LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2009

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Unitholder Returns

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
Distribution per unit	$0.09	$0.56
Opening unit price	$2.30	$4.99
Closing unit price	$0.95	$2.30
Annualized yield on opening price (distribution/opening unit price)	11.7%	11.2%

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

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

Financial Summary - First Quarter 2009

	2009 Q1	2008 Q1 Comparison		2008 Q4 Comparison	
	Amount	Amount	Increase (Decrease)	Amount	Increase (Decrease)
Cash from operating activities	$ 3,139,830	$ 1,332,215	$ 1,807,615	$ 5,761,651	$ (2,621,821)
Distributable income	$ 1,580,019	$ 1,488,053	$ 91,966	$ 4,024,867	$ (2,444,848)
FFO	$ (2,094,073)	$ 400,570	$ (2,494,643)	$ (2,405,214)	$ 311,141
AFFO	$ 908,073	$ 1,057,046	$ (148,973)	$ 1,520,056	$ (611,983)
Total revenue	$ 19,861,695	$ 13,628,993	$ 6,232,702	$ 20,275,420	$ (413,725)
NOI	$ 11,712,648	$ 7,949,942	$ 3,762,706	$ 13,211,923	$ (1,499,275)
Loss before future income taxes	$ (5,749,329)	$ (1,952,898)	$ (3,796,431)	$ (6,035,726)	$ 286,397
Income (loss) for the period	$ (8,530,719)	$ 301	$ (8,531,020)	$ (2,185,348)	$ (6,345,371)

During the first quarter of 2009, LREIT achieved a significant increase in revenue and net operating income, compared to the first quarter of 2008, mainly due to the growth in the property portfolio later in 2008. In total, LREIT added five properties to its income-producing portfolio subsequent to March 31, 2008, including the Clarington Seniors Residence, which was added during the first quarter of 2009. The loss of the Trust, before future income taxes, increased by approximately $3.8 Million during the first quarter of 2009, primarily due to an increase in amortization charges of approximately $1.3 Million and a $2.4 Million non-cash charge to financing expense in regard to a decrease in the fair value of the interest rate swap agreements.

LREIT has a high concentration of multi-family residential properties in Fort McMurray, Alberta. The decline in oil prices began to negatively impact the multi-family residential rental market in Fort McMurray at the end of 2008 and ultimately led to the decision by LREIT to reduce the amount of its distribution, effective in the first quarter of 2009.

As a result of the decline in Fort McMurray rental market conditions, LREIT experienced a decrease in revenue and net operating income during the first quarter of 2009, compared to the fourth quarter of 2008. The total revenue and net operating income of LREIT for the first quarter of 2009 decreased by 2% and 11%, respectively, compared to the fourth quarter of 2008.

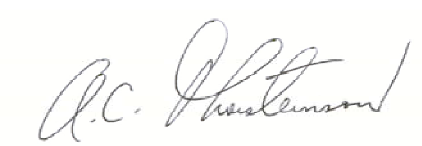
During the first quarter of 2009, the distributable income of LREIT approximated the amount of distributions paid and it is unlikely that this level of income will continue for the remainder of 2009. Vacancy in the Fort McMurray portfolio has increased during the second quarter and may not substantially improve until 2010.

In order to reduce debt, LREIT is undertaking a divestiture program in 2009, targeting the sale of assets with an estimated value of $150 Million. The proceeds of sale will be used for the repayment of higher cost debt of LREIT. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, by a minimum of 25%, and to reduce the total debt to appraised value ratio to approximately 60%.

LREIT is experiencing delay in the closing of Parsons Landing, pending financing arrangements for the property. As disclosed in detail in the report, the vendor has agreed to extend the deadline for obtaining permanent financing until June 5, 2009, with a corresponding change to the payment deadline to July 31, 2009, subject to certain conditions including a requirement for a partial payment on the balance owing of $500,000 and the regular monthly interest payment of $300,000.

The long-term prospects of the Trust are favourable given the higher earnings potential of the property portfolio when rental market conditions in Fort McMurray improve.

The Board of Trustees and Shelter Canadian Properties Limited remain committed to maximizing the long-term investment returns to the Unitholders.



ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 13, 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 financial statements of LREIT for the three months ended March 31, 2009 and with reference to 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.

Appraised Value

In this management discussion and analysis, references are made to the appraised value of LREIT's property portfolio.

In summary, the total appraised value of the property portfolio is $810,701,000 at March 31, 2009. Appraisals of three properties representing 13.7% of total appraised value, were prepared in the first quarter of 2009, 25 properties, representing 48.7% of total appraised value, were prepared in 2008, appraisals of 14 properties, representing 34.6% of total appraised value, were prepared in 2007 and appraisals of three properties, representing 3.1% of total appraised value were prepared in 2006 and earlier.

The appraised value is based on appraisals prepared by independent appraisers. The appraisals 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 March 31, 2009. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on March 31, 2009.

LREIT undertakes no obligation to update the appraised value of its portfolio from time to time.

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended March 31 2009	Three Months Ended March 31 2008
DISTRIBUTIONS		
Total, including distributions on LP units	$ 1,668,364	$ 2,456,901
Per unit	$ 0.09	$ 0.14
KEY PERFORMANCE INDICATORS (1)		
Operations		
Average residential occupancy rate	91 %	94 %
Operating residential cost ratio	40 %	42 %
Operating Results		
Total revenue	$ 19,861,695	$ 13,628,993
Net operating income *	$ 11,712,648	$ 7,949,942
Income (loss) for the period before future income tax *	$ (5,749,329)	$ (1,952,898)
Income (loss) for the period	$ (8,530,719)	$ 301
Cash Flows		
Cash flow from operating activities	$ 3,139,830	$ 1,332,215
Funds from Operations (FFO) *	$ (2,094,073)	$ 400,570
Adjusted Funds from Operations (AFFO) *	$ 908,073	$ 1,057,046
Distributable income *	$ 1,580,019	$ 1,488,053
Financing		
Mortgage loans to appraised value ratio *	62 %	68 %
Weighted average interest rate of mortgage loans *	6.4 %	6.2 %
Per Unit		
Net operating income *		
- basic	$ 0.670	$ 0.455
- diluted	$ 0.465	$ 0.312
Income (loss) for the period, before future income tax*		
- basic	$ (0.329)	$ (0.112)
- diluted	$ (0.329)	$ (0.112)
Income (loss) for the period		
- basic	$ (0.488)	$ -
- diluted	$ (0.488)	$ -
Distributable income *		
- basic	$ 0.090	$ 0.085
- diluted	$ 0.086	$ 0.074
Funds from Operations (FFO) *		
- basic	$ (0.120)	$ 0.023
- diluted	$ (0.120)	$ 0.023
Adjusted Funds from Operations (AFFO) *		
- basic	$ 0.052	$ 0.061
- diluted	$ 0.049	$ 0.053

(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 FIRST QUARTER RESULTS

Overall Change in Property Portfolio and Debt

	Since December 31, 2008	Since March 31, 2008
Increase in income-producing properties	1 property	5 properties
Increase (decrease) in mortgage loans payable	$ (2,090,571)	$ 100,174,552

Other Key Variables

	2009 Q1	2008 Q1	2008 Q4
Vacancy rate of residential portfolio	9%	6%	4%
Profit margin of residential portfolio	60%	58%	65%
Ratio of mortgage loan debt to purchase price of income producing properties	76%	81%	76%

	Three Months Ended March 31		Year Ended
	2009	2008	December 31, 2008
Weighted average interest rate of mortgage loan debt	6.40%	6.20%	6.40%
Ratio of total debt to appraised value of total property portfolio	69%	79%	70%
Cash (bank indebtedness), net of line of credit	(1,754,773)	302,263	229,892

Operating Results

2009 Q1 vs 2008 Q1

- NOI increased by $3,762,706 or 47.3%, mainly due to the addition of 5 properties since March 31, 2008, as well as an increase in same property NOI of $668,530 or 9.3%.
- Loss before amortization, non-controlling interest and taxes increased by approximately $2.5 Million, primarily due to the non-cash charge to financing expense of approximately $2.4 Million in regard to the decrease in the fair value of the interest rate swaps. Excluding financing charges regarding the interest rate swaps, the decrease in income amounted to $50,669.
- The overall loss increased by approximately $8.5 Million, after considering the increase in amortization charges of approximately $1.3 Million and increase in future income tax expense of approximately $4.7 Million.
- Cash provided by operating activities, excluding changes in non-cash operating items, was unchanged from the first quarter of 2008 at approximately $1.56 Million.

