LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	June 30 2009	December 31 2008 (audited)
Assets		
Income properties (Note 3)	**$464,447,926**	$442,033,878
Properties under development (Note 4)	**9,752,161**	35,957,774
Cash	**1,787,001**	3,549,892
Other assets (Note 5)	**7,383,266**	6,132,122
Future income taxes (Note 11)	**-**	3,035,861
Assets of properties held for sale (Note 6)	**114,277,281**	114,405,234
	$597,647,635	$605,114,761
Liabilities and Equity		
Mortgage loans payable (Note 7)	**$353,599,695**	$354,026,097
Convertible debentures (Note 8)	**44,100,171**	42,427,966
Accounts payable and accrued liabilities (Note 9)	**68,380,730**	61,435,610
Bank indebtedness (Note 10)	**4,875,000**	3,320,000
Liabilities of properties held for sale (Note 6)	**101,767,912**	104,902,346
	572,723,508	566,112,019
Non-controlling interest (Note 12)	**1,629,970**	1,573,258
Equity	**23,294,157**	37,429,484
	$597,647,635	$605,114,761

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended June 30, 2009:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, March 31, 2009	$ 79,665,255	$ (26,460,074)	$ (39,131,543)	$ 13,104,637	$ 27,178,275
Unit-based compensation	72,609	-	-	-	72,609
Loss	-	(3,956,727)	-	-	(3,956,727)
Equity, June 30, 2009	$ 79,737,864	$ (30,416,801)	$ (39,131,543)	$ 13,104,637	$ 23,294,157

Three Months Ended June 30, 2008:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, March 31, 2008	79,789,959	(8,321,998)	(30,123,514)	13,104,637	54,449,084
Units purchased under normal course issuer bid	(188,120)	-	-	-	(188,120)
Issue costs	(15,193)	-	-	-	(15,193)
Unit-based compensation	36,046	-	-	-	36,046
Units issued on distribution reinvestment plan	369,126	-	-	-	369,126
Loss	-	(4,988,811)	-	-	(4,988,811)
Distributions declared	-	-	(2,463,744)	-	(2,463,744)
Equity, June 30, 2008	$ 79,991,818	$ (13,310,809)	$ (32,587,258)	$ 13,104,637	$ 47,198,388

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Six Months Ended June 30, 2009:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484
Units purchased under normal course issuer bid	(275,757)	-	-	-	(275,757)
Issue costs	(6,502)	-	-	-	(6,502)
Unit-based compensation	160,940	-	-	-	160,940
Units issued on distribution reinvestment plan	108,517	-	-	-	108,517
Loss and comprehensive loss	-	(12,487,446)	-	-	(12,487,446)
Distributions declared	-	-	(1,635,079)	-	(1,635,079)
Equity, June 30, 2009	$ 79,737,864	$ (30,416,801)	$ (39,131,543)	$ 13,104,637	$ 23,294,157

Six Months Ended June 30, 2008:

	Units	Cumulative Income (loss)	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990
Maturity of Series D debentures	322,658	-	-	(322,658)	-
Units purchased under normal course issuer bid	(199,976)	-	-	-	(199,976)
Issue costs	(51,281)	-	-	-	(51,281)
Unit-based compensation	227,937	-	-	-	227,937
Units issued on distribution reinvestment plan	567,873	-	-	-	567,873
Loss	-	(4,988,510)	-	-	(4,988,510)
Distributions declared	-	-	(4,920,645)	-	(4,920,645)
Equity, June 30, 2008	$ 79,991,818	$ (13,310,809)	$ (32,587,258)	$ 13,104,637	$ 47,198,388

