LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2009

TABLE OF CONTENTS

Unitholder Returns

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Distribution per unit	$0.09	$0.56
Opening unit price	$2.30	$4.99
Closing unit price	$0.42	$2.30

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

PRESIDENT'S MESSAGE

During the third quarter of 2009, Lanesborough Real Estate Investment Trust ("LREIT") incurred a loss from continuing operations, before taxes, of $3,630,897, compared to income from continuing operations, before taxes, of $871,410 during the third quarter of 2008. The extent of the third quarter loss in 2009 is primarily due to a reduction in operating income from the property portfolio in Fort McMurray, Alberta and an increase in financing expense related to mortgage loans payable, including a large non-cash component which pertains to a change in the fair value of interest swap arrangements.

LREIT has a high concentration of properties in Fort McMurray and the 2009 slowdown of development activity in the oil sands industry has led to a significant decrease in the occupancy levels of the Fort McMurray properties and a corresponding decrease in operating income and operating cash flows. The decline in rental housing market conditions in Fort McMurray has also been the primary underlying factor in the delay in the acquisition of Parsons Landing. Slower oil sands construction reduced the earnings potential of the property and created difficulties in obtaining first mortgage loan financing. The reduction in cash flow from the Fort McMurray property portfolio also created working capital constraints for LREIT and resulted in the suspension of distributions in March 2009.

After including the operating results from discontinued operations, LREIT completed the third quarter of 2009 with a loss before taxes of $3,146,599, compared to income before taxes of $366,257 during the third quarter of 2008. The cash flow results of LREIT reflect a similar trend with the Trust completing the third quarter of 2009 with cash flow from operating activities, from both continued and discontinued operations, of $380,597, compared to $2,283,931 in the third quarter of 2008.

For the nine months ended September 30, 2009, LREIT generated cash flow from operating activities, from both continued and discontinued operations, of $4,159,969, compared to $6,653,863 for the nine months ended September 30, 2008. The cash flow results for the first nine months of 2009 are comprised of the third quarter cash flow of $380,597 and cash flow for the six month period ended June 30, 2009 of $3,779,372. The decrease in cash flow in the third quarter of 2009, compared to the first six months of the year, is mainly due to an increase in the vacancy loss for the Fort McMurray property portfolio during the third quarter of 2009 and a corresponding reduction in operating income.

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

Financial Summary - Nine Months Ended September 30, 2009

	2009 Q3	2009 Q2 Comparison		2008 Q3 Comparison	
	Amount	Amount	Increase (Decrease)	Amount	Increase (Decrease)
Cash from operating activities, including discontinued operations	$ 380,597	$ 1,278,582	$ (897,985)	$ 2,283,931	$ (1,903,334)
Distributable income	$ 638,868	$ 1,069,790	$ (430,922)	$ 3,383,754	$ (2,744,886)
FFO	$ (265,623)	$ (702,323)	$ 436,700	$ 3,504,721	$ (3,770,344)
AFFO	$ 179,666	$ 331,880	$ (152,214)	$ 1,991,940	$ (1,812,274)
Revenue	$ 11,961,723	$ 13,568,133	$ (1,606,410)	$ 14,166,763	$ (2,205,040)
NOI	$ 7,141,364	$ 8,749,100	$ (1,607,736)	$ 9,827,827	$ (2,686,463)
Loss from continuing operations before future income taxes	$ (3,630,897)	$ (3,964,404)	$ 333,507	$ 871,410	$ (4,502,307)
Income (loss) for the period	$ (3,146,599)	$ (3,956,727)	$ 810,128	$ (2,433,198)	$ (713,401)

In the third quarter of 2009, "discontinued operations" reflects the operating results of 12 properties which are classified as "held for sale" under the divestiture program of LREIT. In March of 2009, LREIT commenced a divestiture program, with the objective of generating minimum gross proceeds of $250 Million from the sale of selected properties in order to create funds for the repayment of debt and to restore working capital. Subsequent to September 30, 2009, five of the "held for sale" properties were sold, resulting in gross sale proceeds of $57.3 Million and net sale proceeds of approximately $4.5 Million, after discharging approximately $31.4 Million in mortgage loan debt, repaying $12.5 Million of interim mortgage loan debt and $7.1 Million of take-back mortgage loan financing. In addition, eight properties were sold subsequent to September 30, 2009, resulting in gross proceeds of $33.1 Million and net sale proceeds of $11.8 Million, after discharging $20.5 Million in mortgage loan debt.

LREIT has also recently entered into unconditional sale agreements for two additional properties, both of which were classified as "held for sale" as of September 30, 2009. The properties are scheduled to close on March 1, 2010. The sales are expected to generate proceeds of approximately $19.2 Million. Net of $3 Million of second mortgage loan financing which was provided by LREIT, the sales are expected to result in net sale proceeds of $6.4 Million, after discharging approximately $9.4 Million of mortgage loan debt.

The decline in the rental housing market in Fort McMurray has negatively impacted the operation of LREIT, however, the efforts which have been undertaken by management to generate funds from the divestiture program are yielding positive results and leading to a significant improvement in the cash position of the Trust. Following the sale of the six additional properties by December 1, 2009 and the expected sale of the other properties in the upcoming months, it is anticipated that LREIT will have sufficient cash resources to sustain operations until the expected recovery of the Fort McMurray economy in 2010. The improved liquidity and debt position of the Trust is also expected to lead to the resolution of mortgage loan issues, including the finalization of the Parsons Landing financing and the modification of debt service covenant requirements during 2010.

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information

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

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

Purchase Price Information

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

Divestiture Program

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

As of September 30, 2009, 12 properties are classified as "properties held for sale" and reported separately in the consolidated financial statements as discontinued operations, in accordance with generally accepted accounting principles (refer to Note 6 to the consolidated financial statements). The number and related estimated proceeds and net book value of properties disclosed in this MD&A may differ from the "properties held for sale", reported in accordance with generally accepted accounting principles, in the consolidated financial statements.

Assets, liabilities, revenues, expenses and cash flows reflected in this MD&A are in regard to the remaining 32 properties which are classified as continuing operations, unless otherwise indicated.

Estimated Current Value

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

In summary, the total estimated current value of the total property portfolio is $665,000,000, of which $488,400,000 relates to continuing operations. The total estimated current value of $488,400,000 from continuing operations is comprised of the 13 Fort McMurray properties and the 2 Ontario senior housing complexes that are stated at total purchase price of $377,300,000, 9 properties totaling $37,800,000 that are stated at either unconditional or conditional sale price and 8 properties totaling $73,300,000 that are stated at 2.4% in excess of appraised value.

The decline in estimated current value from the amount of $746,890,000 stated in June 30, 2009 is mainly due to the reduced valuation of the Fort McMurray properties at purchase price as of September 30, 2009.

Appraised Value

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 September 30, 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 September 30, 2009.

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

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
DISTRIBUTIONS				
Total, including distributions on LP units	$ -	$ 2,509,938	$ 1,668,364	$ 7,513,793
Per unit	$ -	$ 0.14	$ 0.09	$ 0.42
KEY PERFORMANCE INDICATORS (1)				
Operations				
Average income property occupancy rate	76 %	96 %	84 %	95 %
Income property operating cost ratio	40 %	31 %	38 %	35 %
Operating Results				
Total revenue	$ 11,961,723	$ 14,166,763	$ 40,296,761	$ 35,396,037
Net operating income *	$ 7,141,364	$ 9,827,827	$ 25,163,024	$ 23,265,126
Income (loss) from continuing operations for the period before future income tax *	$ (3,630,897)	$ 871,410	$ (12,411,955)	$ (1,337,854)
Loss for the period	$ (3,146,599)	$ (2,433,198)	$ (15,634,045)	$ (7,421,708)
Cash Flows				
Cash flow from operating activities, including discontinued operations	$ 380,597	$ 2,283,931	$ 4,159,969	$ 6,653,863
Funds from Operations (FFO) *	$ (265,623)	$ 3,504,721	$ (3,062,019)	$ 5,560,608
Adjusted Funds from Operations (AFFO) *	$ 179,666	$ 1,991,940	$ 1,423,025	$ 5,214,954
Distributable income *	$ 638,868	$ 3,383,754	$ 3,204,333	$ 7,439,154
Financing				
Total mortgage loans to total estimated current value ratio *			74 %	63 %
Weighted average interest rate of mortgage loans *			5.3 %	6.0 %
Per Unit				
Net operating income *				
- basic	$ 0.405	$ 0.561	$ 1.440	$ 1.329
- diluted	$ 0.280	$ 0.385	$ 0.997	$ 0.911
Income (loss) from continuing operations for the period, before future income tax*				
- basic	$ (0.206)	$ 0.050	$ (0.710)	$ (0.076)
- diluted	$ (0.206)	$ 0.048	$ (0.710)	$ (0.076)
Income (loss) for the period				
- basic	$ (0.179)	$ (0.139)	$ (0.895)	$ (0.424)
- diluted	$ (0.179)	$ (0.139)	$ (0.895)	$ (0.424)
Distributable income *				
- basic	$ 0.036	$ 0.193	$ 0.183	$ 0.425
- diluted	$ 0.032	$ 0.170	$ 0.171	$ 0.395
Funds from Operations (FFO) *				
- basic	$ (0.015)	$ 0.200	$ (0.175)	$ 0.318
- diluted	$ (0.015)	$ 0.194	$ (0.175)	$ 0.308
Adjusted Funds from Operations (AFFO) *				
- basic	$ 0.010	$ 0.114	$ 0.081	$ 0.298
- diluted	$ 0.006	$ 0.110	$ 0.071	$ 0.284

(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 THIRD QUARTER RESULTS

Overall Change in Property Portfolio and Debt

	Since December 31, 2008	Since September 30, 2008
Increase in income-producing properties	1 property	1 property
Increase (decrease) in mortgage loans payable	$ (5,775,491)	$ 27,461,950

Other Key Variables

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Average rental rate of income property portfolio	$1,688	$1,758	$1,726	$1,724
Vacancy rate of income property portfolio	24%	4%	16%	5%
Profit margin of income property portfolio	60%	69%	62%	65%

	Nine Months Ended September 30		Year Ended
	2009	2008	December 31, 2008
Weighted average interest rate of mortgage loan debt	5.34%	6.00%	5.59%
Ratio of mortgage loan debt to purchase price of income producing properties	82%	84%	83%
Cash (bank indebtedness), net of line of credit	(2,625,936)	14,383,532	229,892

Status of Parsons Landing

- Payment date on the balance owing extended from October 1, 2009 to May 31, 2010.
- Vendor agreed to forgive interest payable on the balance owing of $4,092,462, representing accrued interest, in excess of the $300,000 monthly interest payments, for the period from March 2009 to September 2009.
- Vendor agreed to forgive interest payable on the balance owing of $1,156,418 representing accrued interest, in excess of the $300,000 monthly interest payments, for October 2009 and November 2009.
- In accordance with GAAP, $1,609,373 of forgiven interest is recorded in the third quarter of 2009 as a reduction to financing expense. The remaining amount of forgiven interest, of $2,483,089, will be recorded in the fourth quarter of 2009.

Operating Results - Continuing Operations

2009 Nine Months vs 2008 Nine Months

- NOI increased by $1,897,898 or 8%, mainly due to the incremental income associated with new income-producing properties, partially offset by a decrease in the NOI of the "same property" portfolio in Fort McMurray. The loss before taxes increased by approximately $11.1 Million, primarily due to an increase in financing expense of approximately $10.7 Million. The increase in financing expense is mainly due to an increase in interest expense associated with the amount payable for Parsons Landing; an increase in financing charges related to the change in value of interest rate swap agreements and an increase in mortgage loan interest resulting from the debt of new properties and an overall increase in the amount of interim financing.
- The increase in financing expense associated with the amount owing on Parsons Landing of approximately $4.2 Million is net of a third quarter "credit" of approximately $1.6 Million in regard to the forgiveness of interest. The remaining amount of the forgiven interest of approximately $2.5 Million will be recorded in the fourth quarter of 2009.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $4.7 Million in comparison to the first nine months of 2008.

2009 Q3 vs 2008 Q3

- NOI decreased by $2,686,463 or 27% mainly due to an increase in the vacancy loss of the property portfolio in Fort McMurray.
- Loss before taxes increased by approximately $4.5 Million. The increased loss mainly reflects the decrease in NOI and an increase in financing expense related to mortgage loans payable, including a large non-cash component which pertains to a change in the value of interest rate swap agreements.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by $3.2 Million.

2009 Q3 vs 2009 Q2

- NOI decreased by $1,607,736 or 18.4%, mainly due to an increase in the vacancy loss of the Fort McMurray portfolio.
- Loss before taxes increased by $333,507. The increased loss mainly reflects a decrease in financing expense largely offset by the decline in NOI. The decrease in financing expense is mainly due to the credit of $1,609,373 which was recorded in the third quarter in regard to the forgiveness of interest.

Status of Divestiture Program

- The objective of the divestiture program is to generate $250 Million of gross proceeds from sales of selected properties in order to repay mortgage loan and convertible debenture debt and restore working capital.
- As of the date of this report, thirteen properties have been sold (all in the fourth quarter of 2009) generating gross proceeds of approximately $90.4 Million and net proceeds of approximately $16.3 Million.
- As of the date of this report, LREIT has also entered into unconditional sale agreements for two properties, both of which were classified as "held for sale" as of September 30, 2009. The properties are scheduled to close on March 1, 2010. Estimated gross proceeds from sale are approximately $19.2 Million and net proceeds are approximately $6.4 Million.

CONTINUING OPERATIONS

As disclosed in Note 1 to the September 30, 2009 Financial Statements, the Trust sustained net losses in the first nine months of 2009, has a working capital deficit as of September 30, 2009 and is in breach of a debt service coverage covenant requirements on three first mortgage loans totaling approximately $101.5 Million of which approximately $46.5 Million is on two mortgage loans from the same lender and $55 Million is on one mortgage loan from another lender. As of December 31, 2009, LREIT is also in breach of the debt service coverage requirement for a second mortgage loan of approximately $17.7 Million and an additional first mortgage loan of approximately $5.1 Million. The covenant breaches could potentially result in a lender demanding repayment of the loans and also result in $25.6 Million of convertible debenture debt becoming due and payable.