2009 Q1 vs 2008 Q4

- NOI decreased by $1,499,275 or 11.3%, mainly due to decline in the revenues of the Fort McMurray property portfolio, and an increase in operating costs in the Manitoba and Saskatchewan portfolios. 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 amortization, non-controlling interest and taxes decreased by approximately $300,000. 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 amortization, non-controlling interest and taxes increased by approximately $2.5 Million. The increase in the loss mainly reflects the decrease in NOI as well as an increase of $1 Million in the remaining component of financing expense.
- The overall loss increased by approximately $6.3 Million, after considering the $6.6 Million decrease in the amount of future income tax recoveries.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $2.2 Million.

Going Concern

As disclosed in note 1 of the First Quarter Financial Statements, there is uncertainty surrounding the ability of LREIT to continue as a going concern as the Trust sustained net losses in 2008 and in the first quarter of 2009, has a working capital deficit as of March 31,2009 and is in violation of a debt service coverage covenant on two first mortgage loans totalling 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, two first mortgage loans, totalling $6,646,755, have matured and alternate financing arrangements have not been concluded.

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. LREIT has also implemented a divestiture program to raise additional capital and initiated a cash management strategy, including a reduction in annual distributions. LREIT has also been able to refinance mortgage loan debt during 2009.

As a result of the steps which have been taken to reduce the level of uncertainty, Management has concluded that LREIT has the ability to continue as a going concern.

STATUS OF 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 $2,621,175 and to accept partial payment on account of interest of $600,000, payable in two instalments of $300,000 in March and April of 2009. The interest payments were made by LREIT in March and April of 2009 in accordance with the instalment schedule.

The payment extension was also conditional upon LREIT obtaining a commitment for mortgage financing of $45,000,000 by April 15, 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 April 15, 2009, the vendor agreed to extend the deadline for the payment of the balance owing until July 31, 2009, with total interest amounting to $4,429,367, subject to receipt of regular interest of $300,000 per month, a partial payment of the balance owing of $500,000 on May 12, 2009 and a further payment of $500,000 by July 15, 2009. The vendor also agreed to provide a second mortgage loan of $15 Million for a term of one year, with interest rate at 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 June 5, 2009. Provided the payment is made in accordance with the revised conditions, the balance due on closing shall also be reduced by $2,700,000.

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.

In the event that a financing commitment is not received by June 5, 2009, the vendor is permitted to list the property for sale. Depending on the price, the sale may result in the full or partial loss of the cumulative amount paid to the vendor by LREIT.

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 and by property type. Operating results pertaining to general Trust operations are disclosed separately in the segmented financial information.

Investment in Properties

The general 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. LREIT has 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 2009.

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.

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.

An analysis of same property results for the first quarter of 2009, compared to both the first quarter of 2008 and the fourth quarter of 2009, is included in this report.

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 March 31, 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 quarter of 2009, the mortgage loan debt service coverage ratio was 1.27, compared to 1.27 during the first quarter of 2008 and 1.39 during the fourth quarter of 2008.

Divestiture Program

In order to raise capital to fund distributions and other non-operating expenditures, LREIT is undertaking a divestiture program in 2009, targeting the sale of assets with an estimated value of $150 Million. The proceeds of sale will be used for the repayment of higher cost and shorter term debt of LREIT. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, by a minimum of 25%, and to reduce the total debt to appraised value ratio to approximately 60%.

Distributions

The high level of vacancy in the Fort McMurray rental housing market is resulting in a greater level of uncertainty in projecting the cash flow results of LREIT for 2009. As a result of the uncertain outlook, LREIT has reduced the distributions for 2009 and has a current distribution policy of $0.27 per unit for 2009, compared to a total of $0.56 per unit for 2008.

The reduction in the total distribution for 2009 was implemented during March 2009 in conjunction with a change in the distribution policy from monthly distributions to quarterly distributions. The new distribution policy provides for quarterly distributions of $0.06 per unit ($0.24 per unit annualized) to be payable on July 15, October 15 and December 31 to the Unitholders of record as of June 30, September 30 and December 15, respectively. The three quarterly distributions in the combined amount of $0.18 per unit, plus the distributions of $0.04667 per unit for January 2009 and February 2009 comprise the total projected annual distribution of $0.27 per unit for 2009.

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 implement an additional reduction in the amount of quarterly distributions and/or reduce the extent of property improvements.

REAL ESTATE PORTFOLIO

Portfolio Summary - March 31, 2009

As of March 31, 2009, the property portfolio of LREIT consists of 40 residential properties and four commercial properties, with a total purchase price of approximately $597 Million, encompassing 3,913 suites and 307,735 square feet of leasable area. One of the residential properties includes a seven-storey office building.

All of the properties in the property portfolio are classified as "income-producing" properties as of March 31, 2009, aside from the the multi-level building addition to Elgin Lodge, which is classified as "Properties Under Development". The only change in the property portfolio during the first quarter of 2009 was the inclusion of the Clarington Seniors Residence as an income-producing property, effective February 1, 2009.

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

CAPITAL STRUCTURE

Capital Structure - March 31, 2009

	March 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	$ 454,297,697	77.6 %	$ 456,192,133	77.7 %
Convertible debentures - face value	51,362,000	8.8 %	51,362,000	8.7 %
Trust units (net of issue costs)	79,665,255	13.6 %	79,750,666	13.6 %
Total capitalization	$ 585,324,952	100.0 %	$ 587,304,799	100.0 %

Mortgage Loans Payable

March 31, 2009	$451,836,590
December 31, 2008	$453,927,161

Summary of First Quarter Mortgage Loan Transactions

During the first quarter of 2009, the balance of mortgage loans payable decreased by $2,090,571, comprised of the following amounts:

Principal repayments	$ 1,894,436
Change in the difference between contractual and market interest rates on mortgage loans assumed	11,043
Change in the unamortized component of transaction costs	185,092
Decrease in mortgage loans payable	$ 2,090,571

In comparison to the balance of mortgage loans payable as of March 31, 2008, mortgage loans payable have increased by approximately $100 Million as of March 31, 2009. The increase is comprised of a $19.5 Million increase in interim mortgage loans and an increase of approximately $80.5 in property-specific mortgage loans.

Upcoming Debt Maturities

A more detailed analysis of mortgage loan debt obligation is provided in the section of this report titled "Capital Resources and Liquidity". LREIT has $74 Million of mortgage loan debt maturing during the last nine months of 2009, representing 16% of its total long-term debt, as of March 31, 2009 and is comprised of $54.1 Million of fixed rate mortgage loans and $19.9 Million of floating rate demand mortgage loans.

Renewal terms have been finalized for all mortgage loans which mature in the second quarter of 2009 with exception of two mortgage loans with a combined principal balance of $6.6 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

Year of Maturity	Weighted Average Interest Rate	Amount March 31, 2009	Percentage of Total
Fixed rate			
2009	7.9 %	$ 54,161,417	11.9 %
2010	8.3 %	47,854,733	10.5 %
2011	8.5 %	7,189,224	1.6 %
2012	5.6 %	33,387,824	7.3 %
2013 *	5.8 %	45,463,026	10.0 %
2014	6.3 %	43,217,709	9.5 %
2015	5.6 %	56,730,454	12.5 %
2016	5.2 %	45,166,216	9.9 %
2017	5.7 %	5,720,145	1.2 %
2018 *	5.8 %	22,471,379	4.9 %
		361,362,127	79.5 %
Demand/floating rate	4.0 %	92,935,570	20.5 %
Principal amount		454,297,697	100.0 %
Difference between contractual and market interest rates on mortgage loans assumed		99,755	
Unamortized transaction costs		(2,560,862)	
		$ 451,836,590	
Principal amount:			
Income properties		$ 447,362,127	
Properties under development		6,935,570	
		$ 454,297,697	

* Includes floating interest rate mortgages of $22,471,379 and $20,618,502, 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 violation of the 1.4 times debt service coverage requirement on two first mortgage loans, totalling $46,978,265, in Fort McMurray. The terms of the mortgage loans provide the Trust with a six-month period, from the date of notice of default by the lender, to remedy the violation of the covenant. The Trust has not received notice of default from the lender and has requested the lender to reduce the existing debt service covenant. There is no assurance, however, that the lender will not demand payment of the mortgage loans, should the Trust be unable to remedy the default. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

The cross-default clauses of the Series E and F secured convertible debentures provide that the convertible debentures may become payable, on demand, if a lender demands the repayment of a mortgage loan. 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			
	March 31	December 31	September 30	June 30	March 31
Weighted average interest rate					
Fixed rate mortgage loans	6.4%	6.4%	6.4%	6.4%	6.2%
Floating rate mortgage loans	4.0%	4.6%	5.9%	5.9%	6.4%
Ratio of mortgage loans payable, compared to: *					
Purchase price of income-producing properties	76%	76%	77%	78%	81%
Appraised value of property portfolio	62%	63%	64%	63%	68%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to acquisition cost of income-producing properties	85%	85%	86%	96%	90%

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

Interim Mortgage Loan Financing

As of March 31, 2009, the mortgage loans payable of LREIT includes $53.4 Million of interim mortgage loan financing, comprised of the following:

Amount	Maturity Date
$4.0 Million	April 1, 2009
$4.5 Million	July 1, 2009
$2.0 Million	September 1, 2009
$7.5 Million	November 1, 2009
$5.4 Million	January 1, 2010
$12.0 Million	October 30, 2010
$18.0 Million	October 31, 2010
$53.4 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 9.6% and require payments of interest only.