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Revenue				
Rentals from income properties (Note 16)	**$ 13,874,256**	$ 11,437,328	**$ 28,815,710**	$ 21,436,403
Interest and other income	**101,934**	183,666	**328,445**	516,962
	13,976,190	11,620,994	**29,144,155**	21,953,365
Expenses				
Property operating costs	**4,951,466**	4,100,432	**10,637,179**	8,131,018
Income before the undernoted	**9,024,724**	7,520,562	**18,506,976**	13,822,347
Financing expense (Note 18)	**9,979,048**	5,637,513	**21,266,495**	11,168,876
Trust expense	**662,087**	551,996	**1,406,277**	1,286,903
Amortization (Note 19)	**2,735,518**	1,801,090	**5,407,122**	3,538,176
	13,376,653	7,990,599	**28,079,894**	15,993,955
Income (loss) from continuing operations before income taxes	**(4,351,929)**	(470,037)	**(9,572,918)**	(2,171,608)
Future income tax expense	**258,521**	4,354,955	**3,035,861**	2,405,268
Income (loss) from continuing operations before non-controlling interest	**(4,610,450)**	(4,824,992)	**(12,608,779)**	(4,576,876)
Non-controlling interest (Note 12)	**(51,394)**	(17,136)	**(89,997)**	(38,505)
Loss from continuing operations	**(4,661,844)**	(4,842,128)	**(12,698,776)**	(4,615,381)
Income (loss) from discontinued operations (Note 6)	**705,117**	(146,683)	**211,330**	(373,129)
Income (loss) and comprehensive income (loss) for the period	**$ (3,956,727)**	$ (4,988,811)	**$ (12,487,446)**	$ (4,988,510)
Income (loss) per unit (Note 21)				
Basic and diluted				
Continuing operations	**$ (0.267)**	$ (0.276)	**$ (0.727)**	$ (0.264)
Discontinued operations	**0.040**	(0.008)	**0.012**	(0.021)
Total	**$ (0.227)**	$ (0.284)	**$ (0.715)**	$ (0.285)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Cash provided by (used in) operating activities				
Loss from continuing operations for the period	**$ (4,661,844)**	$ (4,842,128)	**$ (12,698,776)**	$ (4,615,381)
Items not affecting cash				
Straight-line rent adjustment	**431**	429	**860**	1,867
Accretion on debt component of convertible debentures	**687,977**	593,791	**1,354,332**	1,192,301
Unit-based compensation	**72,609**	36,046	**160,940**	227,937
Amortization (Note 19)	**3,281,915**	2,189,706	**6,506,078**	4,287,855
Change in fair value of interest rate swaps	**416,573**	(51,029)	**2,860,548**	(51,029)
Future income taxes	**258,521**	4,354,955	**3,035,861**	2,405,268
Non-controlling interest	**51,394**	17,136	**89,997**	38,505
	107,576	2,298,906	**1,309,840**	3,487,323
Changes in non-cash operating items	**1,251,514**	533,301	**3,032,450**	777,945
	1,359,090	2,832,207	**4,342,290**	4,265,268
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**4,900,000**	36,951,706	**4,900,000**	48,846,226
Repayment of mortgage loans on refinancing	**(2,560,168)**	-	**(2,560,168)**	-
Repayment of Series D debentures	**-**	-	**-**	(1,593,000)
Repayment of principal on mortgage loans	**(1,476,581)**	(1,310,403)	**(2,899,904)**	(2,373,732)
Transaction costs	**(245,346)**	(450,987)	**(831,518)**	(668,796)
Draws against (repayment of) line of credit	**155,000**	(2,110,000)	**1,555,000**	(3,040,000)
Units purchased and cancelled under normal course issuer bid	**-**	(188,120)	**(275,757)**	(199,976)
Distributions paid on units (Note 21)	**-**	(2,111,969)	**(1,530,736)**	(3,559,269)
Distributions paid on LP units of Village West LP	**-**	(49,926)	**(33,285)**	(83,210)
	772,905	30,730,301	**(1,676,368)**	37,328,243
Cash provided by (used in) investing activities				
Acquisition of income properties	**-**	(21,720,000)	**-**	(21,720,000)
Construction of income properties	**-**	(417,154)	**-**	(417,154)
Improvements to income properties	**(238,478)**	(180,975)	**(481,889)**	(254,524)
Increase in properties under development	**14,472**	(2,739,676)	**(114,169)**	(9,029,976)
Deposits on potential acquisitions	**-**	(860,000)	**200,000**	(860,000)
Increase in restricted cash	**(7,315)**	(260,267)	**22,849**	(413,977)
	(231,321)	(26,178,072)	**(373,209)**	(32,695,631)
Sub-total	**1,900,674**	7,384,436	**2,292,713**	8,897,880

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Balance forward	**1,900,674**	7,384,436	**2,292,713**	8,897,880
Cash provided by (used in) discontinued operations				
Income from discontinued operations for the period	**705,117**	(146,683)	**211,330**	(373,129)
Items not affecting cash				
Straight-line rent adjustment	**(4,878)**	(1,551)	**(7,989)**	(4,008)
Amortization	**166,530**	603,354	**1,130,066**	1,210,854
Future income taxes	**44,452**	(118,792)	**48,502**	(122,304)
	911,221	336,328	**1,381,909**	711,413
Changes in non-cash operating items	**(935,942)**	(130,818)	**(1,719,867)**	(604,571)
Tenant inducements and leasing expenditures incurred through leasing activity	**(55,787)**	-	**(166,481)**	(2,178)
	(80,508)	205,510	**(504,439)**	104,664
Repayment of mortgage loans on refinancing	**(2,432,398)**	-	**(2,432,398)**	-
Repayment of principal on mortgage loans	**(477,921)**	(364,757)	**(949,031)**	(722,631)
Transaction costs	**-**	-	**(28,192)**	(3,211)
Improvements to income properties	**(28,767)**	(46,088)	**(54,039)**	(103,711)
Increase in restricted cash	**(59,304)**	(7,388)	**(87,506)**	(5,364)
	(3,078,898)	(212,723)	**(4,055,605)**	(730,253)
Cash increase (decrease)	**(1,178,224)**	7,171,713	**(1,762,892)**	8,167,627
Cash, beginning of period	**2,965,225**	2,412,263	**3,549,893**	1,416,349
Cash, end of period	**$ 1,787,001**	$ 9,583,976	**$ 1,787,001**	$ 9,583,976

