risk relating to the mortgage financing for Parsons Landing, liquidity risk arises from the possibility of the Trust not having sufficient debt and equity capital available to refinance its debt as it matures.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years and, except for properties under development, by limiting the use of floating interest rate debt.

As at September 30, 2009, the weighted average term to maturity of the fixed rate mortgages on income properties, excluding properties under development, is 4.2 years (2008 - 5.1 years).

The repayment obligations in regard to mortgage loans payable and convertible debentures are as follows:

Year ending December 31	Mortgage Loans Payable	Convertible Debentures	Total
2009 - remainder of year	$140,535,214	$ -	$140,535,214
2010	45,606,795	11,950,000	57,556,795
2011	11,182,143	39,412,000	50,594,143
2012	34,755,656	-	34,755,656
2013	39,976,544	-	39,976,544
Thereafter	62,163,487	-	62,163,487
	$334,219,839	$ 51,362,000	$385,581,839

21 Financial instruments and risk management (continued)

Liquidity risk (continued)
In accordance with GAAP, the total of the three first mortgage loans of $101,454,162, that are not in compliance with minimum debt service ratios, has been included in principal repayments in 2009.

Interest rate risk
Interest risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgages with terms as favourable as those of existing mortgages. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At September 30, 2009 the percentage of fixed rate mortgage loans to total mortgage loans was 73% (2008 - 73%).

The Trust has floating rate mortgages on income properties (excluding floating rate mortgages with interest rates fixed by use of interest rate swap arrangements) totaling $84,221,530, or 25.2% of the total mortgage loans at September 30, 2009 (2008 - 23.7%).

Floating rate mortgages on properties under development comprise construction loans and loans on properties during the period of lease-up.

As at September 30, 2009, the Trust has total contractual mortgage principal maturities on income properties to December 31, 2012 of $83,585,947, representing 25.0% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $835,859 per year.

As at September 30, 2009, the Trust had floating rate mortgages totaling $91,157,100. Should interest rates change by 1%, financing expense would change by $911,571 per year.

With the exception of interest rate swap arrangements, the Trust does not trade in financial instruments.

Credit risk
Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Trust has credit policies to address credit risk which include the analysis of financial position and credit history of a prospective tenant and by obtaining security deposits whenever permitted by legislation. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

Thirteen properties, representing 65% of rentals from income properties, are located in Fort McMurray, Alberta. The credit risk associated with the tenants in Fort McMurray is mitigated due to the long-term nature of the oil sands industry and the credit worthiness of the commercial tenants which comprise a significant portion of the rent receivable. The Trust has a corporate tenant that accounts for 17% of rentals from income properties for the nine months ended September 30, 2009.

21 Financial instruments and risk management *(continued)*

Credit risk (continued)

Rent is past due when a tenant has failed to make a payment when contractually due. The following is an aging of rent receivable past due but not impaired:

	September 30 2009	December 31 2008 (audited)
Rent receivable overdue:		
0 to 30 days	$ 517,670	$ 269,407
31 to 60 days	48,434	67,371
More than 60 days	63,564	93,901
	$ 629,668	$ 430,679

A reconciliation of allowance for doubtful accounts is as follows:

	September 30 2009	December 31 2008 (audited)
Balance, beginning of period	$ 72,921	$ 32,077
Amount charged to bad debt expense relating to impairment of rent receivable	190,177	134,757
Amounts written off as uncollectible	(98,509)	(93,913)
Balance, end of period	$ 164,589	$ 72,921
Amount charged to bad debts as a percent of rentals from income properties	0.48%	0.27%

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust does not have any transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to other price risk.

Fair values

Financial instruments include cash, mortgage loans receivable, amounts receivable, interest rate swap, restricted cash, mortgage loans payable, accounts payable and accrued liabilities, the debt component of convertible debentures, bank indebtedness and distributions payable. Except for the mortgage loans payable and the debt component of convertible debentures, the carrying values of these financial instruments approximate fair value due to the short term nature of the financial instruments.

21 Financial instruments and risk management *(continued)*

Fair values (continued)
The fair value of the fixed rate mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of fixed rate mortgage loans payable for the period ended September 30, 2009 is $345,000,000 (December 31, 2008 - $355,000,000).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable for the period ended September 30, 2009 is $20,455,820 (December 31, 2008 - $33,290,680).

22 Management of capital

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

	September 30 2009	December 31 2008 (audited)
Mortgage loans payable	$334,219,839	$340,188,055
Convertible debentures		
Debt component	46,176,572	44,090,397
Equity component	13,104,637	13,104,637
	59,281,209	57,195,034
Trust units	79,801,196	79,750,666
	$473,302,244	$477,133,755

The Trust manages capital in order to safeguard its ability to continue as a going concern; to ensure that returns are provided to units and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including convertible debenture debt.