In regard to the breach on the two first mortgage loans of approximately $46.5 Million, LREIT has requested that the lender waive or modify the existing debt service coverage requirements. In regard to the breach on the $55,000,000 first mortgage loan and the $17.7 Million second mortgage loan, LREIT has received indication that the lender is receptive to providing a forbearance letter, subject to the Trust providing additional security. LREIT will also be pursuing the "forbearance letter" resolution in regard to the $5.1 Million first mortgage loan. The waiver or modification of the debt service coverage requirements and the provision of a forbearance letter would eliminate the violation of the debt covenant and the risk of the mortgage loans and debentures becoming payable on demand. There is no assurance, however, that the lender will not accelerate payment of the mortgage loans. LREIT has also implemented a divestiture program to reduce debt and has suspended distributions. LREIT has been able to refinance all of the mortgage loan debt maturing during 2009.

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

PARSONS LANDING FINANCING

Parsons Landing is an 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, of which $15 Million was paid as of December 31, 2008. The purchase agreement for Parsons Landing allowed for the remaining balance of $48.2 Million to be paid by February 28, 2009. The intent of LREIT was to fund the balance owing with new mortgage loan financing.

As the new mortgage loan financing arrangements were delayed, the vendor agreed to extend the deadline for payment of the balance owing until May 29, 2009, with subsequent extensions to July 31, 2009, October 1, 2009, December 15, 2009 and, most recently, to May 31, 2010. Each payment extension date also represented the deadline date for LREIT to obtain a commitment for the mortgage loan financing for the property. The extension of the payment deadline was conditional upon LREIT submitting interest payments of $300,000 per month, for the months of March 2009 through to September 2009, and remitting a principal payment of $500,000 on May 12, 2009. The vendor has forgiven interest in excess of $300,000 per month to September 30, 2009 in the amount of $4,092,462. The vendor has also agreed to accept interest payments of $300,000 per month for October 2009 and November 2009 and forgive interest in excess of $300,000 per month of $1,156,418.

On closing, the vendor also agreed to provide a second mortgage loan to a maximum of $12 Million for a term of 15 months, with an interest rate of 8% per annum for the first eight months, 12% for the next four months and 24% thereafter and to forgive interest in excess of $300,000 per month for the period from December 1, 2009 to May 31, 2010 of $3,440,762. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $30,000,000 by April 30, 2010. The previous reduction of the purchase price of $3,100,000, on closing, has been rescinded.

In accordance with GAAP, the forgiveness of the accrued interest of $4,092,462 is being recorded, using the effective interest method, during the third and fourth quarter of 2009, representing the "remaining term" of the agreement with the vendor. Specifically, the forgiveness of interest has resulted in a reduction in interest expense of $1,609,373 in the third quarter of 2009, with an additional reduction of $2,483,089 to be recorded in the fourth quarter of 2009. In addition the forgiveness of interest from October 1 to December 31, 2009 of $1,749,177 will be recorded in the three months ending December 31, 2009.

The forgiveness of interest by the vendor and the related accounting entries, has resulted in a decrease in interest expense pertaining to the amount payable on Parsons Landing during the third quarter of 2009, compared to the interest expense for Parsons Landing in the first and second quarter of 2009.

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

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

General

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

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

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

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

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

Investment in Properties

The investment strategy of LREIT has been to create a geographically diversified portfolio of rental properties, offering strong growth potential, with an emphasis on investments in smaller cities across western Canada. In recent years, LREIT focused its investment activities on the acquisition and development of new residential rental properties in Fort McMurray, Alberta due to the high level of economic growth and the favourable rate of return which was being generated by real estate investments in Fort McMurray prior to the decline in oil prices last year.

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

Operations

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

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

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

This report includes an analysis of same property results for the three and nine month period ended September 30, 2009 and for the third quarter of 2009, compared to the second and first quarter of 2009.

Financing

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

Pursuant to the terms of the Declaration of Trust, the total mortgage indebtedness of LREIT shall not exceed 75% of the appraised value of LREIT's total property portfolio. As of September 30, 2009, the total mortgage indebtedness of LREIT was less than 75% of the appraised value of LREIT's total property portfolio.

The ratio of net operating income, to mortgage loan debt service costs, is one of the measures utilized to assess the overall financial position of the Trust. During the first nine months of 2009, the mortgage loan debt service coverage ratio was 1.28, compared to 1.27 during the first nine months of 2008 and 1.28 during the second quarter of 2009.

Divestiture Program

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

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

On October 1, 2009, LREIT sold three properties at a combined gross selling price of $35.57 Million, while a fourth property was sold on November 1, 2009 at a gross selling price of $7.9 Million. The four property sales resulted in total net cash proceeds of approximately $2.5 Million, after discharging $25.7 Million of the mortgage loan debt. The net cash proceeds were used to repay $12.5 Million of the higher cost interim mortgage loan debt.

On December 7, 2009, LREIT sold its portfolio of six apartment properties in Prince Albert, Saskatchewan for $17.4 Million. The sales generated net cash proceeds of $6.2 Million, after the repayment of $10.7 Million of first mortgage loan debt.

On December 7, 2009, LREIT sold Broadview Meadows for $9.1 Million. The sale generated net cash proceeds of $3.6 Million, net of approximately $5.2 Million of first mortgage loan debt.

On December 7, 2009, LREIT sold Greenwood Gardens for $13.8 Million. The sale generated net cash proceeds of $2 Million after a vendor take back mortgage of $6.5 Million and the assumption of the mortgage loan on the property by the purchaser.

On December 22, 2009, LREIT sold Sir Robert Borden Place for $6.6 Million. The sale generated net cash proceeds of $1.8 Million after the repayment of approximately $4.6 Million of first mortgage loan debt.

Subsequent to September 30, 2009 LREIT entered into an unconditional contract to sell Chancellor Gate for $8 Million. The sale is scheduled to close on March 1, 2010 and result in net cash proceeds of approximately $3.3 Million after the repayment of approximately $4.6 Million of first mortgage loan debt.

Subsequent to September 30, 2009 LREIT entered into an unconditional contract to sell McIvor Mall for $11.2 Million. The sale is scheduled to close on March 1, 2010 and result in net cash proceeds of approximately $3.1 Million after a vendor take back mortgage of $3.0 Million and the repayment of approximately $4.8 Million of first mortgage loan debt.

Distributions

In 2008, the Fort McMurray property portfolio accounted for 60% of the total net operating income of LREIT, including net operating income from discontinued operations. The decline in rental market conditions in Fort McMurray has significantly affected the overall cash flows of the Trust and the ability of the Trust to fund distributions.

In March 2009, after paying a distribution of $0.04667 per unit for January 2009 and February 2009, LREIT implemented a change in its distribution policy from monthly distributions to quarterly distributions. Under the revised distribution policy, The Trust planned to pay quarterly distributions of $0.06 per unit ($0.24 per unit annualized) on July 15, October 15 and December 31 to the unitholders of record as of June 30, September 30 and December 15, respectively. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT did not proceed with the planned distribution for the second quarter of 2009 and since then, cash distributions have been suspended.

The sale of properties in 2009 is expected to result in total taxable capital gains of $9.7 Million.

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

REAL ESTATE PORTFOLIO

Portfolio Summary - September 30, 2009

As of September 30, 2009, the property portfolio of LREIT consists of 32 income-producing properties, one property under development (the addition to Elgin Lodge) and 12 properties which are classified as "held for sale". (The 12 "held for sale" properties are disclosed under "Assets of discontinued operations" on the balance sheet of the Trust.) The entire property portfolio has a total purchase price of $597 Million and encompasses 3,913 suites and 307,735 square feet of leasable area.

Aside from the reclassification of the 12 "held for sale" properties, the only change in the property portfolio during the first nine months of 2009 was the inclusion of the Clarington Seniors Residence as an income-producing property, effective February 1, 2009. The building addition to Elgin Lodge will be classified as an "income-producing" property, on October 1, 2009.

During the third quarter of 2009, the only change in the property portfolio was the reclassification of two additional properties (Nova Villa and Village West) to the "held for sale" category.

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

Properties Held for Sale

The status of the twelve properties which were classified as "held for sale" as of September 30, 2009 is, as follows:

Property	Status	Estimated Selling price	Estimated Net cash proceeds
Chancellor Gate	Conditional sale	7.9 Million	3.3 Million
Colony Square	Listed for sale	46.0 Million	23.6 Million
Greenwood Gardens *	Unconditional sale	13.8 Million	2.0 Million
Kenaston *	Unconditional sale	18.4 Million	6.1 Million
156 / 204 East Lake Blvd.	Conditional sale	3.5 Million	1.7 Million
McIvor Mall	Listed for sale	12.0 Million	2.4 Million
Nova Manor	Conditional sale	3.6 Million	1.3 Million
Nova Ridge Estates *	Unconditional sale	10.5 Million	3.4 Million
Nova Villa *	Unconditional sale	6.7 Million	2.2 Million
Riverside Terrace	Conditional sale	35.6 Million	22.6 Million
Village West *	Unconditional sale	7.9 Million	2.2 Million
Willowdale Gardens	Listed for sale	8.5 Million	4.6 Million
		174.4 Million	75.4 Million

*Sold subsequent to September 30, 2009

As previously disclosed in this report, LREIT sold Broadview Meadows, Sir Robert Borden Place, and its portfolio of six apartment properties in Prince Albert, Saskatchewan in response to unsolicited offers. As the sale agreements became unconditional subsequent to September 30, 2009, the operating results of the eight properties are included in continuing operations to September 30, 2009. The eight properties were classified as held for sale and sold subsequent to September 30, 2009.

Analysis of Operating Results for Properties Held For Sale

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

Accordingly, in this report, the analysis of operating results excludes the revenues and expenses associated with the 12 properties which are being held for sale, except where noted.

CAPITAL STRUCTURE

Capital Structure - September 30, 2009

	September 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	$ 334,219,839	71.9 %	$ 340,188,055	72.2 %
Convertible debentures - face value	51,362,000	11.0 %	51,362,000	10.9 %
Trust units (net of issue costs)	79,801,196	17.1 %	79,750,666	16.9 %
Total capitalization	$ 465,383,035	100.0 %	$ 471,300,721	100.0 %

Mortgage Loans Payable

The mortgage loans payable of LREIT are comprised of two components, namely mortgage loans payable for continuing operations and mortgage loans payable for properties "held for sale". The mortgage loans payable for continuing operations are disclosed on the balance sheet of LREIT as "Mortgage Loans Payable", while the mortgage loans payable for properties "held for sale" are included in "Liabilities of Discontinued Operations" on the balance sheet. The mortgage loans payable component of "Liabilities of Discontinued Operations" is disclosed in note 6 of the financial statements.

Mortgage Loans Payable - Discontinued Operations

As of September 30, 2009, the mortgage loans payable for the 12 "held for sale" properties amounted to approximately $113.5 Million. Subsequent to September 30, 2009, approximately $31.4 Million of the mortgage loans were discharged as a result of the sale of five of the "held for sale" properties.

During the first nine months of 2009, $4.5 Million of the mortgage loan debt for "held for sale" properties was also discharged from the proceeds of new mortgage loan debt for income-producing properties.

In October 2009, LREIT applied $11.5 Million of sale proceeds toward the repayment of mortgage loans payable for continuing operations.

In November 2009, LREIT applied $1 Million of sale proceeds toward the repayment of mortgage loans payable for continuing operations.

Mortgage Loans Payable - Continuing Operations

During the first nine months of 2009, the balance of mortgage loans payable for continuing operations decreased by $5,775,491, comprised of the following amounts:

	2009 Q3	2009 Q2	2009 Q1	Total
Mortgage loans on existing properties	$ -	$ 500,000	$ -	$ 500,000
Mortgage repayments on refinancing	(1,600,000)	(500,000)	-	(2,100,000)
	$ (1,600,000)	$ -	$ -	(1,600,000)
Principal repayments				(4,368,216)
Change in the difference between contractual and market interest rates on mortgage loans assumed				(33,704)
Change in the unamortized component of transaction costs				226,429
Decrease in mortgage loans payable				$ (5,775,491)

Summary of Mortgage Loans Payable - Continuing Operations

Year of Maturity	Weighted Average Interest Rate	Amount September 30, 2009	Percentage of Total
Fixed rate			
2009	4.8 %	$ 1,786,292	0.5 %
2010	6.8 %	41,654,964	13.2 %
2011	8.6 %	7,131,500	2.1 %
2012	5.6 %	33,013,191	9.9 %
2013 *	5.8 %	44,602,896	13.3 %
2014	6.3 %	35,773,405	10.7 %
2015	4.9 %	11,654,204	3.5 %
2016	5.2 %	41,170,078	12.3 %
2017	5.8 %	4,019,209	1.2 %
2018 *	5.8 %	22,257,000	6.7 %
		243,062,739	72.7 %
Demand/floating rate	3.7 %	91,157,100	27.3 %
Principal amount		334,219,839	100.0 %
Difference between contractual and market interest rates on mortgage loans assumed		77,094	
Unamortized transaction costs		(1,407,405)	
		$ 332,889,528	
Principal amount:			
Income properties		$ 327,284,269	
Properties under development		6,935,570	
		$ 334,219,839	

* Includes floating interest rate mortgages of $22,257,000 and $20,322,676, with interest rates fixed at 5.82% and 5.74% respectively by use of interest rate swap arrangements.

Mortgage Loan Debt Summary *

	2009			2008	
	Q 3	Q 2	Q 1	Q 4	Q 3
Weighted average interest rate					
Fixed rate mortgage loans	6.0%	6.0%	6.0%	5.9%	6.0%
Floating rate mortgage loans	3.7%	3.7%	4.0%	4.6%	5.9%
Ratio of mortgage loans payable, compared to: * Purchase price of income-producing properties	82%	82%	83%	83%	84%
Ratio of total mortgage loans payable, compared to: Total estimated current value of property portfolio	74%	65%	62%	63%	63%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to acquisition cost of income-producing properties	94%	95%	95%	96%	96%

* Excludes debt and property values for "held for sale" properties and Parsons Landing.

