LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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Unitholder Returns

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Distribution per unit	$0.09	$0.56
Opening unit price	$2.30	$4.99
Closing unit price	$0.80	$2.30

Lanesborough Real Estate Investment Trust Units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series F and Series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.F" and "LRT.DB.G", respectively.

PRESIDENT'S MESSAGE

During 2009, the operating results of Lanesborough Real Estate Investment Trust ("LREIT") have been negatively impacted by the slow down of development activity in the oil sands industry in northern Alberta and the associated decline in rental housing market conditions in Fort McMurray. LREIT has a high concentration of properties in Fort McMurray and the decline has resulted in increased vacancy losses and reduced rental rates and led to a significant reduction in the profitability of the Fort McMurray property portfolio. The decline in market conditions has necessitated the suspension of distributions since March 2009 and created a delay in the acquisition of Parsons Landing, a new multi-family apartment building in Fort McMurray.

During the first quarter of 2009, LREIT experienced a significant decrease in revenue and net operating income, compared to the fourth quarter of 2008, as well as a significant increase in financing expense, after excluding non-cash financing charges related to the change in market value of interest rate swap agreements. The operating results for the second quarter of 2009 are comparable to the first quarter results for 2009 and reflect a minimal change in the loss before taxes (excluding financing charges related to the interest rate swap agreements) and a more substantive change in operating cash flow (excluding changes in non-cash operating items).

Specifically, after excluding financing charges related to the interest rate swap agreements, LREIT experienced a loss before taxes of approximately $3.2 Million during the second quarter of 2009, compared to a loss of approximately $3.3 Million during the first quarter of 2009. In regard to cash flows, LREIT generated cash from operating activities of $1,018,797 during the second quarter of 2009, including the cash flow from discontinued operations and excluding changes in non-cash operating items, compared to a cash flow of $1,672,952 during the first quarter of 2009. The decrease in cash flow during the second quarter of 2009 is mainly due to an increase in interest expense related to the delay in the acquisition of Parsons Landing.

In comparison to the second quarter of 2008, the loss of LREIT, before taxes and excluding financing charges related to interest rate swap agreements, increased by approximately $2.4 Million during the second quarter of 2009. Similarly, cash flow from operating activities, including cash flow from discontinued operations and excluding changes in non-cash operating items, decreased by approximately $1.7 Million during the second quarter of 2009, compared to the second quarter of 2008. The increase in the loss and the decrease in operating cash flow mainly reflects an increase in financing expense which was substantially higher than the increase in net operating income.

The "loss before taxes" as disclosed above includes the operating results of ten properties which were reclassified to "properties held for sale" during the second quarter of 2009. The income from the ten properties is disclosed as "income from discontinued operations" on the income statement of LREIT, in accordance with generally accepted accounting principles.

A summary of the operating results of LREIT for the second quarter of 2009, compared to both the first quarter of 2009 and the second quarter of 2008, is provided in the following chart.

Financial Summary - Six Months Ended June 30, 2009

	2009 Q2	2009 Q1 Comparison		2008 Q2 Comparison	
	Amount	Amount	Increase (Decrease)	Amount	Increase (Decrease)
Cash from operating activities, including discontinued operations	$ 1,278,582	$ 2,559,269	$ (1,280,687)	$ 3,037,717	$ (1,759,135)
Distributable income	$ 1,069,790	$ 1,779,213	$ (709,423)	$ 2,630,440	$ (1,560,650)
FFO	$ (702,323)	$ (2,094,073)	$ 1,391,750	$ 1,655,318	$ (2,357,641)
AFFO	$ 331,880	$ 908,073	$ (576,193)	$ 2,003,385	$ (1,671,505)
Revenue	$ 13,976,190	$ 15,167,965	$ (1,191,775)	$ 11,620,994	$ 2,355,196
NOI	$ 9,024,724	$ 9,482,252	$ (457,528)	$ 7,520,562	$ 1,504,162
Loss from continuing operations before future income taxes	$ (4,403,323)	$ (5,259,592)	$ 856,269	$ (487,173)	$ (3,916,150)
Income (loss) for the period	$ (3,956,727)	$ (8,530,719)	$ 4,573,992	$ (4,988,811)	$ 1,032,084

LREIT is pursuing a divestiture program targeting the sale of assets, with estimated proceeds of in excess of $250 Million, by December 31, 2010. Currently, 12 properties with estimated proceeds of $70 Million are under conditional contracts for sale and are expected to close this year. The 12 properties had a net book value of $49.7 Million at June 30, 2009. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular, higher cost interim mortgage loan financing. In addition to generating funds for the repayment of debt, the projected sale of properties under the divestiture program will enable LREIT to improve its working capital position. The improved liquidity should sustain the operations of LREIT until the expected recovery of the Fort McMurray rental housing market in 2010 and beyond. Cash distributions will continue to be suspended for the remainder of 2009.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust ("LREIT" or the "Trust") should be read in conjunction with the consolidated financial statements of LREIT for the six months ended June 30, 2009 and with reference to the 2009 First Quarter Report and the 2008 Annual Report.

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

The Trust has undertaken a divestiture program targeting the sale of assets with an estimated value of $250 Million.

During the quarter, ten properties have been classified as "held for sale" and are reported separately in the consolidated financial statements at June 30, 2009 as discontinued operations, in accordance with generally accepted accounting principles, as disclosed in Note 6 to the consolidated financial statements. The number and related estimated proceeds and net book value of properties disclosed in this MD&A may differ from the "properties held for sale", reported in accordance with generally accepted accounting principles, in the consolidated financial statements.

Assets, liabilities, revenues, expenses and cash flows reflected in this MD&A are in regard to the remaining 34 properties which are classified as continuing operations unless otherwise indicated.

Estimated Current Value

In this management discussion and analysis, references are made to the estimated current value of LREIT's property portfolio, which is an estimate of the current value of LREIT's property portfolio as at June 30, 2009 made by management of LREIT.

In summary, the total estimated current value of the total property portfolio is $746,890,000, of which $584,840,000 relates to continuing operations. The total estimated current value of $584,840,000 from continuing operations is 10% less than the total appraised value of $652,860,000. For 27 properties, representing 54% of total appraised value, management assumed estimated current value was equal to the appraisal values of the applicable properties, for 4 properties, representing 17% of total appraised value, the total estimated current value of the applicable properties was in excess of total appraised value, and for 3 properties representing 29% of total appraised value, the total estimated current value of the applicable properties was below the total appraised value of the properties.

The appraised value of properties as contained in appraisals prepared by independent appraisers are estimates only, are made effective as at the date set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisal; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2009, the date of management's estimate of current value of such property. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of LREIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2009, the date of management's estimate of the current value of such property.

LREIT undertakes no obligation to update or revise its estimated current value of its portfolio from time to time.

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
		(restated)		(restated)
DISTRIBUTIONS				
Total, including distributions on LP units	$ -	$ 2,463,744	$ 1,668,364	$ 4,920,645
Per unit	$ -	$ 0.14	$ 0.09	$ 0.28
KEY PERFORMANCE INDICATORS (1)				
Operations				
Average income property occupancy rate	85 %	95 %	87 %	94 %
Income property operating cost ratio	36 %	36 %	37 %	38 %
Operating Results				
Total revenue	$ 13,976,190	$ 11,620,994	$ 29,144,155	$ 21,953,365
Net operating income *	$ 9,024,724	$ 7,520,562	$ 18,506,976	$ 13,822,347
Loss from continuing operations for the period before future income tax *	$ (4,403,323)	$ (487,173)	$ (9,662,915)	$ (2,210,113)
Loss for the period	$ (3,956,727)	$ (4,988,811)	$ (12,487,446)	$ (4,988,510)
Cash Flows				
Cash flow from operating activities, including discontinued operations	$ 1,278,582	$ 3,037,717	$ 3,837,851	$ 4,369,932
Funds from Operations (FFO) *	$ (702,323)	$ 1,655,318	$ (2,796,395)	$ 2,055,887
Adjusted Funds from Operations (AFFO) *	$ 331,880	$ 2,003,385	$ 1,239,954	$ 3,063,429
Distributable income *	$ 1,069,790	$ 2,630,440	$ 2,848,643	$ 4,189,148
Financing				
Mortgage loans to estimated current value ratio *			67 %	57 %
Weighted average interest rate of mortgage loans *			5.6 %	5.8 %
Per Unit				
Net operating income *				
- basic	$ 0.517	$ 0.429	$ 1.060	$ 0.790
- diluted	$ 0.358	$ 0.294	$ 0.734	$ 0.541
Loss from continuing operations for the period, before future income tax*				
- basic	$ (0.252)	$ (0.028)	$ (0.553)	$ (0.126)
- diluted	$ (0.252)	$ (0.028)	$ (0.553)	$ (0.126)
Income (loss) for the period				
- basic	$ (0.227)	$ (0.284)	$ (0.715)	$ (0.285)
- diluted	$ (0.227)	$ (0.284)	$ (0.715)	$ (0.285)
Distributable income *				
- basic	$ 0.061	$ 0.150	$ 0.163	$ 0.239
- diluted	$ 0.057	$ 0.142	$ 0.155	$ 0.226
Funds from Operations (FFO) *				
- basic	$ (0.040)	$ 0.094	$ (0.160)	$ 0.118
- diluted	$ (0.040)	$ 0.094	$ (0.160)	$ 0.116
Adjusted Funds from Operations (AFFO) *				
- basic	$ 0.019	$ 0.114	$ 0.071	$ 0.175
- diluted	$ 0.016	$ 0.113	$ 0.065	$ 0.166

(1) Non-GAAP Measurements

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

SUMMARY OF 2009 SECOND QUARTER RESULTS

Overall Change in Property Portfolio and Debt

	Since December 31, 2008	Since June 30, 2008
Increase in income-producing properties	1 property	3 properties
Increase (decrease) in mortgage loans payable	$ (426,402)	$ 36,907,981

Other Key Variables

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Average rental rate of income property portfolio	$1,504	$1,456	$1,506	$1,421
Vacancy rate of income property portfolio	15%	5%	13%	6%
Profit margin of income property portfolio	65%	64%	63%	62%

	Six Months Ended June 30		Year Ended
	2009	2008	December 31, 2008
Weighted average interest rate of mortgage loan debt	5.60%	6.10%	5.80%
Ratio of mortgage loan debt to purchase price of income producing properties	85%	92%	85%
Ratio of total debt to estimated current value of total property portfolio	77%	68%	69%
Cash (bank indebtedness), net of line of credit	(3,087,999)	9,583,976	229,892

Operating Results - Continuing Operations

2009 Six Months vs 2008 Six Months

- NOI increased by $4,684,629 or 34%, mainly due to the addition of the Siena Apartments and Parsons Landing to the portfolio of income-producing properties subsequent to June 30, 2008, and the loss before taxes increased by approximately $7.5 Million, primarily due to an increase in financing expense which was substantially higher than the increase in NOI.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $1.7 Million in comparison to the first six months of 2008.

2009 Q2 vs 2008 Q2

- NOI increased by $1,504,162 or 20%.
- Loss before taxes increased by approximately $3.9 Million.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $1.7 Million.
- The increase in NOI and in the loss before taxes, as well as the decrease in cash provided by operating activities is generally attributable to the same factors which affected the second quarter comparatives.

2009 Q2 vs 2009 Q1

- NOI decreased by $457,530 or 4.8%, mainly due to decline in the revenues of the Fort McMurray property portfolio, partially offset by an increase in NOI from the Saskatchewan property portfolio. The decrease in revenues in the Fort McMurray portfolio reflects an increase in the vacancy rate, as well as a decrease in the average rental rate per suite.
- Loss before taxes decreased by approximately $856,000. After excluding the non-cash charge to financing expense pertaining to the change in fair value of an interest rate swap agreement, the loss before taxes increased by approximately $1.2 Million. The relative comparability in the loss mainly reflects an increase in income from discontinued operations which offset the decrease in NOI.
- The overall loss decreased by approximately $4.6 Million, after considering the $2.5 Million decrease in the amount of future income tax expense.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $600,000.

GOING CONCERN

As disclosed in Note 1 of the June 30, 2009 Financial Statements, there is uncertainty surrounding the ability of LREIT to continue as a going concern. The Trust sustained net losses in the first six months of 2009, has a working capital deficit as of June 30, 2009 and is in breach of a debt service coverage covenant on two first mortgage loans totaling approximately $47 Million which could potentially result in the lender demanding repayment of the loans and also result in $25.6 Million of convertible debenture debt becoming due and payable. Additionally, the Trust has one first mortgage loan, in the amount of $12,835,570, that has matured and has yet to be renewed. Management believes the loan will be renewed or replaced with other mortgage financing.

The Management of LREIT has taken steps to mitigate the level of uncertainty in regard to the going concern issue. LREIT has requested that the lender reduce the existing debt service coverage requirements as a result of the decline in market conditions which, if agreed to, would eliminate the violation of the debt covenant and the risk of the mortgage loans and debentures becoming payable on demand. There is no assurance, however, that the lender will not acelerate payment of the mortgage loans. LREIT has also implemented a divestiture program to reduce debt and has suspended distributions. LREIT has been able to refinance some of the mortgage loan debt maturing during 2009.

As a result of the steps which have been taken to reduce debt and improve liquidity, management believes LREIT has the ability to continue as a going concern.

PARSONS LANDING FINANCING

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

The purchase price of Parsons Landing was $63.2 Million, including GST. The purchase agreement for Parsons Landing provided for a portion of the purchase price to be paid on February 28, 2009. As of December 31, 2008, $15 Million of the purchase price had been paid, leaving a balance owing of $48.2 Million, including GST.

The funding of the mortgage financing of the property was delayed and, as a result, the vendor agreed to extend the deadline for payment of the balance owing until July 31, 2009, with total interest amounting to $4,429,367 subject to regular interest payments of $300,000 per month and to accept a payment of $500,000 on May 12, 2009.