The $4 Million interim mortgage loan which matured on April 1, 2009 was renewed for a one year term maturing April 1, 2010 at an interest rate of 12% per annum.

Vendor Take-Back Mortgages

Mortgage loans payable include $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 with an authorized limit of $5 Million. The line of credit bears interest at the Royal Bank of Canada prime rate. As of March 31, 2009, the amount available on the line of credit was $155,000.

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 March 31, 2009.

Summary of Debenture Offerings

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Three Months Ended March 31, 2009	As of December 31, 2008	Net Amount Outstanding March 31, 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						6,499,389
Unamortized transaction costs						(1,506,368)
Book value, March 31, 2009						$ 56,355,021
Allocation of book value						
Debt component						$ 44,756,752
Equity component						13,104,637
Unamortized transaction costs						(1,506,368)
						$ 56,355,021

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,	
- March 31, 2009	17,537,150
- May 13, 2009	17,537,150

As of March 31, 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 March 31, 2008. The increase in 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	299,624
Units purchased and cancelled under normal course issuer bid	(2,400)	(11,856)
Units outstanding, March 31, 2008	17,568,905	$ 66,745,234
Units issued under DRIP	472,976	1,502,502
Units purchased and cancelled under normal course issuer bid	(453,800)	(1,766,584)
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, March 31, 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 first quarter of 2008, five properties were added to the income-producing portfolio of LREIT, as follows:

- Laird's Landing, Fort McMurray - June 1, 2008
- Siena Apartments, Fort McMurray - July 2, 2008
- Parsons Landing, Fort McMurray - September 1, 2008 (i)
- Colony Square, Winnipeg - October 1, 2008
- Clarington Seniors Residence - February 1, 2009

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

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

Overall Results

A comparison of the 2009 and 2008 financial results of LREIT, for the first quarter of the year, is provided in the following chart. As disclosed on the chart, LREIT incurred a loss before taxes of $5,749,329 during the first quarter of 2009, compared to a loss before taxes of $1,952,898 during the first quarter of 2008, representing an increase of approximately $3.8 Million. The increase in the loss is mainly due to three factors, as follows:

(i) an increase in net operating income of approximately $3.7 Million;

(ii) an increase in financing expense of approximately $6.2 Million; and

(iii) an increase in amortization charges of approximately $1.3 Million.

Financing expense for the first quarter of 2009 includes a non-cash expense of approximately $2.4 Million in regard to a decrease in the fair value of the interest rate swaps. After excluding the expense associated with the interest rate swap, financing expense increased by approximately $3.8 Million during the first quarter of 2009, representing an amount which approximates the increase in net operating income.

The increase in net operating income, financing expense (excluding the change in the interest rate swap) and amortization charges is primarily due to the increase in the portfolio of income-producing properties subsequent to March 31, 2008.

After including future income taxes, LREIT incurred a loss of $8,530,719 during the first quarter of 2009, compared to an income of $301 in the first quarter of 2008.

A detailed analysis of the above noted variables is provided in the following sections of this report.

Analysis of Income (Loss)

	Three Months Ended March 31		Increase (decrease)	
	2009	2008	Amount	%
Rental revenue	$ 19,601,942	$ 13,276,821	$ 6,325,121	47.6 %
Interest and other income	259,753	352,172	(92,419)	(26.2)%
Property operating costs	8,149,047	5,679,051	2,469,996	43.5 %
Net operating income (NOI) *	11,712,648	7,949,942	3,762,706	47.3 %
Trust expense	744,190	734,907	9,283	1.3 %
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA) *	10,968,458	7,215,035	3,753,423	52.0 %
Financing expense	13,062,531	6,814,465	6,248,066	91.7 %
Income before amortization, non-controlling interest and taxes *	(2,094,073)	400,570	(2,494,643)	(622.8)%
Amortization	3,616,653	2,332,098	1,284,555	55.1 %
Non-controlling interest	(38,603)	(21,370)	(17,233)	80.6 %
Loss before future income tax *	(5,749,329)	(1,952,898)	(3,796,431)	194.4 %
Future income tax expense (recovery)	2,781,390	(1,953,199)	4,734,589	(242.4)%
Income (loss) for the year	$ (8,530,719)	$ 301	$ (8,531,020)	- %

* 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).

Revenue

Market Conditions

LREIT operates primarily in the multi-family residential market with the majority of residential rental revenue being generated from properties located in Alberta, Manitoba, Saskatchewan and the Northwest Territories. The highest concentration of properties is located 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 and a weakening of rental market conditions. The decline in rental market conditions is impacting the occupancy levels of LREIT's property portfolio in Fort McMurray and affecting the leasing of vacant suites and the retention of existing tenants.

As disclosed in the "Analysis of Vacancy Loss for Residential Properties", the vacancy rate of the Fort McMurray portfolio was 10% during the first quarter of 2009, compared to 4% for the entire year in 2008.

Rental market conditions in Saskatchewan and Manitoba, as well as in Yellowknife, have not changed significantly during 2009, as the local economies are more diversified and less susceptible to the recession. As disclosed in the analysis of vacancy loss, the three rental properties in Yellowknife achieved a 100% occupancy level during the first quarter of 2009, while the Saskatchewan property portfolio achieved an occupancy level of 98%, in large part due to the fact that the two largest properties, in terms of acquisition cost, are seniors residences which are operating at full, or near full, capacity. Similarly, the four properties in the Manitoba portfolio achieved an occupancy level of 95% during the first quarter of 2009.

In the other Alberta communities where LREIT properties are located (Edmonton, Peace River and Edson), the overall occupancy level was relatively favourable at 96% during the first quarter of 2009, while LREIT's sole property in British Columbia, Greenwood Gardens, achieved an occupancy level of 95%.

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 March 31, 2009, the property was added to LREIT"s portfolio of income-producing properties during the first quarter of 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 quarter of 2009, the combined vacancy rate for the two Ontario properties was 46%, however, the high vacancy rate had a minimal impact on the first quarter operating results of the Trust 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 economic issue facing LREIT in 2009 due to the high concentration of properties in the City. The potential impact of a prolonged period of low oil prices on the Fort McMurray rental market is one of the main risk factors for LREIT.

Although it is not possible to predict the extent to which recessionary influences will ultimately affect individual communities, management of LREIT does not expect rental market conditions in the other geographic areas where LREIT properties are located to change significantly in 2009.

Total Revenue

Analysis of Total Revenue - First Quarter of 2009

	Income Properties		
	Residential	Commercial	Trust
Rental revenue	93%	7%	n/a
Interest and other income	90%	4%	6%
Total revenue	92%	7%	1%

Increase in Total Revenue

	Total Revenues			
	Three Months Ended March 31		Increase (decrease)	
	2009	2008	Amount	% of Total
Residential	$ 18,368,734	$ 12,390,121	$ 5,978,613	96 %
Commercial	1,476,928	1,023,055	453,873	7 %
Trust	16,033	215,817	(199,784)	(3)%
Total	$ 19,861,695	$ 13,628,993	$ 6,232,702	100 %

Residential Properties

As disclosed in the first chart above, the revenue of LREIT is primarily generated from the portfolio of residential properties. During the first quarter of 2009, the portfolio of residential properties accounted for 93% of total revenues of the Trust.

As disclosed in the second chart above, the growth in the revenue of LREIT is mostly attributable to the portfolio of residential properties. During the first quarter of 2009, the total revenue of LREIT increased by approximately $6.2 Million, compared to the first quarter of 2008, comprised of an increase of $6.0 Million in the revenue of residential property portfolio, an increase of $0.5 Million in the revenue of commercial property portfolio, partially offset by a decrease in revenue from general Trust operations.

Commercial Properties

Total Revenues

During the first quarter of 2009, the portfolio of four commercial properties accounted for 7% of total revenue of LREIT. In comparison to the first quarter of 2008, the revenue of the commercial portfolio increased by $453,873 during the first quarter of 2009. The increase in revenue mainly reflects additional revenue from the commercial space at Colony Square, partially offset by the loss of revenue from the warehouse building in Airdrie, Alberta and an increase in vacancy loss at the Kenaston Property.