Debt Maturities

First Nine Months of 2009

During the first nine months of 2009, $48.6 Million of mortgage loan debt matured, of which $26.2 Million pertained to properties held for sale. All of the debt has been renewed or refinanced.

Fourth Quarter of 2009

As of September 30, 2009, the mortgage loan debt of LREIT included $140.5 Million of mortgage loans which mature during the fourth quarter of 2009. After excluding $23.3 Million of demand loans with terms which extend beyond December 31, 2009, and $101.5 Million of mortgages in breach of debt service coverage requirements, the amount of debt maturing during the fourth quarter of 2009 is $14.6 Million.

Renewal terms have been finalized for all of the debt which is maturing prior to December 31, 2009. LREIT has one mortgage loan in the amount of $2,385,332 that has matured subsequent to January 1, 2010 for which alternate financing arrangements have not been concluded.

A more detailed analysis of mortgage loan debt obligation is provided in the section of this report titled "Capital Resources and Liquidity".

Debt Service Coverage Covenants

As of September 30, 2009, LREIT is in breach of the 1.4 times debt service coverage requirement in respect of two first mortgage loans, in the total amount of $46,454,162, for two properties in Fort McMurray. Notice has been received from the lender that the debt service coverage covenant must be cured. LREIT has requested that the lender waive or modify the existing debt service coverage requirements.

As of September 30, 2009, LREIT is also in breach of the 1.2 times debt service coverage requirement in respect of a first mortgage loan, in the amount of $55,000,000, for another property in Fort McMurray. The lender has confirmed that it is receptive to providing a forbearance letter, subject to LREIT providing additional security, and LREIT is pursuing this avenue to resolve the issue.

As of December 31, 2009 LREIT continued to be in breach of the debt service coverage requirements for the three mortgage loans, as described above.

As of December 31, 2009, LREIT is also in breach of the 1.2 times debt service coverage requirement in respect of a second mortgage loan, in the amount of $17,686,110, for another property in Fort McMurray. The lender has indicated that it is receptive to providing a forbearance letter, subject to LREIT providing additional security and LREIT is pursuing this avenue to resolve the issue

As of December 31, 2009, LREIT is also in breach of the 1.3 times debt service coverage requirement in respect of a first mortgage loan, in the amount of $5,131,500, for a property in Moose Jaw. LREIT will be pursuing the "forbearance letter" resolution with this lender as well.

As of the date of this report, the breaches of the debt service coverage covenant have not resulted in an acceleration of the repayment of any of the mortgage loans; however, there is no assurance that this will continue to be the case. The mortgage loans which are in breach of the covenants do not have any cross default covenants with respect to the other mortgage loans of LREIT. There are cross-default clauses relating to the Series E and F secured convertible debentures.

In general terms, the cross-default clauses relating to the Series E and F secured convertible debentures provide that, if any debt of LREIT is in default for more than ten days and the default results in an amount in excess of $200,000 becoming due and payable and if the default pertains to debt which has a term in excess of 18 months, the Series E and F convertible debentures may become payable, on demand.

Based on the above, there is a risk that the secured convertible debentures, with a face value of $25,630,000, will become payable on demand in the event that a lender demands the repayment of any of the mortgage loans which are in breach of the debt service coverage requirement.

The breach of the debt service coverage requirement for the properties in Fort McMurray is attributable to the negative impact of the slow down of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Given that the rental market conditions in Fort McMurray may not improve substantially in the near future, and if the debt service coverage requirements are not amended, the breach of the debt service covenant requirements may continue throughout 2010

Interim Mortgage Loan Financing

As of September 30, 2009, the mortgage loans payable of LREIT relating to continuing operations include a $17.8 Million interim mortgage loan maturing October 31, 2010 and bearing interest of Prime plus 1.25%

In addition, the mortgage loans payable relating to properties "held for sale" include $33 Million of interim mortgage loan financing, comprised of the following:

Approximate Amount	Maturity Date	Interest Rate
$5.1 Million	November 1, 2009	11.75%
$5.4 Million	January 1, 2010	12.00%
$4.5 Million	April 1, 2010	11.75%
$4.0 Million	April 1, 2010	12.00%
$2.0 Million	September 1, 2010	11.50%
$12.0 Million	October 30, 2010	11.00%
$33 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 "held for sale" property. The loans bear interest at a weighted average rate of 8.7% and require monthly payments of interest only, except for the $17.8 Million loan which requires monthly payments of principal and interest.

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

Subsequent to September 30, 2009, net cash proceeds from sales of assets held for sale were used to repay $12.4 Million of interim mortgage loans.

Acquisition Payable

As previously noted, the amount payable in regard to the acquisition of Parsons Landing, including GST, is $47.7 Million as of September 30, 2009, as well as accrued interest of $2.5 Million. The amount payable, as well as the accrued interest, are disclosed under "accounts payable and accrued liabilities" on the balance sheet of LREIT and, as such, the amount owing is not included in the preceding analysis of "Mortgage Loans Payable".

Vendor Take-Back Mortgages

Mortgage loan payable is a $4 Million interest-only 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.

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, was repaid on September 3, 2009.

Revolving Line of Credit

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

Subsequent to September 30, 2009, the Trust repaid $290,000 in October, $120,000 in November and $4,465,000 in December on the line of credit.

Financing from 2668921 Manitoba Ltd.

Second Mortgage Loan

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

Subsequent to September 30, 2009, the second mortgage loan from $2668921 Manitoba Ltd. was repaid.

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

Revolving Loan

On June 30, 2009, LREIT obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. In September 2009, the loan commitment was increased to $5 Million. The loan bears interest at 7.5%, is due on June 30, 2010 and is secured by second and third mortgage charges on four income properties.

As of September 30, 2009, LREIT had drawn $4,341,192 under the revolving loan commitment.

The Trust drew $600,000 in October, repaid $1,536,192 in November and $3,405,000 in December on the revolving loan from 2668921 Manitoba Ltd.

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

Convertible Debentures

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

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions: Nine Months Ended September 30 2009	Repayments/Unit Conversions: As of December 31, 2008	Net Amount Outstanding September 30 2009
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ -	$ (3,000,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	-	(4,000,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(50,000)	11,950,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
Face value			$ 69,543,000	$ -	$ (18,181,000)	51,362,000
Net accumulated accretion						7,919,209
Unamortized transaction costs						(1,176,790)
Book value, September 30, 2009						$ 58,104,419
Allocation of book value						
Debt component						$ 46,176,572
Equity component						13,104,637
Unamortized transaction costs						(1,176,790)
						$ 58,104,419

The series E and F debentures provide for the outstanding amount of the debentures to become payable on demand, upon defaul and acceleration, 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,	
- September 30, 2009	17,537,150
- November 10, 2009	17,537,150

As of September 30, 2009, LREIT had 17,537,150 units outstanding, representing a decrease of 50,931 units or 0.3%, compared to the number of units outstanding as of December 31, 2008 and a decrease of 23,055 units or 0.1%, compared to the number of units outstanding as of September 30, 2008.

As disclosed on the following chart, the change in units has originated from transactions under the Distribution Reinvestment Plan (DRIP) and the Normal Course Issuer Bid (NCIB). All of the transactions in 2009 occurred during the first quarter of the year.

Issue Date	Units Issued		Equity Raised
Units outstanding, December 31, 2007	17,529,894	$	66,457,466
Units issued under DRIP	213,511		1,067,030
Units purchased and cancelled under normal course issuer bid	(183,200)		(929,328)
Units outstanding, September 30, 2008	17,560,205	$	66,595,168
Units issued under DRIP	300,876		735,096
Units purchased and cancelled under normal course issuer bid	(273,000)		(849,112)
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, September 30, 2009	17,537,150	$	66,313,912

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

ANALYSIS OF INCOME/LOSS

Impact of Property Acquisitions on Income/Loss from Continuing Operations

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 comparative results of the Trust.

In regard to the third quarter comparatives, the portfolio of income-producing properties includes two properties which were classified as "income-producing properties" during, or subsequent to, the third quarter of 2008, as follows:

- Parsons Landing, Fort McMurray, Alberta - classified as "income-producing" on September 1, 2008 (i)
- Clarington Seniors Residence, Bowmanville, Ontario - classified as "income-producing" on February 1, 2009

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

In regard to the nine month comparatives, properties which were classified as income-producing properties during, or subsequent to, the nine month period ended September 30, 2008 include Laird's Landing (on June 1, 2008) and Siena Apartments (on July 2, 2008), as well as Parsons Landing and the Clarington Seniors Residence.

In October 2008, LREIT also acquired Colony Square. As Colony Square is classified as "held for sale", the acquisition of the property does not affect the comparative results for continuing operations.

Overall Results

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Rental revenue	$ 11,882,501	$ 14,077,766	$ 39,897,487	$ 34,802,075
Interest and other income	79,222	88,997	399,274	593,962
Property operating costs	4,820,359	4,338,936	15,133,737	12,130,911
Net operating income (NOI) *	7,141,364	9,827,827	25,163,024	23,265,126
Trust expense	710,801	580,409	2,117,078	1,867,312
Income before financing expense, amortization, and taxes (EBITDA) *	6,430,563	9,247,418	23,045,946	21,397,814
Financing expense	7,441,292	5,906,632	27,574,371	16,866,716
Income before amortization and taxes *	(1,010,729)	3,340,786	(4,528,425)	4,531,098
Amortization	2,620,168	2,469,376	7,883,530	5,868,952
Loss before future income tax *	(3,630,897)	871,410	(12,411,955)	(1,337,854)
Future income tax expense (recovery)	-	2,769,455	3,035,861	5,174,723
Income (loss) from continuing operations	(3,630,897)	(1,898,045)	(15,447,816)	(6,512,577)
Income (loss) from discontinued operations	484,298	(535,153)	(186,229)	(909,131)
Income (loss) for the period	$ (3,146,599)	$ (2,433,198)	$ (15,634,045)	$ (7,421,708)

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

Three Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations, before taxes, of $3,630,897 during the third quarter of 2009, compared to an income from continuing operations, before taxes, of $871,410 during the third quarter of 2008, representing an increase in the loss from continuing operations of approximately $4.5 Million. The increase in the loss is mainly due to a decrease in net operating income of approximately $2.7 Million and an increase in financing expense of approximately $1.5 Million.

The decrease in net operating income reflects a decrease in the net operating income from the property portfolio in Fort McMurray.

The increase in financing expense is mainly due to an increase in financing expense related to mortgage loans payable, including a large component which pertains to the change in the market value of interest rate swap agreements. As disclosed in the analysis of financing expense in the latter sections of this report, approximately 57% of the increase in financing expense in the third quarter of 2009 is attributable to the interest rate swap agreements.

Other less significant factors affecting the increase in financing expense during the third quarter of 2009 include the incremental financing costs associated with the addition of the Clarington Seniors Residence to the portfolio of income-producing properties on February 1, 2009, as well as an increase in interest expense associated with amount payable for Parsons Landing. The increase in interest expense in regard to the amount payable for Parsons Landing was relatively low in comparison to the first and second quarter of 2009, as a result of the interest "credit" of $1,609,373 pertaining to the forgiveness of interest.

After including income from discontinued operations and future income taxes, LREIT incurred a loss of $3,146,599 during the third quarter of 2009, compared to a loss of $2,433,198 in the third quarter of 2008.

Nine Month Comparatives

As disclosed on the preceding chart, LREIT incurred a loss from continuing operations before taxes of $12,411,955 during the first nine months of 2009, compared to a loss from continuing operations before taxes of $1,337,854 during the first nine months of 2008, representing an increase in the loss from continuing operations of approximately $11.1 Million. The increase in the loss mainly reflects an increase in financing expense of approximately $10.7 Million. Amortization charges also increased by approximately $2.0 Million; however, the increase was almost entirely offset by an increase in NOI of $1.9 Million.

The increase in financing expense during the first nine months of 2009 is mainly due to three factors as follows:

(i) after accounting for the third quarter interest credit of $1,609,373 pertaining to the forgiveness of interest, interest expense associated with the amount payable for Parsons Landing increased by approximately $4.8 Million. (The remaining amount of the forgiven interest of $2,483,089 will be recorded in the fourth quarter of 2009 in accordance with GAAP).

(ii) financing charges related to the change in the market value of interest rate swap agreements increased by approximately $3.8 Million, and

(iii) mortgage loan interest increased by approximately $2.2 Million mainly due to incremental interest on new income-producing properties and an overall increase in the amount of interim financing for the income property portfolio.

The increase in amortization charges for the nine month comparatives mainly reflects the incremental amortization charges on new income-producing properties.

The increase in operating income for the nine months comparatives mainly reflects the incremental operating income associated with new income-producing properties, partially offset by a decrease in operating income from the "same property" portfolio in Fort McMurray.

After including income from discontinued operations and future income taxes, LREIT incurred a loss of $15,634,045 during the first nine months of 2009, compared to a loss of $7,421,708 during the first nine months of 2008.

Discontinued Operations

As disclosed in the preceding chart, LREIT recorded a loss from discontinued operations of $186,229 during the first nine months of 2009, compared to a loss of $909,131 during the first nine months of 2008. The loss from discontinued operations includes revenues, operating costs, financing expenses, and amortization charges for all properties which are held for sale as of September 30, 2009.

Amortization charges for a specific property are discontinued, effective on the date in which the property was classified under discontinued operations. As a result, amortization charges have a significant affect on the comparative results for discontinued operations.

In total, the income from discontinued operations for the first nine months of 2009 includes amortization charges of $1,317,581, compared to amortization charges of $1,939,446 during the first nine months of 2008. Excluding amortization charges, the Trust generated income from discontinued operations of $1,131,352 during the first nine months of 2009, compared to an income of $1,030,315 during the first nine months of 2008. Amortization charges do not affect the operating cash flows of LREIT as amortization charges are a non-cash expense.