The payment extension was also conditional upon LREIT obtaining a commitment for mortgage financing of $45,000,000 by July 31, 2009. The amount due on closing was also to be reduced by $1.4 Million if the conditions were fulfilled.

As LREIT was not in a position to fulfill the condition regarding the financing commitment by July 31, 2009, the vendor agreed to extend the deadline for the payment of the balance owing until October 1, 2009, with total interest amounting to $6,215,339. The vendor accepted payment of $500,000 on May 12, 2009 which was applied to the balance outstanding. The vendor accepted monthly interest payments of $300,000 per month through July 2009 and has agreed to accept monthly interest payments of $300,000 per month for August and September 2009. The vendor also agreed to provide a second mortgage loan to a maximum of $15 Million for a term of one year, with interest rate of 8% per annum for the first six months, 12% for the next six months, and 24% thereafter, subject to LREIT obtaining a commitment for mortgage financing of $30 Million by October 1, 2009. Provided the payments are made in accordance with the revised conditions, the balance due on closing shall be reduced by $3,100,000.

The vendor is permitted to sell the property and the Trust may list the property for sale this year. 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.

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

The primary business activity of LREIT is the acquisition and development of income-producing real estate properties and the active management of the acquired/developed properties. Aside from four commercial properties which were acquired by LREIT in the initial years of operation, the real estate portfolio of LREIT consists entirely of multi-family residential rental properties. Rental revenue from the leasing of the residential suites is the primary source of revenue for LREIT. The income properties are located in rental markets across western Canada and in Ontario and the Northwest Territories.

The financial statements of LREIT provide segmented results for the income properties by geographic location. Operating results pertaining to general Trust operations are disclosed separately in the segmented financial information.

Investment in Properties

The investment strategy of LREIT has been to create a geographically diversified portfolio of rental properties, offering strong growth potential, with an emphasis on investments in smaller cities across western Canada. In recent years, 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 collapse of global financial markets last year.

The new income-producing properties which were acquired or developed by LREIT in Fort McMurray during 2007 and 2008 were primarily responsible for the significant growth in operating income and operating cash flow that was achieved by LREIT in 2008. The decline in economic conditions in Fort McMurray in 2009 has resulted in a reduction in the profitability of the Fort McMurray property portfolio and decrease in the overall investment returns of the Trust.

Operations

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

The most comprehensive renovation program or expansion projects have occurred at two properties (Elgin Lodge and Highland Tower) and less extensive renovation programs have been completed at other properties.

The operating results of the portfolio of "same" properties, analyzed by geographic segments, is one of the key analysis which is used by LREIT to assess the impact of property improvements and the overall performance of properties which have been in the income-producing stage for at least 24 consecutive months.

This report includes an analysis of same property results for the first six months of 2009, compared to the first six months of 2008 and for the second quarter of 2009, compared to the first quarter of 2009.

Financing

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

Pursuant to the terms of the Declaration of Trust, the total mortgage indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's property portfolio. As of June 30, 2009, the total mortgage indebtedness of LREIT is equal to 62% of the appraised value of the property portfolio.

The ratio of net operating income, to mortgage loan debt service costs, is one of the measures utilized to assess the overall financial position of the Trust. During the first six months of 2009, the mortgage loan debt service coverage ratio was 1.29, compared to 1.23 during the first six months of 2008 and 1.36 during the first quarter of 2009.

Divestiture Program

LREIT is pursuing a divestiture program targeting the sale of assets, with a value in excess of $250 Million, by December 31, 2010. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular, higher cost interim mortgage loan financing.

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

Distributions

In 2008, the Fort McMurray property portfolio accounted for 64% of the total net operating income of LREIT. The decline in rental market conditions in Fort McMurray has significantly affected the overall cash flows of the Trust and the ability of the Trust to fund distributions.

In March 2009, after paying a distribution of $0.04667 per unit for January 2009 and February 2009, LREIT implemented a change in its distribution policy from monthly distributions to quarterly distributions. Under the revised distribution policy, The Trust planned to pay quarterly distributions of $0.06 per unit ($0.24 per unit annualized) on July 15, October 15 and December 31 to the Unitholders of record as of June 30, September 30 and December 15, respectively. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT has suspended cash distributions for the balance of 2009.

REAL ESTATE PORTFOLIO

Portfolio Summary - June 30, 2009

As of June 30, 2009, the property portfolio of LREIT consists of 34 income-producing properties, one property under development (the addition to Elgin Lodge) and ten properties which were being held for sale as of June 30, 2009. The ten "held for sale" properties are classified under "Assets of Discontinued Operations" on the balance sheet of the Trust. The entire property portfolio has a total purchase price of $597 Million and encompasses 3,913 suites and 307,735 square feet of leasable area.

Aside from the reclassification of the ten "held for sale" properties, the only change in the property portfolio during the first six months of 2009 was the inclusion of the Clarington Seniors Residence as an income-producing property, effective February 1, 2009. The building addition to Elgin Lodge will be classified as an "income-producing" property, on October 1, 2009.

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

Properties Held for Sale

The following ten properties were reclassified to "properties held for sale", in accordance with gernerally accepted accounting principles, during the second quarter of 2009.

Property
Chancellor Gate
Colony Square
Greenwood Gardens
Kenaston
Luther Riverside Terrace
McIvor Mall
156 / 204 East Lake Blvd.
Nova Manor
Nova Ridge Estates
Willowdale Gardens

Analysis of Operating Results for Properties Held For Sale

The operating results for all properties which are being held for sale as of June 30, 2009 are disclosed separately on the Consolidated Statements of Income (Loss) under the line "Income from Discontinued Operations".

Accordingly, in this report, the operating results for all properties which are being held for sale are also excluded from the analysis of loss from continuing operations.

CAPITAL STRUCTURE

Capital Structure - June 30, 2009

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	$ 355,458,758	73.0 %	$ 356,018,830	73.1 %
Convertible debentures - face value	51,362,000	10.6 %	51,362,000	10.5 %
Trust units (net of issue costs)	79,737,864	16.4 %	79,750,666	16.4 %
Total capitalization	$ 486,558,622	100.0 %	$ 487,131,496	100.0 %

Mortgage Loans Payable

June 30, 2009	$353,599,695
December 31, 2008	$354,026,097

Summary of Mortgage Loan Transactions - First Six Months of 2009

During the first six months of 2009, the balance of mortgage loans payable decreased by $426,402, comprised of the following amounts:

	2009 Q2	2009 Q1	Total
Mortgage loans on existing properties	$ 4,900,000	$ -	$ 4,900,000
Mortgage repayments on refinancing	(2,560,168)	-	(2,560,168)
	$ 2,339,832	-	2,339,832
Principal repayments			(2,899,904)
Change in the difference between contractual and market interest rates on mortgage loans assumed			(22,277)
Change in the unamortized component of transaction costs			155,947
Decrease in mortgage loans payable			$ (426,402)

In comparison to the balance of mortgage loans payable as of June 30, 2008, mortgage loans payable increased by approximately $36.9 Million of first mortgage loans as of June 30, 2009.

The decrease in the balance of mortgage loans payable excludes $96.3 Million of mortgage loan debt associated with the ten properties that are being held for sale. The debt is classified under "Liabilities of discontinued operations" on the balance sheet of LREIT as of June 30, 2009.

During the first six months of 2009, $40.1 Million of mortgage loan debt matured. All of the debt was renewed or refinanced with the exception of one mortgage loan that matured on June 1, 2009, where alternative financing arrangements have not been concluded. The mortgage loan has a principal balance of $12.8 Million.

Upcoming Debt Maturities

LREIT has $106.6 Million of mortgage loan debt from income producing properties maturing during the second half of 2009, representing 23% of total long-term debt, as of June 30, 2009. The maturing debt is comprised of $10.9 Million of fixed rate mortgage loans and $92.9 Million of floating rate demand mortgage loans. A more detailed analysis of mortgage loan debt obligation is provided in the section of this report titled "Capital Resources and Liquidity".

Renewal terms have been finalized for all mortgage loans from income producing properties which mature in the third quarter of 2009 with the exception of two mortgage loans with combined principal balance of $5.6 Million that have matured and alternate financing arrangements have not been concluded. Management anticipates that all mortgages maturing in 2009 will be renewed or refinanced.

Summary of Mortgage Loans Payable

	Weighted Average	Amount	
Year of Maturity	Interest Rate	June 30, 2009	Percentage of Total
Fixed rate			
2009	7.7 %	$ 10,878,790	3.1 %
2010	7.5 %	46,439,869	13.2 %
2011	- %	7,160,570	2.0 %
2012	5.6 %	33,201,803	9.3 %
2013 *	5.8 %	45,036,066	12.7 %
2014	6.2 %	40,333,959	11.3 %
2015	4.9 %	11,708,970	3.3 %
2016	5.2 %	41,402,119	11.6 %
2017	5.8 %	4,040,470	1.1 %
2018 *	5.8 %	22,364,967	6.3 %
		262,567,583	73.9 %
Demand/floating rate	3.7 %	92,891,175	26.1 %
Principal amount		355,458,758	100.0 %
Difference between contractual and market interest rates on mortgage loans assumed		88,521	
Unamortized transaction costs		(1,947,584)	
		$ 353,599,695	
Principal amount:			
Income properties		$ 348,523,188	
Properties under development		6,935,570	
		$ 355,458,758	

* Includes floating interest rate mortgages of $22,364,967 and $20,471,647, with interest rates fixed at 5.82% and 5.74% respectively by use of interest rate swap arrangements.

Debt Service Coverage Covenants

The Trust is in breach of the 1.4 times debt service coverage requirements on two first mortgage loans totalling $46,718,001 in Fort McMurray. The Trust has received notice from the lender that the debt service covenant must be achieved as of September 30, 2009. The Trust has requested the lender reduce the existing debt service covenant. 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.

The cross-default clauses of the Trust indentures relating to the Series E and F secured convertible debentures provide that, if an event of default occurs and is continuing with respect to any indebtedness which matures more than 18 months after its creation, assumption or guarantee by the Trust so that an amount in excess of $200,000 becomes due and payable prior to maturity, and such acceleration is not recinded or annulled, or such event of default shall not be remedied, cured or waived within 10 days of such acceleration, it is an event of default under such Trust indentures and the Series E and F convertible debentures may become payable, on demand. As a result, 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.

Mortgage Loan Debt Summary

	2009		2008			
	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
Weighted average interest rate						
Fixed rate mortgage loans	6.2%	6.2%	6.1%	6.1%	6.2%	6.2%
Floating rate mortgage loans	3.7%	4.0%	4.6%	5.9%	5.9%	6.4%
Ratio of mortgage loans payable, compared to: *						
Purchase price of income-producing properties	85%	84%	85%	85%	81%	99%
Estimated current value of property portfolio	67%	67%	61%	62%	59%	71%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to acquisition cost of income-producing properties	97%	97%	97%	97%	94%	116%

* Ratio is calculated for all properties with mortgage loans payable and excludes properties with acquisition cost payable.

Interim Mortgage Loan Financing

As of June 30, 2009, the mortgage loans payable of LREIT relating to continuing operations include $27.9 Million of interim mortgage loan financing, comprised of the following:

Approximate Amount	Maturity Date	Interest Rate
$4.5 Million	July 1, 2009	11.75%
$5.4 Million	January 1, 2010	12.00%
$18.0 Million	October 31, 2010	3.50%
$27.9 Million		

In addition, the mortgage loans payable relating to properties held for sale include $23.1 Million of interim mortgage loan financing, comprised of the following:

Approximate Amount	Maturity Date	Interest Rate
$2.0 Million	September 1, 2009	11.50%
$5.1 Million	November 1, 2009	11.75%
$4.0 Million	April 1, 2010	12.00%
$12.0 Million	October 30, 2010	11.00%
$23.1 Million		

The interim mortgage loans are secured by charges registered against two or more income properties, aside from the $2 Million loan which is registered against one income property. The loans bear interest at a weighted average rate of 8.7% and requires monthly payments of interest only, except for the $18 Million loan which requires monthly payments of principal and interest.

Subsequent to June 30, 2009, the interim mortgage loan due on July 1, 2009 was renewed at an interest rate of 11.75%, maturing April 1, 2010.

Acquisition Payable

As previously noted, the amount owing on acquisition of Parsons Landing was $47.7 Million, including GST, as of June 30, 2009. The amount owing is included with "accounts payable and accrued liabilities" on the balance sheet of LREIT and, as such, the amount owing is not included in the preceding analysis of "Mortgage Loans Payable".

Vendor Take-Back Mortgages

Mortgage loans payable includes $5.6 Million of interest-only vendor take-back mortgage loans, as follows:

- a $1,600,000 vendor take-back mortgage, bearing interest at a rate of 6.25%, obtained upon the purchase of Westhaven Manor in May 2007. The loan is repayable on demand.

- a $4,000,000 vendor take-back mortgage, bearing interest at a rate of 5%, obtained upon the acquisition of Siena Apartments in July 2008. The loan matures on July 1, 2010.

Revolving Line of Credit

The Trust utilizes a revolving line of credit from a Canadian chartered bank with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate. As of June 30, 2009, the line of credit was fully utilized.

Financing from 2668921 Manitoba Ltd.

Second mortgage loan

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. 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 June 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.

Revolving loan

On June 30, 2009, LREIT obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan will bear interest at 7.5%, is due on June 30, 2010 and is secured by a third mortgage charge on an income property.

Subsequent to June 30, 2009, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, advanced $1,460,000 to the Trust under the revolving loan commitment.

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

Convertible Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of June 30, 2009.

