LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

Auditors' Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 2009 and 2008 and the consolidated statements of equity, income (loss) and comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

March 23, 2010

Meyers Norris Penny LLP

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2009	December 31 2008
Assets		
Income properties (Note 4)	**$383,889,710**	$391,284,957
Mortgage loans receivable (Note 5)	**7,050,000**	-
Cash	**4,287,864**	3,549,892
Other assets (Note 6)	**7,074,109**	7,689,530
Assets of properties held for sale (Note 7)	**134,842,883**	202,983,952
	$537,144,566	$605,508,331
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$281,374,398**	$283,503,730
Convertible debentures (Note 9)	**45,940,843**	42,427,966
Accounts payable and accrued liabilities (Note 10)	**60,783,383**	58,943,715
Bank indebtedness (Note 11)	**-**	3,320,000
Liabilities of properties held for sale (Note 7)	**107,506,055**	179,883,436
	495,604,679	568,078,847
Equity	**41,539,887**	37,429,484
	$537,144,566	$605,508,331

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2009:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484
Issue of units on exchange of LP units of Village West LP	2,139,702	-	-	-	2,139,702
Units purchased under normal course issuer bid	(275,757)	-	-	-	(275,757)
Issue costs	(6,502)	-	-	-	(6,502)
Unit-based compensation	282,449	-	-	-	282,449
Units issued on distribution reinvestment plan	108,517	-	-	-	108,517
Income (loss) and comprehensive income (loss)	-	3,497,073	-	-	3,497,073
Distributions declared	-	-	(21,139,285)	-	(21,139,285)
Units issued on payment of distributions	19,504,206	-	-	-	19,504,206
Equity, December 31, 2009	$ 101,503,281	$ (14,432,282)	$ (58,635,749)	$ 13,104,637	$ 41,539,887

Year Ended December 31, 2008:

	Units	Cumulative Income (loss)	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990
Maturity of Series D debentures	322,658	-	-	(322,658)	-
Units purchased under normal course issuer bid	(1,778,440)	-	-	-	(1,778,440)
Issue costs	(111,802)	-	-	-	(111,802)
Unit-based compensation	391,517	-	-	-	391,517
Units issued on distribution reinvestment plan	1,802,126	-	-	-	1,802,126
Income (loss) and comprehensive income (loss)	-	(9,607,056)	-	-	(9,607,056)
Distributions declared	-	-	(9,829,851)	-	(9,829,851)
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31 2009	2008
Revenue		
Rentals from income properties (Note 16)	**$ 41,415,408**	$ 42,235,692
Interest and other income	**396,597**	769,007
	41,812,005	43,004,699
Expenses		
Property operating costs	**13,382,764**	12,343,655
Income before the undernoted	**28,429,241**	30,661,044
Financing expense (Note 17)	**29,584,709**	27,492,765
Trust expense	**2,760,536**	2,622,973
Amortization (Note 18)	**8,863,921**	7,087,506
	41,209,166	37,203,244
Loss from continuing operations before income taxes	**(12,779,925)**	(6,542,200)
Future income tax expense (Note 19)	**2,698,804**	254,392
Loss from continuing operations	**(15,478,729)**	(6,796,592)
Income (loss) from discontinued operations (Note 7)	**18,975,802**	(2,810,464)
Income (loss) and comprehensive income (loss)	**$ 3,497,073**	$ (9,607,056)
Income (loss) per unit (Note 20)		
Basic and diluted		
Continuing operations	**$ (0.883)**	$ (0.388)
Discontinued operations	**1.082**	(0.161)
Total	**$ 0.199**	$ (0.549)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2009	2008
Cash provided by (used in) operating activities		
Loss from continuing operations	**$ (15,478,729)**	$ (6,796,592)
Items not affecting cash		
Accretion on debt component of convertible debentures (Note 17)	**2,853,290**	2,469,702
Unit-based compensation	**282,449**	391,517
Amortization (Note 18)	**10,063,370**	8,108,061
Change in fair value of interest rate swaps (Note 17)	**2,293,795**	4,012,403
Future income taxes (Note 19)	**2,698,804**	254,392
	2,712,979	8,439,483
Changes in non-cash operating items	**725,306**	342,599
	3,438,285	8,782,082
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**5,000,000**	87,168,619
Repayment of mortgage loans on refinancing	**(2,100,000)**	(38,066,146)
Repayment of Series D debentures	**-**	(1,593,000)
Repayment of principal on mortgage loans	**(5,316,733)**	(4,485,274)
Expenditures on transaction costs	**(248,106)**	(1,279,019)
Proceeds (repayment) of line of credit	**(3,320,000)**	280,000
Proceeds of revolving loan commitment	**4,905,000**	-
Repayment of revolving loan commitment	**(4,905,000)**	-
Units purchased and cancelled under normal course issuer bid	**(275,757)**	(1,778,440)
Distributions paid on units (Note 21)	**(1,530,736)**	(8,104,253)
	(7,791,332)	32,142,487
Cash provided by (used in) investing activities		
Acquisition of income properties	**-**	(30,500,000)
Payment of acquisition cost payable	**-**	(19,615,893)
Construction of income properties	**-**	(4,972,385)
Improvements to income properties	**(841,378)**	(2,785,820)
Increase in properties under development	**-**	(7,080,690)
Refund of deposits (deposits on potential acquisitions)	**200,000**	(1,010,000)
Decrease (increase) in restricted cash (Note 6)	**(2,081,142)**	(971,525)
	(2,722,520)	(66,936,313)
Sub-total	**(7,075,567)**	(26,011,744)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2009	2008
Balance forward	**(7,075,567)**	(26,011,744)
Cash provided by (used in) discontinued operations		
Income (loss) from discontinued operations (Note 7)	**18,975,802**	(2,810,464)
Gain on sale	**(21,063,885)**	-
Items not affecting cash		
Straight-line rent adjustment	**(9,684)**	(13,554)
Amortization	**3,503,170**	4,861,825
Future income taxes	**603,772**	1,011,650
Non-controlling interest	**599,729**	87,860
	2,608,904	3,137,317
Changes in non-cash operating items	**(2,762,142)**	1,088,667
Tenant inducements and leasing expenditures incurred through leasing activity	**(683,746)**	(592,552)
	(836,984)	3,633,432
Proceeds of mortgage loan financing	**4,400,000**	45,716,669
Repayment of mortgage loans on refinancing	**(4,492,566)**	-
Repayment of interim mortgage loans	**(17,094,997)**	-
Repayment of principal on mortgage loans	**(2,535,641)**	(2,286,612)
Expenditures on transaction costs	**(857,829)**	(61,571)
Distributions paid on LP units of Village West LP	**(33,285)**	(199,705)
Acquisition of income properties	**-**	(16,365,000)
Improvements to income properties	**(652,769)**	(780,166)
Proceeds of sale	**29,631,650**	-
Increase in properties under development	**(98,658)**	(1,168,068)
Decrease (increase) in restricted cash	**384,618**	(343,692)
	7,813,539	28,145,287
Cash increase	**737,972**	2,133,543
Cash, beginning of year	**3,549,892**	1,416,349
Cash, end of year	**$ 4,287,864**	$ 3,549,892

Supplementary cash flow information (Note 21)

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006, June 18, 2008 and December 9, 2009.

2 Basis of presentation and continuing operations

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements reflect the operations of the Trust and wholly owned operating subsidiaries and LREIT Village West Limited Partnership ("Village West LP"), an entity controlled by the Trust to December 1, 2009, when the Village West LP was dissolved. All inter-entity transactions have been eliminated.

The consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the settlement of liabilities for the next fiscal year.

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of GAAP applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust sustained losses from continuing operations of $15,478,729 and $6,796,592 for the years ended December 31, 2009 and 2008, respectively; has a working capital deficit of $10,468,086 and $2,141,026 for the years ended December 31, 2009 and 2008, respectively; has been in breach of debt service coverage requirements during 2009 and was in breach of debt service covenants as of December 31, 2009.

The Trust is in breach of the 1.4 times debt service coverage requirement of 2 first mortgage loans totaling $46,293,787 on properties located in Fort McMurray, Alberta.

The breaches of the debt service covenant requirements are a result of the negative impact of the slow down of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Given that the rental market conditions may not improve substantially in the near future, the breach in the debt service covenant requirements may continue for the next 12 months.