The increase in income from discontinued operations, excluding amortization charges, mainly reflects the incremental operating income associated with Colony Square. As Colony Square was acquired on October 1, 2008, the results for 2009 reflect nine months of operating income for Colony Square, whereas the operating results for the first nine months of 2008 do not include any operating income from Colony Square.

Revenue

Market Conditions

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

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

As disclosed in the "Analysis of Vacancy Loss for Residential Properties", the vacancy loss for the Fort McMurray portfolio increased from 4% during the nine month period ended September 30, 2008, to 19% during the nine month period ended September 30, 2009, while the average monthly rental rate decreased by $4 or 0.1%. The impact of the decline in market conditions in Fort McMurray was particularly acute in the third quarter of 2009, with the vacancy rate increasing from 3% during the third quarter of 2008, to 30% during the third quarter of 2009 and the average rental rate decreasing by $198 per suite or 6.8%.

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

In Saskatchewan, multi-family residential rental market conditions remain favourable although there has been increased competition from the home ownership market. As disclosed in the analysis of average monthly rental rates and vacancy loss, the vacancy loss for the Saskatchewan property portfolio decreased from 5% during the first nine months of 2008, to 2% during the first nine months of 2009, while the monthly average rental rate increased by $15 or 2.4%.

Rental market conditions in Yellowknife have become more competitive during 2009, mainly due to outmigration and employment losses. During the first nine months of 2009, the three rental properties in Yellowknife experienced a modest increase in the vacancy loss, compared to the first nine months of 2008, while the average rental rate increased by $95 or 5.4%.

In the other Alberta communities where LREIT properties are located (Edmonton, Peace River and Edson), the combined vacancy loss increased from 2% during the first nine months of 2008, to 6% during the first nine months of 2009, while the average monthly rental rate decreased by $55 or 8%.

The property portfolio of LREIT in Ontario consists of Elgin Lodge and the Clarington Seniors Residence. Although the Clarington Seniors Residence was only 48% leased up as of September 30, 2009, the property was added to LREIT's portfolio of income-producing properties, effective February 1, 2009 as the maximum pre-determined period for classifying the property as a "property under development" of two years was reached 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 nine months of 2009, the combined vacancy loss for the Ontario properties was 46%.

In summary, the weaker rental market in Fort McMurray is the primary negative economic factor affecting the operating results of LREIT in 2009 due to the high concentration of properties in that city.

Total Revenue

Analysis of Total Revenue

	Total Revenues			
	Nine Months Ended September 30		Increase (decrease)	
	2009	2008	Amount	% of Total
Income Properties:				
Rental revenue	$ 39,897,487	$ 34,802,075	$ 5,095,412	104 %
Interest and other income	380,239	268,525	111,714	2 %
Sub-total	40,277,726	35,070,600	5,207,126	106 %
Trust: interest and other income	19,035	325,437	(306,402)	(6)%
Total	$ 40,296,761	$ 35,396,037	$ 4,900,724	100 %

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

As disclosed in the chart above, the total revenue of LREIT increased by approximately $4.9 Million, during the first nine months of 2009 compared to the first nine months of 2008, comprised of a $5,207,126 increase in revenue from income properties and $306,402 decrease in revenue from Trust operations.

Trust Operations

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

As noted above, revenue from Trust operations decreased by $306,402 during the first nine months of 2009, almost entirely due to a reduction in interest income on mortgage loans receivable. During the first six months of 2008, investments in mortgage loans receivable ranged from $10 Million to $4.75 Million, whereas LREIT did not have any investments in mortgage loans receivable during the first nine months of 2009.

Rental Revenue

Overall Increase

As noted above, revenue from income properties increased by $5,207,126 during the first nine months of 2009, comprised of a $5,095,412 increase in rental revenue and a $111,714 increase in interest and other income.

The increase in rental revenue reflects incremental revenue from the acquisition/possession of additional residential properties, partially offset by a decrease in revenue from the properties which have been in the LREIT portfolio since January 1, 2008 (i.e., "same property" revenue). As disclosed in the same property analysis, same property revenue decreased by 6.1% during the first nine months of 2009, compared to the first nine months of 2008.

Analysis of Revenue from Income Properties by Geographic Segment

Analysis of Total Revenue from Income Properties

	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	Increase (decrease)	2009	2008	Increase (decrease)
Alberta						
Fort McMurray	$ 7,079,223	$ 9,991,021	$ (2,911,798)	$ 26,096,931	$ 22,875,263	$ 3,221,668
Other Alberta	547,009	547,275	(266)	1,685,212	1,629,888	55,324
Total - Alberta	7,626,232	10,538,296	(2,912,064)	27,782,143	24,505,151	3,276,992
Saskatchewan	1,581,633	1,487,642	93,991	4,675,342	4,395,115	280,227
Northwest Territories	1,640,022	1,495,660	144,362	4,714,886	4,523,089	191,797
Manitoba	189,696	178,778	10,918	564,019	504,096	59,923
Ontario	923,975	450,338	473,637	2,541,336	1,143,149	1,398,187
Total	$11,961,558	$14,150,714	$ (2,189,156)	$ 40,277,726	$ 35,070,600	$ 5,207,126

Analysis of Rental Revenue by Geographic Market Segment - Income Properties

	Percentage of Total Rental Revenue			
	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Alberta				
Fort McMurray	59 %	70 %	65 %	65 %
Other Alberta	5 %	4 %	4 %	5 %
Total - Alberta	64 %	74 %	69 %	70 %
Saskatchewan	12 %	11 %	12 %	13 %
Northwest Territories	14 %	11 %	12 %	13 %
Manitoba	2 %	1 %	1 %	1 %
Ontario	8 %	3 %	6 %	3 %
	100 %	100 %	100 %	100 %

Analysis of Average Monthly Rents and Vacancy Loss for Income Properties

	Three Months Ended September 30				Nine Months Ended September 30			
	2009		2008		2009		2008	
	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss	Average Rents	Vacancy Loss
Alberta								
Fort McMurray	$2,733	30 %	$2,931	3 %	$2,877	19 %	$2,881	4 %
Other Alberta	707	9 %	666	3 %	703	6 %	648	2 %
Total - Alberta	2,348	29 %	2,500	3 %	2,463	18 %	2,457	4 %
Saskatchewan	635	1 %	622	5 %	629	2 %	614	5 %
Northwest Territories	1,960	1 %	1,755	0 %	1,866	1 %	1,771	0 %
Manitoba	814	2 %	775	3 %	805	2 %	724	3 %
Ontario	1,261	46 %	1,187	44 %	1,155	46 %	1,002	43 %
Total	1,688	24 %	1,758	4 %	1,726	16 %	1,724	5 %

As disclosed on the first chart above, revenue from residential properties in Fort McMurray increased by $3,221,668 during the first nine months of 2009, compared to the first nine months of 2008, representing 62% of the total increase in residential rental revenue. As disclosed on the second chart above, the revenue contribution by the Fort McMurray portfolio, on a percentage basis, was 65% during both the nine months ended September 30, 2008 and the nine months ended September 30, 2009.

Although the revenue results for the Fort McMurray portfolio for the nine month period ended September 30, 2009 reflects incremental revenue from the acquisition/possession of three additional properties during 2008, the revenue contribution, on a percentage basis, remained constant due to the offsetting impact of increased vacancy rates and reduced rental rates, particularly during the third quarter of 2009.

The property portfolios in Ontario and Saskatchewan were the second and third highest contributors of additional revenue during the first nine months of 2009. The increased revenue contribution from the Saskatchewan portfolio reflects the improvement in the occupancy level and average rental rate, while the increased revenue contribution from the portfolio in Ontario is attributable to increased occupancy.

During the third quarter of 2009, revenue from income properties decreased by $2,189,156, compared to the third quarter of 2008. The contrast between the nine month comparative results for 2009 (with revenue increasing by $5,207,126) and the third quarter comparative results for 2009 (with revenue decreasing by $2,189,156) reflects the extent of the revenue decrease which was experienced by the Fort McMurray property portfolio in the third quarter of 2009.

Operating Costs

Analysis of Operating Costs

	Property Operating Costs					
	Three Months Ended September 30		Increase	Nine Months Ended September 30		Increase
	2009	2008	(Decrease)	2009	2008	(decrease)
Alberta						
Fort McMurray	$ 2,392,464	$ 2,363,574	$ 28,890	$ 7,579,363	$ 6,162,939	$ 1,416,424
Other Alberta	192,785	205,391	(12,606)	648,200	643,962	4,238
Total - Alberta	2,585,249	2,568,965	16,284	8,227,563	6,806,901	1,420,662
Saskatchewan	832,582	805,767	26,815	2,785,854	2,550,437	235,417
NWT	589,180	564,508	24,672	1,823,266	1,773,268	49,998
Manitoba	71,759	68,755	3,004	199,329	255,616	(56,287)
Ontario	741,589	330,941	410,648	2,097,725	744,689	1,353,036
Total	$ 4,820,359	$ 4,338,936	$ 481,423	$ 15,133,737	$ 12,130,911	$ 3,002,826

During the first nine months of 2009, property operating costs for the portfolio increased by $3,002,826 or 25%, compared to the first nine months of 2008, with the Fort McMurray and Ontario portfolios accounting for the majority of the increase due to the acquisition/possession of additional properties.

During the third quarter of 2009, property operating costs increased by $481,423 or 11%, with the Ontario portfolio accounting for the majority of the increase due to the addition of the Clarington Seniors Residence.

For both the three and nine month comparatives, the increase in operating costs for all of the individual portfolios was less than the increase in rental revenue, with the notable exception of the third quarter results for the Fort McMurray portfolio. As disclosed above, the Fort McMurray portfolio experienced a significant decrease in revenue during the third quarter of 2009, while operating costs remained virtually unchanged, increasing by $28,890 or 1.2%.

Net Operating Income and Operating Margin

Overall

Summary Analysis of Net Operating Income

	Net Operating Income		
	Three Months Ended September 30		Increase
	2009	2008	(Decrease)
Income properties	$ 7,141,199	$ 9,811,778	$ (2,670,579)
Trust	165	16,049	(15,884)
Total	$ 7,141,364	$ 9,827,827	$ (2,686,463)

	Net Operating Income		
	Nine Months Ended September 30		Increase
	2009	2008	(decrease)
Income properties	$ 25,143,989	$ 22,939,689	$ 2,204,300
Trust	19,035	325,437	(306,402)
Total	$ 25,163,024	$ 23,265,126	$ 1,897,898

After considering the revenue and operating cost increases as analyzed in the preceding sections of this report, the NOI for the portfolio of income properties decreased by $2,670,579 or 27% during the third quarter of 2009 and increased by $2,204,300 or 10% during the first nine months of 2009. The contrast between the decrease in NOI for the third quarter comparative results and the increase in NOI for the nine month comparative results in mainly due to two factors, as follows:

(i) the vacancy loss for the Fort McMurray portfolio, for the third quarter of 2009, was significantly higher in comparison to both the third quarter of 2008 and the first two quarters of 2009. The increase in the vacancy loss in the third quarter of 2009 is partially attributable to a higher level of lease terminations in regard to 12-month tenancies which originated in the third quarter of 2008, prior to the onset of the economical downturn in Fort McMurray.

(ii) during the third quarter of 2009, the incremental NOI from new income-producing properties consisted of a marginal contribution from Parsons Landing (three months of operations in a "down" market in 2009, compared to a one month of operations in a "booming" market in 2008) and a marginal contribution from the Clarington Seniors Residence. Conversely, the incremental income from new income-producing properties was relatively substantial during the first six months of 2009 as Laird's Landing and the Siena Apartments contributed five and six months of additional NOI, respectively.

In essence, the NOI results for the third quarter of 2009 reflect the full impact of the decline in market conditions in Fort McMurray on a property portfolio which is very comparable to the third quarter of 2008, while the impact of the market downturn on overall NOI results was offset by the impact on new income-producing properties during the first six months of the year.

Analysis of Net Operating Income - Income Properties

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Alberta						
Fort McMurray	$ 4,686,759	$ 7,627,447	$(2,940,688)	$18,517,568	$16,712,324	$ 1,805,244
Other Alberta	354,224	341,884	12,340	1,037,012	985,926	51,086
Total - Alberta	5,040,983	7,969,331	(2,928,348)	19,554,580	17,698,250	1,856,330
Saskatchewan	749,051	681,875	67,176	1,889,488	1,844,678	44,810
Northwest Territories	1,050,842	931,152	119,690	2,891,620	2,749,821	141,799
Manitoba	117,937	110,023	7,914	364,690	248,480	116,210
Ontario	182,386	119,397	62,989	443,611	398,460	45,151
Total	$ 7,141,199	$ 9,811,778	$(2,670,579)	$25,143,989	$22,939,689	$ 2,204,300

Analysis of Operating Margin - Income Properties

	Operating Margin			
	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Alberta				
Fort McMurray	66 %	76 %	71 %	73 %
Other Alberta	65 %	62 %	62 %	60 %
Total - Alberta	66 %	76 %	70 %	72 %
Saskatchewan	47 %	46 %	40 %	42 %
Northwest Territories	64 %	62 %	61 %	61 %
Manitoba	62 %	62 %	65 %	49 %
Ontario	20 %	27 %	17 %	35 %
Total	60 %	69 %	62 %	65 %

As disclosed on the chart above the operating margin for the property portfolio decreased from 65% during the first nine months of 2008, to 62% during the first nine months of 2009. For the third quarter comparatives, the operating margin decreased from 69% in 2008, to 60% in 2009.

The decline in the operating margin is primarily due to a decline in the profitability of the Fort McMurray property portfolio.

Same Property Analysis

Nine Month Comparatives

The same property analysis for the first nine months of 2009 encompasses the 28 income-producing properties which were in the LREIT portfolio, as of January 1, 2008. The properties which are classified as held for sale, are excluded from the NOI analysis.

As disclosed in the following analysis, the revenue of the same properties decreased by 6.1% during the first nine months of 2009, compared to the first nine months of 2008, while net operating income decreased by 9.8%. As disclosed in the preceding discussion, the property portfolio in Fort McMurray accounted for the majority of the decrease in net operating income.