22 Management of capital (continued)

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to units; return capital to units; purchase units; or reduce debt.

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

23 Segmented financial information

Nine months ended September 30, 2009:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	27,472,236	560,715	2,541,134	4,698,383	4,625,019	-	39,897,487
Interest and other income	309,907	3,304	202	16,503	50,323	19,035	399,274
Property operating costs	8,227,563	199,329	2,097,725	1,823,266	2,785,854	-	15,133,737
Financing expense	18,029,043	138,585	1,281,496	951,566	940,611	6,233,070	27,574,371
Amortization	5,768,933	177,255	501,801	687,973	747,568	-	7,883,530
Income (loss) from continuing operations	(4,243,399)	48,852	(695,376)	1,252,082	(49,430)	(11,760,545)	(15,447,816)
Total assets from continuing operations	349,770,581	5,405,027	46,007,665	38,315,246	30,235,611	256,036	469,990,166

Nine months ended September 30, 2008:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	24,303,728	501,514	1,142,854	4,495,785	4,358,194	-	34,802,075
Interest and other income	201,423	2,582	295	27,304	36,921	325,437	593,962
Property operating costs	6,806,901	255,616	744,689	1,773,268	2,550,437	-	12,130,911
Financing expense	8,042,528	105,731	555,360	967,303	950,322	6,245,472	16,866,716
Amortization	4,003,683	174,591	207,764	658,914	824,000	-	5,868,952
Income (loss) from continuing operations	5,652,036	(31,841)	81,700	1,123,602	115,918	(13,453,992)	(6,512,577)
Total assets from continuing operations	357,650,425	5,805,998	46,189,938	38,824,042	30,968,177	14,459,484	493,898,064

Three months ended September 30, 2009:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	7,571,956	189,341	923,914	1,635,245	1,562,045	-	11,882,501
Interest and other income	54,276	355	61	4,777	19,588	165	79,222
Property operating costs	2,585,249	71,759	741,589	589,180	832,582	-	4,820,359
Financing expense	4,134,391	46,389	463,757	317,093	328,021	2,151,641	7,441,292
Amortization	1,930,199	59,186	173,083	232,800	224,900	-	2,620,168
Income (loss) from continuing operations	(1,023,607)	12,364	(454,455)	500,951	196,128	(2,862,278)	(3,630,897)
Total assets from continuing operations	349,770,581	5,405,027	46,007,665	38,315,246	30,235,611	256,036	469,990,166

23 Segmented financial information (continued)

Three months ended September 30, 2008:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	10,488,150	178,045	450,241	1,487,213	1,474,117	-	14,077,766
Interest and other income	50,146	733	97	8,447	13,525	16,049	88,997
Property operating costs	2,568,965	68,755	330,941	564,508	805,767	-	4,338,936
Financing expense	2,946,941	47,083	205,100	322,265	317,373	2,067,870	5,906,632
Amortization	1,847,274	58,916	69,254	220,563	273,369	-	2,469,376
Income (loss) from continuing operations	3,175,104	4,023	69,423	388,319	103,323	(5,638,237)	(1,898,045)
Total assets from continuing operations	357,650,425	5,805,998	46,189,938	38,824,042	30,968,177	14,459,484	493,898,064

24 Commitments

Acquisition

Parsons Landing Apartments

On September 1, 2008, the Trust acquired possession of Parsons Landing, a residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. On November 1, 2007, the Trust provided a $10,000,000 second mortgage loan, which bore interest at 8%. On possession of Phase I of the property on May 14, 2008, a purchase instalment payment of $2,500,000 was made and $5,250,000 of the second mortgage loan was applied to the purchase price. On possession of Phase II of the property on September 1, 2008, the balance of the second mortgage loan of $4,750,000 was applied to the purchase price. After accounting for the payment of an additional deposit of $2.5 Million on October 1, 2008, the balance owing on Parsons Landing was $48.2 Million as of December 31, 2008, including GST.

The balance owing of the acquisition cost payable in the amount of $48,220,000 was originally due on February 28, 2009.