Warehouse Building at 156 and 204 East Lake Boulevard, Airdrie, Alberta

The commercial properties in the real estate portfolio of LREIT include a 39,936 square foot warehouse building in Airdrie, Alberta. Since the acquisition of the property in June 2003, the warehouse building was 100% leased to MAAX Inc. Effective July 1, 2008, MAAX Inc. filed for creditor protection and discontinued rent payments. Pending the releasing of the property, the reduction in revenue from the loss of the MAAX Warehouse lease will have a minimal impact on the overall financial position of the Trust.

Trust Operations

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

As disclosed on the first chart above, revenue from Trust operations accounted for 1% of the total revenue of LREIT during the first quarter of 2009. In comparison to the first quarter of 2008, revenue from Trust operations decreased by $199,784 during 2009, mainly due to a reduction in interest income on mortgage loans receivable.

Rental Revenue from Residential Properties

Overall Increase

As noted above, revenue from residential properties increased by $5,978,613 during the first quarter of 2009. The increase is comprised of a $5,876,350 increase in rental revenue and a $102,263 increase in interest and other income.

The increase in residential rental revenue reflects incremental revenue from the acquisition of additional residential properties, as well as an increase in revenue from the residential 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 increased by 8.1% during the first quarter of 2009, compared to the first quarter of 2008.

Analysis of Revenue from Residential Properties by Geographic Segment

Analysis of Revenue from Residential Properties

	Three Months Ended March 31					
			Increase (decrease)		Percentage of Total	
	2009	2008	Amount	%	2009	2008
Alberta						
Fort McMurray	$ 10,223,674	$ 5,902,113	$ 4,321,561	73 %	56 %	48 %
Other Alberta	1,143,894	1,069,224	74,670	7 %	6 %	8 %
Total - Alberta	11,367,568	6,971,337	4,396,231	63 %	62 %	56 %
Saskatchewan	3,055,194	2,858,108	197,086	7 %	17 %	23 %
Northwest Territories	1,535,815	1,517,313	18,502	1 %	8 %	12 %
Manitoba	1,351,269	483,223	868,046	180 %	7 %	4 %
British Columbia	379,848	368,098	11,750	3 %	2 %	3 %
Ontario	679,040	192,042	486,998	254 %	4 %	2 %
Total Residential Portfolio	$ 18,368,734	$ 12,390,121	$ 5,978,613	48 %	100 %	100 %

Analysis of Vacancy Loss for Residential Properties

	Vacancy Loss		
	Three Months Ended March 31		Year Ended December 31
	2009	2008	2008
Alberta			
Fort McMurray	10 %	8 %	4 %
Other Alberta	4 %	2 %	2 %
Total - Alberta	10 %	7 %	4 %
Saskatchewan	2 %	4 %	3 %
Northwest Territories	0 %	0 %	0 %
Manitoba	5 %	6 %	4 %
British Columbia	5 %	4 %	5 %
Ontario	46 %	34 %	34 %
Total Residential Portfolio	9 %	6 %	4 %

As disclosed on the first chart above, revenues from residential properties in Fort McMurray increased by $4,321,561 during the first quarter of 2009, compared to the first quarter of 2008, representing 73% of the total increase in residential rental revenue. As a percentage of total rental revenues, the contribution by the Fort McMurray portfolio increased from 48% during the three months ended March 31, 2008 to 56% during the three months ended March 31, 2009.

The increase in the revenue contribution by the Fort McMurray portfolio reflects the acquisition/possession of three additional Fort McMurray properties subsequent to March 31, 2008, as well as an increase 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 Manitoba and Ontario were the second and third highest contributors of additional revenue in the first quarter of 2009 due to the inclusion of an additional income-producing property in each portfolio subsequent to March 31, 2008.

The increased revenue contribution from the Saskatchewan portfolio is mainly due to the improvement in the occupancy level.

Operating Costs

Analysis of Operating Costs

	Property Operating Costs Three Months Ended March 31 2009	2008	Increase (decrease) Amount	%
Alberta				
Fort McMurray	$ 2,880,549	$ 1,879,818	$ 1,000,731	53 %
Other Alberta	528,991	488,155	40,836	8 %
Total - Alberta	3,409,540	2,367,973	1,041,567	44 %
Saskatchewan	1,825,190	1,654,605	170,585	10 %
NWT	632,647	614,220	18,427	3 %
Manitoba	728,110	242,207	485,903	201 %
British Columbia	234,214	217,245	16,969	8 %
Ontario	575,376	121,623	453,753	373 %
Total Residential Portfolio	7,405,077	5,217,873	2,187,204	42 %
Total Commercial Portfolio	743,970	461,178	282,792	61 %
Total	$ 8,149,047	$ 5,679,051	$ 2,469,996	43 %

During the first quarter of 2009, property operating costs for the residential portfolio increased by $2,187,204 or 42%, compared to the first quarter of 2008, with the Fort McMurray portfolio accounting for the majority of the increase due to the additional property acquisitions in Fort McMurray, subsequent to March 31, 2008. As with the revenue increases, the property portfolios in Manitoba and Ontario account for the majority of the remaining increase in property operating costs, due to the inclusion of an additional income-producing property in each portfolio subsequent to March 31, 2008.

Net Operating Income and Operating Margin - First Quarter Comparison

Overall

Summary Analysis of Net Operating Income

	Net Operating Income Three Months Ended March 31 2009	2008	Increase (decrease)	Operating Margin 2009	2008
Residential	$ 10,963,657	$ 7,172,249	$ 3,791,408	60 %	58 %
Commercial	732,958	561,876	171,082	50 %	55 %
Trust	16,033	215,817	(199,784)	n/a	n/a
Total	$ 11,712,648	$ 7,949,942	$ 3,762,706	59 %	58 %

During the first quarter of 2009, the net operating income ("NOI") of the Trust increased by $3,762,706, compared to the first quarter of 2008. As disclosed in the chart above, the increase in total NOI is almost entirely attributable to an increase in NOI from the residential portfolio.

Residential Properties

After considering the revenue and operating cost increases as analyzed in the preceding sections of this report, the NOI for the residential portfolio increased by $3,791,408 or 53% during the first quarter of 2009. As with the revenue and cost increases, the Fort McMurray property portfolio accounted for the majority of the increase in NOI, followed by the Manitoba portfolio.

Analysis of Net Operating Income - Residential Properties

	Net Operating Income							
	Three Months Ended March 31		Increase (decrease)		Percent of Total		Operating Margin	
	2009	2008	Amount	%	2009	2008	2009	2008
Alberta								
Fort McMurray	$ 7,343,125	$ 4,022,296	$ 3,320,829	83 %	67 %	56 %	72 %	68 %
Other Alberta	614,903	581,069	33,834	6 %	6 %	8 %	54 %	54 %
Total - Alberta	7,958,028	4,603,365	3,354,663	73 %	73 %	64 %	70 %	66 %
Saskatchewan	1,230,004	1,203,507	26,497	2 %	11 %	17 %	40 %	42 %
Northwest Territories	903,168	903,093	75	- %	8 %	13 %	59 %	(60)%
Manitoba	623,159	241,013	382,146	159 %	6 %	3 %	46 %	50 %
British Columbia	145,634	150,852	(5,218)	(3)%	1 %	2 %	38 %	(41)%
Ontario	103,664	70,419	33,245	47 %	1 %	1 %	15 %	37 %
Total Residential Portfolio	$ 10,963,657	$ 7,172,249	$ 3,791,408	53 %	100 %	100 %	60 %	37 %

As disclosed on the chart above, the NOI from the Fort McMurray portfolio increased by $3.3 Million during the first quarter of 2009, representing 88% 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 subsequent to March 31, 2008, as well as an increase 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 increased by $522,961 during the first quarter of 2009, compared to the first quarter of 2008.

During the first quarter of 2009, the operating margin for the Fort McMurray portfolio was 72%, compared to 68% in the first quarter of 2008. An improvement in the operating margin for the Fort McMurray portfolio was achieved during the first quarter of 2009, as rental rate increases served to offset the impact of the increased vacancy rate.

The operating margin for the remainder of the residential property portfolio decreased from 49% during the first quarter of 2008 to 44% during the first quarter of 2009.

The most significant change in the operating margin occurred in the Ontario portfolio, with the margin decreasing from 37% during the first quarter of 2008 to 15% during the first quarter of 2009. The decrease in the operating 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 60% during the first quarter of 2009, compared to 58% during the first quarter of 2008.

Notwithstanding the improvement in the net operating income for the Fort McMurray portfolio in the first quarter of 2009, the overall profitability of the Fort McMurray portfolio has declined in 2009, compared to the entire year in 2008, as a result of an increase in vacancy rates and a reduction in rental rates. The decline in profitability in the Fort McMurray portfolio is discussed in greater detail in the analysis of the first quarter results for 2009, compared to the fourth quarter results for 2008. The decline in the profitability of the Fort McMurray portfolio in the first quarter of 2009, compared to the overall results in 2008, is one of the primary factors which necessitated the reduction in the distributions of the Trust in the first quarter of 2009.