Summary of Debenture Offerings

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Six Months Ended June 30, 2009	As of December 31, 2008	Net Amount Outstanding June 30, 2009
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(50,000)	11,950,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
Face value			$ 69,543,000	$ -	$ (18,181,000)	51,362,000
Net accumulated accretion						7,187,366
Unamortized transaction costs						(1,344,558)
Book value, June 30, 2009						$ 57,204,808
Allocation of book value						
Debt component						$ 45,444,729
Equity component						13,104,637
Unamortized transaction costs						(1,344,558)
						$ 57,204,808

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

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- June 30, 2009	17,537,150
- August 12, 2009	17,537,150

As of June 30, 2009, LREIT had 17,537,150 units outstanding, representing a decrease of 50,931 units or 0.3%, compared to the number of units outstanding as of December 31, 2008 and a decrease of 31,755 units or 0.2%, compared to the number of units outstanding as of June 30, 2008. The change in the number of units originated from the following transactions:

Issue Date	Units Issued	Equity Raised
Units outstanding, December 31, 2007	17,529,894	$ 66,457,466
Units issued under DRIP	41,411	546,278
Units purchased and cancelled under normal course issuer bid	(2,400)	(199,976)
Units outstanding, June 30, 2008	17,568,905	$ 66,803,768
Units issued under DRIP	472,976	1,255,848
Units purchased and cancelled under normal course issuer bid	(453,800)	(1,578,464)
Units outstanding, December 31, 2008	17,588,081	$ 66,481,152
Units issued under DRIP	48,576	108,517
Units purchased and cancelled under normal course issuer bid	(99,507)	(275,757)
Units outstanding, June 30, 2009	17,537,150	$ 66,313,912

Details of the Distribution Reinvestment Plan (DRIP) and the Normal Course Issuer Bid (NCIB), as well as the Unit Option Plan, Deferred Unit Plan and the Limited Partnership units are provided on Schedule II.

ANALYSIS OF INCOME/LOSS

New Income-Producing Properties

In most cases, an existing property which is acquired by LREIT is classified as an "Income Property" on the property acquisition date. Building additions and properties which are under development by LREIT, as well as newly constructed properties acquired by LREIT, are classified as "Properties Under Development" until the lease-up stage for the property is completed, or a pre-determined time period is reached, at which point the property is reclassified as an "Income Property". Construction costs and/or carrying costs of a property under development are capitalized and a property does not contribute to the operating income of the Trust until the property is reclassified as an income property.

The date on which a property becomes an "income-producing" property is, therefore, a major factor in terms of analyzing the impact of the overall growth of the property portfolio on the operating income of the Trust.

Subsequent to the second quarter of 2008, four properties were added to the income-producing portfolio of LREIT, as follows:

- Siena Apartments, Fort McMurray - July 2, 2008
- Parsons Landing, Fort McMurray - September 1, 2008 (i)
- Clarington Seniors Residence, Bowmanville, Ontario - February 1, 2009
- Colony Square, Winnipeg, Manitoba - October 1, 2008, included in properties held for sale

(i) LREIT took possession of Parsons Landing on September 1, 2008. See "Property Acquisitions - Parsons Landing" above.

In addition, Laird's Landing, in Fort McMurray, was added to the income-producing portfolio on June 1, 2008 and contributed one month of operating results during the first six months of 2008.

The increase in the number of income-producing properties, subsequent to and during the first six months of 2008, is one of the main factors affecting the analysis of financial results in the first half of 2009, compared to the first half of 2008.

Overall Results

Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Rental revenue	$ 13,874,256	$ 11,437,328	$ 28,815,710	$ 21,436,403
Interest and other income	101,934	183,666	328,445	516,962
Property operating costs	4,951,466	4,100,432	10,637,179	8,131,018
Net operating income (NOI) *	9,024,724	7,520,562	18,506,976	13,822,347
Trust expense	662,087	551,996	1,406,277	1,286,903
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA) *	8,362,637	6,968,566	17,100,699	12,535,444
Financing expense	9,979,048	5,637,513	21,266,495	11,168,876
Income before amortization, non-controlling interest and taxes *	(1,616,411)	1,331,053	(4,165,796)	1,366,568
Amortization	2,735,518	1,801,090	5,407,122	3,538,176
Non-controlling interest	(51,394)	(17,136)	(89,997)	(38,505)
Loss before future income tax *	(4,403,323)	(487,173)	(9,662,915)	(2,210,113)
Future income tax expense (recovery)	258,521	4,354,955	3,035,861	2,405,268
Income (loss) from continuing operations	(4,661,844)	(4,842,128)	(12,698,776)	(4,615,381)
Income (loss) from discontinued operations	705,117	(146,683)	211,330	(373,129)
Income (loss) for the period	$ (3,956,727)	$ (4,988,811)	$ (12,487,446)	$ (4,988,510)

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

Three Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations, before taxes, of $4,403,323 during the second quarter of 2009, compared to a loss from continuing operations, before taxes, of $487,173 during the second quarter of 2008, representing an increase in the loss from continuing operations of approximately $3.9 Million. The increase in the loss is mainly due to three factors, as follows:

(i) an increase in financing expense of approximately $4.3 Million; and

(ii) an increase in amortization charges of approximately $950,000, partially offset by

(iii) an increase in net operating income of approximately $1.5 Million.

As noted above, the increase in financing expense exceeded the increase in net operating income by approximately $2.8 Million during the second quarter of 2009. The variance between the increase in financing expense and the increase in net operating income reflects the following factors:

(i) Parsons Landing: LREIT is incurring high interest rate charges as a result of extending the payment deadline for Parsons Landing beyond February 28, 2009. During the three months ended June 30, 2009, interest expense on the balance payable for Parsons Landing amounted to $2,640,436, whereas the net operating income for Parsons Landing for the second quarter of 2009 was $1,069,734.

(ii) In addition to Parsons Landing, there are two other properties which have been added to the portfolio of "income-producing" properties for continuing operations since June 30, 2008, namely Siena Apartments and the Clarington Seniors Residence. During the three month period ended June 30, 2009 the financing expense for the two properties exceeded operating income by $365,022.

(iii) Reduction in net operating income: The net operating income of the Fort McMurray properties was reduced for the three months ended June 30, 2009 as a result of increased vacancy loss and reduced rental rates, which has been partially offset by the increase in net operating income for Laird's Landing relative to the three months ended June 30, 2008, as Laird's Landing commenced operations June 1, 2008.

(iv) Interest swap: The interest rate swap arrangements of $2,860,547 is comprised of $416,573 decrease during the second quarter of 2009.

After including income from discontinued operations and future income taxes, LREIT incurred a loss of $3,956,727 during the second quarter of 2009, compared to an loss of $4,988,811 in the second quarter of 2008.

Six Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations before taxes of $9,662,915 during the first six months of 2009, compared to a loss from continuing operations before taxes of $2,210,113 during the first six months of 2008, representing an increase in the loss from continuing operations of approximately $7.4 Million. The increase in the loss is mainly due to the same factors which contributed to the increased loss during the second quarter of 2009, namely an increase in financing expense and amortization charges which surpassed the increase in net operating income.

The main exception is that the six month results reflect a proportionately higher increase in financing expense, and a proportionately higher increase in net operating income. Specifically, during the first six months of 2009 financing expense increased by approximately $10.1 Million of which approximately $6 Million or 57% is attributable to the first quarter of the year. The first quarter results reflect financing charges of $2.44 Million related to the change in the fair value of the interest rate swaps, whereas during the second quarter of 2009, the increase in financing expense related to the change in fair value of the interest rate swaps was $416,573.

During the first six months of 2009, net operating income increased by approximately $4.7 Million of which approximately $3.2 Million or 68% is attributable to the first quarter of the year. The variance between the first and second quarter results is primarily attributable to the decline in the profitability of the Fort McMurray portfolio.

After including income from discontinued operations and future income taxes, LREIT incurred a loss of $12,487,446 during the first six months of 2009, compared to a loss of $4,988,510 during the first six months of 2008.

Discontinued Operations

As disclosed in the preceding chart, LREIT generated income from discontinued operations of $211,330 during the first six months of 2009, compared to a loss of $373,129 during the first six months of 2008. The income from discontinued operations includes revenues, operating costs, financing expenses, and amortization charges for all properties which are held for sale as of June 30, 2009.

Amortization charges for a specific property are discontinued, effective on the date in which the property was classified under discontinued operations. As a result, amortization charges have a significant affect on the comparability of the year-to-year results and on the overall results of the Trust.

In total, the income from discontinued operations for the first six months of 2009 includes amortization charges of $1,109,569, compared to amortization charges of $1,184,752 during the first six months of 2008. Excluding amortization charges, the Trust generated income from discontinued operations of $1,320,899 during the first six months of 2009, compared to an income of $811,623 during the first six months of 2008.

The discontinuation of amortization charges does not affect the operating cash flows of LREIT as amortization charges are a non-cash expense.

Revenue

Market Conditions

LREIT operates primarily in the multi-family residential market with the majority of rental revenue being generated from properties located in Alberta, Saskatchewan and the Northwest Territories. The highest concentration of properties is in Fort McMurray, Alberta.

As a result of the 2008 decline in oil prices, there has been a slowdown of economic growth in Fort McMurray and a reduction in the level of activity in the oil sands construction industry resulting in a weakening of rental market conditions. The decline in rental market conditions has resulted in a reduction in occupancy levels of LREIT's property portfolio in Fort McMurray and has affected the leasing of vacant suites and the retention of existing tenants.

As disclosed in the "Analysis of Vacancy Loss for Residential Properties", the vacancy loss for the Fort McMurray portfolio increased from 5% during the six month period ended June 30, 2008, to 14% during the six month period ended June 30, 2009, while the average monthly rental rate increased by $163 or 6.1%.

In comparison to Fort McMurray, rental market conditions in Saskatchewan, Manitoba and Yellowknife have not changed significantly during 2009.

In Saskatchewan, multi-family residential rental market conditions remain favourable although there has been increased competition from the home ownership market. As disclosed in the analysis of average monthly rental rates and vacancy loss, the vacancy loss for the Saskatchewan property portfolio decreased from 5% during the first six months of 2008, to 3% during the first six months of 2009, while the monthly average rental rate increased by $32 or 4.6%.

Rental market conditions in Yellowknife have become more competitive during 2009, mainly due to outmigration and employment losses. During the first six months of 2009, the three rental properties in Yellowknife experienced a modest increase in the vacancy loss, compared to the first six months of 2008, while the average rental rate increased by $95 or 8.1%.

In the other Alberta communities where LREIT properties are located (Edmonton, Peace River and Edson), the vacancy loss increased from 2% during the first six months of 2008 to 6% during the first six months of 2009, while the average monthly rental rate decreased by $77 or 9%.

The property portfolio of LREIT in Ontario consists of Elgin Lodge and the Clarington Seniors Residence. Although the Clarington Seniors Residence was only 50% leased up as of June 30, 2009, the property was added to LREIT's portfolio of income-producing properties, effective February 1, 2009 as the maximum pre-determined period for classifying the property as a "property under development" of two years was attained in February 2009. In addition, Elgin Lodge is experiencing a high vacancy rate associated with the 60-suite addition to the property which was completed in October 2007. During the first six months of 2009, the combined vacancy loss for the Ontario properties was 47%. The high vacancy rate had a minimal impact on the operating results for the first six months of 2009 of the Trust, however, as the Ontario portfolio represents a relatively minor component of the total property portfolio.

In summary, the weaker rental market in Fort McMurray is the primary negative for LREIT in 2009 due to the high concentration of properties in the City. Management of LREIT does not expect rental market conditions in the other geographic areas where LREIT properties are located to change significantly during the remainder of 2009.

Total Revenue

Analysis of Total Revenue

	Total Revenues			
	Six Months Ended June 30		Increase (decrease)	
	2009	2008	Amount	% of Total
Income Properties:				
Rental revenue	$ 28,815,710	$ 21,436,403	$ 7,379,307	103 %
Interest and other income	309,575	207,574	102,001	1 %
Sub-total	29,125,285	21,643,977	7,481,308	104 %
Trust: interest and other income	18,870	309,388	(290,518)	(4)%
Total	$ 29,144,155	$ 21,953,365	$ 7,190,790	100 %

The revenue of LREIT consists of "rental revenue" and "interest and other income". All of the revenue is generated from the portfolio of income properties, with the exception of a minor component of revenue which is derived from general trust operations. All of the income properties are residential rental properties, which the exception of one commercial property located in Burlington, Ontario, comprising 16,117 square feet of leasable area.

As disclosed in the chart above, the total revenue of LREIT increased by approximately $7.2 Million, during the first six months of 2009 compared to the first six months of 2008, comprised of a $7,481,308 increase in revenue from income properties and $290,518 decrease in revenue from Trust operations.

Trust Operations

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

As noted above, revenue from Trust operations decreased by $290,518 during the first six months of 2009, almost entirely due to a reduction in interest income on mortgage loans receivable. During the first six months of 2008, investments in mortgage loans receivable ranged from $10 Million to $4.75 Million, whereas LREIT did not have any investments in mortgage loans receivable during the first six months of 2009.

Rental Revenue

Overall Increase

As noted above, revenue from income properties increased by $7,481,308 during the first six months of 2009, comprised of an increase in rental revenue and an increase in interest and other income.

The increase in rental revenue reflects incremental revenue from the acquisition/possession of additional residential properties, partially offset by a decrease in revenue from the properties which have been in the LREIT portfolio since January 1, 2008 (i.e., "same property" revenue). As disclosed in the same property analysis, same property revenue decreased by 0.2% during the first six months of 2009, compared to the first six months of 2008.