Supplementary cash flow information (Note 20)

1 *Organization and going concern*

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

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of Canadian generally accepted accounting principles applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust sustained net losses in the year ended December 31, 2008 and the first half of 2009, has a working capital deficit, is in violation of certain of its debt service coverage covenants at June 30, 2009 and has one first mortgage loan that has matured and has yet to be renewed.

The Trust is in breach of the 1.4 times debt service coverage requirements on two first mortgage loans totalling $46,718,001 in Fort McMurray. The Trust has received notice from the lender that the debt service covenant must be achieved as of September 30, 2009. The Trust has requested the lender reduce the existing debt service covenant. There is no assurance that the lender will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

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

In addition, the Trust has one first mortgage loan, in the amount of $12,835,570, that has matured and has yet to be renewed. Management believes the loan will be renewed or replaced with other mortgage loan financing. There is no assurance, however, that the lender will not demand payment of the mortgage loan.

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

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

2 Accounting policy development

Goodwill and intangible assets

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

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

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

Future changes to significant accounting policies

(a) Financial Instruments - Disclosure

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

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

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

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

2 Accounting policy development (continued)

Future changes to significant accounting policies (continued)

(c) Business Combinations

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

3 Income properties

June 30, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 76,157,230	$ -	$ 76,157,230
Buildings and improvements	399,979,854	(20,550,039)	379,429,815
Furniture, equipment and appliances	11,713,878	(2,909,571)	8,804,307
Intangible assets	1,123,792	(1,067,218)	56,574
	$488,974,754	$ (24,526,828)	$464,447,926

December 31, 2008 (audited)	Cost	Accumulated Amortization	Net Book Value
Land	$ 75,073,230	$ -	$ 75,073,230
Buildings and improvements	373,837,789	(15,991,326)	357,846,463
Furniture, equipment and appliances	11,118,771	(2,198,728)	8,920,043
Intangible assets	1,123,792	(929,650)	194,142
	$461,153,582	$ (19,119,704)	$442,033,878

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

The tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $27,667,200 until June 30, 2010. The net book value of the townhouse portion of Lakewood Manor at June 30, 2009 is $25,078,293.

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

4 Properties under development

	June 30 2009	December 31 2008 (audited)
Clarington Seniors Residence	$ -	$ 26,164,803
Elgin Lodge	9,752,161	9,792,971
	$ 9,752,161	$ 35,957,774

Properties under development includes rental revenue less property operating costs and financing expense of $40,810 for the six months ended June 30, 2009 (2008 - property operating costs and financing expense less rental revenue - $1,052,216).

5 Other assets

	June 30 2009	December 31 2008 (audited)
Amounts receivable	$ 1,319,542	$ 780,664
Prepaid expenses, deposits and other	2,236,693	1,300,718
Deposits on potential acquisitions	10,000	210,000
Straight-line rent receivable	5,622	6,482
Restricted cash	3,811,409	3,834,258
	$ 7,383,266	$ 6,132,122

Amounts receivable includes rent receivable of $910,006 (2008 - $568,373) net of an allowance for doubtful accounts of $97,518 (2008 - $74,677).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by mortgage lenders of $1,314,902 (2008 - $345,054).

6 Discontinued operations

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

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

6 *Discontinued operations (continued)*

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

	June 30 2009	December 31 2008
Balance sheets		
Assets		
Income properties (net of accumulated amortization of $10,535,544 (2008 - $8,999,536))	$ 111,678,380	$ 112,056,408
All other assets	2,598,901	2,348,826
	114,277,281	114,405,234
Liabilities		
Mortgage loans payable	96,316,009	99,901,064
Accounts payable and accrued liabilities	2,367,414	1,876,654
Future income taxes	3,084,489	3,124,628
	101,767,912	104,902,346
	$ 12,509,369	$ 9,502,888

Mortgage loans payable includes mortgage loans to be assumed by purchaser and mortgage loans to be repaid on sale of the income properties. One mortgage loan in the amount of $5,378,388 has matured subsequent to June 30, 2009 and has not been renewed. Management believes that the mortgage loan will be renewed on comparable terms.