	Nine Months Ended September 30		Increase (decrease)	
	2009	2008	Amount	%
Revenue				
Alberta				
Fort McMurray	$ 16,510,263	$ 18,878,717	$ (2,368,454)	(12.5)%
Other Alberta	1,685,212	1,629,885	55,327	3.4 %
Total Alberta	18,195,475	20,508,602	(2,313,127)	(11.3)%
Saskatchewan	4,675,342	4,395,116	280,226	6.4 %
Northwest Territories	4,714,886	4,523,088	191,798	4.2 %
Manitoba	564,019	504,096	59,923	11.9 %
Ontario	1,016,378	1,143,151	(126,773)	(11.1)%
Total revenue	$ 29,166,100	$ 31,074,053	$ (1,907,953)	(6.1)%
Net operating income				
Alberta				
Fort McMurray	$ 11,464,826	$ 13,678,572	$ (2,213,746)	(16.2)%
Other Alberta	1,037,012	985,913	51,099	5.2 %
Total Alberta	12,501,838	14,664,485	(2,162,647)	(14.7)%
Saskatchewan	1,889,488	1,844,681	44,807	2.4 %
Northwest Territories	2,891,620	2,749,820	141,800	5.2 %
Manitoba	364,690	248,480	116,210	46.8 %
Ontario	315,139	398,463	(83,324)	(20.9)%
Total net operating income	$ 17,962,775	$ 19,905,929	$ (1,943,154)	(9.8)%

Three Month Comparatives

The same property analysis for the third quarter of 2009 encompasses the 30 income-producing properties which were in the LREIT portfolio, as of July 1, 2008.

As disclosed in the following analysis, the revenue of the same properties decreased by 23.6% during the third quarter of 2009, compared to the third quarter of 2008, while net operating income decreased by 33.8%. As with the nine month comparatives, the property portfolio in Fort McMurray accounted for the majority of the decrease in net operating income.

	Three Months Ended September 30		Increase (decrease)	
	2009	2008	Amount	%
Revenue				
Alberta				
Fort McMurray	$ 5,306,853	$ 8,391,913	$ (3,085,060)	(36.8)%
Other Alberta	547,009	547,273	(264)	- %
Total Alberta	5,853,862	8,939,186	(3,085,324)	(34.5)%
Saskatchewan	1,581,633	1,487,642	93,991	6.3 %
Northwest Territories	1,640,022	1,495,660	144,362	9.7 %
Manitoba	189,696	178,778	10,918	6.1 %
Ontario	325,720	450,339	(124,619)	(27.7)%
Total revenue	$ 9,590,933	$ 12,551,605	$ (2,960,672)	(23.6)%
Net operating income				
Alberta				
Fort McMurray	$ 3,388,152	$ 6,512,071	$ (3,123,919)	(48.0)%
Other Alberta	354,224	341,872	12,352	3.6 %
Total Alberta	3,742,376	6,853,943	(3,111,567)	(45.4)%
Saskatchewan	749,051	681,889	67,162	9.8 %
Northwest Territories	1,050,842	931,150	119,692	12.9 %
Manitoba	117,937	110,023	7,914	7.2 %
Ontario	101,085	119,398	(18,313)	(15.3)%
Total net operating income	$ 5,761,291	$ 8,696,403	$ (2,935,112)	(33.8)%

After adjusting the third quarter "same property" results to exclude Laird's Landing, the decrease in total revenue is $1,780,332 and the decrease in total NOI is $1,815,861.

Comparison to Preceding Quarter

A same property analysis is also provided in the following section of the report titled "Comparison to Preceding Quarter". The same property analysis in this section includes the three Fort McMurray properties which are added to the income-producing portfolio in 2008 (Laird's Landing, Parsons Landing and Siena Apartments) and, as such, the analysis indicates the extent to which the profitability of the Fort McMurray portfolio has declined during the second and third quarters of 2009.

Financing Expense

Nine Month Comparatives

Financing expense increased by $10,707,655 or 63% during the first nine months of 2009, compared to the first nine months of 2008, comprised of a $6,215,964 increase in mortgage loan financing expense, a $4,207,274 increase in interest expense on the amount payable for Parsons Landing and a $284,417 increase in convertible debenture financing expense. The increase in mortgage loan financing expense includes an increase in financing charges of $3,785,182 related to the change in value of interest rate swap agreements.

Financing expense encompasses mortgage loan interest, convertible debenture interest, interest expense on the amount payable for Parsons Landing, as well as a number of "non-cash" expenses, including amortization charges for transaction costs, accretion and the change in fair value of interest rate swaps. During the first nine months of 2009, "non-cash" expenses represented 21% of the total financing expenses, compared to 8% during the first nine months of 2008. Approximately 86% of the increase in "non-cash" financing expense is related to the change in value of the interest rate swap agreements.

Analysis of Financing Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Mortgage Loans				
Mortgage loan interest	$ 4,566,462	$ 4,327,776	$ 13,171,939	$ 11,019,122
Amortization of transaction costs	236,808	130,276	655,651	377,686
Change in value - interest rate swaps	(279,367)	(1,152,973)	2,581,180	(1,204,002)
Total - mortgage loans	4,523,903	3,305,079	16,408,770	10,192,806
Acquisition Payable				
Interest on acquisition payable	1,039,803	854,889	5,659,860	1,452,586
Total - acquisition payable	1,039,803	854,889	5,659,860	1,452,586
Debentures				
Interest on convertible debentures	977,975	977,975	2,933,925	2,965,785
Accretion of debt component	731,843	623,514	2,086,175	1,815,815
Amortization of transaction costs	167,768	145,175	485,641	439,724
Total - debentures	1,877,586	1,746,664	5,505,741	5,221,324
Total - financing expense	$ 7,441,292	$ 5,906,632	$ 27,574,371	$ 16,866,716

Interest Expense - Mortgage Loans

Mortgage loan interest increased by $2,152,817 or 20% during the first nine months of 2009, compared to the first nine months of 2008. The increase mainly reflects the increase in first mortgage loan debt associated with new income-producing properties, as well as an increase in interim mortgage loan financing.

Interest on Amount Payable for Parsons Landing

During the first nine months of 2009, interest on the amount payable for Parsons Landing increased by $4,804,972, representing 75.9% of the total increase in interest expense. The increase mainly reflects the higher rate of interest which is being charged on the amount payable as a result of extending the payment deadline for Parsons Landing beyond February 28, 2009. As disclosed in this report, the interest on the amount payable for Parsons Landing, for the nine month period ended September 30, 2009, includes a credit of $1,609,373 pertaining to the forgiveness of interest. The remaining amount of the forgiven interest of $2,483,089 will be recorded in the fourth quarter of 2009.

Interest on acquisition payable for the nine months ended September 30, 2008 includes interest of $600,000 on the acquisition payable for Millennium Village.

Interest Expense - Debentures

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

Total Interest Expense

During the first nine months of 2009, total interest expense increased by $6,328,231 compared to the first nine months of 2008.

Third Quarter Comparatives for Financing Expense

During the third quarter of 2009, financing expense increased by $1.5 Million or 26%, compared to the third quarter of 2008. The increase in financing expense for the third quarter comparatives is mainly due to an increase in financing expense related to mortgage loans payable, the majority of which pertains to a change in the value of the interest rate swap agreements.

Interest Expense Ratio

As a percentage of operating income from continuing operations, total interest in regard to mortgage loans, convertible debentures and the amount payable for Parsons Landing increased from 66% during the first nine months of 2008 to 86% during the first nine months of 2009. During the third quarter of 2009, the interest expense to operating income percentage was 92%, compared to 63% during the third quarter of 2008.

For the nine month comparatives, the increase in the ratio of interest, relative to operating income from continuing operations, reflects the extent to which the increase in interest expense has exceeded the increase in net operating income during the first nine months of 2009. The proportionately higher increase in interest expense mainly reflects the high interest charges associated with the extended payment deadline for Parsons Landing and an increase in the amount of interim mortgage loan interest. For the third quarter comparatives, the increase in the ratio reflects an increase in interest expense, compounded by the decrease in operating income.

Change in Value of Interest Rate Swaps

As disclosed in the preceding chart, the increase in financing expense includes an amount related to the change in value of the "interest rate swaps" of $873,606 and $3,785,182 for the three and nine month periods ended September 30, 2009, respectively.

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 nine months of 2009, the fair value of the interest rate swap arrangements decreased by $2,581,180, as declining market interest rates in the first half of 2009 served to reduce payments for mortgages with floating interest rates. Conversely, the operating results for the first nine months of 2008 include a reduction in financing expense of $1,204,002 related to an increase in the fair value of the interest rate swap agreements, as market interest rates increased during the first nine months of 2009.

During the third quarter of 2009, the fair value of the interest rate swap agreements increased by $279,367, compared to a fair value increase of $1,152,973, during the third quarter of 2008. Although the increase in value served to decrease financing expense in both quarters, the decrease in the third quarter of 2008 is $873,606 greater than the decrease in the third quarter of 2009.

Although the change in the fair value of the interest rate swaps has resulted in a higher financing charges in 2009, the change in value is a non-cash transaction which is excluded from the determination of 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.

Trust Expense

Trust expense increased by $249,766 during the first nine months of 2009, compared to the first nine months of 2008. The increase mainly reflects an increase of $278,353 in the service fee of Shelter Canadian, partially offset by a decrease in unit-based compensation expense of $48,803.

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 during, and subsequent to, the first nine months of 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. The decrease in unit-based compensation expense pertaining to the Unit Option Plan was partially offset by an increase in unit based compensation expense pertaining to the Deferred Unit Plan.

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

Amortization Expense

During the first nine months of 2009, amortization expense increased by $2,014,578 or 34%, compared to the first nine months of 2008. The increase is mainly due to amortization charges related to new income-producing properties. 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 nine months of 2009, the valuation allowance served to reduce the tax asset as at December 31, 2008, as well as the change in the tax asset during the first nine months of 2009, to nil.

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

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

As of September 30, 2009, the future income tax of LREIT was nil compared to a net asset and position for future income taxes of $3,035,861 as of December 31, 2008. The change in the estimated net future income tax position on the balance sheet resulted in a future income tax expense of $3,035,861. The future income tax expense reflects the initial recognition of the valuation allowance for the future income tax asset relating to the assets of the Trust of $8,659,586 and the valuation allowance of $2,303,595 relating to the operating losses of the wholly owned subsidiaries.

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

Comparison to Preceding Quarter

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

	Three Months Ended		Increase (decrease)	
	September 30, 2009	June 30, 2009	Amount	%
Rental revenue	$ 11,882,501	$ 13,470,114	$ (1,587,613)	(11.8)%
Interest and other income	79,222	98,019	(18,797)	(19.2)%
Property operating costs	4,820,359	4,819,033	1,326	- %
Net Operating Income (NOI)	7,141,364	8,749,100	(1,607,736)	(18.4)%
Trust expense	710,801	662,087	48,714	7.4 %
Income before financing expense, amortization, and taxes (EBITDA)	6,430,563	8,087,013	(1,656,450)	(20.5)%
Financing expense	7,441,292	9,387,906	(1,946,614)	(20.7)%
Loss before amortization, and taxes	(1,010,729)	(1,300,893)	290,164	(22.3)%
Amortization	2,620,168	2,663,511	(43,343)	(1.6)%
Loss before future income tax expense (recovery)	(3,630,897)	(3,964,404)	333,507	(8.4)%
Future income tax expense	-	258,521	(258,521)	(100.0)%
Loss from continuing operations for the period	(3,630,897)	(4,222,925)	592,028	(14.0)%
Income from discontinued operations for the period	484,298	266,198	218,100	82 %
Loss for the period	$ (3,146,599)	$ (3,956,727)	$ 810,128	(20.5)%

Overview

During the third quarter of 2009, LREIT incurred a loss from continuing operations, before taxes, of $3,630,897, compared to a loss from continuing operations, before taxes, of $3,964,404 during the second quarter of 2009. The decrease in the loss from continuing operations mainly reflects a decrease in financing expense, largely offset by a decrease in net operating income.

The decrease in financing expense mainly reflects a decrease in interest charges on the balance owing in regard to Parsons Landing. As previously disclosed in this report, the decrease in interest charges on the balance owing for Parsons Landing reflects a credit of $1,609,373 in regard to the forgiveness of interest.

The decrease in net operating income is mainly due to a decrease in the net operating income of the Fort McMurray property portfolio. As disclosed in the same property analysis which follows this commentary, the net operating income of the Fort McMurray property portfolio decreased by $1,800,925 or 27.8% during the third quarter of 2009, compared to the second quarter of 2009, while revenues decreased by $1,714,811 or 19.5%. As previously disclosed in this report, the decrease in the revenues and NOI of the Fort McMurray property portfolio during the third quarter of 2009, is mainly due to an increase in the vacancy loss.

After providing for income from discontinued operations and future income tax expense, LREIT completed the third quarter of 2009 with a loss of $3,146,599, compared to a loss of $3,956,727 during the second quarter of 2009. The bottom-line results for the third quarter of 2009 reflect a future income tax expense of nil, compared to a future income tax expense of $258,521 during the second quarter of 2009. The significant change in the provision for future income taxes mainly reflects the additional valuation allowance in the third quarter of 2009.

Same Property Analysis

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

Since October 1, 2008, there have not been any additions to LREIT's portfolio of income-producing properties, aside from Clarington Seniors Residence. Accordingly, the following analysis of same property results encompasses all of the properties in LREIT's income property portfolio classified as continuing operations, excluding the Clarington Seniors Residence and the multi-level expansion to Elgin Lodge. The NOI results for the properties that are classified as "held for sale" are reflected in the loss from discontinued operations.