The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing to May 31, 2010, with interest of $5,240,762 from December 1, 2009 to May 31, 2010. The vendor received payment of $500,000 on May 12, 2009 to be applied to the balance owing. The vendor received payment of interest payments of $300,000 per month from March to September 2009 and has forgiven interest in excess of $300,000 per month to September 30, 2009 in the amount of $4,092,462. The vendor has agreed to accept interest payments of $300,000 per month for October and November 2009 and forgive interest in excess of $300,000 per month of $1,156,418. On closing, the vendor has also agreed to provide a $12,000,000 second mortgage loan, with a term of fifteen months, and to forgive interest in excess of $300,000 per month for the period from December 1, 2009 to May 31, 2010 of $3,440,762. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $30,000,000 by April 30, 2010. The previous reduction of the purchase price of $3,100,000, on closing, has been rescinded in exchange for a reduced interest rate on the loan payable to the vendor.

24 Commitments (continued)

Acquisition (continued)

Parsons Landing Apartments (continued)
In accordance with GAAP, the forgiveness of interest to September 30, 2009 of $4,092,462 is recorded over the remaining term of the obligation, using the effective interest method, resulting in the reduction of interest expense on acquisition payable of $1,609,373 for the three months ended September 30, 2009 and of $2,483,089 for the three months ending December 31, 2009. In addition the forgiveness of interest from October 1 to December 31, 2009 of $1,749,177 will be recorded in the three months ending December 31, 2009.

The vendor is permitted to sell the property and the Trust may list the property for sale. In the event of the sale of Parsons Landing, the Trust will be liable to the vendor for any shortfall between the net proceeds of the sale and the acquisition cost payable of $45,233,000 plus interest.

Management Contracts

The Trust has retained the following third party managers to provide on-site management services to the seniors housing complexes:

Property	Manager	Term Expiring
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2010
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

In addition, Siena apartments condominium is managed by Pacer Management Inc. for a term expiring 2012.

25 Contingent consideration on acquisition

Elgin Lodge
During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at September 30, 2009 of $404,953 (2008 - $284,840), which increases the cost of the building, is included in accounts payable and accrued liabilities.

Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at September 30, 2009 of $436,913 (2008 - $272,964), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

26 Subsequent events

Debt service covenant requirements

At December 31, 2009, the Trust was in breach of the 1.2 times debt service coverage requirement on a second mortgage loan in the amount of $17,686,110 in Fort McMurray and of the 1.3 times debt service coverage requirement on the first mortgage loan in the amount of $5,131,500 in Moose Jaw.

The Trust has been in communication with the lender of the second mortgage loan in the amount of $17,686,110 and has received confirmation that the lender is receptive to providing a forbearance letter, subject to the Trust providing additional security. The Trust will be requesting a forbearance letter from the lender of the first mortgage loan in the amount of $5,131,500. The breaches of the debt service covenant requirements have not resulted in an acceleration of the repayment of the mortgage loans. There is no assurance that the lender will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

Mortgages renewed

On October 29, 2009, a 6% first mortgage loan in the amount of $5,300,609 was renewed for a two year term at 3.2%.

On November 1, 2009, an 11.75% interim mortgage loan in the amount of $5,067,602 was renewed for a one year term at 11.75%.

On November 19, 2009, a second mortgage loan was obtained in the amount of $4,500,000 for an 18 month term at 12%. The loan proceeds were used to repaid a 11.75% second mortgage loan.

Divestitures

On October 1, 2009, the Trust sold Kenaston, Nova Ridge Estates and Nova Villa for gross proceeds of $35,575,000 resulting in a gain on sale of $9,634,000. Net cash proceeds, after holdbacks, and a vendor take back mortgage of $500,000, were utilized to repay mortgage loans on the properties of $21,350,000 and make repayments on interim mortgage loans of $11,537,000. The properties were previously included in Residential and Commercial and Manitoba and Alberta for segmented reporting purposes.

On November 1, 2009 the Trust sold Village West Townhouses, in response to an unsolicited offer received in September 2009, for gross proceeds of $7,900,000, resulting in a gain on sale of $2,589,000. Net cash proceeds were utilized to repay a mortgage loan on the property of $4,358,000 and to make repayments on an interim mortgage loan of $1 Million with the balance of $2,226,000 utilized to improve the working capital of the Trust. The property was previously included in Residential and Saskatchewan for segmented reporting purposes.

On October 22, 2009, the Trust agreed to sell the six income properties in Prince Albert, on December 7, 2009, in response to an unsolicited offer for gross proceeds of $17,400,000 resulting in a gain on sale of $2,740,000. Net cash proceeds will be used to repay mortgage loans on the properties of $10,649,000 with the balance utilized to improve the working capital of the Trust. The properties were previously included in Residential and Saskatchewan for segmented reporting purposes.