Same Property Analysis - Residential Properties

The same property analysis for the first quarter of 2009 encompasses the 35 income-producing residential properties which were in the LREIT portfolio, as of January 1, 2008.

As disclosed in the following analysis, the revenue of the same properties increased by 8.1%, while net operating income increased by 9.3%. As disclosed in the preceding discussion, the property portfolio in Fort McMurray accounted for the majority of the increase in net operating income.

	Three Months Ended March 31		Increase	
	2009	2008	Amount	%
Revenue				
Alberta				
Fort McMurray	$ 6,423,404	$ 5,902,113	$ 521,291	8.8 %
Other Alberta	1,143,894	1,069,224	74,670	7.0 %
Total Alberta	7,567,298	6,971,337	595,961	8.5 %
Saskatchewan	3,055,194	2,858,106	197,088	6.9 %
Northwest Territories	1,535,815	1,517,313	18,502	1.2 %
Manitoba	544,087	483,225	60,862	12.6 %
British Columbia	379,848	368,098	11,750	3.2 %
Ontario	310,838	192,042	118,796	61.9 %
Total revenue	$ 13,393,080	$ 12,390,121	$ 1,002,959	8.1 %
Net operating income				
Alberta				
Fort McMurray	$ 4,545,257	$ 4,022,296	$ 522,961	13.0 %
Other Alberta	614,903	581,069	33,834	5.8 %
Total Alberta	5,160,160	4,603,365	556,795	12.1 %
Saskatchewan	1,230,004	1,203,503	26,501	2.2 %
Northwest Territories	903,168	903,092	76	- %
Manitoba	323,053	241,019	82,034	34.0 %
British Columbia	145,634	150,853	(5,219)	(3.5)%
Ontario	78,762	70,419	8,343	11.8 %
Total net operating income	$ 7,840,781	$ 7,172,251	$ 668,530	9.3 %

Financing Expense

Financing expense increased by $6,248,066 or 92% during the first quarter of 2009, compared to the first quarter of 2008, comprised of a $6,210,704 increase in mortgage loan and acquisition payable financing expense and $37,362 increase in convertible debenture financing expense.

Financing expense encompasses mortgage loan, acquisition payable and convertible debenture interest, as well as a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the first quarter of 2009, "non-cash" expenses represented 28% of the total financing expenses, compared to 14% during the first quarter of 2008.

Analysis of Financing Expense

	Three Months Ended March 31		Increase (decrease)	
	2009	2008	Amount	%
Mortgage Loans and Acquisition Payable				
Mortgage loan interest	$ 6,427,366	$ 4,401,713	$ 2,025,653	46 %
Interest on acquisition payable	1,979,621	431,300	1,548,321	359 %
Amortization of transaction costs	411,177	218,421	192,756	88 %
Change in value - interest rate swaps	2,443,974	-	2,443,974	100 %
Total - mortgage loans and acquisition payable	11,262,138	5,051,434	6,210,704	123 %
Debentures				
Interest on convertible debentures	977,975	1,009,835	(31,860)	(3)%
Accretion of debt component	666,355	598,510	67,845	11 %
Amortization of transaction costs	156,063	154,686	1,377	1 %
Total - debentures	1,800,393	1,763,031	37,362	2 %
Total - financing expense	$ 13,062,531	$ 6,814,465	$ 6,248,066	92 %

Interest Expense - Mortgage Loans and Acquisition Payable

Mortgage loan and acquisition payable interest increased by $3,573,974 or 74% during the first quarter of 2009, compared to the first quarter of 2008. The increase mainly reflects the increase in mortgage loan debt associated with property acquisitions in the second half of 2008, an increase in interim financing, as well as accrued interest on the balance owing in regard to the acquisition of Parsons Landing and 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.

Interest Expense - Debentures

During the first quarter of 2009, interest on convertible debentures decreased by $31,860 or 3%, compared to the first quarter of 2008. The decrease mainly reflects the retirement of $1.6 Million of Series D Convertible Debentures in March 2008.

Total Interest Expense

As a percentage of operating income, total interest for mortgage loans, acquisition payable and convertible debentures increased from 73% during the first quarter of 2008, to 80% during the first quarter of 2009. The increase in the ratio of interest, relative to operating income, reflects the extent to which the increase in interest expense has exceeded the increase in net operating income during the first quarter of 2009, mainly due to the increase in interim financing since March 31, 2008.

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in financing expense during the first quarter of 2009 includes an amount of $2,443,974 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 quarter of 2009, the fair value of the interest rate swap arrangements decreased by $2,443,974, as declining market interest rates in the first quarter of 2009 served to reduce payments for mortgages with floating interest rates.

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.

As disclosed in the 2008 Annual Report for LREIT, the quarterly fluctuation in the fair value of the interest rate swaps was particularly evident in the fourth quarter of 2008, as the fair value of the interest rate swaps changed from a positive amount of $1,204,002, as of September 30, 2008, to a negative amount of $4,012,403 as of December 31, 2008, representing a reduction in value of $5,216,405. The decrease in value served to increase financing expense by $5,216,405 in the fourth quarter of 2008 and has significantly affected the comparability of the 2008 fourth quarter results and the 2009 first quarter results of LREIT, as analyzed in the following sections of this report.

Trust Expense

Trust expense increased by $9,283 during the first quarter of 2009, compared to the first quarter of 2008. The increase mainly reflects an increase of $107,619 in the service fee of Shelter Canadian, almost entirely offset by a decrease in unit-based compensation on expense of $103,650.

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 March 31, 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.

Amortization Expense

During the first quarter of 2009, amortization expense increased by $1,284,555 or 55%, compared to the first quarter 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 quarter of 2009, the valuation allowance served to reduce the tax asset as December 31, 2008, as well as the change in the tax asset during the first quarter, 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 operating losses. During the first quarter of 2009, the valuation allowance served to reduce the tax asset relating to operating losses to nil. Current income taxes are recorded when payable.

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 March 31, 2008, the future income tax liability of $2,829,133 compared to a net asset position of $88,766 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 $2,781,390. 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 $10,887,896 and the valuation allowance of $182,906 relating to the operating losses of the wholly owned subsidiaries. Current income tax relating to a wholly-owned subsidiary of $41,023 is also included in future income tax expense.

Future income tax expense of $2,781,390 is a non-cash item which does not affect the cash flow of the Trust.

Comparison to Preceding Quarter

Analysis of Loss - First Quarter 2009 vs. Fourth Quarter 2008

	Three Months Ended		Increase (decrease)	
	March 31, 2009	December 31, 2008	Amount	%
Rental revenue	$ 19,601,942	$ 19,984,545	$ (382,603)	(1.9)%
Interest and other income	259,753	290,875	(31,122)	(10.7)%
Property operating costs	8,149,047	7,063,497	1,085,550	15.4 %
Net Operating Income (NOI)	11,712,648	13,211,923	(1,499,275)	(11.3)%
Trust expense	744,190	755,661	(11,471)	(1.5)%
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA)	10,968,458	12,456,262	(1,487,804)	(11.9)%
Financing expense	13,062,531	14,861,476	(1,798,945)	(12.1)%
Income (loss) before amortization, non-controlling interest and taxes	(2,094,073)	(2,405,214)	311,141	(12.9)%
Amortization	3,616,653	3,600,150	16,503	0.5 %
Non-controlling interest	38,603	30,362	8,241	27.1 %
Income (loss) before future income tax expense (recovery)	(5,749,329)	(6,035,726)	286,397	(4.7)%
Future income tax expense (recovery)	2,781,390	(3,850,378)	6,631,768	(172.2)%
Loss for the period	$ (8,530,719)	$ (2,185,348)	$ (6,345,371)	290.4 %

Overview

During the first quarter of 2009, LREIT incurred a loss of $5,749,329 before taxes, compared to a loss of $6,035,726 during the fourth quarter of 2008.

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 $5,216,405 in the fourth quarter of 2008, compared to a charge to financing expense of $2,443,974 in the first 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 before taxes of $3,305,355 in the first quarter of 2009, compared to a loss of $819,321 in the fourth quarter of 2008, representing an increase in the loss of approximately $2,500,000.

The increase in the loss mainly reflects a decrease in net operating income of approximately $1.5 Million and an increase in financing expense, net of the amount pertaining to the interest rate swap, of approximately $1 Million.

The decrease in net operating income is mainly due to a decline in the profitability of the Fort McMurray, Manitoba and Saskatchewan property portfolios, as reflected in the "same property" analysis in this report.

As disclosed in the same property analysis which follows this commentary, the net operating income of the Fort McMurray, Manitoba and Saskatchewan property portfolios decreased by $484,966, $218,072 and $116,201, respectively, during the first quarter of 2009, compared to the first quarter of 2008.