Analysis of Revenue from Income Properties by Geographic Segment

Analysis of Revenue from Income Properties

	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Increase (decrease)	2009	2008	Increase (decrease)
Alberta						
Fort McMurray	$ 8,794,034	$ 6,982,132	$ 1,811,902	$ 19,017,711	$ 12,884,246	$ 6,133,465
Other Alberta	730,507	721,112	9,395	1,489,465	1,425,369	64,096
Total - Alberta	9,524,541	7,703,244	1,821,297	20,507,176	14,309,615	6,197,561
Saskatchewan	1,819,755	1,669,459	150,296	3,551,564	3,288,806	262,758
Northwest Territories	1,539,052	1,510,116	28,936	3,074,864	3,027,429	47,435
Manitoba	191,451	182,666	8,785	374,320	325,318	49,002
Ontario	898,554	461,937	436,617	1,617,361	692,809	924,552
Total	$13,973,353	$11,527,422	$ 2,445,931	$ 29,125,285	$ 21,643,977	$ 7,481,308

Analysis of Rental Revenue by Geographic Market Segment - Income Properties

	Percentage of Total Rental Revenue			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Alberta				
Fort McMurray	63 %	61 %	65 %	60 %
Other Alberta	6 %	6 %	5 %	7 %
Total - Alberta	69 %	67 %	71 %	66 %
Saskatchewan	13 %	14 %	12 %	15 %
Northwest Territories	11 %	13 %	10 %	14 %
Manitoba	1 %	2 %	1 %	2 %
Ontario	6 %	4 %	6 %	3 %
	100 %	100 %	100 %	100 %

Analysis of Average Monthly Rents and Vacancy Loss for Income Properties

	Three Months Ended June 30				Six Months Ended June 30			
	2009		2008		2009		2008	
	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss
Alberta								
Fort McMurray	$2,811	18 %	$2,711	3 %	$2,832	14 %	$2,669	5 %
Other Alberta	940	8 %	865	2 %	935	6 %	858	2 %
Total - Alberta	2,311	17 %	2,218	3 %	2,326	13 %	2,185	5 %
Saskatchewan	732	2 %	695	4 %	721	3 %	689	5 %
Northwest Territories	1,279	1 %	1,194	0 %	1,270	1 %	1,175	0 %
Manitoba	814	2 %	812	1 %	801	2 %	801	3 %
Ontario	807	48 %	1,135	31 %	821	47 %	825	32 %
Total	1,504	15 %	1,456	5 %	1,506	13 %	1,421	6 %

As disclosed on the first chart above, revenue from residential properties in Fort McMurray increased by $6,133,465 during the first six months of 2009, compared to the first six months of 2008, representing 82% of the total increase in residential rental revenue. As disclosed on the second chart above, the revenue contribution by the Fort McMurray portfolio, on a percentage basis, increased from 60% during the six months ended June 30, 2008 to 65% during the six months ended June 30, 2009.

The increase in the revenue contribution by the Fort McMurray portfolio reflects the acquisition/possession of two additional Fort McMurray properties subsequent to June 30, 2008 and the acquisition of one Fort McMurray property on June 1, 2008, partially offset by a decrease in revenue from the Fort McMurray properties which were acquired prior to 2008, as disclosed in the same property analysis in this report.

The property portfolios in Ontario and Saskatchewan were the second and third highest contributors of additional revenue during the first six months of 2009. The increased revenue contribution from the Ontario portfolio mainly reflects the addition of the Clarington Seniors Residence to the income-producing portfolio in February 2009, while the increased revenue contribution from the Saskatchewan portfolio is mainly due to the improvement in the occupancy level.

The increase in rental revenue from the residential portfolio for the six months ended June 30, 2009 is comprised of an increase of $2,445,931 during the second quarter of 2009 and an increase of $5,035,377 during the first quarter of 2009. The extent of the increase was lower during the second quarter of 2009, mainly due to a reduction in the occupancy level and average rental rate for the property portfolio in Fort McMurray.

Operating Costs

Analysis of Operating Costs

	Property Operating Costs					
	Three Months Ended June 30		Increase	Six Months Ended June 30		Increase
	2009	2008	(Decrease)	2009	2008	(decrease)
Alberta						
Fort McMurray	$ 2,306,350	$ 1,919,543	$ 386,807	$ 5,186,894	$ 3,799,362	$ 1,387,532
Other Alberta	270,342	280,223	(9,881)	608,835	584,636	24,199
Total - Alberta	2,576,692	2,199,766	376,926	5,795,729	4,383,998	1,411,731
Saskatchewan	937,648	936,838	810	2,123,659	1,937,656	186,003
NWT	601,439	594,537	6,902	1,234,085	1,208,758	25,327
Manitoba	65,297	87,946	(22,649)	127,568	186,858	(59,290)
British Columbia	-	-	-	-	-	-
Ontario	770,390	281,345	489,045	1,356,138	413,748	942,390
Total	$ 4,951,466	$ 4,100,432	$ 851,034	$ 10,637,179	$ 8,131,018	$ 2,506,161

During the first six months of 2009, property operating costs for the portfolio increased by $2,506,161 or 31%, compared to the first six months of 2008, with the Fort McMurray portfolio accounting for the majority of the increase due to the acquisition/possession of additional properties in Fort McMurray. As with the revenue increases, the property portfolios in Ontario and Saskatchewan account for the majority of the remaining increase in property operating costs. For the Ontario portfolio, the increase in operating costs reflects the acquisition of the Clarington Seniors Residence, while the increase in operating costs for the Saskatchewan portfolio is mainly due to an increase in utility expense.

During the second quarter of 2009, property operating costs increased by $851,034 or 21%, with the most significant increases also occurring in Fort McMurray and Ontario.

Net Operating Income and Operating Margin

Overall

Summary Analysis of Net Operating Income

	Net Operating Income		
	Three Months Ended June 30		Increase
	2009	2008	(Decrease)
Income properties	$ 9,021,887	$ 7,426,990	$ 1,594,897
Trust	2,837	93,572	(90,735)
Total	$ 9,024,724	$ 7,520,562	$ 1,504,162

	Net Operating Income		
	Six Months Ended June 30		Increase
	2009	2008	(decrease)
Income properties	$ 18,488,106	$ 13,512,959	$ 4,975,147
Trust	18,870	309,388	(290,518)
Total	$ 18,506,976	$ 13,822,347	$ 4,684,629

After considering the revenue and operating cost increases as analyzed in the preceding sections of this report, the NOI for the portfolio of income properties increased by $1,594,897 or 21% during the second quarter of 2009 and by $4,975,147 or 37% during the first six months of 2009. As with the revenue and cost increases, the Fort McMurray property portfolio accounted for the majority of the increase in NOI, for both the second quarter and six month periods.

Analysis of Net Operating Income - Income Properties

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Alberta						
Fort McMurray	$ 6,487,684	$ 5,062,589	$ 1,425,095	$13,830,817	$ 9,084,884	$ 4,745,933
Other Alberta	460,165	440,889	19,276	880,630	840,733	39,897
Total - Alberta	6,947,849	5,503,478	1,444,371	14,711,447	9,925,617	4,785,830
Saskatchewan	882,107	732,621	149,486	1,427,905	1,351,152	76,753
Northwest Territories	937,613	915,579	22,034	1,840,779	1,818,671	22,108
Manitoba	126,154	94,720	31,434	246,752	138,460	108,292
Ontario	128,164	180,592	(52,428)	261,223	279,059	(17,836)
Total	$ 9,021,887	$ 7,426,990	$ 1,594,897	$18,488,106	$13,512,959	$ 4,975,147

Analysis of Operating Margin - Income Properties

	Operating Margin			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Alberta				
Fort McMurray	74 %	73 %	73 %	71 %
Other Alberta	63 %	61 %	59 %	59 %
Total - Alberta	73 %	71 %	72 %	69 %
Saskatchewan	48 %	44 %	40 %	41 %
Northwest Territories	61 %	61 %	60 %	60 %
Manitoba	66 %	52 %	66 %	43 %
Ontario	12 %	36 %	13 %	36 %
Total	65 %	64 %	63 %	62 %

As disclosed on the chart above, the NOI from the Fort McMurray portfolio increased by $4.7 Million during the first six months of 2009, representing 95% of the total increase in the NOI from the residential property portfolio. As with the increase in revenue, the increase in NOI from the Fort McMurray portfolio is mainly due to the acquisition/possession of three additional properties in Fort McMurray during 2008, partially offset by a decrease in NOI from Fort McMurray properties which were acquired prior to 2008. As disclosed in the same property analysis in this report, the NOI of the "same property" portfolio in Fort McMurray decreased by $209,734 during the first six months of 2009, compared to the first six months of 2008.

As disclosed on the chart above, there has not been a significant change in the operating margin of the property portfolio of LREIT during the first six months of 2009, aside from the property portfolio in Ontario as revenue increases have generally kept pace with operating cost increases. The decrease in the profit margin for the Ontario portfolio mainly reflects the fact that the lease-up of the Clarington Seniors Residence is still in process, as previously disclosed.

Overall, the operating margin for the property portfolio increased to 63% during the first six months of 2009, compared to 62% during the first six months of 2008.

Although there has been a significant increase in NOI from the portfolio of income properties as a result of new property acquisitions, the extent of the increase has declined significantly during the first two quarters of 2009. During the fourth quarter of 2008, the property portfolio of LREIT generated total NOI of approximately $10.7 Million, compared to approximately $9.5 Million during the first quarter of 2009 and $9.0 Million during the second quarter of 2009. The decline in NOI is primarily due to a decline in the profitability of the Fort McMurray property portfolio.

The declining profitability of the property portfolio in the first and second quarter of 2009, compared to the fourth quarter of 2008, is analyzed in more detail in the following section of this report, titled "Comparison to Preceding Quarter".

Same Property Analysis

The same property analysis for the first six months of 2009 encompasses the 33 income-producing properties which were in the LREIT portfolio, as of January 1, 2008. The properties which are classified as held for sale, are excluded from the NOI analysis.

As disclosed in the following analysis, the revenue of the same properties decreased by 0.2% during the first six months of 2009, compared to the first six months of 2008, while net operating income decreased by 0.2%. As disclosed in the preceding discussion, the property portfolio in Fort McMurray accounted for the majority of the decrease in net operating income.

	Six Months Ended June 30		Increase	
	2009	2008	Amount	%
Revenue				
Alberta				
Fort McMurray	$ 11,834,608	$ 12,298,338	$ (463,730)	(3.8)%
Other Alberta	1,489,465	1,425,369	64,096	4.5 %
Total Alberta	13,324,073	13,723,707	(399,634)	(2.9)%
Saskatchewan	3,551,564	3,288,806	262,758	8.0 %
Northwest Territories	3,074,864	3,027,429	47,435	1.6 %
Manitoba	374,320	325,318	49,002	15.1 %
Ontario	690,658	692,810	(2,152)	(0.3)%
Total revenue	$ 21,015,479	$ 21,058,070	$ (42,591)	(0.2)%
Net operating income				
Alberta				
Fort McMurray	$ 8,438,158	$ 8,647,892	$ (209,734)	(2.4)%
Other Alberta	880,630	840,731	39,899	4.7 %
Total Alberta	9,318,788	9,488,623	(169,835)	(1.8)%
Saskatchewan	1,427,905	1,351,147	76,758	5.7 %
Northwest Territories	1,840,779	1,818,671	22,108	1.2 %
Manitoba	246,752	138,457	108,295	78.2 %
Ontario	214,053	279,062	(65,009)	(23.3)%
Total net operating income	$ 13,048,277	$ 13,075,960	$ (27,683)	(0.2)%

As noted above, the same property analysis includes the 33 income-producing properties which were in the LREIT portfolio as of January 1, 2008 and, as such, the three Fort McMurray properties which were added to the income-producing portfolio in 2008 (Laird's Landing, Parsons Landing and Siena Apartments) are excluded from the analysis.

The three Fort McMurray properties which were added to the income-producing portfolio in 2008 are included in the same property analysis in the following section of the report titled "Comparison to Preceding Quarter". The same property analysis in this section indicates the extent to which the profitability of the Fort McMurray portfolio has declined during the first and second quarters of 2009.

Financing Expense

Six Month Comparatives

Financing expense increased by $10,097,619 or 90% during the first six months of 2009, compared to the first six months of 2008, comprised of a $5,921,764 increase in mortgage loan financing expense, a $4,022,360 increase in interest expense on the amount payable for Parsons Landing and a $153,495 increase in convertible debenture financing expense.

Financing expense encompasses mortgage loan interest, convertible debenture interest, interest expense on the amount payable for Parsons Landing, as well as a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the first six months of 2009, "non-cash" expenses represented 23% of the total financing expenses, compared to 16% during the first six months of 2008.

Analysis of Financing Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Mortgage Loans				
Mortgage loan interest	$ 4,709,676	$ 3,561,727	$ 9,376,627	$ 6,692,418
Amortization of transaction costs	384,601	248,754	781,109	455,130
Change in value - interest rate swaps	416,573	(51,029)	2,860,547	(51,029)
Total - mortgage loans	5,510,850	3,759,452	13,018,283	7,096,519
Acquisition Payable				
Interest on acquisition payable	2,640,436	166,432	4,620,057	597,697
Total - acquisition payable	2,640,436	166,432	4,620,057	597,697
Debentures				
Interest on convertible debentures	977,975	977,975	1,955,950	1,987,810
Accretion of debt component	687,977	593,791	1,354,332	1,192,301
Amortization of transaction costs	161,810	139,863	317,873	294,549
Total - debentures	1,827,762	1,711,629	3,628,155	3,474,660
Total - financing expense	$ 9,979,048	$ 5,637,513	$ 21,266,495	$ 11,168,876

Interest Expense - Mortgage Loans and Acquisition Payable

Mortgage loan interest increased by $2,684,209 or 41% during the first six months of 2009, compared to the first six months of 2008. The increase mainly reflects the increase in mortgage loan debt associated with property acquisitions in 2008 and the inclusion of interest on the mortgage loan for the Clarington Seniors Residence, following the reclassification of the property as an "income-producing" property, effective February 1, 2009.