The Trust has received notice from the lender that the breach must be cured. The Trust has continued to attempt a modification and waiver of the debt service covenants.

The Trust is in breach of the 1.2 times debt service coverage requirement of a first and second mortgage loan totaling $72,766,738 on three properties located in Fort McMurray, Alberta.

The breaches of the debt service covenant requirements are also a result of the negative impact of the slow down of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Given that the rental market conditions may not improve substantially in the near future, the breach in the debt service covenant requirements may continue for the next 12 months.

The Trust has received a letter of forbearance from the lender in regards to the breach to April 20, 2010.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of the 1.3 times debt service coverage requirement of a $5,101,221 first mortgage loan on a property located in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as discontinued operations.

It is the intention of the Trust to sell this property within the next twelve months, and use the proceeds from sale to repay the outstanding first mortgage loan balance. In addition, the Trust will be requesting a forbearance letter from the lender.

There are no cross-default covenants between the five mortgages noted above and the other mortgage loans of the Trust.

The breaches of the debt service covenant requirements have not resulted in an acceleration of the repayment of the mortgage loans. There is no assurance, however, that the lenders will not accelerate repayment of the mortgage loans.

The cross-default clauses of the Series E and F secured convertible debentures provide that the convertible debentures may become payable, on demand, if, at a future date, the repayment of a mortgage loan is accelerated by a lender. Subsequent to December 31, 2009, the Series E debentures in the amount of $11,950,000 were paid in full. The Series F convertible debentures, with a face value of $13,680,000, may become payable on demand. If the convertible debentures become payable on demand, in accordance with GAAP, the carrying value of the liability component of the convertible debentures would be increased to the face value of the convertible debentures of $13,680,000. The amount of the increase in the face value of the convertible debentures would be recorded as financing expense in the period that the debentures become payable on demand.

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

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

3 Significant accounting policies

Change in accounting policy

In February 2008, the CICA issued a new Handbook Section 3064, "Goodwill and Intangible Assets". This new section replaces Section 3062, "Goodwill and Intangible Assets", and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard.

On January 20, 2009, the CICA issued Emerging Issues Committee ("EIC") abstract EIC-173-Credit Risks and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on CICA Handbook Section 3855 Financial Instruments - Recognition and Measurement and requires an entity to consider its own credit risk as well as the credit risk of the counter party when determining the fair value of financial assets and liabilities, including derivative instruments.

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 Trust adopted these standards effective January 1, 2009. The adoption of these standards did not have an impact on the Consolidated Financial Statements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates and as adjustments become necessary, the adjustments are reported in earnings in the year in which the adjustments become known.

Significant items subject to estimates include the allocation of the total cost to income properties on acquisition, the transfer of amounts from properties under development to income properties, the remaining useful life of the income properties, undiscounted cash flows to be generated from income properties, the classification of properties held for sale, the calculation of future income tax assets and liabilities and the completion of the Parsons Landing acquisition.

Income properties

Income properties include land, buildings and related costs and improvements, furniture, equipment and appliances, tenant inducements and leasing expenses and intangible assets.

Income properties are carried at cost. Tenant inducements and leasing expenses that are incurred to obtain a lease are capitalized to the cost of buildings and improvements.

A portion of the total cost of acquisition of an income property is allocated to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in-place leases. A portion of the total cost of acquisition of an income property is also allocated to intangible assets to reflect the cost of lease origination costs, tenant relationships and above market leases.

3 Significant accounting policies (continued)

Income properties (continued)

If events or circumstances indicate that the carrying value of the income properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income properties. If the analysis indicated that the carrying value is not recoverable from future cash flows, the income properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings is recorded on a straight-line basis over their useful lives ranging from 25 to 50 years. Amortization of improvements is recorded on a straight-line basis over their remaining useful lives ranging from 5 to 25 years. Amortization of tenant inducements and leasing expenses is recorded on a straight-line basis over the term of the respective leases. Amortization of furniture, equipment and appliances is recorded on a straight-line basis over their remaining useful lives ranging from 5 to 15 years. Amortization of intangible assets is recorded on a straight-line basis over the term of respective leases.

Properties under development

Properties under development are carried at cost. Cost is comprised of acquisition costs, external and internal development and initial leasing costs, property operating costs and financing expenses less rental revenue incurred during the period of development prior to achieving a satisfactory level of occupancy within a predetermined time period.