	2009				
	Q3	Q2	Increase (decrease)	Q1	Increase (decrease)
Revenue					
Alberta					
Fort McMurray	$ 7,079,223	$ 8,794,034	(19.5)%	$ 10,223,676	(30.8)%
Other Alberta	547,009	555,101	(1.5)%	583,102	(6.2)%
Total Alberta	7,626,232	9,349,135	(18.4)%	10,806,778	(29.4)%
Saskatchewan	1,581,633	1,587,104	(0.3)%	1,506,606	5.0%
Northwest Territories	1,640,022	1,539,052	6.6%	1,535,815	6.8%
Manitoba	189,696	191,451	(0.9)%	182,869	3.7%
Ontario	325,720	340,053	(4.2)%	350,605	(7.1)%
Total revenue	$ 11,363,303	$ 13,006,795	(12.6)%	$ 14,382,673	(21.0)%
Net operating income					
Alberta					
Fort McMurray	$ 4,686,759	$ 6,487,684	(27.8)%	$ 7,343,128	(36.2)%
Other Alberta	354,224	349,148	1.5%	333,641	6.2%
Total Alberta	5,040,983	6,836,832	(26.3)%	7,676,769	(34.3)%
Saskatchewan	749,051	717,500	4.4%	422,948	77.1%
Northwest Territories	1,050,842	937,613	12.1%	903,168	85.9%
Manitoba	117,937	126,154	(6.5)%	120,597	(2.2)%
Ontario	101,085	105,894	(4.5)%	108,161	(6.5)%
Total net operating income	$ 7,059,898	$ 8,723,993	(19.1)%	$ 9,231,643	(23.5)%

Summary of Quarterly Results

Quarterly Analysis

	2009			2008
	Q3	Q2	Q1	Q4
Total revenue	$ 11,961,723	$ 13,568,133	$ 14,766,907	$ 15,067,193
Net operating income	$ 7,141,364	$ 8,749,100	$ 9,235,354	$ 10,059,460
Loss from continuing operations for the period, before future income tax	$ (3,630,897)	$ (4,015,801)	$ (5,011,588)	$ (5,539,550)
Loss for the period	$ (3,146,599)	$ (3,956,727)	$ (8,530,719)	$ (2,185,348)
PER UNIT				
Net operating income				
- basic	$ 0.405	$ 0.501	$ 0.529	$ 0.577
- diluted	$ 0.280	$ 0.347	$ 0.367	$ 0.395
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.206)	$ (0.230)	$ (0.287)	$ (0.318)
- diluted	$ (0.206)	$ (0.230)	$ (0.287)	$ (0.318)
Income (loss) for the period				
- basic	$ (0.179)	$ (0.227)	$ (0.488)	$ (0.125)
- diluted	$ (0.179)	$ (0.227)	$ (0.488)	$ (0.125)

Quarterly Analysis

	2008			2007
	Q3	Q2	Q1	Q4
Total revenue	$ 14,166,763	$ 11,254,610	$ 9,974,664	$ 9,840,304
Net operating income	$ 9,827,827	$ 7,335,796	$ 6,111,824	$ 5,931,927
Loss from continuing operations for the period, before future income tax	$ 871,410	$ (298,209)	$ (1,686,731)	$ (1,415,026)
Income (loss) for the period	$ (2,433,198)	$ (4,988,811)	$ 301	$ (1,108,898)
PER UNIT				
Net operating income				
- basic	$ 0.561	$ 0.419	$ 0.350	$ 0.339
- diluted	$ 0.385	$ 0.287	$ 0.239	$ 0.250
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ 0.050	$ (0.017)	$ (0.097)	$ (0.081)
- diluted	$ 0.048	$ (0.017)	$ (0.097)	$ (0.081)
Income (loss) for the period				
- basic	$ (0.139)	$ (0.284)	$ -	$ (0.064)
- diluted	$ (0.139)	$ (0.284)	$ -	$ (0.064)

Income (Loss) Per Unit

Analysis of Income (Loss) per Unit

	Nine Months Ended September 30			
	2009	2008	Change	
Income (loss) for the period				
- basic	$ (0.895)	$ (0.424)	$ (0.471)	(111)%
- diluted	$ (0.895)	$ (0.424)	$ (0.471)	(111)%
Income (loss) from continuing operations for the period, before future income tax				
- basic	$ (0.710)	$ (0.076)	$ (0.634)	(834)%
- diluted	$ (0.710)	$ (0.076)	$ (0.634)	(834)%

Excluding future income tax, LREIT incurred a loss of $0.710 per unit during the first nine months of 2009, compared to a loss of $0.076 per unit during the first nine months of 2008. As the weighted average number of units has only decreased by 0.2% since September 30, 2008, the increase in the loss per unit mainly reflects the increase in the overall loss of the Trust before future income tax.

ANALYSIS OF CASH FLOWS

Operating Activities

Nine Month Comparatives

Cash from Operating Activities

	Nine Months Ended September 30		Increase
Continuing Operations	2009	2008	(decrease)
Rental revenue	$ 39,897,487	$ 34,802,075	$ 5,095,412
Interest and other income	399,274	593,962	(194,688)
Property operating costs	15,133,737	12,130,911	3,002,826
Net operating income (NOI)	25,163,024	23,265,126	1,897,898
Non-cash components of revenue	(1,290)	(2,298)	1,008
Less:	25,164,314	23,267,424	1,896,890
Financing expense	27,574,371	16,866,716	10,707,655
Non-cash component of financing expense	5,794,624	1,429,223	4,365,401
	21,779,747	15,437,493	6,342,254
Trust expense	2,117,078	1,867,312	249,766
Non-cash component of trust expense	224,272	273,075	(48,803)
	1,892,806	1,594,237	298,569
Cash provided by operating activities, before changes in non-cash operating activities	1,491,761	6,235,694	(4,743,933)
Changes in non-cash operating items	1,382,766	(45,522)	1,428,288
Cash provided by operating activities - continuing operations	$ 2,874,527	$ 6,190,172	$ (3,315,645)
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items - discontinued operations	$ 1,835,271	$ 1,419,528	$ 415,743
Cash used in leasing activities	(201,173)	(285,507)	84,334
Cash provided by operating activities, before changes in non-cash operating items - discontinued operations	1,634,098	1,134,021	500,077
Changes in non-cash operating items - discontinued operations	(348,656)	(670,330)	321,674
Cash provided by (used in) operating activities - discontinued operations	$ 1,285,442	$ 463,691	$ 821,751
Summary			
Cash provided by operating activities, before changes in non-cash operating items			
-continuing operations	$ 1,491,761	$ 6,235,694	$ (4,743,933)
-discontinued operations	1,634,098	1,134,021	500,077
Total - continuing and discontinued operations	3,125,859	7,369,715	(4,243,856)
Cash provided by (used in) operating activities			
-continuing operations	$ 2,874,527	$ 6,190,172	$ (3,315,645)
-discontinued operations	1,285,442	463,691	821,751
Total - continuing and discontinued operations	$ 4,159,969	$ 6,653,863	$ (2,493,894)

During the first nine months of 2009, LREIT generated cash from operating activities of $2,874,527. After excluding changes in non-cash operating items and including cash flow from discontinued operations, cash from operating activities decreased by $4.2 Million during the first nine months of 2009, compared to the first nine months of 2008. The cash flow results reflect two of the main factors which contributed to the increase in the loss from continuing operations during the first nine months of 2009, namely an increase in financing expense, on a cash basis, which substantially exceeded the increase in net operating income, on a cash basis.

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

An analysis of the cash component of financing expense (i.e., "total interest expense") is provided in the preceding analysis of "Financing Expense".

Third Quarter Comparatives

Cash from Operating Activities

	Three Months Ended September 30		Increase
Continuing Operations	2009	2008	(decrease)
Rental revenue	$ 11,882,501	$ 14,077,766	$ (2,195,265)
Interest and other income	79,222	88,997	(9,775)
Property operating costs	4,820,359	4,338,936	481,423
Net operating income (NOI)	7,141,364	9,827,827	(2,686,463)
Non-cash components of revenue	(430)	(431)	1
	7,141,794	9,828,258	(2,686,464)
Financing expense	7,441,292	5,906,632	1,534,660
Non-cash component of financing expense	849,920	(254,008)	1,103,928
	6,591,372	6,160,640	430,732
Trust expense	710,801	580,409	130,392
Non-cash component of trust expense	63,332	45,138	18,194
	647,469	535,271	112,198
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	(97,047)	3,132,347	(3,229,394)
Tenant inducements and leasing expenses	-	47,506	(47,506)
	(97,047)	3,084,841	(3,181,888)
Changes in non-cash operating items	(148,400)	(458,167)	309,767
Cash provided by operating activities - continuing operations	$ (245,447)	$ 2,626,674	$ (2,872,121)
Discontinued Operations			
Cash provided by operating activities, excluding leasing activity and changes in non-cash operating items - discontinued operations	$ 740,708	$ 324,139	$ 416,569
Cash used in leasing activities	(34,691)	(235,823)	201,132
Cash provided by operating activities, before changes in non-cash operating items - discontinued operations	706,017	88,316	617,701
Changes in non-cash operating items - discontinued operations	(79,973)	(431,059)	351,086
Cash provided by (used in) operating activities - discontinued operations	$ 626,044	$ (342,743)	$ 968,787
Summary			
Cash provided by operating activities, before changes in non-cash operating items			
-continuing operations	$ (97,047)	$ 3,132,347	$ (3,229,394)
-discontinued operations	706,017	88,316	617,701
Total - continuing and discontinued operations	$ 608,970	$ 3,220,663	$ (2,611,693)
Cash provided by (used in) operating activities			
-continuing operations	$ (245,447)	$ 2,626,674	$ (2,872,121)
-discontinued operations	626,044	(342,743)	968,787
Total - continuing and discontinued operations	$ 380,597	$ 2,283,931	$ (1,903,334)

During the third quarter of 2009, LREIT generated cash from operating activities of $(245,447). After excluding changes in non-cash operating items and including cash flow from discontinued operations, cash from operating activities amounted to $608,970 during the third quarter of 2009, representing a decrease of approximately $2.6 Million compared to the third quarter of 2008. The decrease in cash flow is mainly due to the same factors which contributed to the increase in the loss from continuing operations during the third quarter of 2009, namely an increase in financing expense on a cash basis, compounded by a decrease in net operating income, on a cash basis.

During the first six months of 2009, LREIT generated cash from operating activities of $2,516,889 excluding changes in non-cash operating items and including cash flow from discontinued operations representing an average of approximately $1.26 Million per quarter. It was previously anticipated that operating cash flows for the third quarter of 2009 would be comparable to the cash flow results for the first and second quarters of 2009. As a result of the increased vacancy loss which was experienced by the Fort McMurray portfolio, operating cash flow for the third quarter of 2009 was well below expectations.

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 nine months of 2009, FFO decreased by $8,622,627, compared to the first nine months of 2008, while AFFO decreased by $3,791,929. On a basic per unit basis, FFO decreased by $0.493 per unit, while AFFO decreased by $0.217 per unit.

For the third quarter comparative figures, FFO and AFFO decreased by $3,770,344 and $1,812,274, respectively, in 2009, representing a decrease of $0.215 per unit for FFO and a decrease of $0.104 per unit for AFFO.

The operating cash flow from discontinued operations is included in the calculation of FFO and AFFO.

The FFO and AFFO calculations for both the three and nine month periods ended September 30, 2009, are based on a "loss for the period" which encompasses a reduction of financing expense of $1,609,373 in regard to the forgiveness of interest on the amount payable for Parsons Landing. The remaining amount of the forgiven interest, of $2,483,089, will be recorded in the fourth quarter of 2009.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Loss for the period	$ (3,146,599)	$ (2,433,198)	$ (15,634,045)	$ (7,421,708)
Add (deduct):				
Amortization expense - continuing operations	2,620,168	2,469,376	7,883,530	5,868,952
Amortization expense - discontinued operations	64,253	616,094	1,317,581	1,939,446
Future income tax - continuing operations	-	2,769,455	3,035,861	5,174,723
Future income tax - discontinued operations	130,024	64,001	178,526	(58,303)
Non-controlling interest - discontinued operations	66,531	18,993	156,528	57,498
Funds from operations *	(265,623)	3,504,721	(3,062,019)	5,560,608
Add (deduct):				
Straight-line rent adjustment - continuing operations	430	431	1,290	2,298
Straight-line rent adjustment - discontinued operations	(12,157)	(5,690)	(20,146)	(9,698)
Net amortization of above/below market in-place leases - discontinued operations	-	444	2,788	1,330
Accretion of debt component of convertible debentures	731,843	623,514	2,086,175	1,815,815
Unit-based compensation	63,332	45,138	224,272	273,075
Change in fair value of interest rate swaps	(279,367)	(1,152,973)	2,581,180	(1,204,002)
Tenant inducement and leasing expenses - continuing operations	-	(47,506)	-	-
Tenant inducement and leasing expenses - discontinued operations	(34,691)	(235,823)	(201,173)	(285,507)
Ongoing improvements to income properties - continuing operations	(24,101)	(541,286)	(180,831)	(635,770)
Ongoing improvements to income properties - discontinued operations	-	(199,030)	(8,511)	(303,195)
Adjusted funds from operations *	$ 179,666	$ 1,991,940	$ 1,423,025	$ 5,214,954
FFO per unit *				
- basic	$ (0.015)	$ 0.200	$ (0.175)	$ 0.318
- diluted	$ (0.015)	$ 0.194	$ (0.175)	$ 0.308
AFFO per unit *				
- basic	$ 0.010	$ 0.114	$ 0.081	$ 0.298
- diluted	$ 0.006	$ 0.110	$ 0.071	$ 0.284

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

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

Distributable Income

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Cash provided by continuing operating activities	$ (245,447)	$ 2,626,674	$ 2,874,527	$ 6,190,172
Changes in non-cash operating items	148,400	458,167	(1,382,766)	45,522
	(97,047)	3,084,841	1,491,761	6,235,694
Add (deduct):				
Cash flow from discontinued operations - net of changes in non-cash operating items	706,017	88,316	1,634,098	1,134,021
Tenant inducement and leasing expenses	34,691	283,329	201,173	285,507
Amortization of tenant inducement and leasing expenses	(4,793)	(72,732)	(122,699)	(216,068)
Distributable income	$ 638,868	$ 3,383,754	$ 3,204,333	$ 7,439,154
Per unit				
- Basic	$ 0.036	$ 0.193	$ 0.183	$ 0.425
- Diluted	$ 0.032	$ 0.170	$ 0.171	$ 0.395

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

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

Total Distribution

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

For the months of January and February 2009, LREIT declared a distribution of $0.04667 per unit, representing a total distribution of $0.9334 per unit. Subsequent to the payment of the distribution for February 2009, LREIT suspended distributions due to the decline in rental market conditions in Fort McMurray and the impact on operating cash flow.