Approximately $420,000 or 45% of the increase in interest expense on mortgage loans payable is attributable to the increase in interim mortgage loan financing.

Interest on Amount Payable for Parsons Landing

During the first six months of 2009, interest on the amount payable for Parsons Landing increased by $4,620,057 and represented 64.9% of the total increase in interest expense. The increase mainly reflects the higher rate of interest which is being charged on the amount payable as a result of extending the payment deadline for Parsons Landing beyond February 28, 2009.

Interest Expense - Debentures

During the first six months of 2009, interest on convertible debentures decreased by $31,860 or 2%, compared to the first six months of 2008. The decrease mainly reflects the retirement of $1.6 Million of Series D Convertible Debentures in March 2008.

Total Interest Expense

During the first six months of 2009, total interest expense increased by $6,674,709 compared to the first six months of 2008.

As a percentage of operating income from continuing operations, total interest in regard to mortgage loans, convertible debentures and the amount payable for Parsons Landing increased from 67% during the first six months of 2008 to 86% during the first six months of 2009. The increase in the ratio of interest, relative to operating income from continuing operations, reflects the extent to which the increase in interest expense has exceeded the increase in net operating income during the first six months of 2009, mainly due to the following factors, as previously discussed: (i) the high interest charges associated with the extended payment deadline for Parsons Landing, (ii) mortgage loan interest expense which exceeds the operating income at the Clarington Seniors Residence, as the property is still in the lease-up stage.

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in financing expense during the first six months of 2009 includes an amount of $2,860,547 related to the change in value of the "interest rate swaps".

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

In very general terms, the fair value of the interest rate swaps is based on the difference between the net present value of projected payments under the fixed rate mortgages, compared to the net present value of projected payments under the floating rate mortgages. During the first six months of 2009, the fair value of the interest rate swap arrangements decreased by $2,860,547, as declining market interest rates in the first half of 2009 served to reduce payments for mortgages with floating interest rates.

As reflected in the preceding chart, the total decrease in the value of the interest rate swap arrangements of $2,860,547 is comprised of a $416,573 decrease during the second quarter of 2009, and a $2,443,974 decrease during the first quarter of 2009. During the first quarter of 2009, market interest rates declined significantly compared to the fourth quarter of 2008, whereas there was a relatively modest decline in market interest rates in the second quarter of 2009, compared to the first quarter of 2009.

Although the decrease in the fair value of the interest rate swaps has resulted in a corresponding increase in the loss of LREIT, the "decrease in fair value" is a non-cash expense which is added back for purposes of determining the operating cash flow of the Trust. As a result of fluctuations in market interest rates, the value of the interest rate swaps may continue to fluctuate significantly from quarter to quarter, 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 floating rate mortgage, during a specified period of time.

Second Quarter Comparatives for Financing Expense

During the second quarter of 2009, financing expense increased by $4.3 Million or 77%, compared to the second quarter of 2008. As with the six month comparatives, the increase in financing expense for the second quarter comparatives is mainly due to an increase in mortgage loan interest and an increase in interest on the amount payable for Parsons Landing. As noted above, the majority of financing charges related to the change in value of the interest rate swap agreement were "incurred" during the first quarter of 2009.

Trust Expense

Trust expense increased by $119,374 during the first six months of 2009, compared to the first six months of 2008. The increase mainly reflects an increase of $208,204 in the service fee of Shelter Canadian, partially offset by a decrease in unit-based compensation expense of $66,997.

The service fee of Shelter Canadian is in regard to administrative and asset management services and the fee is equal to 0.3% of the gross book value of the assets of LREIT, excluding cash, as of the date of the most recently issued financial statements. The increase in the fee is due to the increase in the net book value of the assets of LREIT since June 30, 2008.

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

The decrease in unit-based compensation expense is mainly due to the fact that unit-based compensation expense was comparatively high during the first quarter of 2008 due to the extent of vesting of the options which were granted under the Unit Option Plan on January 7, 2008.

Additional information regarding the Unit Option Plan is provided on Schedule II of this report.

Amortization Expense

During the first six months of 2009, amortization expense increased by $1,868,946 or 53%, compared to the first six months of 2008. The increase is mainly due to amortization charges for the income-producing properties which have been added to the LREIT property portfolio during the second half of 2008. Amortization charges for transaction costs are recorded as financing expenses on the Consolidated Statement of Loss.

Future Income Taxes

LREIT currently qualifies for special income tax treatment whereby distributions are deductible for purposes of calculating the taxable income of the Trust. The deductibility of distributions serves to reduce the taxable income of the Trust to nil and eliminate the need to claim capital cost allowance.

In 2011, LREIT may no longer qualify for special tax treatment and, as such, distributions would no longer be deductible for income tax purposes. In accordance with generally accepted accounting principles, LREIT has recorded a future income tax asset based on the temporary difference between the accounting and tax basis of assets held by the Trust, net of a valuation allowance to recognize the uncertainty of the future income tax asset. During the first six months of 2009, the valuation allowance served to reduce the tax asset as at December 31, 2008, as well as the change in the tax asset during the first six months of 2009, to nil.

In addition, the wholly-owned subsidiaries, which hold the operations of the seniors housing complexes, are operating businesses and account for future income tax liabilities by recognizing the temporary differences between tax and accounting basis of assets, as well as the benefit of operating losses available to be carried forward to future years for income tax purposes, net of a valuation allowance to recognize the uncertainty of the benefit of the temporary differences between tax and accounting basis of assets and operating losses. During the first six months of 2009, the valuation allowance served to reduce the tax asset relating to operating losses and temporary difference to nil.

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

As of June 30, 2008, the future income tax of LREIT was nil compared to a net asset and position for future income taxes of $3,035,861 as of December 31, 2008. The change in the estimated net future income tax position on the balance sheet resulted in a future income tax expense of $3,035,861. The future income tax expense reflects the initial recognition of the valuation allowance for the future income tax asset relating to the assets of the Trust of $8,659,586 and the valuation allowance of $2,303,595 relating to the operating losses of the wholly owned subsidiaries.

Future income tax expense of $3,035,861 is a non-cash item which does not affect the cash flow of the Trust.

Comparison to Preceding Quarter

Analysis of Loss - Second Quarter 2009 vs. First Quarter 2009

	Three Months Ended		Increase (decrease)	
	June 30, 2009	March 31, 2009	Amount	%
Rental revenue	$ 13,874,256	$ 14,941,454	$ (1,067,198)	(7.1)%
Interest and other income	101,934	226,511	(124,577)	(55.0)%
Property operating costs	4,951,466	5,685,713	(734,247)	(12.9)%
Net Operating Income (NOI)	9,024,724	9,482,252	(457,528)	(4.8)%
Trust expense	662,087	744,190	(82,103)	(11.0)%
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA)	8,362,637	8,738,062	(375,425)	(4.3)%
Financing expense	9,979,048	11,287,447	(1,308,399)	(11.6)%
Income (loss) before amortization, non-controlling interest and taxes	(1,616,411)	(2,549,385)	932,974	(36.6)%
Amortization	2,735,518	2,671,604	63,914	2.4 %
Non-controlling interest	51,394	38,603	12,791	33.1 %
Income (loss) before future income tax expense (recovery)	(4,403,323)	(5,259,592)	856,269	(16.3)%
Future income tax expense	258,521	2,777,340	(2,518,819)	(90.7)%
Loss from continuing operations for the period	(4,661,844)	(8,036,932)	3,375,088	(42.0)%
Income (loss) from discontinued operations for the period	705,117	(493,787)	1,198,904	(243)%
Loss for the period	$ (3,956,727)	$ (8,530,719)	$ 4,573,992	(53.6)%

Overview

During the second quarter of 2009, LREIT incurred a loss from continuing operations, before taxes, of $4,403,323, compared to a loss from continuing operations, before taxes, of $5,259,592 during the first quarter of 2009.

As previously discussed in the analysis of financing expense, the decrease in the fair value of the interest rate swap resulted in a charge to financing expense of $2,443,974 in the first quarter of 2009, compared to a charge to financing expense of $416,573 in the second quarter of 2009. In the absence of the entries to record the change in fair value of the interest rate swap, LREIT incurred a loss from continuing operations, before taxes, of $3,986,750 in the second quarter of 2009, compared to a loss from continuing operations, before taxes, of $2,815,618 in the first quarter of 2009, representing an increase in the loss of $1.2 Million.

The increase in financing expense mainly reflects increased interest on the balance owing in regard to Parsons Landing.

The decrease in net operating income is mainly due to a decrease in the net operating income of the Fort McMurray property portfolio partially offset by an increase in net operating income from the property portfolio in Saskatchewan. As disclosed in the same property analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio decreased by $855,444 during the second quarter of 2009, compared to the first quarter of 2009, while the net operating income of the Saskatchewan portfolio increased by $336,305.

The increase in the NOI for the Saskatchewan portfolio mainly reflects a 5.1% increase in revenue and a 21.0% decease in operating costs. The significant decrease in operating costs mainly reflects the fact that utility expenses for the Saskatchewan portfolio were comparatively high during the first quarter of 2009.

After providing for income from discontinued operations and future income tax expense, LREIT completed the second quarter of 2009 with a loss of $3,956,727, compared to a loss of $8,530,719 during the first quarter of 2009. The bottom-line results for the second quarter of 2009 reflect a future income tax expense of $258,521, compared to a future income tax expense of $2,777,340 during the first quarter of 2009. The significant change in the provision for future income taxes mainly reflects the additional valuation allowance in the second quarter of 2009.

Same Property Analysis

Since October 1, 2008, there have been no changes in LREIT's portfolio of income-producing properties, aside from Clarington Seniors Residence. Accordingly, the following analysis of same property NOI and revenue for the second quarter of 2009, compared to the first quarter of 2009 and the fourth quarter of 2008, encompasses all of the properties in LREIT's income property portfolio excluding the Clarington Seniors Residence and the multi-level expansion to Elgin Lodge. As previously noted, the NOI results for the properties that are under contract for sale are reflected in the loss from discontinued operations.

The following analysis of same property results provides comparative results for the second quarter of 2009, compared to both the first quarter of 2009 and the fourth quarter of 2008.

	2009			2008	
	Q2	Q1	Increase (decrease)	Q4	Increase (decrease)
Revenue					
Alberta					
Fort McMurray	$ 8,794,034	$ 10,223,676	(14.0)%	$ 10,986,487	(20.0)%
Other Alberta	730,507	758,956	(3.7)%	761,125	(4.0)%
Total Alberta	9,524,541	10,982,632	(13.3)%	11,747,612	(18.9)%
Saskatchewan	1,819,755	1,731,809	5.1%	1,724,303	5.5%
Northwest Territories	1,539,052	1,535,815	0.2%	1,516,050	1.5%
Manitoba	191,451	182,869	4.7%	181,308	5.6%
Ontario	340,053	350,605	(3.0)%	455,839	(25.4)%
Total revenue	$ 13,414,852	$ 14,783,730	(9.3)%	$ 15,625,112	(14.1)%
Net operating income					
Alberta					
Fort McMurray	$ 6,487,684	$ 7,343,128	(11.6)%	$ 8,383,091	(22.6)%
Other Alberta	460,165	420,463	9.4%	468,584	(1.8)%
Total Alberta	6,947,849	7,763,591	(10.5)%	8,851,675	(21.5)%
Saskatchewan	882,107	545,802	61.6%	701,229	25.8%
Northwest Territories	937,613	903,168	3.8%	829,524	88.5%
Manitoba	126,154	120,597	4.6%	107,360	17.5%
Ontario	105,894	108,161	(2.1)%	171,664	(38.3)%
Total net operating income	$ 8,999,617	$ 9,441,319	(4.7)%	$ 10,661,452	(15.6)%

Summary of Quarterly Results

Quarterly Analysis	2009		2008	
	Q2	Q1	Q4	Q3
Total revenue	$ 13,976,190	$ 15,167,964	$ 15,458,566	$ 14,551,302
Net operating income	$ 9,024,724	$ 9,482,252	$ 10,283,123	$ 10,055,047
Loss from continuing operations for the period, before future income tax	$ (4,403,323)	$ (5,259,592)	$ (6,411,681)	$ (38,204)
Loss for the period	$ (3,956,727)	$ (8,530,719)	$ (2,185,348)	$ (2,433,198)
PER UNIT				
Net operating income				
- basic	$ 0.517	$ 0.543	$ 0.590	$ 0.574
- diluted	$ 0.358	$ 0.376	$ 0.403	$ 0.394
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.252)	$ (0.301)	$ (0.368)	$ (0.002)
- diluted	$ (0.252)	$ (0.301)	$ (0.368)	$ (0.002)
Income (loss) for the period				
- basic	$ (0.227)	$ (0.488)	$ (0.125)	$ (0.139)
- diluted	$ (0.227)	$ (0.488)	$ (0.125)	$ (0.139)

Quarterly Analysis	2008		2007	
	Q2	Q1	Q4	Q3
Total revenue	$ 11,620,994	$ 10,332,377	$ 10,184,820	$ 9,284,489
Net operating income	$ 7,520,562	$ 6,301,791	$ 6,099,173	$ 6,092,833
Loss from continuing operations for the period, before future income tax	$ (953,491)	$ (1,987,676)	$ (1,863,524)	$ (1,071,613)
Income (loss) for the period	$ (4,988,811)	$ 301	$ (1,108,898)	$ 725,735
PER UNIT				
Net operating income				
- basic	$ 0.429	$ 0.361	$ 0.349	$ 0.349
- diluted	$ 0.294	$ 0.247	$ 0.257	$ 0.257
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.028)	$ (0.114)	$ (0.106)	$ (0.061)
- diluted	$ (0.028)	$ (0.114)	$ (0.106)	$ (0.061)
Income (loss) for the period				
- basic	$ (0.284)	$ -	$ (0.064)	$ 0.042
- diluted	$ (0.284)	$ -	$ (0.064)	$ 0.042

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit	Six Months Ended June 30			
	2009	2008	Change	
Income (loss) for the period				
- basic	$ (0.715)	$ (0.285)	$ (0.430)	(151)%
- diluted	$ (0.715)	$ (0.285)	$ (0.430)	(151)%
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.553)	$ (0.126)	$ (0.427)	(339)%
- diluted	$ (0.553)	$ (0.126)	$ (0.427)	(339)%

Excluding future income tax, LREIT incurred a loss of $0.553 per unit during the first six months of 2009, compared to a loss of $0.126 per unit during the first six months of 2008. As the weighted average number of units has only decreased by 0.2% since June 30, 2008, the increase in the loss per unit mainly reflects the increase in the overall loss of the Trust before future income tax.