Discontinued operations

Assets and liabilities held for sale include the assets and liabilities of a property when the property is available for immediate sale; management has committed to a plan to sell the property and is actively locating a buyer at a sales price that is reasonable in relation to current fair value; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are carried at the lower of cost and net realizable value, less selling costs. Amortization is not recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes, and have been reported in discontinued operations.

Convertible debentures

Convertible debentures are separated into debt and equity components based on the respective fair values at the date of issue. The value of the equity component is calculated at the estimated fair value of the holders' options to convert the debentures into units. The value assigned to the debt component of convertible debentures represents the value of future interest and principal payments due under the terms of the debentures.

Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense in regard to options granted to officers, employees and trustees is recognized over the vesting period of the options.

3 Significant accounting policies (continued)

Revenue recognition

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to straight-line rent receivable and accrued rental revenue. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the year in which the applicable costs are incurred. Meal and other revenue is recognized as earned.

Income taxes

In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part 1 of the Income Tax Act.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new 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. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation does not apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT.

As the Trust does not currently meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status, notwithstanding the intent of the Trust to become a Qualifying REIT prior to 2011 to the extent possible.

In accordance with GAAP, the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset, if the asset is more likely than not to be realized, or liability.

Wholly-owned operating subsidiaries of the Trust are operating businesses and provide for income tax expense using the asset and liability method of accounting for income taxes at enacted or substantively enacted rates. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

3 Significant accounting policies (continued)

Comprehensive income
The Trust does not have any other comprehensive income or accumulated other comprehensive income.

Per unit calculations
Basic per unit amounts are calculated using the weighted average number of units outstanding during the year, including vested deferred units. Diluted per unit amounts are calculated after considering the potential exercise of convertible debentures, unvested deferred units, and outstanding unit options. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Financial instruments
All financial instruments are measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest rate method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in other comprehensive income.

The Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash	Held for trading	Fair value
Mortgage loans receivable	Loans and receivables	Amortized cost
Other assets		
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash	Held for trading	Fair value
Mortgage loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities		
Interest rate swaps	Held for trading	Fair value
Other accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost
Bank indebtedness	Held for trading	Fair value

3 *Significant accounting policies (continued)*

Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized in the cost of the related asset or liability on initial recognition and are measured at amortized cost using the effective interest rate method.

The Trust assesses impairment of all financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as default of interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

Future change to significant accounting policies

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.

4 *Income properties*

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 65,674,473	$ -	$ 65,674,473
Buildings and improvements	331,062,222	(19,962,650)	311,099,572
Furniture, equipment and appliances	10,132,060	(3,062,682)	7,069,378
Intangible assets	207,222	(160,935)	46,287
	$407,075,977	$ (23,186,267)	$383,889,710

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Land	$ 65,674,473	$ -	$ 65,674,473
Buildings and improvements	329,658,846	(12,413,860)	317,244,986
Furniture, equipment and appliances	10,066,762	(1,768,123)	8,298,639
Intangible assets	207,222	(140,363)	66,859
	$405,607,303	$ (14,322,346)	$391,284,957

4 Income properties (continued)

The tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $27,667,200 until June 30, 2010. The net book value of the townhouse portion of Lakewood Manor at December 31, 2009 is $24,851,105.

At December 31, 2009 and 2008, the carrying value of the income properties was not impaired.

5 Mortgage loans receivable

	December 31 2009	December 31 2008
Second mortgage loan receivable from Gill Apartments Ltd., due October 1, 2014. The loan bears interest at 5% and provides for monthly payments of interest only.	$ 500,000	$ -
Second mortgage loan receivable from Mainstreet Equity Corp., due June 1, 2011. The loan bears interest at 3% until June 1, 2010 and 6% thereafter and provides for monthly payments of interest only.	6,550,000	-
	$ 7,050,000	$ -

6 Other assets

	December 31 2009	December 31 2008
Restricted cash		
Tenant security deposits	$ 1,800,264	$ 2,480,611
Reserves required by mortgage loan agreements	1,386,848	623,889
Sale proceeds in escrow	2,041,795	-
Normal course issue payments in escrow	-	43,265
	5,228,907	3,147,765
Amounts receivable	552,717	566,927
Prepaid expenses, deposits and other	1,282,485	1,066,034
Deposits on potential acquisitions	10,000	210,000
Future income taxes (Note 18)	-	2,698,804
	$ 7,074,109	$ 7,689,530

Amounts receivable includes rent receivable of $408,122 (2008 - $477,203) net of an allowance for doubtful accounts of $92,205 (2008 - $70,118).