The decrease in the NOI of the Fort McMurray portfolio is mainly due to an increase in the vacancy rate and a reduction in the average rental rate. During the first quarter of 2009, the vacancy rate and average monthly rental rate for the Fort McMurray portfolio was 10% and $3,097 per suite, compared to 4% and $3,100 per suite in the fourth quarter of 2008.

The decrease in the NOI for the Manitoba and Saskatchewan portfolios is mainly due to an increase in operating costs. During the first quarter of 2009, operating costs for the Manitoba portfolio increased by $241,055 or 49%, while operating costs for the Saskatchewan portfolio increased by $159,842 or 10%. The increase in operating costs for the Manitoba and Saskatchewan property portfolios is mainly due to an increase in utilities expense compared to the prior quarter.

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

After providing for future income tax expense/recoveries, LREIT completed the first quarter of 2009 with a loss of $8,530,719, compared to a loss of $2,185,348 during the fourth quarter of 2008. The bottom-line results for the first quarter of 2009 reflect a future income tax expense of $2,781,390, compared to a future income tax recovery of $3,850,378 during the fourth quarter of 2008. The significant change in the provision for future income taxes mainly reflects recording of an additional valuation allowance in the first quarter of 2009.

The change in the value of the interest rate swap and the change in the future income tax recovery/expense are non-cash transactions, as are the first quarter amortization charges and the component of the fourth quarter financing expenses pertaining to the accretion of the convertible debentures.

Same Property Analysis

During the first quarter of 2009, there were no changes in LREIT's portfolio of income-producing properties, compared to the fourth quarter of 2008, aside from Clarington Seniors Residence. Accordingly, the following analysis of same property NOI and revenue for the first quarter of 2009, compared to the fourth quarter of 2008, encompasses all of the residential properties in LREIT's residential property portfolio excluding the Clarington Seniors Residence and the multi-level expansion to Elgin Lodge.

	Three Months Ended		Increase	
	March 31 2009	December 31 2008	Amount	%
Revenue				
Alberta				
Fort McMurray	$ 10,223,674	$ 10,986,487	$ (762,813)	(6.9)%
Other Alberta	1,143,894	1,136,208	7,686	0.7 %
Total Alberta	11,367,568	12,122,695	(755,127)	(6.2)%
Saskatchewan	3,055,194	3,011,553	43,641	1.4 %
Northwest Territories	1,535,815	1,516,050	19,765	1.3 %
Manitoba	1,351,269	1,328,286	22,983	1.7 %
British Columbia	379,848	376,041	3,807	1.0 %
Ontario	310,838	416,031	(105,193)	(25.3)%
Total revenue	$ 18,000,532	$ 18,770,656	$ (770,124)	(4.1)%
Net operating income				
Alberta				
Fort McMurray	$ 7,343,125	$ 7,828,091	$ (484,966)	(6.2)%
Other Alberta	614,903	688,619	(73,716)	(10.7)%
Total Alberta	7,958,028	8,516,710	(558,682)	(6.6)%
Saskatchewan	1,230,004	1,346,205	(116,201)	(8.6)%
Northwest Territories	903,168	829,523	73,645	8.9 %
Manitoba	623,159	841,231	(218,072)	(25.9)%
British Columbia	145,634	165,891	(20,257)	(12.2)%
Ontario	78,763	142,201	(63,438)	(44.6)%
Total net operating income	$ 10,938,756	$ 11,841,761	$ (903,005)	(7.6)%

Summary of Quarterly Results

Quarterly Analysis

	2009	2008		
	Q1	Q4	Q3	Q2
Total revenue	$ 19,861,695	$ 19,984,545	$ 17,922,623	$ 14,975,258
Net operating income	$ 11,712,648	$ 13,211,923	$ 11,796,281	$ 9,111,999
Income (loss) for the period	$ (8,530,719)	$ (2,185,348)	$ (2,433,198)	$ (4,988,811)
Income (loss) for the period, before future income tax	$ (5,749,329)	$ (6,035,726)	$ 400,258	$ (752,648)
PER UNIT				
Net operating income				
- basic	$ 0.670	$ 0.758	$ 0.673	$ 0.520
- diluted	$ 0.465	$ 0.519	$ 0.463	$ 0.357
Income (loss) for the period				
- basic	$ (0.488)	$ (0.125)	$ (0.139)	$ (0.284)
- diluted	$ (0.488)	$ (0.125)	$ (0.139)	$ (0.284)
Income (loss) for the period, before future income tax				
- basic	$ (0.329)	$ (0.346)	$ 0.023	$ (0.043)
- diluted	$ (0.329)	$ (0.346)	$ 0.023	$ (0.043)

Quarterly Analysis

	2008	2007		
	Q1	Q4	Q3	Q2
Total revenue	$ 13,628,993	$ 13,534,875	$ 12,597,091	$ 11,127,584
Net operating income	$ 7,949,942	$ 7,822,808	$ 7,845,308	$ 6,519,763
Income (loss) for the period	$ 301	$ (1,108,898)	$ 725,735	$ 688,355
Income (loss) for the period, before future income tax	$ (1,952,898)	$ (1,742,327)	$ (1,188,347)	$ (1,417,123)
PER UNIT				
Net operating income				
- basic	$ 0.455	$ 0.447	$ 0.449	$ 0.374
- diluted	$ 0.312	$ 0.330	$ 0.331	$ 0.295
Income (loss) for the period				
- basic	$ -	$ (0.064)	$ 0.042	$ 0.039
- diluted	$ -	$ (0.064)	$ 0.042	$ 0.039
Income (loss) for the period, before future income tax				
- basic	$ (0.112)	$ (0.100)	$ (0.068)	$ (0.081)
- diluted	$ (0.112)	$ (0.100)	$ (0.068)	$ (0.081)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Three Months Ended March 31			
	2009	2008	Change	
Income (loss) for the period				
- basic	$ (0.488)	$ -	$ (0.488)	- %
- diluted	$ (0.488)	$ -	$ (0.488)	- %
Income (loss) for the period, before future income tax				
- basic	$ (0.329)	$ (0.112)	$ (0.217)	(194)%
- diluted	$ (0.329)	$ (0.112)	$ (0.217)	(194)%

Excluding future income tax, LREIT incurred a loss of $0.329 per unit during the first quarter of 2009, compared to a loss of $0.112 per unit during the first quarter of 2008. As the weighted average number of units has only increased by 0.3% since March 31, 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

First Quarter Comparatives

Cash from Operating Activities

	Three Months Ended March 31		Increase
	2009	2008	(decrease)
Rental revenue	$ 19,601,942	$ 13,276,821	$ 6,325,121
Interest and other income	259,753	352,172	(92,419)
Property operating costs	8,149,047	5,679,051	2,469,996
Net operating income (NOI)	11,712,648	7,949,942	3,762,706
Non-cash components of revenue	372	575	(203)
	11,712,276	7,949,367	3,762,909
Financing expense	13,062,531	6,814,465	6,248,066
Non-cash component of financing expense	3,677,568	971,617	2,705,951
	9,384,963	5,842,848	3,542,115
Trust expense	744,190	734,907	9,283
Non-cash component of trust expense	88,331	-	88,331
	655,859	734,907	(79,048)
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	1,671,454	1,371,612	299,842
Tenant inducements and leasing expenses	110,694	2,178	108,516
	1,560,760	1,369,434	191,326
Changes in non-cash operating items	1,579,070	(229,110)	1,808,180
Cash provided by operating activities	$ 3,139,830	$ 1,140,324	$ 1,999,506

During the first quarter of 2009, LREIT generated cash from operating activities of $3,139,830. After excluding changes in non-cash operating items, cash from operating activities was virtually unchanged during the first quarter of 2009, compared to the first quarter of 2008, at approximately $1.56 Million. 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 quarter of 2009, namely an increase in net operating income, on a cash basis, which is roughly equivalent to the increase in financing expense, on a cash basis.

During the first quarter of 2009, the cash outflow in regard to tenant inducements and leasing expenses amounted to $110,694. The tenant inducements and leasing expenses are mainly in regard to new tenancies at the Kenaston property.

Comparison to Fourth Quarter of 2008

As disclosed in the analysis of 2009 Q1 and 2008 Q4 operating results, the loss of LREIT increased by approximately $2.5 Million during the first quarter of 2009, compared to the fourth quarter of 2008, excluding income taxes and financing charges related to the change in value of the interest rate swaps. As previously noted, the increase in the loss during the first quarter of 2009 is largely attributable to a decrease in net operating income and an increase in financing expense.

In terms of cash flow results, LREIT experienced a reduction in cash flow from operating activities of $2,621,821 during the first quarter of 2009, compared to the fourth quarter of 2008. As disclosed in the following analysis, the reduction in cash flow is mainly attributable to a decrease in net operating income and an increase in financing expense.