26 Subsequent events (continued)

Divestitures (continued)

On October 22, 2009, the Trust agreed to sell Broadview Meadows, on December 7, 2009, in response to an unsolicited offer, for gross proceeds of $9,100,000, resulting in a gain on sale of $2,827,000. Net cash proceeds will be used to repay the mortgage loan on the property of $5,234,000 with the balance utilized to make repayments on interim mortgage loans and to improve the working capital of the Trust. The property was previously included in Residential and Alberta for segmented reporting purposes.

On November 2, 2009, the Trust agreed to sell Greenwood Gardens on December 7, 2009, for gross proceeds of $13,817,000 resulting in a gain on sale of $3,292,000. Net cash proceeds, after a vendor take back mortgage of $6,550,000 and the assumption of the mortgage loan on the property by the purchaser, will be utilized to make repayments on interim mortgage loans and to improve the working capital of the Trust. The property was previously included in Residential and British Columbia for segmented reporting purposes.

On November 5, 2009, the Trust agreed to sell Sir Robert Borden Place on December 22, 2009, in response to an unsolicited offer, for gross proceeds of $6,600,000 resulting in a gain on sale of $642,000. Net cash proceeds will be used to repay the mortgage loan on the property of $4,019,000 and to make repayments on interim mortgage loans and to improve the working capital of the Trust. The property was previously included in Residential and Saskatchewan for segmented reporting purposes.

On November 24, 2009, the Trust agreed to sell Chancellor Gate, on March 1, 2010 for gross proceeds of $7,970,000 resulting in a gain on sale of $2,013,000. Net cash proceeds, will be used to repay the mortgage loan on the property of $4,571,000 with the balance utilized to improve the working capital of the Trust. The property was previously included in Residential and Manitoba for segmented reporting purposes.

On February 1, 2010, the Trust agreed to sell McIvor Mall, on March 1, 2010 for gross proceeds of $11,200,000 resulting in a gain on sale of $5,462,000. Net cash proceeds, after a vendor take back mortgage of $3,000,000, will be used to repay the mortgage loan on the property of $4,837,000 with the balance utilized to improve the working capital of the Trust. The property was previously included in Commercial and Manitoba for segmented reporting purposes.

Amendments to the Declaration of Trust

On December 9, 2009, the units approved amendments to the Declaration of Trust. The amendments removed the mandatory requirement of the Trust to distribute net income of the Trust to assist the Trust in its transition to IFRS and, in addition, permit the Trust to satisfy distributions through the issuance of additional units in lieu of cash.

Distributions

Distributions of $19.5 Million were paid on December 31, 2009 to units of the Trust in the form of additional units of the Trust based on the closing market price of the units on December 31, 2009. After the pro-rata distribution of additional units to all units, and the subsequent consolidation, the number of units held by each unit will be the same as the number held immediately prior to the distribution of such additional units.

26 Subsequent events (continued)

Normal Course Issue Bid

On January 11, 2010, the Trust announced its intention to renew its normal course issuer bid to purchase up to an aggregate of 1,368,158 units and the initial normal course issuer bids to purchase up to an aggregate principal amount of $1,368,000 of Series F convertible debentures and up to an aggregate principal amount of $2,573,000 of Series G convertible debentures.

The existing normal course issuer bid for the units terminated on January 12, 2010. Each of the normal course issuer bids commenced on January 13, 2010 and will expire on January 12, 2011.

Prospectus

On January 26, 2010, the Trust filed a preliminary short form prospectus relating to the offering of 5,000 investment units at a price of $1,000 per unit for aggregate gross proceeds to the Trust of $5,000,000. Each investment unit is comprised of one 5 year 9% second mortgage bond in the principal amount of $1,000 and 1,000 warrants. Each warrant entitles the holder to purchase one unit of the Trust at a price of $1.00 per unit at any time for a period of five years from the date of closing of the Prospectus.

LREIT Village West Limited Partnership

The Village West Townhouses were held in LREIT Village West Limited Partnership (Village West LP), an entity controlled by the Trust and consolidated in the financial statements of the Trust. The Limited Partnership Agreement of Village West LP provides that Village West LP will be dissolved upon sale of its property. As a result, the Class B limited partnership units of Village West LP will be exchanged, on a one for one basis for units of the Trust, resulting in the issue of 356,617 units of the Trust, and Village West LP will be dissolved, in December 2009.

Bank Indebtedness

The Trust repaid $290,000 in October, $120,000 in November and $4,465,000 in December on the line of credit.

Revolving loan

The Trust drew $600,000 in October and repaid $1,536,193 in November and $3,405,000 in December on the revolving loan from 2668921 Manitoba Ltd.

27 Comparative figures

Certain of the prior year figures have been reclassified to be comparable to the current year.