ANALYSIS OF CASH FLOWS

Operating Activities

Six Month Comparatives

Cash from Operating Activities

	Six Months Ended June 30		Increase
	2009	2008	(decrease)
Rental revenue	$ 28,815,710	$ 21,436,403	$ 7,379,307
Interest and other income	328,445	516,962	(188,517)
Property operating costs	10,637,179	8,131,018	2,506,161
Net operating income (NOI)	18,506,976	13,822,347	4,684,629
Non-cash components of revenue	(860)	(1,867)	1,007
Less:	18,507,836	13,824,214	4,683,622
Financing expense	21,266,495	11,168,876	10,097,619
Non-cash component of financing expense	5,313,836	1,890,951	3,422,885
	15,952,659	9,277,925	6,674,734
Trust expense	1,406,277	1,286,903	119,374
Non-cash component of trust expense	160,940	227,937	(66,997)
	1,245,337	1,058,966	186,371
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	1,309,840	3,487,323	(2,177,483)
Changes in non-cash operating items	3,032,450	777,945	2,254,505
Cash provided by operating activities	$ 4,342,290	$ 4,265,268	$ 77,022
Cash flow provided by (used in) operating activities from discontinued operations is comprised of the following:			
Income from discontinued operations on a cash flow basis	1,381,909	711,413	670,496
Changes in non-cash operating items	(1,719,867)	(604,571)	(1,115,296)
Tenant inducements	(166,481)	(2,178)	(164,303)
Cash flow provided by (used in) operating activities from discontinued operations	$ (504,439)	$ 104,664	$ (609,103)

During the first six months of 2009, LREIT generated cash from operating activities of $4,342,290. After excluding changes in non-cash operating items and including cash flow from discontinued operations, cash from operating activities decreased by $1.6 Million during the first six months of 2009, compared to the first six months of 2008. The cash flow results reflect two of the main factors which contributed to the change in the net loss of the Trust during the first six months of 2009, namely an increase in financing expense, on a cash basis, which substantially exceeded the increase in net operating income, on a cash basis.

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

An analysis of financing expense on a cash basis (ie, "total interest expense") is in the preceding sections of this report.

Second Quarter Comparatives

Cash from Operating Activities

	Three Months Ended June 30		Increase
	2009	2008	(decrease)
Rental revenue	$ 13,874,256	$ 11,437,328	$ 2,436,928
Interest and other income	101,934	183,666	(81,732)
Property operating costs	4,951,466	4,100,432	851,034
Net operating income (NOI)	9,024,724	7,520,562	1,504,162
Non-cash components of revenue	(431)	(427)	(4)
	9,025,155	7,520,989	1,504,166
Financing expense	9,979,048	5,637,513	4,341,535
Non-cash component of financing expense	1,650,947	931,379	719,568
	8,328,101	4,706,134	3,621,967
Trust expense	662,087	551,996	110,091
Non-cash component of trust expense	72,609	36,046	36,563
	589,478	515,950	73,528
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	107,576	2,298,905	(2,191,329)
Changes in non-cash operating items	1,251,514	533,302	718,212
Cash provided by operating activities	$ 1,359,090	$ 2,832,207	$ (1,473,117)
Cash flow provided by (used in) operating activities from discontinued operations is comprised of the following:			
Income from discontinued operations on a cash flow basis	911,221	336,328	574,893
Changes in non-cash items	(935,942)	(130,818)	(805,124)
Tenant inducements	(55,787)	-	(55,787)
Cash flow provided by operating activities from discontinued operations	$ (80,508)	$ 205,510	$ (286,018)

During the second quarter of 2009, LREIT generated cash from operating activities of $1,359,090. After excluding changes in non-cash operating items and including cash flow from discontinued operations, cash from operating activities decreased by $1.7 Million during the second quarter of 2009, compared to the second quarter of 2008. The decrease in cash flow is mainly due to the same factors which contributed to the decrease in cash flow for the six months of 2009, namely an increase in financing expense on a cash basis which substantially exceeded the increase in net operating income, on a cash basis.

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 2009, FFO decreased by $4,852,282, compared to the first six months of 2008, while AFFO decreased by $1,823,475. On a basic per unit basis, FFO decreased by $0.278 per unit, while AFFO decreased by $0.104 per unit.

For the second quarter comparative figures, FFO and AFFO decreased by $2,357,641 and $1,671,505, respectively, in 2009, representing a decrease of $0.134 per unit for FFO and a decrease of $0.095 per unit for AFFO.

The operating cash flow 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	
	2009	2008	2009	2008
Income (loss) for the period	$ (3,956,727)	$ (4,988,811)	$ (12,487,446)	$ (4,988,510)
Add (deduct):				
Amortization expense - continuing operations	2,735,518	1,801,090	5,407,122	3,538,176
Amortization expense - discontinued operations	164,519	589,740	1,109,569	1,184,752
Future income tax - continuing operations	258,521	4,354,955	3,035,861	2,405,268
Future income tax - discontinued operations	44,452	(118,792)	48,502	(122,304)
Non-controlling interest	51,394	17,136	89,997	38,505
Funds from operations *	(702,323)	1,655,318	(2,796,395)	2,055,887
Add (deduct):				
Straight-line rent adjustment - continuing operations	431	429	860	1,867
Straight-line rent adjustment - discontinued operations	(4,878)	(1,551)	(7,988)	(4,008)
Net amortization of above/below market in-place leases - discontinued operations	2,078	444	4,387	887
Accretion of debt component of convertible debentures	687,977	593,791	1,354,332	1,192,301
Unit-based compensation	72,609	33,046	160,940	227,937
Change in fair value of interest rate swaps	416,573	(51,029)	2,860,548	(51,029)
Tenant inducement and leasing expenses - discontinued operations	(55,787)	-	(166,482)	(2,178)
Ongoing improvements to income properties - continuing operations	(81,544)	(180,975)	(126,947)	(254,524)
Ongoing improvements to income properties - discontinued operations	(3,256)	(46,088)	(43,301)	(103,711)
Adjusted funds from operations *	$ 331,880	$ 2,003,385	$ 1,239,954	$ 3,063,429
FFO per unit *				
- basic	$ (0.040)	$ 0.094	$ (0.160)	$ 0.118
- diluted	$ (0.040)	$ 0.094	$ (0.160)	$ 0.116
AFFO per unit *				
- basic	$ 0.019	$ 0.114	$ 0.071	$ 0.175
- diluted	$ 0.016	$ 0.113	$ 0.065	$ 0.166

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cash provided by continuing operating activities	$ 1,359,090	$ 2,832,207	$ 4,342,290	$ 4,265,268
Changes in non-cash operating items	(1,251,514)	(533,301)	(3,032,450)	(777,945)
	107,576	2,298,906	1,309,840	3,487,323
Add (deduct):				
Cash flow from discontinued operations	911,221	336,328	1,381,909	711,413
Tenant inducement and leasing expenses	55,787	-	166,481	-
Amortization of tenant inducement and leasing expenses	(4,794)	(4,794)	(9,587)	(9,588)
Distributable income	$ 1,069,790	$ 2,630,440	$ 2,848,643	$ 4,189,148
Per unit				
- Basic	$ 0.061	$ 0.150	$ 0.163	$ 0.239
- Diluted	$ 0.057	$ 0.142	$ 0.155	$ 0.226

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

The operating cash flow from discontinued operations is included in the calculation of distributable income.

Total Distribution

In 2008, LREIT paid quarterly distributions of $0.14 per unit, representing a total distribution of $0.56 per unit in 2008 and a distribution of $0.28 per unit for the first six months of 2008.

During the first six months of 2009, LREIT declared a total distribution of $0.9334, comprised of a distribution of $0.04667 per unit in January and February 2009. Subsequent to the payment of the distribution for February 2009, LREIT implemented a change from monthly distributions to quarterly distributions. Under the quarterly distribution policy, LREIT projected a distribution of $0.06 per quarter, commencing in the second quarter of 2009. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT was not in a position to proceed with the planned distribution for the second quarter of 2009.

LREIT has suspended cash distributions for the remainder of 2009 and, distributions to the Unitholders will be dependent on the pace of the anticipated recovery of the Fort McMurray rental housing market.

After considering the value of units issued under the distribution reinvestment plan ("DRIP") and distributions paid on limited partnership units, the total distributions of LREIT for the first six months of 2009 (i.e., the distributions for January and February 2009) amounted to $1,668,364. In comparison, the distributions for the first six months of 2009 were $5,003,855.

An analysis of total distributions and distribution variances is provided in the following chart.

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Total distributions				
Distributions paid on trust units	$ -	$ 2,111,969	$ 1,530,736	$ 3,559,269
Value of trust units issued under DRIP	-	350,116	104,343	539,777
Distributions payable, beginning of period	-	(819,940)	-	-
Distributions payable, end of period	-	821,599	-	821,599
Distributions per Statement of Equity	-	2,463,744	1,635,079	4,920,645
Distribution on limited partnership units	-	49,926	33,285	83,210
Total distributions	$ -	$ 2,513,670	$ 1,668,364	$ 5,003,855
Distribution variances				
Distributable income	$ 1,069,790	$ 2,630,440	$ 2,848,643	$ 4,189,148
Excess (shortfall) of distributable income over total distributions	$ 1,069,790	$ 116,770	$ 1,180,279	$ (814,707)
Cash provided by operating activities- continuing operations	$ 1,359,090	$ 2,832,207	$ 4,342,290	$ 4,265,268
Cash provided by operating activities- discontinued operations	(80,508)	205,510	(504,439)	104,664
Cash provided by operating activities	$ 1,278,582	$ 3,037,717	$ 3,837,851	$ 4,369,932
Excess (shortfall) of cash provided by operating activities over total distributions	$ 1,278,582	$ 524,047	$ 2,169,487	$ (633,923)

Distribution Variances

As LREIT did not pay a distribution for March 2009 or for the second quarter of 2009, a comparative analysis of distribution variances and payout percentages has limited relevance.

Comparison to Distributable Income

As disclosed in the preceding chart, distributable income exceeded distributions paid by $1,180,279 during the first six months of 2009, whereas during the first six months of 2008, distributions exceeded distributable income by $814,707.

On a percentage basis, distributions were equal to 59% of distributable income during the first six months of 2009, compared to 120% during the first six months of 2008.

The change in the distributable income variances and payout percentages is almost entirely due to the reduction in distributions paid during the first quarter of 2009 and the non-payment of any distributions during the second quarter of 2009.

Comparison to Cash From Operating Activities

As disclosed in the preceding chart, cash from operating activities exceeded distributions by $2,169,487 or 130% during the first six months of 2009, of which $1,278,582 or 59% pertains to the second quarter of 2009. During the first six months of 2008, there was a shortfall between cash from operating activities and distributions of $633,923 or 12.7%.

The change in the variance between total distributions and cash from operating activities for the comparative six month periods in 2009 and 2008 mainly reflects the limited amount of distributions which have been paid in 2009, as well as a $1,139,209 increase in the extent to which "changes in non-cash operating items" served to increase operating cash flows in 2009. The increase in "changes in non-cash operating items" from $173,374 during the first six months of 2008, to $1,312,583 during the first six months of 2009 is mainly due to the change in accrued interest payable relating to the Parsons Landing acquisition payable.

The shortfall between distributions and cash from operating activities in 2008 was funded from financing activities, or more specifically, from mortgage loan proceeds.

Cash Flow Summary

A summary of the cash flow activities of the Trust during the first six months of 2009 is provided below.

As disclosed in the chart, the net cash outflow in regard to financing and investment activities during the first six months of 2009 amounted to $485,556, while cash from operating activities exceeded distributions paid by $2,778,269. Distributions paid excludes the value of units issued under DRIP. The net cash outflow in regard to discontinued operations was $4,055,605.

Overall, the net cash decrease from operating, financing and investing activities including discontinued operations during the first six months of 2009 was $1,762,892. After accounting for the opening bank balance of $3,549,893, LREIT completed the first six months of 2009 with a cash balance of $1,787,001.