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Statements of income				
Revenue				
Rentals from income properties	$ 4,759,508	$ 3,331,501	$ 9,419,996	$ 6,609,247
Interest and other income	18,291	22,763	51,532	41,639
	4,777,799	3,354,264	9,471,528	6,650,886
Expenses				
Property operating costs	2,162,406	1,762,827	4,625,736	3,411,292
	-	-	-	-
Financing expense	1,701,305	1,267,172	3,476,391	2,550,275
Amortization	164,519	589,740	1,109,569	1,184,752
Future income tax expense (recovery)	44,452	(118,792)	48,502	(122,304)
Income from discontinued operations	$ 705,117	$ (146,683)	$ 211,330	$ (373,129)

7 *Mortgage loans payable*

	Interest Rates at June 30, 2009			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	June 30 2009
Income properties				
Fixed rate mortgages	4.5% - 16.0%	6.2%	4.2 years	$262,567,583
Floating rate mortgages	3.5% - 6.3%	3.8%	Demand	85,955,605
				348,523,188
Properties under development				
Floating rate mortgages	3.5%	3.5%	Demand	6,935,570
				355,458,758
Difference between contractual and market interest rates on mortgage loans assumed				88,521
Unamortized transaction costs				(1,947,584)
				$353,599,695

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $20,471,647 and $22,364,967 have been fixed at 5.74% and 5.82% for the five and ten year terms of the respective mortgages.

	Interest Rates at December 31, 2008			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2008 (audited)
Income properties				
Fixed rate mortgages	4.5% - 12.0%	6.0%	4.8 years	$251,713,260
Floating rate mortgages	4.5% - 6.3%	4.6%	Demand	80,500,000
				332,213,260
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	0.7 years	11,370,000
Floating rate mortgages	4.5% - 5.5%	4.9%	Demand	12,435,570
				23,805,570
				356,018,830
Difference between contractual and market interest rates on mortgage loans assumed				110,798
Unamortized transaction costs				(2,103,531)
				$354,026,097

7 Mortgage loans payable (continued)

Approximate principal repayments are as follows:

Year ending December 31	
2009 - Remainder of year	$106,604,551
2010	47,385,290
2011	12,490,751
2012	40,258,161
2013	41,436,066
Thereafter	107,283,939
	$355,458,758

The difference between contractual and market interest rates on mortgage loans assumed upon acquisition is amortized over the term of the respective mortgages. The balance of $88,521 (2008 - $110,798) is net of accumulated amortization of $770,152 at June 30, 2009 (2008 - $747,875). The difference relates to mortgage loans assumed on acquisition of a property under development. The property under development was classified to income properties on February 1, 2009. During the three months ended June 30, 2009, $11,234 amortization was included in mortgage loan interest expense. During the six months ended June 30, 2009, amortization of $3,660 for January 2009 was recorded as a reduction of the carrying value of properties under development and amortization of $18,617 was included in mortgage loan interest expense.

Certain of the mortgage loans payable are subject to covenants, including minimum debt service ratios. The Trust is not in compliance with two first mortgage loans totalling $46,718,001, as a result of a breach of the debt service coverage requirement. Additionally, one first mortgage loan in the amount of $12,835,570, has matured and has not yet been renewed, as disclosed in Note 1.

Two mortgage loans totaling $5,594,326 have matured subsequent to June 30, 2009 and have not been renewed. Management believes that the mortgage loans will be renewed on comparable terms.

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

8 Convertible debentures

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

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

8 ***Convertible debentures (continued)***

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

June 30, 2009	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,428,263	$ 2,835,690	$ 14,263,953
Series F - 7.5%, due March 11, 2011	12,167,088	3,564,376	15,731,464
Series G - 7.5%, due December 31, 2011	21,849,378	6,704,571	28,553,949
	45,444,729	13,104,637	58,549,366
Unamortized transaction costs	(1,344,558)	-	(1,344,558)
	$ 44,100,171	$ 13,104,637	$ 57,204,808

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

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

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

The accretion of the debt component for the three months ended June 30, 2009 of $687,977 (2008 - $593,791) and for the six months ended June 30, 2009 of $1,354,332 (2008 - $1,192,301), which increases the debt component from the initial carrying amount, is included in financing expense.

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 $46,718,001, as a result of a breach of the debt service coverage requirement.