Distributions will continue to be suspended for the foreseeable future, given the funding priorities of LREIT in regard to the repayment of interim loans, the closing of Parsons Landing and the repayment of the Series E convertible debentures on February 17, 2010

After considering the value of units issued under the distribution reinvestment plan ("DRIP") and distributions paid on limited partnership units, the total distributions of LREIT for the first nine months of 2009 (i.e., the distributions for January and February 2009) amounted to $1,668,364. In comparison, the distributions for the first nine months of 2008 were $7,513,793.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Total distributions				
Distributions paid on trust units	$ -	$ 1,982,183	$ 1,530,736	$ 5,541,452
Value of trust units issued under DRIP	-	479,951	104,343	1,019,728
Distributions payable, beginning of period	-	(821,599)	-	-
Distributions payable, end of period	-	819,476	-	819,476
Distributions per Statement of Equity	-	2,460,011	1,635,079	7,380,656
Distribution on limited partnership units	-	49,927	33,285	133,137
Total distributions	$ -	$ 2,509,938	$ 1,668,364	$ 7,513,793
Distribution variances				
Distributable income	$ 638,868	$ 3,383,754	$ 3,204,333	$ 7,439,154
Excess (shortfall) of distributable income over total distributions	$ 638,868	$ 873,816	$ 1,535,969	$ (74,639)
Cash provided by operating activities- continuing operations	$ (245,447)	$ 2,626,674	$ 2,874,527	$ 6,190,172
Cash provided by operating activities- discontinued operations	626,044	(342,743)	1,285,442	463,691
Cash provided by operating activities	$ 380,597	$ 2,283,931	$ 4,159,969	$ 6,653,863
Excess (shortfall) of cash provided by operating activities over total distributions	$ 380,597	$ (226,007)	$ 2,491,605	$ (859,930)

Distribution Variances

As LREIT suspended distributions subsequent to February 2009, a comparative analysis of distribution variances and payout percentages has limited relevance.

Comparison to Distributable Income

As disclosed in the preceding chart, distributable income exceeded distributions paid by $1,535,969 during the first nine months of 2009, compared to a shortfall of $74,639 during the first nine months of 2008

On a percentage basis, distributions were equal to 52% of distributable income during the first nine months of 2009, compared to 101% during the first nine months of 2008.

The change in the distributable income variances and payout percentages is almost entirely due to the suspension of distributions by LREIT subsequent to February 2009.

Comparison to Cash From Operating Activities

As disclosed in the preceding chart, cash from operating activities exceeded distributions by $2,491,605 or 149% during the first nine months of 2009. During the first nine months of 2008, there was a shortfall between cash from operating activities and distributions of $859,930 or 11%.

The change in the variance between total distributions and cash from operating activities for the comparative nine month periods in 2009 and 2008 mainly reflects the suspension of distributions in 2009, as well as a $1,749,962 increase in the extent to which "changes in non-cash operating items" served to increase operating cash flows in 2009. The increase in "changes in non-cash operating items" is comprised of an increase of approximately $1.4 Million in regard to continuing operations and an increase of approximately $0.3 Million in regard to discontinued operations. The increase pertaining to continuing operations is mainly due to the change in accrued interest payable relating to the Parsons Landing acquisition payable.

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

Cash Flow Summary

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

As disclosed in the chart, the net cash outflow in regard to financing and investment activities during the first nine months of 2009, excluding distributions, amounted to $1,488,931, while cash from operating activities for continuing operations exceeded distributions paid by $1,343,791. After accounting for the net cash outflow in regard to discontinued operations of $1,155,689, the net cash outflow during the first nine months of 2009 was $1,300,829.

After accounting for the opening bank balance of $3,549,893, LREIT completed the first nine months of 2009 with a cash balance of $2,249,064.

Cash Flow Analysis (Note 1)

	Three Months Ended September 30, 2009	Three Months Ended June 30, 2009	Three Months Ended March 31, 2009	Nine Months Ended September 30, 2009
Financing Activities:				
Mortgage proceeds	$ -	$ 500,000	$ -	$ 500,000
Mortgage principal payments	(1,554,881)	(1,436,376)	(1,376,959)	(4,368,216)
Draws against the line of credit	-	155,000	1,400,000	1,555,000
Draws against revolving loan from 2668921 Manitoba Ltd.	4,341,192	-	-	4,341,192
Repayment of mortgage loans on refinancing	(1,600,000)	(500,000)	-	(2,100,000)
Normal course issuer bid	-	-	(275,757)	(275,757)
Transaction costs	(27,948)	(249,538)	(159,336)	(436,822)
Total financing	1,158,363	(1,530,914)	(412,052)	(784,603)
Investing Activities:				
Improvements to income properties (note 2)	(338,940)	(231,191)	(180,045)	(750,176)
Properties under development	15,511	14,472	(128,641)	(98,658)
Deposits	-	-	200,000	200,000
Restricted cash	(80,758)	(3,540)	28,804	(55,494)
Total investing	(404,187)	(220,259)	(79,882)	(704,328)
Net cash inflow (outflow) of investment capital	754,176	(1,751,173)	(491,934)	(1,488,931)
Operating activities	(245,447)	328,189	2,791,785	2,874,527
Cash distributions	-	-	(1,530,736)	(1,530,736)
Excess of cash from operating activities over distributions	(245,447)	328,189	1,261,049	1,343,791
	-	-	-	-
Sub-total	508,729	(1,422,984)	769,115	(145,140)
Cash provided by (used in) discontinued operations	(46,666)	244,760	(1,353,783)	(1,155,689)
Cash increase (decrease)	462,063	(1,178,224)	(584,668)	(1,300,829)
Cash, beginning of period	1,787,001	2,965,225	3,549,893	3,549,893
Cash, end of period	$ 2,249,064	$ 1,787,001	$ 2,965,225	$ 2,249,064

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 nine months of 2009, the total cash outlay for improvements to Income Properties was $750,176. 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.

Net Cash Outflow from Discontinued Operations

As disclosed in the "Analysis of Cash from Operating Activities", the net cash inflow from the operations of the 12 "held for sale" properties (i.e., from "discontinued operations") was $1,285,442 for the nine month period ended September 30, 2009.

After accounting for other transactions, the total cash outflow from discontinued operations for the nine month period ended September 30, 2009 was $1,155,689. Other transactions are comprised of the following:
(i) $4,400,000 of mortgage loan proceeds
(ii) $4,492,566 of mortgage loan debt repaid on financing;
(iii) $1,573,634 of regular monthly principal payments;
(iv) $458,746 of transaction costs;
(v) $141,248 of improvements to income properties;
(vi) a $141,652 increase in restricted cash; and
(vii) distributions paid on LP units of $33,285.

CAPITAL RESOURCES AND LIQUIDITY

Working Capital Requirements

LREIT requires an ongoing source of cash to fund regular mortgage loan principal payments and capital expenditures. Other non-recurring investment and financing activities, as well as discontinued operations, may result in a cash inflow or cash outflow, depending on specific events which occur each quarter. As distributions are currently suspended, the funding requirements of LREIT do not encompass the funding of distributions.

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

As disclosed in the preceding "Cash Flow Summary", LREIT completed the first nine months of 2009 with a net cash outflow of $1,300,829, after accounting for all cash inflows and outflows from operating, financing and investing activities and discontinued operations. The "cash flow summary" discloses the following:

(i) Regular monthly principal payments and capital improvements exceeded cash from operating activities by $2,243,865;

(ii) the net cash inflow from other financing and investing activities was $3,629,461, including draws on the line of credit and the revolving loan of $5,896,192;

(iii) the net cash outflow from discontinued operations was $1,155,689; and

(iv) the cash outflow in regard to distributions was $1,530,736.

Contractual Obligations

Property Acquisitions

Parsons Landing is an 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, of which $15 Million was paid as of December 31, 2008. The purchase agreement for Parsons Landing allowed for the remaining balance of $48.2 Million to be paid by February 28, 2009. The intent of LREIT was to fund the balance owing with new mortgage loan financing.

As the new mortgage loan financing arrangements were delayed, the vendor agreed to extend the deadline for payment of the balance owing until May 29, 2009, with subsequent extensions to July 31, 2009, October 1, 2009, December 15, 2009 and, most recently, to May 31, 2010. Each payment extension date also represented the deadline date for LREIT to obtain a commitment for the mortgage loan financing for the property. The extension of the payment deadline was conditional upon LREIT submitting interest payments of $300,000 per month, for the months of March 2009 through to September 2009, and remitting a principal payment of $500,000 on May 12, 2009. The vendor has forgiven interest in excess of $300,000 per month to September 30, 2009 in the amount of $4,092,462. The vendor has also agreed to accept interest payments of $300,000 per month for October 2009 and November 2009 and forgive interest in excess of $300,000 per month of $1,156,418.

In conjunction with the recent extension of payment deadline to May 31, 2010, the vendor has agreed to forgive the "excess" accrued interest of $4,092,462. The requirement to remit partial interest payments of $300,000 per month was also extended to May 31, 2010. Interest on the balance owing, for the period from October 1, 2009 to November 30, 2009 will amount to $1,756,418; however, the vendor has once again agreed to forgive interest in excess of the $300,000 payments of $1,156,418. The vendor also agreed to provide a second mortgage loan to a maximum of $12 Million for a term of 15 months, with an interest rate of 8% per annum for the first eight months, 12% for the next four months and 24% thereafter. The previous reduction of the purchase price of $3,100,00, on closing, has been rescinded in exchange for a reduced interest rate on the loan payable to the vendor.

In accordance with GAAP, the forgiveness of interest to September 30, 2009 of $4,092,462 is recorded over the remaining term of the obligation to December 15, 2009, using the effective interest method, resulting in reduction of interest expense on acquisition payable of $1,609,373 for the three months ended September 30, 2009 and of $2,483,089 for the three months ending December 31, 2009. In addition the forgiveness of interest from October 1 to December 31, 2009 of $1,749,177 will be recorded in the three months ending December 31, 2009.

The vendor is permitted to sell the property and the Trust may list the property for sale in 2010. In the event of the sale of Parsons Landing, the Trust will be liable to the vendor for any shortfall between the net proceeds of the sale and the acquisition cost payable of $45,233,000 plus interest.

Mortgage Loans

A summary of the debt obligations of LREIT relating to continuing operations for the fourth quarter 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	$ 312,398,309	$ 122,713,684	$ 52,788,938	$ 74,732,200	$ 62,163,487
Interim mortgage loans	17,821,530	17,821,530	-	-	-
Vendor take-back mortgage loans	4,000,000	-	4,000,000	-	-
Total	$ 334,219,839	$ 140,535,214	$ 56,788,938	$ 74,732,200	$ 62,163,487

Excluding $23,300,000 of principal due on demand loans which have terms that extend beyond 2009 and three first mortgage loans in breach of debt service coverage requirements of $101,454,162, the total amount due for the fourth quarter of 2009 was $15,781,052, comprised of the following amounts:

(i) regular repayments of principal in the estimated amount of $1,137,660;

(ii) principal of $1,786,292 on a loan which matures by December 31, 2009; and

(iii) $12,857,100 of principal due on demand loans.

Management intends to either renew or refinance the principal amounts due under similar terms and conditions or repay certain loans from property sale proceeds.

As previously disclosed in this report, LREIT is not in compliance with five mortgage loans totaling $124,271,772, as a result of the breaches of the debt service coverage requirements. Two of the breaches occurred subsequent to September 30, 2009. The five mortgages are included as regular mortgage payments in the remainder of 2009. The maturity dates for these mortgages extend beyond 2009. See "Debt Service Coverage Covenants".

Convertible Debentures

Since the inception as a real estate investment trust, LREIT has issued seven series of convertible debentures, of which four have matured and been retired through conversion prior to maturity or repayment upon maturity, including the Series D debentures which were retired on March 16, 2008 with an outstanding balance of $1,593,000. A summary of the net amount outstanding in regard to the three remaining series of convertible debentures is provided in the following chart. As disclosed on the chart, the Series E debentures mature in approximately three months from the date of this report, on February 17, 2010 and have an outstanding balance of $11.95 Million as of September 30, 2009.

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

The Series E and F debentures provide for the outstanding amount of the debentures to become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. As previously disclosed in this report, the Trust is not in compliance with three first mortgage loans totaling $101,454,162, as a result of a violation of the debt service coverage requirements. If the mortgage lender demands the repayment of the loans, the Series E and F debentures may become payable on demand.

Improvements to Existing Properties

Property improvement costs for the fourth quarter of 2009 are expected to be approximately $400,000.

Sources of Capital

Existing Cash

As of September 30, the cash balance of LREIT was $2,249,064, while the working capital deficit, excluding accrued liabilities for property acquisitions or properties under development, was approximately $12.9 Million. Including accrued liabilities for property acquisitions or properties under development of $47,720,000, LREIT has a working capital deficit of $60.6 Million as of September 30, 2009.

Operating Line of Credit

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

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

Divestiture Program

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

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

On October 1, 2009, LREIT sold three properties at a combined gross selling price of $35.57 Million, while a fourth property was sold on November 1, 2009 at a gross selling price of $7.9 Million. The four property sales resulted in total net cash proceeds of approximately $2.5 Million, after discharging $25.7 Million of the mortgage loan debt. The net cash proceeds were used to repay $12.5 Million of the higher cost interim mortgage loan debt.

On December 7, 2009, LREIT sold its portfolio of six apartment properties in Prince Albert, Saskatchewan for $17.4 Million. The sales generated net cash proceeds of $6.2 Million, after the repayment of $10.7 Million of first mortgage loan debt.