Cash Flow Analysis (Note 1)

	Three Months Ended June 30, 2009	Three Months Ended March 31, 2009	Six Months Ended June 30, 2009
Financing Activities:			
Mortgage proceeds	$ 4,900,000	$ -	$ 4,900,000
Mortgage principal payments	(1,476,581)	(1,423,323)	(2,899,904)
Draws against the line of credit	155,000	1,400,000	1,555,000
Repayment of mortgage loans on refinancing	(2,560,168)	-	(2,560,168)
Normal course issuer bid	-	(275,757)	(275,757)
Transaction costs	(245,346)	(586,172)	(831,518)
Total financing	772,905	(885,252)	(112,347)
Investing Activities:			
Improvements to income properties (note 2)	(238,478)	(243,411)	(481,889)
Properties under development	14,472	(128,641)	(114,169)
Deposits	-	200,000	200,000
Restricted cash	(7,315)	30,164	22,849
Total investing	(231,321)	(141,888)	(373,209)
Net cash inflow (outflow) of investment capital	541,584	(1,027,140)	**(485,556)**
Operating activities	1,359,090	2,983,200	4,342,290
Cash distributions	-	(1,564,021)	(1,564,021)
Excess of cash from operating activities over distributions	1,359,090	1,419,179	**2,778,269**
	-	-	-
Sub-total	1,900,674	392,039	**2,292,713**
Cash provided by (used in) discontinued operations	(3,078,898)	(976,707)	(4,055,605)
Cash decrease	(1,178,224)	(584,668)	(1,762,892)
Cash, beginning of period	2,965,225	3,549,893	3,549,893
Cash, end of period	$ 1,787,001	$ 2,965,225	$ 1,787,001

Note 1 - GAAP Measurements

The preceding cash flow analysis represents the re-formatting of balances from the Consolidated Statement of Cash Flows in the financial statements in order to provide Unitholders with a direct depiction of the net inflow/outflow of investment capital, before considering the impact of operating activities and cash distributions. The components of financing activities, investing activities and operating activities, as disclosed in the analysis, agree to the Consolidated Statement of Cash Flows, with the exception of cash distributions which are excluded from financing activities and disclosed as a separate line item. The order of presentation of financing, investing and operating activities also differs from the Consolidated Statement of Cash Flows, in order to derive the sub-total entitled "net cash outflow of investment capital". Aside from the exclusion of cash distributions from financing activities and the subtotal entitled "net cash outflow of investment capital", the analysis consists entirely of GAAP measurements.

Note 2 - Improvements to Income Properties

During the first six months of 2009, the total cash outlay for improvements to Income Properties was $481,889. The improvements consist of capital expenditures which were incurred during the normal course of operations, such as improvements to the income properties and grounds, as well as, common area upgrades and in-suite replacements, including appliances, carpeting and draperies.

CAPITAL RESOURCES AND LIQUIDITY

Working Capital Requirements

General

The main "non-operating" expenditures which require ongoing funding by LREIT are regular monthly mortgage principal payments, improvements to income properties and distributions. To the extent that cash from operating activities is not sufficient to fully fund regular monthly mortgage principal payments and improvements to income properties, the Trust requires funding from other sources and/or it is necessary to reduce or eliminate distributions, as occurred in March 2009 and in the second quarter of 2009. Funding may also be provided by or required for discontinued operations.

During the first six months of 2009, cash from operating activities amounted to $4,432,290, while cash outlays in respect of distributions, regular monthly mortgage principal payments, improvements to income properties and discontinued operations amounted to $5,948,884, representing a shortfall of $1,606,594. The six month shortfall is comprised of a $30,558 shortfall in the first quarter of 2009 and a $1,576,036 shortfall in the second quarter of 2009. The change in the shortfall in the second quarter of 2009 mainly reflects the elimination of the second quarter distribution, partially offset by a reduction in cash flow from operating activities.

During the first six months of 2009, the variance was funded from the operating line of credit and from the cash reserves which existed at the beginning of the year.

LREIT also requires additional capital on a periodic basis to fund the equity component of new property acquisitions and lump-sum convertible debenture repayments.

Cash Distributions

LREIT did not proceed with a cash distribution in the second quarter of 2009 due to the continued decline in rental housing market conditions in Fort McMurray. LREIT has suspended cash distributions for the remainder of 2009.

Contractual Obligations

Property Acquisitions

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

The purchase price of Parsons Landing was $63.2 Million, including GST. The purchase agreement for Parsons Landing provided for a portion of the purchase price to be paid on February 28, 2009. As of December 31, 2008, $15 Million of the purchase price had been paid, leaving a balance owing of $48.2 Million, including GST.

The funding of the mortgage financing of the property was delayed and, as a result, the vendor agreed to extend the deadline for payment of the balance owing until July 31, 2009, with total interest amounting to $4,429,367 subject to regular interest payments of $300,000 per month and to accept a payment of $500,000 on May 12, 2009.

The payment extension was also conditional upon LREIT obtaining a commitment for mortgage financing of $45,000,000 by July 31, 2009. The amount due on closing was also to be reduced by $1.4 Million if the conditions were fulfilled.

As LREIT was not in a position to fulfill the condition regarding the financing commitment by July 31, 2009, the vendor agreed to extend the deadline for the payment of the balance owing until October 1, 2009, with total interest amounting to $6,215,339. The vendor accepted payment of $500,000 on May 12, 2009 which was applied to the balance outstanding. The vendor accepted monthly interest payments of $300,000 per month through July 2009 and has agreed to accept monthly interest payments of $300,000 per month for August and September 2009. The vendor also agreed to provide a second mortgage loan to a maximum of $15 Million for a term of one year, with interest rate of 8% per annum for the first six months, 12% for the next six months, and 24% thereafter, subject to LREIT obtaining a commitment for mortgage financing of $30 Million by October 1, 2009. Provided the payments are made in accordance with the revised conditions, the balance due on closing shall be reduced by $3,100,000.

The vendor is permitted to sell the property and the Trust may list the property for sale this year. 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.

Mortgage Loans

A summary of the debt obligations of LREIT relating to continuing operations for the remainder of 2009 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 2009	2010/2011	2012/2013	2014 and beyond
Regular mortgage loans	$ 322,003,153	$ 82,548,946	$ 50,476,041	$ 81,694,227	$ 107,283,939
Interim mortgage loans	27,855,605	22,455,605	5,400,000	-	-
Vendor take-back mortgage loans	5,600,000	1,600,000	4,000,000	-	-
Total	$ 355,458,758	$ 106,604,551	$ 59,876,041	$ 81,694,227	$ 107,283,939

The total amount due for the remainder of 2009 is comprised of regular repayments of principal in the estimated amount of $2,834,585; principal of $10,878,790 due on maturity of loans in 2009; and $92,891,175 of principal due on demand loans, of which $73,000,000 have terms that extend beyond 2009. Management intends to either renew or refinance the principal amounts due under similar terms and conditions or repay certain loans from property sale proceeds.

As previously disclosed in this report, LREIT is not in compliance with two first mortgage loans totaling $46,718,001, as a result of a breach of the debt service coverage requirement. See "Debt Service Coverage Covenants".

Convertible Debentures

Since the inception as a real estate investment trust, LREIT has issued seven series of convertible debentures, of which four have matured and been retired through conversion prior to maturity or repayment upon maturity, including the Series D debentures which were retired on March 16, 2008 with an outstanding balance of $1,593,000. A summary of the net amount outstanding in regard to the three remaining series of convertible debentures is provided in the following chart.

Issue Date/Maturity Date	Series	Amount Issued	Net Amount Outstanding June 30, 2009
Feb. 17/05/Feb. 17/10	E	$ 12,000,000	$ 11,950,000
Mar. 10/06/Mar. 11/11	F	13,680,000	13,680,000
Dec. 8/06/Dec. 31/11	G	25,732,000	25,732,000
Face Value		$ 51,412,000	$ 51,362,000

The Series E and F debentures provide for the outstanding amount of the debentures to become payable on demand upon default, under certain terms and conditions, of a mortgage loan or a convertible debenture. As previously disclosed in this report, the Trust is not in compliance with two first mortgage loans totaling $46,718,001, as a result of a violation of the debt service coverage requirement. If the mortgage lender demands the repayment of the loans, the Series E and F debentures may become payable on demand.

Improvements to Existing Properties

During 2009, property improvement costs are expected to be approximately $2 Million. Based on actual costs incurred to June 30, 2009 of $1,141,343, the remaining property improvement costs for 2009 are approximately $850,000.

Normal Course Issuer Bid

During January 2009, LREIT purchased 99,507 units under the normal course issuer bid at a cost of $275,757. Since January 2009, there have not been any additional purchases and given the cash constraints of the Trust, it is anticipated that there will not be any additional purchases under the normal course issuer bid for the remainder of 2009. The Trust is not required to purchase any units under the normal course issuer bid.

Additional information regarding the Normal Course Issuer Bid is provided on Schedule II of this report.

Sources of Capital

Existing Cash

As of June 30, 2009, the cash balance of LREIT was $1,787,001, while the working capital deficit, excluding accrued liabilities for property acquisitions or properties under development, was approximately $9.5 Million. Including accrued liabilities for property acquisitions or properties under development of $47,720,000, LREIT has a working capital deficit of $57.2 Million as of June 30, 2009.

Operating Line of Credit

As previously disclosed, LREIT has a revolving line of credit in the maximum amount of $5 Million. The line of credit bears interest at prime and is repayable on demand.

As of June 30, 2009, the line of credit was fully utilized. The amount available on the line of credit is reduced by $125,000 relating to a letter of credit.

Divestiture Program

LREIT is pursuing a divestiture program targeting the sale of assets, with a value in excess of $250 Million, by December 31, 2010. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular higher cost interim mortgage loan financing.

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

Cash from Operating Activities

As disclosed in the 2008 Annual Report and as identified in the net operating income analysis in this report, the recent downturn in the multi-family residential rental market in Fort McMurray has negatively impacted the cash flow results of the Trust. Although it is not possible to predict the length or the severity of the economic slowdown in Fort McMurray, it is anticipated there will not be a significant change in cash from operating activities, net of "changes in non-cash operating items" during the third quarter of 2009.

Any shortfall between cash from operating activities and the amount required to fund regular monthly mortgage loan principal payments, improvements to income properties and other "non-operating" expenditures, is expected to be funded from the net cash receipts from property sales.

Mortgage Loan Financing

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

Debenture and/or Trust Unit Offerings

From a longer term perspective, LREIT has the capability of pursuing additional debenture or trust unit offerings as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash. Payment of the fee occurs on a monthly basis, on the last day of each month. The current term of the Services Agreement expires on December 31, 2009. During the six months ended June 30, 2009, LREIT incurred service fees payable to Shelter Canadian of $988,687. Service fees are included in trust expense.

Shelter Canadian is also the Property Manager for LREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for Siena Apartments and the seniors' housing complexes, which are managed by third party managers who specialize in seniors' housing. In accordance with the terms of the Property Management Agreement, Shelter Canadian receives a property management fee equal to 4% of gross receipts from the income properties which it manages. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. The current term of the Management Agreement expires on August 30, 2012.

During the six months ended June 30, 2009, LREIT incurred property management fees payable to Shelter Canadian of $1,036,381, as well as leasing commissions of $90,247 and tenant improvements and renovation fees of nil. 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. Leasing commissions and tenant improvement and renovation fees are capitalized to income properties.

In June 2009, LREIT obtained a $500,000 second mortgage loan and a $2.7 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. The loans bear interest at 7.5% and are due on June 1, 2010 and June 30, 2010, respectively. There was a $15,000 processing fee payable to 2668921 Manitoba Ltd. in regard to the second mortgage loan.

Subsequent to June 30, 2009, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, advanced $1,460,000 to the Trust under the revolving loan commitment.

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.

REVENUE/INCOME AND OTHER COMMITMENTS

Lakewood Manor

The acquisition of Lakewood Manor was completed by LREIT, effective July 1, 2007. All of the units at the property are leased by a major oil sands company, pursuant to a three year lease agreement, under which the lessee is also responsible for all property operating costs. The net operating income of the property is approximately $4.8 Million per annum, representing the amount of gross rental revenue.

The agreement also provides the oil sands company with an option to extend the lease for an additional two years, at a 10% increase in the annual absolute net operating income. In addition, the agreement provides the lessee with a purchase option to acquire all of the 64 townhouse units at a price of $27,667,200 to June 30, 2010.

Siena Apartments

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

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

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

Elgin Lodge

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

A 60-suite expansion was completed at Elgin Lodge during 2007. During the five year period from June 1, 2006, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded property exceeds the total of the cost of the property to LREIT, including the cost of the expansion and the unpaid portion of a 12% annual return on the LREIT equity investment. Consideration recorded at June 30, 2009, of $374,925, which increases the cost of the building, is included in accounts payable and accrued liabilities.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term, expiring on February 12, 2017. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the original acquisition cost to LREIT and the unpaid portion of a 8% annual return on the LREIT equity investment. Consideration recorded at June 30, 2009, of $395,926, which increases the cost of the building, is included in accounts payable and accrued liabilities.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards - Adopted January 1, 2009

Goodwill and intangible assets

The CICA issued a new Handbook Section 3064, "Goodwill and Intangible Assets", which 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 REIT's fiscal year commencing January 1, 2009, and were applied on a retroactive basis.

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 risks 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

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.

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 for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The International Financial Reporting Standards will replace Canada's current GAAP for public companies.

Although the conceptual framework for IFRS is similar to Canadian GAAP; there are differences in certain matters of recognition, measurement and disclosure. The Trust has performed an initial assessment of the impact of IFRS and has identified differences between IFRS and Canadian GAAP in investment property; classification of Trust units; and lease incentives.

A summary of the identified differences in accounting principles are as follows:

Investment Properties

Income properties as reflected in the June 30, 2009 interim financial statements will be considered to be "Investment Properties" and the accounting principles enumerated under IAS 40 "Investment Property" (IAS 40) will apply. As with Canadian GAAP, IAS 40 provides that investment properties will initially be measured at cost. Subsequent to initial recognition, however, IAS 40 provides an entity with two choices, as follows:

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

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

The provision of fair value information under either option will require that the Trust create a valuation process with reasonable and supportable assumptions concerning cash flows from current leases and future leases and cash outflows in respect of the leases and investment properties.

Classification of Trust Units

The Declaration of Trust requires that all taxable income be distributed to its unitholders each year. IAS 32 "Financial Instruments: Presentation" establishes that, as a result of this requirement, the Trust units shall be presented as a liability with the associated distributions classified as interest expense. In order to continue to present units as equity, it will likely be necessary to amend the distribution provisions in the Declaration of Trust by December 31, 2009.

Lease Incentives

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

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

First-time adoption of International Financial Standards

The Trust's adoption of IFRS will require the application of IFRS 1, "First-Time Adoption of International Financial Reporting Standards " (IFRS 1), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. IFRS 1 also contains certain exceptions and limited optional exemptions in specified areas of certain standards.