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

9 Accounts payable and accrued liabilities

	June 30 2009	December 31 2008 (audited)
Accounts payable and accrued liabilities	$ 6,729,662	$ 3,220,363
Payable on acquisition of Parsons Landing	47,720,000	48,220,000
Construction costs payable	1,485,685	254,432
Mortgage and debenture interest payable	2,411,059	2,489,877
Mortgage guarantee fees payable	318,608	-
Tenant security deposits	2,842,766	3,238,535
Interest rate swaps	6,872,950	4,012,403
	$ 68,380,730	$ 61,435,610

The amount payable on the acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,733,000 expected to be paid October 1, 2009.

Interest Rate Swaps
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. Included in financing expense is a charge of $416,573 for the three months ended June 30, 2009 and $2,860,547 for the six months ended June 30, 2009.

10 Bank indebtedness

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

11 *Future income taxes*

Future income taxes consists of the following components:

	June 30 2009	December 31 2008 (audited)
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis held in the Trust expected to reverse after 2010 for:		
Income properties	$ 5,129,187	$ 288,696
Transaction costs	82,631	(89,554)
	5,211,818	199,142
Future tax asset relating to discontinued operations	3,447,768	3,230,289
Valuation allowance	(8,659,586)	-
	$ -	$ 3,429,431

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

	June 30 2009	December 31 2008 (audited)
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax liability relating to the temporary differences between the accounting and tax basis of income properties held in wholly owned subsidiaries	$ (342,848)	$ 393,569
Future income tax asset relating to operating losses of wholly owned subsidiaries	(1,960,747)	(1,569,604)
	(2,303,595)	(1,176,035)
Valuation allowance	2,303,595	1,569,604
	$ -	$ 393,569
Future income tax liability relating to the wholly owned subsidiaries of discontinued operations	$ 3,084,489	$ 3,124,628

11 Future income taxes (continued)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Future income tax expenses (recoveries):				
Trust				
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:				
Income properties	$ 5,774,053	$ 4,431,684	$ (1,610,202)	$ 2,701,887
Transaction costs	(97,975)	(28,412)	(172,185)	(41,248)
Valuation allowance	(5,676,078)	-	5,211,818	-
	-	4,403,272	3,429,431	2,660,639
Wholly owned subsidiaries				
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	(76,980)	(99,115)	(734,951)	(95,987)
Increase (decrease) in future income tax liability resulting from changes in tax rates	33,807	183,570	2,713	223,214
Decrease (increase) in future income tax asset resulting from operating losses	(208,368)	(132,772)	(338,667)	(382,598)
Valuation	510,062	-	667,335	-
	$ 258,521	$ 4,354,955	$ 3,025,861	$ 2,405,268
Future income tax (recovery) for discontinued operations	$ 44,452	$ (118,792)	$ 48,502	$ (122,304)

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

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,353,597
2028	2,437,741
2029	1,252,625
	$ 6,157,219

12 Non-controlling interest

Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of LREIT Village West LP, an entity controlled by the Trust, which is consolidated in the financial statements. The holder of the LP Units of Village West LP is entitled to receive distributions equal to those provided to holders of units of the Trust. LP Units are transferable and are exchangeable, at the option of the holder on a one for one basis for units of the Trust. As at June 30, 2009, there were 356,617 (2008 - 356,617) LP Units of Village West LP outstanding.

The change in non-controlling interest is summarized as follows:

	June 30 2009	December 31 2008 (audited)
Balance, beginning of period	$ 1,573,258	$ 1,685,103
Share of income of Village West Townhouses	89,997	87,860
Distributions on LP Units of Village West LP	(33,285)	(199,705)
Balance, end of period	$ 1,629,970	$ 1,573,258

13 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management and services agreements with the Trust.

Management agreement

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

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $493,984 for the three months ended June 30, 2009 (2008 - $548,544) and $1,036,381 for the six months ended June 30, 2009 (2008 - $1,038,104). Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development. The property management fees include properties from discontinued operations.

The Trust incurred leasing commissions on commercial properties to Shelter Canadian Properties Limited of $45,881 for the three months ended June 30, 2009 (2008 - nil) and $90,247 for the six months ended June 30, 2009 (2008 - nil). The amounts are capitalized to income properties.

Included in accounts payable and accrued liabilities at June 30, 2009 is a balance of $145,561 (2008 - $118,021), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

13 Related party transactions (continued)

Services agreement
The Trust has renewed the services agreement with Shelter Canadian Properties Limited, with the same terms and conditions, for a term expiring December 31, 2009. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $493,825 for the three months ended June 30, 2009 (2008 - $393,241) and $988,687 for the six months ended June 30, 2009 (2008 - $780,483). Service fees are included in trust expense.