7 *Discontinued operations*

The Trust is pursuing a divestiture program. In this regard, the Trust has designated 10 properties as held for sale and, for the year ended December 31, 2009, has sold 13 properties.

Assets and liabilities held for sale reflect the assets and liabilities of the 10 income properties held for sale at December 31, 2009. Assets and liabilities held for sale at December 31, 2008 reflect the assets and liabilities of the 10 income properties held for sale plus the assets and liabilities of the 13 properties which were sold. Discontinued operations reflect the revenue and expense and cash flow of the 10 properties held for sale and the 13 income properties sold during the year ended December 31, 2009, including the gain on sale for the 13 properties which were sold.

In addition, the Trust is contractually obligated to use proceeds of sale from the 23 income properties held as discontinued operations to retire $15.9 Million of interim loans payable (2008 - $35.4 Million). In accordance with Canadian generally accepted accounting principles, such debt and the interest expense associated with such debt is reflected in discontinued operations.

During the year ended December 31, 2009, the Trust sold 13 properties for gross proceeds of $90,392,000 resulting in a gain on sale of $21,063,885 and net cash proceeds of $29,631,650 after sales expenses, mortgage debt retirement and, in some circumstances, the provision of financing to the purchaser. Net cash proceeds were used to retire $17,094,997 of interim debt and to improve the working capital of the Trust. The properties sold include commercial and residential properties and for segmented reporting purposes were located in the "other" geographic category.

The following table discloses the balance sheets and statements of income (loss) for discontinued operations.

	December 31	
	2009	2008
Balance sheets		
Assets		
Income properties (a)	$ 132,569,624	$ 162,805,329
Properties under development	-	35,957,774
All other assets	2,273,259	4,220,849
	134,842,883	202,983,952
Liabilities		
Mortgage loans payable (b)	84,707,141	135,517,277
Interim loans payable	15,763,338	34,906,154
Accounts payable and accrued liabilities	3,863,028	4,368,550
Future income taxes (f)	3,172,548	3,518,197
Non-controlling interest (c)	-	1,573,258
	107,506,055	179,883,436
	$ 27,336,828	$ 23,100,516

7 Discontinued operations (continued)

	Year Ended December 31 2009	2008
Statements of income (loss)		
Revenue		
Rentals from income properties	$ 28,984,786	$ 23,611,579
Interest and other income	132,861	186,016
	29,117,647	23,797,595
Expenses		
Property operating costs	16,192,045	12,388,494
Financing expense (d)	11,215,037	8,799,013
Amortization (e)	2,595,147	4,321,042
Income tax expense - current and future (f)	603,772	1,011,650
	(1,488,354)	(2,722,604)
Non-controlling interest	(599,729)	(87,860)
	(2,088,083)	(2,810,464)
Gain on sale	21,063,885	-
Income (loss) from discontinued operations	$ 18,975,802	$ (2,810,464)

(a) At December 31, 2009 and 2008, the carrying value of discontinued properties is not impaired.

(b) Mortgage loans payable

	December 31 2009	2008
Mortgage loan balances	$ 84,789,406	$135,823,146
Unamortized transaction costs	(140,085)	(416,667)
Difference between contract and market interest rates on mortgage loans assumed (e)	57,820	110,798
	$ 84,707,141	$135,517,277

In accordance with GAAP, a mortgage is to be recorded at fair market value on the acquisition of a property and the difference between contractual and market interest rates is capitalized and amortized over the term of the respective mortgage.

7 *Discontinued operations (continued)*

(c) Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of Village West LP, an entity controlled by the Trust, which is consolidated in the financial statements. The Limited Partnership Agreement of Village West LP provides that Village West LP will be dissolved upon sale of its property. As a result, the Class B limited partnership units of Village West LP were 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 was dissolved, in December 2009.