Cash from Operating Activities

	Three Months Ended March 31, 2009	Three Months Ended December 31, 2008	Increase (decrease)
Rental revenue	$ 19,601,942	$ 19,984,545	$ (382,603)
Interest and other income	259,753	290,875	(31,122)
Property operating costs	8,149,047	7,063,497	1,085,550
Net operating income (NOI)	11,712,648	13,211,923	(1,499,275)
Non-cash components of revenue	372	3,060	(2,688)
	11,712,276	13,208,863	(1,496,587)
Financing expense	13,062,531	14,861,476	(1,798,945)
Non-cash component of financing expense	3,677,568	6,404,323	(2,726,755)
	9,384,963	8,457,153	927,810
Trust expense	744,190	755,661	(11,471)
Non-cash component of trust expense	88,331	118,442	(30,111)
	655,859	637,219	18,640
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	1,671,454	4,114,491	(2,443,037)
Tenant inducements and leasing expenses	110,694	307,045	(196,351)
	1,560,760	3,807,446	(2,246,686)
Changes in non-cash operating items	1,579,070	1,954,205	(375,135)
Cash provided by operating activities	$ 3,139,830	$ 5,761,651	$ (2,621,821)

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

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

During the first quarter of 2009, FFO decreased by $2,494,643, compared to the first quarter of 2008, while AFFO decreased by $148,973. On a basic per unit basis, FFO decreased by $0.143 per unit, while AFFO decreased by $0.009 per unit.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended March 31	
	2009	2008
Income (loss) for the period	$ (8,530,719)	$ 301
Add (deduct):		
Amortization expense	3,616,653	2,332,098
Future income tax	2,781,390	(1,953,199)
Non-controlling interest	38,603	21,370
Funds from operations *	(2,094,073)	400,570
Add (deduct):		
Straight-line rent adjustment	(2,682)	(1,019)
Net amortization of above/below market in-place leases	2,309	444
Accretion of debt component of convertible debentures	666,355	598,510
Unit-based compensation	88,331	191,891
Change in fair value of interest rate swap	2,443,974	-
Tenant inducement and leasing expenses	(110,694)	(2,178)
Ongoing improvements to income properties	(85,447)	(131,172)
Adjusted funds from operations *	$ 908,073	$ 1,057,046
FFO per unit *		
- basic	$ (0.120)	$ 0.023
- diluted	$ (0.120)	$ 0.023
AFFO per unit *		
- basic	$ 0.052	$ 0.061
- diluted	$ 0.049	$ 0.053

* 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

The stated policy of LREIT is to distribute cash to the Unitholders, on a quarterly basis, in an amount which is approximately equal to 90% of the annual "Distributable income" of the Trust. Cash distributions may also be established at a specific level, as determined by the Trust and, as such, distributions may be greater than, or less than, 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 March 31	
	2009	2008
Cash provided by operating activities, per Statement of Cash Flows	$ 3,139,830	$ 1,332,215
Changes in non-cash operating items	(1,579,070)	229,110
	1,560,760	1,561,325
Add (deduct):		
Tenant inducement and leasing expenses	110,694	2,178
Amortization of tenant inducement and leasing expenses	(91,435)	(75,450)
Distributable income	$ 1,580,019	$ 1,488,053
Per unit		
- Basic	$ 0.090	$ 0.085
- Diluted	$ 0.086	$ 0.074

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.

Tenant inducements and leasing expense fluctuate significantly throughout the year. Accordingly, the cash outlay for tenant inducements and leasing expenses is added-back for purposes of calculating distributable income, while amortization charges for cumulative tenant inducements and leasing expenses are deducted, as the amortization charges are considered to provide a more even distribution of leasing expenditures.

Total Distribution

A cash distribution of $0.04667 per unit was declared for the months of January and February 2009, representing a total declared distribution of $0.09334 per unit for the first quarter of 2009. As a result of the projected reduction in operating cash flow in 2009, LREIT established a total distribution of $0.27 per unit for 2009 and also implemented a change from monthly distributions to quarterly distributions. As a result of the change to a quarterly distribution policy, a distribution was not declared for March 2009.

During the first quarter of 2008, LREIT declared distributions of $0.14 per unit of $0.56 per unit on an annualized basis. 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 amounted to $1,668,364 for the first quarter of 2009 and $2,490,185 for the first quarter of 2008, as follows:

	Three Months Ended March 31	
	2009	2008
Total distributions		
Distributions paid on trust units	$ 1,530,736	$ 1,447,300
Value of trust units issued under DRIP	104,343	189,661
Distributions payable, end of period	-	819,940
Distributions per Statement of Equity	1,635,079	2,456,901
Distribution on limited partnership units	33,285	33,284
Total distributions	$ 1,668,364	$ 2,490,185
Distribution variances		
Distributable income	$ 1,580,019	$ 1,488,053
Excess (shortfall) of distributable income over total distributions	$ (88,345)	$ (1,002,132)
Cash provided by operating activities	$ 3,139,830	$ 1,332,215
Excess (shortfall) of cash provided by operating activities over total distributions	$ 1,471,466	$ (1,157,970)

Distribution Variances

Comparison to Distributable Income

As disclosed in the preceding chart, distributions exceeded distributable income by $88,345 during the first quarter of 2009, compared to a shortfall of $1,002,132 during the first quarter of 2008.

On a percentage basis, distributable income was equal to 94.7% of distributions during the first quarter of 2009 and 60% during the first quarter of 2008.

The change in the percentage is almost entirely due to the reduction in distributions paid.

Comparison to Cash From Operating Activities

As disclosed in the preceding chart, cash from operating activities exceeded distributions by $1,471,466 or 88.2% during the first quarter of 2009. During the first quarter of 2008, there was a shortfall between cash from operating activities and distributions of $1,157,970 or 46.5%.

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

As disclosed in the discussion of "working capital requirements" in the following sections of this report, the Trust also has additional funding requirements beyond the funding of distributions, including the funding of mortgage loan principal payments, property improvement costs, debenture interest payments and purchases under the normal course issuer bid.

Cash Flow Summary

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

As disclosed in the chart, the net cash outflow in regard to financing and investment activities during the first quarter of 2009 amounted to $2,160,474, while cash from operating activities exceeded distributions paid by $1,575,809. Distributions paid excludes the value of units issued under DRIP.

Overall, the net cash decrease from operating, financing and investing activities during the first quarter of 2009 was $584,665. After accounting for the opening bank balance of $3,549,892, LREIT completed the first quarter of 2009 with a cash balance of $2,965,227.

Cash Flow Analysis (Note 1)

	Three Months Ended March 31, 2009
Financing Activities:	
Mortgage principal payments	$ (1,894,436)
Draws against the line of credit	1,400,000
Normal course issuer bid	(275,757)
Transaction costs	(614,365)
Total financing	(1,384,558)
Investing Activities:	
Improvements to income properties (note 2)	(268,683)
Properties under development	(128,641)
Deposits	200,000
Restricted cash	(578,592)
Total investing	(775,916)
Net cash inflow (outflow) of investment capital	**(2,160,474)**
Operating activities	3,139,830
Cash distributions	(1,564,021)
Excess of cash from operating activities over distributions	**1,575,809**
Cash decrease	(584,665)
Cash, beginning of period	3,549,892
Cash, end of period	$ 2,965,227

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 quarter of 2009, the total cash outlay for improvements to Income Properties was $284,106. 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

In addition to distributions, the main "non-operating" expenditures which require ongoing funding are regular monthly mortgage repayments and improvements to income properties. To the extent that cash from operating activities is not sufficient to fully fund distributions, regular monthly mortgage payments and improvements to income properties, the Trust requires funding from other sources. Other sources of funding include mortgage loan proceeds and proceeds from the sale of properties.

During the first quarter of 2009, cash from operating activities amounted to $3,139,830, while cash outlays in respect of distributions, regular monthly mortgage repayments and improvements to income properties amounted to $3,727,140, representing a variance of $587,310. During the first quarter of 2009, the variance was funded from the operating line of credit.

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

Contractual Obligations

Property Acquisitions

As previously disclosed in this report, the funding of the mortgage financing of Parsons Landing was delayed. 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 $2,621,175 and to accept partial payment on account of interest of $600,000, payable in two instalments of $300,000 in March and April of 2009. The interest payments were made by LREIT in March and April of 2009 in accordance with the instalment schedule.

The payment extension was also conditional upon LREIT obtaining a commitment for mortgage financing of $45,000,000 by April 15, 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 April 15, 2009, the vendor agreed to extend the deadline for the payment of the balance owing until July 31, 2009, with total interest amounting to $4,429,367, subject to receipt of regular interest of $300,000 per month, a partial payment of the balance owing of $500,000 on May 12, 2009 and a further payment of $500,000 by July 15, 2009. The vendor also agreed to provide a second mortgage loan of $15 Million for a term of one year, with interest rate at 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 June 5, 2009. Provided the payment is made in accordance with the revised conditions, the balance due on closing shall also be reduced by $2,700,000.