Included in accounts payable and accrued liabilities at June 30, 2009 is a balance of $836,309 (2008 - nil), payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

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

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

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

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

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

14 *Units*

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

	Six Months Ended June 30 2009	Year Ended December 31 2008 (audited)
Outstanding, beginning of period	17,588,081	17,529,894
Issued on distribution reinvestment plan	48,576	514,387
Purchased and cancelled under normal course issuer bid	(99,507)	(456,200)
Outstanding, end of period	17,537,150	17,588,081

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

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

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

15 *Unit option plan*

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

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

Unit-based compensation expense of $72,609 for the three months ended June 30, 2009 (2008 - $36,046) and $160,940 for the six months ended June 30, 2009 (2008 - $227,937), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

15. Unit option plan (continued)

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

	Six Months Ended June 30, 2009		Year Ended December 31, 2008	
	Units	Weighted Average Exercise Price	Units (audited)	Weighted Average Exercise Price
Outstanding, beginning of period	1,452,000	$ 5.56	1,110,000	$ 5.72
Granted, January 7, 2008	-	-	370,000	5.10
Expired, August 11, 2008	-	-	(28,000)	5.73
Outstanding, end of period	1,452,000	$ 5.56	1,452,000	$ 5.56
Vested, end of period	1,009,800		960,400	

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

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	30,000	30,000	January 17, 2011
5.80	935,000	641,000	July 26, 2011
5.30	120,000	120,000	June 8, 2012
5.10	367,000	218,800	January 7, 2013
	1,452,000	1,009,800	

16 Deferred unit plan

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

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

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

16 *Deferred unit plan (continued)*

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

Deferred units granted to Trustees totaled 46,614 and 74,966 for the three and six months ended June 30, 2009, respectively, and 98,494 aggregate deferred units were outstanding at June 30, 2009.

Unit-based compensation expense of $41,125 and $97,344 for the three and six months ended June 30, 2009, respectively, relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

17 *Rentals from income properties*

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $274,688 (2008 - $304,184) for the three months ended June 30, 2009 and $776,046 (2008 - $659,990) for the six months ended June 30, 2009.

18 *Financing expense*

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Mortgage loan interest	$ 4,709,676	$ 3,561,727	$ 9,376,627	$ 6,692,418
Interest on acquisition payable	2,640,436	166,432	4,620,057	597,697
Convertible debenture interest	977,975	977,975	1,955,950	1,987,810
Accretion of the debt component of convertible debentures	687,977	593,791	1,354,332	1,192,301
Amortization of transaction costs	546,411	388,617	1,098,982	749,679
Change in fair value of interest rate swaps	416,573	(51,029)	2,860,547	(51,029)
	$ 9,979,048	$ 5,637,513	$ 21,266,495	$ 11,168,876

19 Amortization

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Building	$ 2,321,529	$ 1,521,195	$ 4,558,713	$ 2,972,103
Furniture, equipment and appliances	357,945	189,676	710,841	368,235
Intangible assets, except for in-place leases	56,044	90,219	137,568	197,838
	2,735,518	1,801,090	5,407,122	3,538,176
Transaction costs	546,411	388,617	1,098,982	749,679
	3,281,929	2,189,707	6,506,104	4,287,855
Difference between contractual and market interest rates on mortgage loans assumed	(11,234)	(10,491)	(22,277)	(168,735)
	$ 3,270,695	$ 2,179,216	$ 6,483,827	$ 4,119,120

20 Supplementary cash flow information

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest paid and received				
Interest paid on mortgage loans	$ 4,735,425	$ 3,820,334	$ 9,455,446	$ 7,264,137
Interest paid on acquisition payable	$ 1,100,000	$ 414,949	$ 2,476,772	$ 699,334
Interest paid on convertible debentures	$ 964,950	$ 964,950	$ 1,955,950	$ 1,994,876
Interest received on mortgage loans receivable	$ -	$ 105,479	$ -	$ 258,405
Other interest received	$ 101,934	$ 93,514	$ 328,445	$ 239,437
Cash distributions				
Distributions declared	$ -	$ 2,463,744	$ 1,635,079	$ 4,920,645
Distributions payable beginning of period	-	819,940	-	-
Distributions payable end of period	-	(821,599)	-	(821,599)
Distributions to participants in the DRIP	-	(350,116)	(104,343)	(539,777)
Distributions paid on units	$ -	$ 2,111,969	$ 1,530,736	$ 3,559,269

21 Per unit calculations

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

Loss per unit calculations are based on the following:

Continuing Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Loss	$ (4,661,844)	$ (4,842,128)	$ (12,698,776)	$ (4,615,381)
Diluted loss	$ (4,661,844)	$ (4,842,128)	$ (12,698,776)	$ (4,615,381)
Units	17,467,741	17,517,930	17,455,043	17,493,686
Vested deferred units	901	-	12,122	-
Weighted average basic number of units	17,468,642	17,517,930	17,467,165	17,493,686
Weighted average diluted number of units	17,468,642	17,517,930	17,467,165	17,493,686

Discontinued Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Income	$ 705,117	$ (146,683)	$ 211,330	$ (373,129)
Diluted income	$ 705,117	$ (146,683)	$ 211,330	$ (373,129)
Units	17,467,741	17,517,930	17,455,043	17,493,686
Vested deferred units	901	-	12,122	-
Weighted average basic number of units	17,468,642	17,517,930	17,467,165	17,493,686
Weighted average diluted number of units	17,468,642	17,517,930	17,467,165	17,493,686

22 Financial instruments and risk management

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

Liquidity risk
The Trust is in breach of the 1.4 times debt service coverage requirement on two first mortgage loans totalling $46,718,001 in Fort McMurray. The Trust has received notice from the lender that the debt service covenant must be achieved as of September 30, 2009. The Trust has requested the lender reduce the existing debt service covenant. There is no assurance that the lender will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

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

In addition, the Trust has one first mortgage loan, in the amount of $12,835,570, that has matured and has yet to be renewed. Management believes the loan will be renewed or replaced with other mortgage loan financing. There is no assurance, however, that the lender will not demand payment of the mortgage loan.

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

The economic uncertainty which currently exists has resulted in a more restrictive lending market.

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

As at June 30, 2009, the weighted average term to maturity of the fixed rate mortgages on income properties, excluding properties under development, is 4.2 years (2008 - 4.8 years).

22 Financial instruments and risk management (continued)

Liquidity risk (continued)

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

Year ending December 31	Mortgage Loans Payable	Convertible Debentures	Total
2009 - remainder of year	$106,604,551	$ -	$106,604,551
2010	47,385,290	11,950,000	59,335,290
2011	12,490,751	39,412,000	51,902,751
2012	40,258,161	-	40,258,161
2013	41,436,066	-	41,436,066
Thereafter	107,283,939	-	107,283,939
	$355,458,758	$ 51,362,000	$406,820,758

Interest rate risk

Interest risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgages with terms as favourable as those of existing mortgages. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At June 30, 2009 the percentage of fixed rate mortgage loans to total mortgage loans was 74% (2008 - 74%).

As at June 30, 2009, the Trust has total contractual mortgage principal maturities on income properties to December 31, 2012 of $97,681,032, representing 27.5% of the mortgage loans principal balance. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $976,810 per year.

The Trust has floating rate mortgages on income properties (excluding floating rate mortgages in the amount of $20,471,647 and $22,364,967, with interest rates fixed at 5.74% and 5.82% respectively by use of interest rate swap arrangements) totaling $85,955,605, or 22.7% of the total mortgage loans principal balance as at June 30, 2009 (2008 - 21.1%).

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

As at June 30, 2009, the Trust had total floating rate mortgages of $92,891,175. Should interest rates change by 1%, financing expense would change by $928,912 per year.

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

22 Financial instruments and risk management *(continued)*

Credit risk

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

Thirteen properties, representing 65% of rentals from income properties, are located in Fort McMurray, Alberta. The credit risk associated with the tenants in Fort McMurray is mitigated due to the long-term nature of the oil sands industry and the credit worthiness of the commercial tenants which comprise a significant portion of the rent receivable. The Trust has a corporate tenant that accounts for 18% of rentals from income properties for the six months ended June 30, 2009. Credit risk, in this regard, has been managed by the Trust leasing to a credit worthy tenant.

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

	June 30 2009	December 31 2008 (audited)
Rent receivable overdue:		
0 to 30 days	$ 574,073	$ 274,414
31 to 60 days	58,278	68,006
More than 60 days	125,568	94,183
	$ 757,919	$ 436,603

A reconciliation of allowance for doubtful accounts is as follows:

	June 30 2009	December 31 2008 (audited)
Balance, beginning of period	$ 74,676	$ 36,672
Amount charged to bad debt expense relating to impairment of rent receivable	92,081	142,553
Amounts written off as uncollectible	(69,238)	(104,549)
Balance, end of period	$ 97,519	$ 74,676
Amount charged to bad debts as a percent of rentals from income properties	0.32%	0.28%

Currency risk

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

22 Financial instruments and risk management *(continued)*

Other price risk

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

Fair values

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

The fair value of the fixed rate mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of fixed rate mortgage loans payable for the period ended June 30, 2009 is $367,000,000 (December 31, 2008 - $371,000,000).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable for the period ended June 30, 2009 is $19,942,200 (December 31, 2008 - $33,290,680).