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

	December 31 2009	December 31 2008
Balance, beginning of year	$ 1,573,258	$ 1,685,103
Share of income of Village West Townhouses	599,729	87,860
Distributions on LP Units of Village West LP	(33,285)	(199,705)
Exchange of LP Units of Village West LP for Trust Units	(2,139,702)	-
Balance, end of year	$ -	$ 1,573,258

(d) **Financing expense**

	Year Ended December 31 2009	Year Ended December 31 2008
Mortgage loan interest	$ 10,256,824	$ 8,069,742
Amortization of transaction costs	958,213	729,271
	$ 11,215,037	$ 8,799,013

(e) **Amortization**

	Year Ended December 31 2009	Year Ended December 31 2008
Building	$ 2,082,090	$ 3,357,925
Furniture, equipment and appliances	157,968	288,324
Intangible assets, except for in-place leases	355,089	674,793
	2,595,147	4,321,042
Transaction costs (d)	958,213	729,271
Above market in-place leases	3,129	10,171
Below market in-place leases	(341)	(8,397)
Difference between contract and market interest rates on mortgage loans assumed (b)	(52,978)	(190,262)
	$ 3,503,170	$ 4,861,825

7 Discontinued operations (continued)

(f) **Future income taxes**

Future income taxes consists of the following components:

	December 31 2009	December 31 2008
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis held in the Trust expected to reverse after 2010 for:		
Income properties	$ 730,674	$ 760,152
Transaction costs	105,924	(29,525)
	836,598	730,627
Valuation allowance	(836,598)	-
	$ -	$ 730,627
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax asset (liability) relating to the temporary differences between the accounting and tax basis of income properties held in wholly owned subsidiaries	$ (2,773,834)	$ (3,518,197)
Future income tax asset relating to operating losses of wholly owned subsidiaries	2,273,348	1,569,604
	(500,486)	(1,948,593)
Valuation allowance	(2,672,062)	(1,569,604)
	$ (3,172,548)	$ (3,518,197)

In recognition of the uncertainty with respect to the realization of the income tax assets, a full valuation allowance was recorded to reduce the future income tax assets to nil at December 31, 2009.

7 Discontinued operations (continued)

(f) Future income taxes (continued)

	Year Ended December 31 2009	2008
Future income tax expense (recovery):		
Trust		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 29,478	$ 50,632
Transaction costs	(135,449)	(13,547)
Valuation allowance	836,598	-
	730,627	37,085
Decrease (increase) in future income tax asset resulting from a change in tax rate for:		
Income properties	-	44,601
Transaction costs	-	(1,748)
	-	42,853
	730,627	79,938
Wholly owned subsidiaries		
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	(676,981)	73,769
Increase (decrease) in future income tax liability resulting from changes in tax rates	(18,202)	(37,965)
Increase in future income tax asset resulting from operating losses	(752,924)	(705,116)
Valuation	1,102,488	1,569,604
	(345,619)	900,292
Current income taxes at statutory tax rates	218,764	31,420
	(126,855)	931,712
	$ 603,772	$ 1,011,650

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

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,354,010
2028	2,437,741
2029	2,431,870
	$ 7,336,877

8 Mortgage loans payable

	Interest Rates at December 31, 2009			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2009
Income properties				
Fixed rate mortgages	4.8% - 12.0%	5.8%	4.1 years	$209,785,513
Floating rate mortgages	5.8% - 6.0%	5.9%	Demand	72,766,738
				282,552,251
Unamortized transaction costs				(1,177,853)
				$281,374,398

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $20,171,559 and $22,147,455, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

	Interest Rates at December 31, 2008			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2008
Income properties				
Fixed rate mortgages	4.5% - 7.3%	5.8%	5.2 years	$210,368,987
Floating rate mortgages	4.5% - 6.3%	4.6%	Demand	74,600,000
				284,968,987
Unamortized transaction costs				(1,465,257)
				$283,503,730

8 Mortgage loans payable (continued)

Approximate principal repayments are as follows:

Year ending December 31	
2010	$150,425,443
2011	8,490,771
2012	34,341,150
2013	39,654,242
2014	32,864,141
Thereafter	16,776,504
	$282,552,251

Certain of the mortgage loans payable are subject to covenants, including minimum debt service coverage requirements. The Trust is not in compliance with four first mortgage loans and one second mortgage loan totaling $124,161,746, as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. In accordance with GAAP, the balance of the mortgage loans, which are in breach of debt service coverage requirements, is included in principal repayments in 2010.