On December 7, 2009, LREIT sold Broadview Meadows for $9.1 Million. The sale generated net cash proceeds of $3.6 Million, net of approximately $5.2 Million of first mortgage loan debt.

On December 7, 2009, LREIT sold Greenwood Gardens for $13.8 Million. The sale generated net cash proceeds of $2 Million after a vendor take back mortgage of $6.5 Million and the assumption of the mortgage loan on the property by the purchaser.

On December 22, 2009, LREIT sold Sir Robert Borden Place for $6.6 Million. The sale generated net cash proceeds of $1.8 Million after the repayment of approximately $4.6 Million of first mortgage loan debt.
Subsequent to September 30, 2009 LREIT entered into an unconditional contract to sell Chancellor Gate for $8 Million. The sale is scheduled to close on March 1, 2010 and result in net cash proceeds of approximately $3.3 Million after the repayment of approximately $4.6 Million of first mortgage loan debt.

Subsequent to September 30, 2009 LREIT entered into an unconditional contract to sell McIvor Mall for $11.2 Million. The sale is scheduled to close on March 1, 2010 and result in net cash proceeds of approximately $3.1 Million after a vendor take back mortgage of $3.0 Million and the repayment of approximately $4.8 Million of first mortgage loan debt.

Cash from Operating Activities

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

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

Mortgage Loan Financing

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

Debenture and/or Trust Unit Offerings

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

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management

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

Shelter Canadian currently receives a service fee equal to 0.3% of the gross book value of the total assets of the Trust. The gross book value of the total assets of the Trust is defined as the total assets, as disclosed on the most recently issued financial statements, excluding cash. Payment of the fee occurs on a monthly basis, on the last day of each month. The current term of the Services Agreement expires on December 31, 2009. During the nine months ended September 30, 2009, LREIT incurred service fees payable to Shelter Canadian of $1,475,939. Service fees are included in trust expense.

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

During the nine months ended September 30, 2009, LREIT incurred property management fees payable to Shelter Canadian of $1,876,183, as well as leasing commissions of $97,649 and tenant improvements and renovation fees of nil. Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development. Leasing commissions and tenant improvement and renovation fees are capitalized to income properties.

Loans

In June 2009, LREIT obtained a $500,000 second mortgage loan and a $2.7 Million revolving "operating" loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian. In September 2009, the revolving loan commitment was increased to $5 Million. The loans bear interest at 7.5% and are due on June 1, 2010 and June 30, 2010, respectively. There was a $15,000 processing fee payable to 2668921 Manitoba Ltd. in regard to the second mortgage loan.

As of September 30, 2009, the total amount withdrawn by LREIT under the revolving loan commitment is $4,341,192. The Trust drew $600,000 in October and repaid $1,536,193 in November and $3,405,000 in December on the revolving loan from 2668921 Manitoba Ltd.

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

REVENUE/INCOME AND OTHER COMMITMENTS

Lakewood Manor

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

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

Siena Apartments

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

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

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

Elgin Lodge

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

A 60-suite expansion was completed at Elgin Lodge during 2007. During the five year period from June 1, 2006, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded property exceeds the total of the cost of the property to LREIT, including the cost of the expansion and the unpaid portion of a 12% annual return on the LREIT equity investment. Consideration recorded at September 30, 2009, of $404,953, 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 September 30, 2009, of $436,913, which increases the cost of the building, is included in accounts payable and accrued liabilities.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards - Adopted January 1, 2009

Goodwill and intangible assets

The CICA issued a new Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards are effective for the REIT's fiscal year commencing January 1, 2009, and were applied on a retroactive basis.

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

The adoption of these standards did not have an impact on the consolidated financial statements.

Future Changes to Significant Accounting Policies

Financial Instruments - Disclosure

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

International Financial Reporting Standards ("IFRS")

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

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

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

Investment Properties

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

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

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

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

Classification of Trust Units

The Declaration of Trust previously required that all taxable income be distributed to its unitholders each year. As IFRS is currently drafted and generally interpreted by the Canadian accounting profession, the units may be regarded under IFRS as a "liability" rather than "equity" with the associated distributions classified as interest expense. In order to continue to present units as equity, the unitholders approved an amendment to the Declaration of Trust at a special meeting of unitholders on December 9, 2009, to remove the mandatory requirement of the Trust to distribute its taxable income. In addition, the Declaration of Trust was amended to permit the Trust to satisfy distributions through the issuance of additional units in lieu of cash.

Lease Incentives

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

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

First-time adoption of International Financial Reporting Standards

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

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

Business Combinations

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Continuing Operations

As previously disclosed in this report, there is an increased level of uncertainty regarding the ability of LREIT to continue to operate, primarily due to the violation of debt service coverage covenant requirements which could potentially result in $124.3 Million of first and second mortgage loan debt and $25.6 Million of convertible debenture debt becoming payable on demand, in the event that lenders demand repayment of the mortgage loan debt. See "Debt Service Coverage Covenants". LREIT also has a working capital deficit of $60.6 Million as of September 30, 2009. The working capital deficit includes the amount payable on the acquisition of Parsons Landing of $47.2 Million.

In order to mitigate the risk surrounding the ability of LREIT to continue operations, LREIT is seeking revisions to fixed mortgage debt covenant requirements and has implemented a divestiture strategy.

Real Property Ownership

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

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

Public Market Risk

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

Completion of Divestiture Program

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

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

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

Closing of Parsons Landing Acquisition

There is a risk that financing arrangements for Parsons Landing will not be completed within a satisfactory time frame and the property may be listed for sale in 2010. 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. Excluding the 12 properties which are classified as "held for sale", there were 32 properties in the real estate portfolio of LREIT as of September 30, 2009, including one commercial property and 31 residential properties, comprising 2,687 rental units. The residential property portfolio includes 13 properties that are located in Fort McMurray, comprising a total of 1,167 suites, or 43% of the total residential suites in the income-producing property portfolio. The 13 properties have an aggregate acquisition price of $336.8 Million, which represents approximately 72% of the total aggregate purchase price of the portfolio of income-producing properties.

The 13 properties in Fort McMurray accounted for 65% of the total revenue of LREIT during the first nine months of 2009 and 74% of the net operating income.

None of the properties which are classified as "held for sale" as of September 30, 2009 are located in Fort McMurray.

After excluding the seven properties which are under a unconditional contract from the income-producing property portfolio of LREIT, the 13 properties in Fort McMurray represent 75% of the total aggregate purchase price of the income-producing property portfolio.

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

Financing

General

The ability of LREIT to raise additional capital for operating or investing activities is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a 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.

In the event that LREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, LREIT would not be in a position to repay the debt and would be in default of its debt obligations. In such event, the lenders could potentially take action against LREIT and the indebted properties.

As previously disclosed in this report, LREIT is in breach of debt service coverage requirements in regard to three first mortgage loans totaling $101,454,162. 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. Additionally, management anticipates that the first mortgage loan, in the amount of $2,385,332, that has matured subsequent to December 31, 2009 will be refinanced on comparable terms.

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 September 30, 2009, the interim mortgage loans of LREIT amounted to $50.9 Million. Although it is anticipated that LREIT will be able to renew its existing interim mortgage loan financing at maturity, it is unlikely that LREIT will undertake additional interim financing.

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

Payment of Cash Distributions

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

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

Changes to Tax Treatment of Trusts

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

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

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

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

Legal Claims

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

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

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

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

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

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

TAXATION

Taxation of LREIT

LREIT qualifies as a mutual fund trust for income tax purposes. Subject to the New SIFT Rules, LREIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect to its taxable income each year, except to the extent that such taxable income is paid or deemed to be payable to unitholders and deducted by LREIT for tax purposes. Pursuant to the Declaration of Trust of LREIT, the Trustees distribute or designate all taxable income directly earned by LREIT to the unitholders of the Trust in order to ensure that LREIT will not be subject to income tax under Part I of the Tax Act.

Under the New SIFT Rules, if LREIT does not meet the REIT Conditions to become a Qualifying REIT resulting in the tax on distributions commencing to apply to LREIT in 2011 (or earlier if LREIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from LREIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions at a rate that is substantively equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid as a return of capital will generally not be subject to the tax.

Taxation of Unitholders

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

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the nine months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2009 Third 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
November 10, 2009

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

SCHEDULE I

Real Estate Portfolio as of September 30, 2009

Property Portfolio - September 30, 2009

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2009
INCOME PRODUCING PROPERTIES					
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	98 %
Saskatchewan					
Borden Estates (8)	Prince Albert	5,315,000	February 2005	144	100 %
Cedar Village (8)	Prince Albert	2,700,000	February 2005	72	100 %
Carlton Manor (8)	Prince Albert	410,000	February 2005	19	95 %
Riverside Apartments (8)	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments (8)	Prince Albert	650,000	February 2005	28	48 %
Marquis Towers (8)	Prince Albert	6,200,000	August 2005	129	99 %
Sir Robert Borden Place (9)	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					
Norglen Terrace	Peace River	2,500,000	October 2004	72	98 %
Broadview Meadows (8)	Sherwood Park	6,790,000	January 2006	93	96 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	81 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	90 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	78 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	68 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	70 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	75 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	92 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	67 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	76 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	November 2007	72	62 %
Parsons Landing (3)	Fort McMurray	60,733,000	September 2008	160	87 %
Siena Apartments	Fort McMurray	30,000,000	July 2008	66	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	84 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	99 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	98 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (2)(5)	Port Elgin	18,122,000	June 2006	124	47 %
Clarington Seniors Residence (2)	Bowmanville	22,400,000	February 2007	118	48 %
Total - Residential		**$ 468,980,000**	Total suites	**2,687**	
COMMERCIAL					
Purolator	Burlington	1,200,000	September 2003	16,117	100 %
Total income producing properties		**$ 470,180,000**			

Property Portfolio - September 30, 2009

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2009
DISCONTINUED OPERATIONS					
RESIDENTIAL					
Manitoba					
Chancellor Gate (10)	Winnipeg	$ 6,750,000	August 2005	48	98 %
Colony Square	Winnipeg	29,907,700	October 2008	428	93 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	98 %
Saskatchewan					
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	89 %
Village West (7)	Saskatoon	5,113,800	June 2006	100	97 %
Alberta					
Nova Villa (6)	Edmonton	5,400,000	May 2004	61	92 %
Nova Manor	Edmonton	2,615,000	May 2004	32	94 %
Nova Ridge Estates (6)	Spruce Grove	8,800,000	July 2004	102	98 %
British Columbia					
Greenwood Gardens (8)	Surrey	10,950,000	April 2004	183	92 %
Total - Residential		**$ 97,862,500**	Total suites	**1,223**	
COMMERCIAL					
Retail and Office					
Kenaston (1) (6)	Winnipeg	12,656,200	April 2002	103,209	87 %
McIvor Mall (10)	Winnipeg	6,700,000	February 2004	65,283	100 %
Colony Square	Winnipeg	7,931,600	October 2008	83,190	100 %
		27,287,800		251,682	
Light Industrial					
156 / 204 East Lake Blvd.	Aidrie	1,600,000	June 2003	39,936	- %
Total - Commercial		**28,887,800**	Total leasable area	**291,618**	
Total discontinued operations		**$ 126,750,300**			
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 fourth quarter of 2009. See "Property Acquisitions - Parsons Landing" above.
(4) Property includes 8,400 square feet of commercial space.
(5) Costs in regard to the expansion of $9,752,000 are classified as "properties under development".
(6) Property sold on October 1, 2009.
(7) Property sold on November 1, 2009.
(8) Property sold on December 7, 2009.
(9) Property sold on December 22, 2009.
(10) Unconditional sale of property to close on March 1, 2010.

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. There have not been any additional units issued under the Distribution Reinvestment Plan subsequent to the first quarter of 2009 as a result of the suspension of distributions by LREIT.

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 expired on January 12, 2010.

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

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

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.

Since January 2009, there have not been any additional purchases and given the cash constraints of the Trust, it is anticipated that there will not be any additional purchases under the normal course issuer bid during the fourth quarter of 2009. The Trust is not required to purchase any units under the normal course issuer bid.

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 September 30, 2009, LREIT had 1,452,000 options outstanding of which 1,156,800 or 79.7% had vested, including 196,400 options which vested during the nine months ended September 30, 2009. LREIT has not granted any options under the Unit Option Plan since January 2008.

In accordance with Canadian generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Loss and Comprehensive Loss. During the nine months ended September 30, 2009, unit-based compensation expense related to unit options which were not fully vested as of December 31, 2008 amounted to $85,803.

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

Deferred Unit Plan

On June 18, 2008, the Trust adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees paid in the form of deferred units. Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control (as defined in the deferred unit plan), any unvested deferred units shall vest upon the earlier of the next applicable vesting date that is immediately prior to the date on which the change of control occurs Whenever cash distributions are paid, additional deferred units are credited to the participant based on the number of deferred units held. The deferred units credited to a participant vest immediately and are redeemable by the participant on retirement or on "termination" other than for cause. If a participant is terminated for cause, only the deferred units which have vested shall be redeemable and any unvested deferred units shall be cancelled. Additional details of the Deferred Unit Plan are disclosed in Note 16 to the 2009 third 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 nine months ended September 30, 2009, the total fees payable to independent Trustees under the compensation package amounted to $138,469.

All of the independent Trustees elected to have their compensation for the third 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 $0.85, there were 162,871 deferred units granted to be independent Trustees during the nine months ended September 30, 2009.

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

Limited Partnership Units

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

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

During the three months ended September 30, 2009, distributions in regard to the LPU's amounted to nil. During the nine months ended September 30, 2009, distributions in regard to the LPU's amounted to $33,285.

On November 1, 2009, the Trust sold Village West Townhouses. The Limited Partnership Agreement of Village West LP provides that Village West LP will be dissolved after sale of its property. As a result, the Class B limited partnership units of Village West LP will be exchanged, on a one for one basis for units of the Trust, resulting in the issue of 356,617 units of the Trust, and Village West LP will be dissolved, in December 2009.