23 Management of capital

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

	June 30 2009	December 31 2008 (audited)
Mortgage loans payable	$355,458,758	$356,018,830
Convertible debentures		
Debt component	45,444,729	44,090,397
Equity component	13,104,637	13,104,637
	58,549,366	57,195,034
Trust units	79,737,864	79,750,666
	$493,745,988	$492,964,530

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

23 Management of capital

The overall capital management strategy addresses the following considerations:

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

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

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

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

24 Segmented financial information

Six months ended June 30, 2009:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	20,244,839	371,374	1,617,220	3,063,138	3,519,139	-	28,815,710
Interest and other income	262,337	2,946	141	11,726	32,425	18,870	328,445
Property operating costs	5,795,729	127,568	1,356,138	1,234,085	2,123,659	-	10,637,179
Financing expense	14,118,077	92,196	817,739	634,474	698,129	4,905,880	21,266,495
Amortization	3,895,172	118,067	328,719	455,171	609,993	-	5,407,122
Income (loss) from continuing operations	(3,301,802)	36,489	(240,924)	751,134	(220,955)	(9,722,718)	(12,698,776)
Total assets from continuing operations	356,825,982	5,456,078	46,113,396	38,400,905	35,251,204	731,363	482,778,928

24 Segmented financial information (continued)

Six months ended June 30, 2008:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	14,149,289	323,469	692,613	3,008,572	3,262,460	-	21,436,403
Interest and other income	160,324	1,849	198	18,857	26,346	309,388	516,962
Property operating costs	4,384,003	186,861	413,748	1,208,760	1,937,646	-	8,131,018
Financing expense	5,302,664	58,648	350,260	645,038	689,687	4,122,579	11,168,876
Amortization	2,212,422	115,675	138,510	438,351	633,218	-	3,538,176
Income (loss) from continuing operations	2,410,533	(35,864)	12,277	735,283	23,122	(7,760,732)	(4,615,381)
Total assets from continuing operations	301,197,436	5,615,040	45,820,466	38,969,874	36,074,812	14,354,596	442,032,224

Three months ended June 30, 2009:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	9,452,570	189,947	898,445	1,532,619	1,800,675	-	13,874,256
Interest and other income	71,971	1,504	109	6,433	19,080	2,837	101,934
Property operating costs	2,576,692	65,297	770,390	601,439	937,648	-	4,951,466
Financing expense	6,327,888	46,193	448,348	316,884	365,760	2,473,975	9,979,048
Amortization	1,953,844	59,034	192,906	231,838	297,896	-	2,735,518
Income (loss) from continuing operations	(1,333,883)	20,927	(496,778)	388,891	(107,776)	(3,133,225)	(4,661,844)
Total assets from continuing operations	356,825,982	5,456,078	46,113,396	38,400,905	35,251,204	731,363	482,778,928

Three months ended June 30, 2008:

	Alberta	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	7,632,317	181,847	461,843	1,501,550	1,659,771	-	11,437,328
Interest and other income	70,925	818	95	8,566	9,690	93,572	183,666
Property operating costs	2,199,767	87,951	281,343	594,540	936,831	-	4,100,432
Financing expense	2,656,817	32,500	189,134	321,360	343,817	2,093,885	5,637,513
Amortization	1,137,924	57,938	69,255	219,271	316,702	-	1,801,090
Income (loss) from continuing operations	1,708,737	4,281	(32,329)	374,948	57,816	(6,955,581)	(4,842,128)
Total assets from continuing operations	301,197,436	5,615,040	45,820,466	38,969,874	36,074,812	14,354,596	442,032,224

25 Commitments

Acquisition

Parsons Landing Apartments

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

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

The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing together with interest until October 1, 2009. The vendor has accepted payment of $500,000 on May 12, 2009 to be applied to the balance owing. The vendor has accepted interest payments of $300,000 per month for March, April and May 2009 and has agreed to accept interests payment of $300,000 per month for June to September 2009. The vendor has also agreed to provide a $15,000,000 second mortgage with a one year term, and to reduce the acquisition balance by $3,100,000 on closing. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $30,000,000 by October 1, 2009.

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

Management Contracts

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

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

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

26 Contingent consideration on acquisition

Elgin Lodge
During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at June 30, 2009 of $374,925 (2008 - $314,869), which increases the cost of the building, is included in accounts payable and accrued liabilities.

Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at June 30, 2009 of $395,926 (2008 - $313,951), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

27 Subsequent events

Mortgages renewed
Three mortgage loans totaling $4,928,727 have matured subsequent to June 30, 2009 and each has been renewed for one year at existing terms.

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

28 Comparative figures

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