Management is currently in the process of determining the International Financial Reporting Standards to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board and the CICA. The consolidated financial performance and financial position, as disclosed in the current GAAP financial statements, may be significantly different when presented in accordance with International Financial Reporting Standards.

The Trust is in the process of reviewing the impact of the adoption of IFRS, including the above changes, on the financial statements and evaluating the accounting policy alternatives for the purpose of determining the necessary changes to accounting policies, internal control procedures, disclosure control and business processes. This will be an ongoing process as new standards and recommendations are issued by the IASB and the CICA Accounting Standards Board. The Trust's financial position and results of its operations may be significantly different when presented in accordance with IFRS.

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.

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:

Going Concern

As previously disclosed in this report, there is an increased level of uncertainty regarding the ability of LREIT to continue as a going concern, primarily due to the violation of a debt service coverage covenant which could potentially result in $47 Million of first mortgage loan debt and $25.6 Million of convertible debenture debt becoming payable on demand, in the event that the lender demands repayment of the first mortgage loan debt. See "Debt Service Coverage Covenants". Additionally, one first mortgage loan in the amount of $12,835,570 has matured and has not been renewed. LREIT also has a working capital deficit of $57.2 Million as of June 30, 2009. The working capital deficit includes the amount payable on the acquisition of Parsons Landing of $47.7 Million.

In order to mitigate the risk surrounding the ability of LREIT to continue as a going concern, LREIT is seeking a revision to the debt service coverage requirements and has implemented a divestiture strategy.

Real Property Ownership

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

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

Public Market Risk

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

Completion of Divestiture Program

LREIT is pursuing a divestiture program targeting the sale of assets, with a value in excess of $250 Million, by December 31, 2010. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular higher cost interim mortgage loan financing.

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

There can be no assurance that LREIT will complete the divestiture program.

Closing of Parsons Landing Acquisition

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and the property may be listed for sale in 2009. In the event of sale, LREIT could incur a full or partial loss of the cumulative payments to the vendor. See "Status of Parsons Landing Financing".

Concentration of LREIT's Portfolio in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. Including the ten properties which are classified as "held for sale", there were 44 properties in the real estate portfolio of LREIT as of June 30, 2009, including four commercial properties and 40 residential properties, comprising 2,851 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 41% of the total residential suites. The 13 properties have an aggregate acquisition price of $336.8 Million, which represents approximately 57% of the total aggregate purchase price of the real estate portfolio.

The 13 properties in Fort McMurray accounted for 65% of the total revenue of LREIT during the first six months of 2009 and 75% 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, however, LREIT also has two properties in Fort McMurray which are 100% leased to major oil sands companies, under a single lease agreement, as follows:

- Lakewood Manor - all units 100% leased under a three year lease agreement, expiring on June 30, 2010, with the option of an extension for two years with a 10% rental rate increase; and
- Siena Apartments - all units 100% leased under a lease agreement, expiring on May 1, 2012, with the option of an extension for five years at current market rates at that time.

As a result of the decline in global economic conditions and the impact of reduced oil prices on the oil sands industry, there is an increased risk of potential lease defaults for suites which are leased to oil sands companies or to the employees of oil sands companies.

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

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

Financing

General

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

Mortgage Financing

The negative impact of the financial crisis on debt markets, combined with the utilization of interim sources of mortgage financing by LREIT, has increased the level of risk for LREIT in regard to debt financing.

The economic and financial uncertainty has resulted in a more restrictive and conservative lending market and, 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. It could also be necessary for LREIT to direct funds, which would otherwise be used for distributions, to retire mortgage debt.

As previously disclosed in this report, LREIT is in breach of a debt service coverage covenant in regard to two first mortgage loans totaling $46,718,001. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that secured convertible debentures, with a face value of $25,630,000, may become payable on demand. Management is taking steps to reduce the risk by requesting a revision in the debt service coverage covenant. Management believes that the $12,835,570 first mortgage loan that has matured will be renewed or refinanced. Additionally, management anticipates that the three first mortgage loans, totaling $10,972,716, that have matured subsequent to June 30, 2009 will also be renewed or refinanced.

Sources of Capital

Prior to 2009 LREIT utilized interim financing as a source of funds in order to supplement the funding of distributions as well as the funding of income property improvements and unit repurchases under the normal course issuer bid. As of June 30, 2009, the interim mortgage loans of LREIT amounted to $50.9 Million. Although it is anticipated that LREIT will be able to renew its existing interim mortgage loan financing at maturity, it is unlikely that LREIT will undertake additional interim financing

LREIT is undertaking a divestiture program in order to create an additional source of capital in order to supplement the cash provided from operating activities.

In the event that additional capital is not raised from the divestiture program and depending on the level of cash provided from operating activities it may be necessary for LREIT to reduce the extent of property improvements.

Payment of Cash Distributions

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

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

Changes to Tax Treatment of Trusts

LREIT currently qualifies as a mutual fund trust for income tax purposes. As required by its Declaration of Trust, LREIT is required to distribute an amount equal to not less than all of its taxable income to its Unitholders and to deduct these distributions for income tax purposes.

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

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, LREIT may increase its equity capital by $50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, LREIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the REIT Conditions. Accordingly, LREIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, LREIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, 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 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to LREIT and its Unitholders. In addition, no assurance can be given that LREIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

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

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

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

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

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

TAXATION

Taxation of LREIT

LREIT qualifies as a mutual fund trust for income tax purposes. Subject to the New 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. Pursuant to the Declaration of Trust of LREIT, the Trustees distribute or designate all taxable income directly earned by LREIT to the Unitholders of the Trust in order to ensure that LREIT will not be subject to income tax under Part I of the Tax Act.

Under the New SIFT Rules, if LREIT does not meet the REIT Conditions to become a Qualifying REIT resulting in the tax on distributions commencing to apply to LREIT in 2011 (or earlier if LREIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from LREIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions 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 New 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, 2009, have represented a reduction in adjusted cost base of the units.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the six months ended June 30, 2009 that have materially affected, or are reasonably 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 2009 Second Quarter Report of Lanesborough Real Estate Investment Trust, including Schedule I and Schedule II, and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 12, 2009

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS - 2009

SCHEDULE I

Real Estate Portfolio as of June 30, 2009

Property Portfolio - June 30, 2009

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2009
INCOME PRODUCING PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	98 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	100 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	95 %
Carlton Manor	Prince Albert	410,000	February 2005	19	93 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments	Prince Albert	650,000	February 2005	28	57 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	99 %
Village West	Saskatoon	5,113,800	June 2006	100	99 %
Sir Robert Borden Place	Saskatoon	5,600,000	May 2007	113	98 %
Chateau St. Michael's (2)	Moose Jaw	7,600,000	June 2006	93	99 %
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	100 %
Alberta					
Nova Villa	Edmonton	5,400,000	May 2004	61	89 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	98 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	97 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	82 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	95 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	76 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	53 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	64 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	69 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	92 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	72 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	73 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	63 %
Parsons Landing (3)	Fort McMurray	60,733,000	September 2008	160	93 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	80 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	96 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (2)(5)	Port Elgin	18,122,000	June 2006	124	60 %
Clarington Seniors Residence (2)	Bowmanville	22,400,000	February 2007	121	50 %
Total - Residential		**$ 479,493,800**	Total suites	**2,851**	
COMMERCIAL					
Purolator (6)	Burlington	1,200,000	September 2003	16,117	100 %
Total income producing properties		**$ 480,693,800**			

Property Portfolio - June 30, 2009

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30 2009
DISCONTINUED OPERATIONS					
RESIDENTIAL					
Manitoba					
Chancellor Gate	Winnipeg	$ 6,750,000	August 2005	48	99 %
Colony Square	Winnipeg	29,907,700	October 2008	428	92 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	98 %
Saskatchewan					
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	100 %
Alberta					
Nova Manor	Edmonton	2,615,000	May 2004	32	96 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	99 %
British Columbia					
Greenwood Gardens	Surrey	10,950,000	April 2004	183	91 %
Total - Residential		**$ 87,348,700**	Total suites	**1,062**	
COMMERCIAL					
Retail and Office					
Kenaston (1)	Winnipeg	12,656,200	April 2002	103,209	86 %
McIvor Mall	Winnipeg	6,700,000	February 2004	65,283	100 %
Colony Square	Winnipeg	7,931,600	October 2008	83,190	100 %
		27,287,800		251,682	
Light Industrial					
156 / 204 East Lake Blvd.	Aidrie	1,600,000	June 2003	39,936	- %
Total - Commercial		**28,887,800**	Total leasable area	**291,618**	
Total discontinued operations		**$ 116,236,500**			
Total real estate portfolio		**$ 596,930,300**			

Notes to the Property Portfolio:

(1) Includes the cost of major renovations and asset additions.
(2) Seniors housing complex.
(3) LREIT took possession of Parsons Landing on September 1, 2008. LREIT is obligated to pay the balance of the purchase price in the second quarter of 2009. See "Property Acquisitions - Parsons Landing" above.
(4) Property includes 8,400 square feet of commercial space.
(5) Costs in regard to the expansion of $9,752,000 are classified as "properties under development".
(6) Property is classified as "residential" for segmented reporting purposes.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS - 2009

SCHEDULE II

Details of DRIP, NCIB, Unit Option Plan, Deferred Unit Plan and Limited Partnership Units

Distribution Reinvestment Plan ("DRIP")

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

During the six months ended June 30, 2009, 48,576 units were issued under the Distribution Reinvestment Plan at an average purchase price of $2.23 per unit, representing a total value of $108,517. The value of the DRIP units is included in the determination of the total amount of distributions declared by LREIT.

Normal Course Issuer Bid

In January 2008, LREIT initiated a normal course issuer bid ("NCIB") for its trust units, under which it is entitled to purchase a limited number of the issued and outstanding units of the Trust, as specified by the TSX. The initial 12 month term of the NCIB was renewed in January 2009 for an additional 12 month term that expires on January 22, 2010.

During the period from January 1, 2009 to January 30, 2009, the Trust purchased and cancelled an additional 99,507 units at a weighted average price of $2.77, pursuant to the normal course issue bid. There have not been any additional units purchased since January 30, 2009.

LREIT believes that the ongoing purchase of units, pursuant to the bid, is an appropriate use of LREIT's resources, given management's belief that there is a disparity between the market price of the units and the underlying value of the units. LREIT also believes that the purchase of units pursuant to the bid will benefit all remaining Unitholders by increasing their proportionate equity interest and voting interest in LREIT, while affording liquidity to anyone who desires to sell their units.

LREIT will limit the number of units purchased under the NCIB during the remainder of 2009.

Unit Options

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

On January 7, 2008, LREIT granted options to acquire a total of 370,000 units to 26 individuals, including 245,000 units which were granted to the four independent trustees, the Chief Executive Officer and the Chief Financial Officer of LREIT, and 125,000 units which were granted to 20 management and other senior employees of Shelter Canadian Properties who are engaged in LREIT related functions. The options which were issued to the four independent trustees vested immediately, while the remaining options vest equally on each of the grant date and the four subsequent anniversaries of the grant date. All of the options are exercisable at a price of $5.10.

As of June 30, 2009, LREIT had 1,452,000 options outstanding of which 1,009,800 or 69.5% had vested, including 49,400 options which vested during the six months ended June 30, 2009. LREIT has not granted any options under the Unit Option Plan since January 2008.

In accordance with Canadian generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Loss and Comprehensive Loss. During the six months ended June 30, 2009, unit-based compensation expense related to unit options which were not fully vested as of December 31, 2008 amounted to $160,940.

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

Deferred Unit Plan

On June 18, 2008, the Trust adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees paid in the form of deferred units. Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control (as defined in the deferred unit plan), any unvested deferred units shall vest upon the earlier of the next applicable vesting date that is immediately prior to the date on which the change of control occurs Whenever cash distributions are paid, additional deferred units are credited to the participant based on the number of deferred units held. The deferred units credited to a participant vest immediately and are redeemable by the participant on retirement or on "termination" other than for cause. If a participant is terminated for cause, only the deferred units which have vested shall be redeemable and any unvested deferred units shall be cancelled. Additional details of the Deferred Unit Plan are disclosed in Note 16 to the 2009 second quarter financial statements of LREIT.

Effective July 1, 2008, the Trustees also approved a compensation package, whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair and attending meetings. During the six months ended June 30, 2009, the total fees payable to independent Trustees under the compensation package amounted to $97,344.

All of the independent Trustees elected to have their compensation for the second quarter of 2009 paid in the form of deferred units. The number of deferred units received is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable. Based on an average market value of $1.30, there were 74,996 deferred units granted to be independent Trustees during the six months ended June 30, 2009.

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

Limited Partnership Units

In June 2006, LREIT acquired the Village West Townhouses in Saskatoon, Saskatchewan. The acquisition of the property encompassed the issuance of 456,617 Class B Limited Partnership Units ("LPU's") of a wholly owned Limited Partnership which was established by the Trust (LREIT Village West Limited Partnership). The LPU's were issued at a value of $6 per LPU, representing total consideration of $2,739,704. Each LPU is entitled to receive cash distributions equal to the cash distributions which are paid on the trust units of LREIT. The vendor has the right to exchange each LPU for LREIT trust units on a one for one basis. The LPU's are also transferable.

On November 1, 2006, 100,000 of the LPU's were exchanged for LREIT trust units.

During the three months ended June 30, 2009, distributions in regard to the LPU's amounted to nil. During the six months ended June 30, 2009, distributions in regard to the LPU's amounted to $33,285. The LPU distributions are included in the calculation of the "total distributions" of LREIT for purposes of analyzing the distribution payout ratio of the Trust. The distributions on the Limited Partnership units serve to reduce the "non-controlling interest" of LREIT Village West Limited Partnership.