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

All mortgages which have matured subsequent to December 31, 2009 have been renewed.

9 Convertible debentures

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

	December 31 2009	December 31 2008
Series E	$ 11,950,000	$ 11,950,000
Series F	13,680,000	13,680,000
Series G	25,732,000	25,732,000
	$ 51,362,000	$ 51,362,000

9 *Convertible debentures (continued)*

During the years ended December 31, 2009 and 2008, there have not been any conversions of convertible debentures.

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

December 31, 2009	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,814,795	$ 2,835,690	$ 14,650,485
Series F - 7.5%, due March 11, 2011	12,587,225	3,564,376	16,151,601
Series G - 7.5%, due December 31, 2011	22,541,667	6,704,571	29,246,238
	46,943,687	13,104,637	60,048,324
Unamortized transaction costs	(1,002,844)	-	(1,002,844)
	$ 45,940,843	$ 13,104,637	$ 59,045,480

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

The Accretion of the debt component for the year ended December 31, 2009 of $2,853,290 (2008 - $2,469,702), which increases the debt component from the initial carrying amount, is included in financing expense.

The Series E and F debentures provide that for the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. Subsequent to December 31, 2009, the Series E debentures in the amount of $11,950,000 were paid in full. The Trust is not in compliance with four first mortgage loans and one second mortgage loan totaling $124,161,746, as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayment of any of the loans, the Series F convertible debentures, with a face value of $13,680,000, may become payable on demand.

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

10 Accounts payable and accrued liabilities

	December 31 2009	December 31 2008
Accounts payable and accrued liabilities	$ 1,727,737	$ 2,108,857
Payable on acquisition of Parsons Landing	47,720,000	48,220,000
Construction costs payable	1,134,621	254,432
Mortgage and debenture interest payable	1,788,794	1,850,590
Mortgage guarantee fees payable	290,667	-
Tenant security deposits	1,815,366	2,497,433
Interest rate swaps	6,306,198	4,012,403
	$ 60,783,383	$ 58,943,715

The amount payable on the acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,233,000 which is expected to be paid May 31, 2010.

Interest rate swaps
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The change in the fair value for the year ended December 31, 2009 was $2,293,795 (2008 - $4,012,403) and is included in financing expense.

11 Bank indebtedness

Bank indebtedness consists of a revolving line of credit that the Trust obtained from a Canadian chartered bank in 2007 in the maximum amount of $5,000,000, bearing interest at Prime plus 3.5% (2008 - prime) and repayable on demand. The line of credit is secured by a second mortgage on an income property. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at December 31, 2009, $4,875,000 was available to the Trust (2008 - $1,555,000).

12 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management agreement and services agreement with the Trust and, in addition, 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited is a related party as 2668921 Manitoba Ltd. is owned by the family trust of an officer and Trustee of the Trust.

12 Related party transactions (continued)

Management agreement
The property management agreement with Shelter Canadian Properties has a five year term expiring on August 30, 2012. Under the property management agreement, Shelter Canadian Properties Limited administers the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In 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. Property management fees are included in property operating costs; leasing fees are capitalized to income properties; and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,626,160 for the year ended December 31, 2009 (2008 - $1,809,305). Property Management fees are included in property operating costs.

The Trust incurred property management fees on discontinued operations payable to Shelter Canadian Properties Limited of $730,389 for the year ended December 31, 2009 (2008 - $646,953). Property Management fees are included in property operating costs of discontinued operations and during the period of major in-suite renovations or development are capitalized to the cost of assets of properties held for sale.

The Trust incurred leasing commissions on commercial income properties included in discontinued operations to Shelter Canadian Properties Limited of $113,453 for the year ended December 31, 2009 (2008 - $40,938). The amounts are capitalized to cost of assets held for sale and, for properties which have been sold, are reflected in the gain on sale.

Included in accounts payable and accrued liabilities at December 31, 2009 is a balance of $17,713 (2008 - $31,839), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Included in accounts payable and accrued liabilities of discontinued operations at December 31, 2009 is a recoverable balance of $16,157 (2008 - payable balance of $20,038), to Shelter Canadian Properties Limited in regard to property management fees.