In the event that a financing commitment is not received by June 5, 2009, the vendor is permitted to list the property for sale. Depending on the price, the sale may result in the full or partial loss of the cumulative amount paid to the vendor by LREIT.

Management anticipates that LREIT will finalize the required mortgage financing of $30 Million for Parsons Landing by the deadline of June 5, 2009.

Mortgage Loan Debt

A summary of the debt obligations of LREIT 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	$ 395,297,697	$ 110,419,703	$ 46,703,802	$ 66,702,106	$ 171,472,086
Interim mortgage loans	53,400,000	36,000,000	17,400,000	-	-
Vendor take-back mortgage loans	5,600,000	1,600,000	4,000,000	-	-
Total	$ 454,297,697	$ 148,019,703	$ 68,103,802	$ 66,702,106	$ 171,472,086

The total amount due for the remainder of 2009 is comprised of regular repayments of principal in the estimated amount of $5,320,751; principal of $49,763,382 due on maturity of loans in 2009; and $92,935,570 of principal due on demand loans, of which $73,000,000 have terms that extend beyond 2009. Management intends to either renew/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 totalling $46,978,265, as a result of a violation of the debt service coverage requirement. See "Debt Service Coverage Covenants". Additionally, two first mortgage loans, totalling $6,646,755, have matured and alternate financing arrangements have not been concluded. The loans are not included in the amount due for the remainder of 2009, in the above chart.

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 March 31, 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

As previously disclosed in this report, 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. The Trust is not in compliance with two first mortgage loans totalling $46,978,265, as a result of a violation of the debt service coverage requirement. Additionally, two first mortgage loans, totalling $6,646,755, have matured and alternate financing arrangements have not been concluded.

Improvements to Existing Properties

During 2009, property improvement costs are expected to be approximately $2 Million. Based on actual costs incurred to March 31, 2009 of $284,106, the remaining property improvement costs for 2009 are approximately $1.7 Million.

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 March 31, 2009, $155,000 was available to the Trust under the line of credit. The amount available is net of $125,000 used to secure a letter of credit.

Normal Course Issuer Bid

As of March 31, 2009, LREIT has purchased 99,507 units under the normal course issuer bid at a cost of $275,757. Due to the cash constraints of the Trust, it is anticipated that there will be a limited number of 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.

Sources of Capital

Existing Cash

As of March 31, 2009, the cash balance of LREIT was $2,965,226. The working capital balance of the Trust, excluding accrued liabilities for property acquisitions or properties under development, was approximately $2.3 Million as of March 31, 2009. Including accrued liabilities, for property acquisitions or properties under development, LREIT has a working capital deficit of $46.4 Million as of March 31, 2009.

Divestiture Program

During 2009, LREIT is undertaking a divestiture program, targeting the sale of assets with a total estimated value of $150 Million. The proceeds of sale are to be used for the repayment of higher cost and shorter term debt of LREIT. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, by a minimum of 25%, and to reduce the total debt to appraised value ratio to approximately 60%.

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 that cash from operating activities will be significantly lower in 2009, compared to 2008.

Cash from operations, combined with the proceeds from the sale of properties under the divestiture program, is expected to be sufficient to meet the "non-operating" funding requirements of LREIT during 2009.

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.

Commencing January 1, 2006, the Committee approved 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 June 30, 2009.

Mr. Arni Thorsteinson, Chief Executive Officer of LREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd. As of February 2007, the Governance, Compensation and Nominating Committee is comprised of all of the independent Trustees of LREIT. Prior to February 2007, Mr. Thorsteinson was a member of the Governance and Compensation Committee and, as such, Mr. Thorsteinson abstained from all discussions and voting in regard to the approval of the service fee.

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. The current term of the Management Agreement expires on August 30, 2012.

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 $26,873,600 to June 30, 2009 and $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 March 31, 2009, of $344,897, 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 March 31, 2009, of $354,939, 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

International Financial Reporting Standards

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.

Management is currently in the process of evaluating the potential impact of 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 CICA has provided public companies with the option to early adopt International Financial Reporting Standards, effective January 1, 2009. The Trust did not adopt these standards on January 1, 2009.

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, two first mortgage loans, totalling $6.6 Million, have matured and alternate financing arrangements have not been concluded. LREIT also has a working capital deficit as of March 31, 2009.

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 cash management and 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 undertaking a divestiture program in 2009 and 2010 in order to raise capital to repay debt. The divestiture program is targeting the sale of assets with an estimated value of $150 Million, with the proceeds of sale to be used for the repayment of higher cost and shorter term debt. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, by a minimum of 25%. There can be no assurance that LREIT will complete the divestiture program on the basis described herein. Depending on other factors, such as the level of operating cash flow, the completion of the divestiture program to a lesser extent than contemplated could adversely affect LREIT's financial condition and its ability to fund distributions and/or certain non-operating expenditures.

Closing of Parsons Landing

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and, in such event, the property may be listed for sale. 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. As of March 31, 2009, there were 44 properties in the real estate portfolio of LREIT, including four commercial properties and 40 residential properties, comprising 3,913 rental units. 13 of the residential properties, comprising a total of 1,167 suites, or 30% of the total residential suites, are located in Fort McMurray. 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 51.5% of the total revenue of LREIT during the first quarter of 2009 and 62.7% of the total 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 violation of a debt service coverage covenant in regard to two first mortgage loans totalling $46,978,265. 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 also anticipates that the two first mortgage loans that have matured will be renewed or refinanced.

Additionally, two first mortgage loans, totalling $6,646,755, have matured and alternate financing arrangements have not been concluded.

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 March 31, 2009, the interim mortgage loans of LREIT amounted to $53.4 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 be in a position to obtain additional interim financing due to the general decline in economic conditions and the change in the lending market.

During 2009, 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 implement an additional reduction in the amount of quarterly distributions and/or 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.

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 March 31, 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 three months ended March 31, 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 First 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
May 13, 2009

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

SCHEDULE I

Real Estate Portfolio as of March 31, 2009

Property Portfolio - March 31, 2009

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2009
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	97 %
Chancellor Gate	Winnipeg	6,750,000	August 2005	48	96 %
Colony Square	Winnipeg	29,907,700	October 2008	428	93 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	93 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	95 %
Carlton Manor	Prince Albert	410,000	February 2005	19	78 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments	Prince Albert	650,000	February 2005	28	49 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	98 %
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	100 %
Village West	Saskatoon	5,113,800	June 2006	100	97 %
Sir Robert Borden Place	Saskatoon	5,600,000	May 2007	113	99 %
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	90 %
Nova Manor	Edmonton	2,615,000	May 2004	32	96 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	98 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	98 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	99 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	92 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	92 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	95 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	95 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	90 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	100 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	82 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	89 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	77 %
Parsons Landing (3)	Fort McMurray	60,733,000	September 2008	160	88 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	95 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	99 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	99 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (2)(5)	Port Elgin	18,122,000	June 2006	124	58 %
Clarington Seniors Residence (2)	Bowmanville	22,400,000	February 2007	121	50 %
British Columbia					
Greenwood Gardens	Surrey	10,950,000	April 2004	183	95 %
Total - Residential		**$ 566,842,500**	Total suites	**3,913**	

Property Portfolio - March 31, 2009 (continued)

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy March 31 2009
Total - Residential		**$ 566,842,500**	Total suites	**3,913**	
COMMERCIAL					
Retail and Office					
Kenaston (1)	Winnipeg, MB	12,656,200	April 2002	103,209	87 %
McIvor Mall	Winnipeg, MB	6,700,000	February 2004	65,283	100 %
Colony Square	Winnipeg, MB	7,931,600	October 2008	83,190	100 %
		27,287,800		251,682	
Light Industrial					
156 / 204 East Lake Blvd.	Aidrie, AB	1,600,000	June 2003	39,936	- %
Purolator	Burlington, ON	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**30,087,800**	Total leasable area	**307,735**	
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 $9,767,000 are classified as "properties under development".

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 first quarter of 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 March 31, 2009, LREIT had 1,452,000 options outstanding of which 1,009,800 or 69.5% had vested, including 49,400 options which voted during the first quarter of 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 first quarter of 2009, unit-based compensation expense related to unit options which were not fully vested as of December 31, 2008 amounted to $38,331.

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 15 to the 2009 first 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 first quarter of 2009, the total fees payable to independent Trustees under the compensation package amounted to $55,219.

All of the independent Trustees elected to have their compensation for the first 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 $1.22, there were 45,277 deferred units granted to be independent Trustees during the first quarter of 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 first quarter of 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.