Services agreement
The Trust has renewed the services agreement with Shelter Canadian Properties Limited, with the same terms and conditions, for a term expiring December 31, 2010. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash.

The Trust incurred service fees of $1,961,963 for the year ended December 31, 2009 (2008 - $1,661,308). Service fees are included in trust expense.

12 Related party transactions (continued)

Financing

On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. 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 December 31, 2009. A processing fee of $15,000 was paid to 2668921 Manitoba Ltd. in regard to the loan and is included in transaction costs. Interest of the second mortgage loan for the year ended December 31, 2009 of $24,657 (2008 - nil) is included in financing expense.

On June 30, 2009, the Trust obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $5 Million on September 2, 2009. The loan bears interest at 7.5%, is due on June 30, 2010 and is unsecured.

During the year, advances and repayments under the revolving loan commitment totaled $4,905,000 and $4,905,000 respectively, (2008 - nil and nil respectively). Interest on the loan commitment for the year ended December 31, 2009 of $93,406 (2008 - nil) is included in financing expense.

The second mortgage loan and the revolving loan were approved by the independent Trustees of the Trust.

Guarantees

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

13 Units

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Units	Amount	Units	Amount
Outstanding, beginning of year	17,588,081	$ 79,750,666	17,529,894	$ 79,124,607
Maturity of Series D debentures	-	-	-	322,658
Issued on distribution reinvestment plan	48,576	108,517	514,387	1,802,126
Issue costs	-	(6,502)	-	(111,802)
Purchased and cancelled under normal course issuer bid	(99,507)	(275,757)	(456,200)	(1,778,440)
Unit-based compensation	-	282,449	-	391,517
Exchange of Village West Class B LP units	356,617	2,139,702	-	-
Units issued on payment of distributions	-	19,504,206	-	-
Outstanding, end of year	17,893,767	$101,503,281	17,588,081	$ 79,750,666

13 Units (continued)

Distribution Reinvestment Plan
Pursuant to the distribution reinvestment plan ("DRIP"), holders of units may elect to have all or a portion of their distributions automatically reinvested in additional units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the Units for the five trading days immediately preceding the distribution payment date. During the year ended December 31, 2009, 48,576 (2008 - 514,387) units have been issued pursuant to the DRIP.

Units purchased and cancelled under normal course issuer bid
On January 16, 2008, the Trust announced its intention to make a normal course issuer bid to acquire up to 876,494 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ended January 20, 2009.

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

Units purchased by the Trust under its normal course issuer bid are cancelled. During the year ended December 31, 2009 the Trust has purchased and cancelled 99,507 (2008 - 456,200) units under its normal course issuer bid at a weighted average price of $2.77 (2008 - 3.50) per unit.

14 Unit option plan

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

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

Unit-based compensation expense for the year ended December 31, 2009 of $104,355 (2008 - $312,730), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

14 *Unit option plan (continued)*

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

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

At December 31, 2009 the following unit options were outstanding:

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

15 *Deferred unit plan*

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

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

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

15 Deferred unit plan (continued)

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

Deferred units granted to Trustees, and fully vested, for the year ended December 31, 2009, totaled 222,182 (2008 - 23,528), and 245,710 aggregate deferred units were outstanding at December 31, 2009 (2008 - 23,528).

Unit-based compensation expense for the year ended December 31, 2009, relating to deferred units granted was $178,094 (2008 - $78,787) and was recorded to expense the fair value unit-based compensation.

16 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $1,408,924 for the year ended December 31, 2009 (2008 - $1,437,354).

17 Financing expense

	Year Ended December 31	
	2009	2008
Interest on acquisition payable (Note 26)	$ 9,918,409	$ 2,445,014
Forgiveness of interest on acquisition payable	(5,841,638)	-
	4,076,771	2,445,014
Mortgage loan interest	15,249,504	13,601,331
Convertible debenture interest	3,911,900	3,943,760
Accretion of the debt component of convertible debentures	2,853,290	2,469,702
Amortization of transaction costs	1,199,449	1,020,555
Change in fair value of interest rate swaps	2,293,795	4,012,403
	$ 29,584,709	$ 27,492,765

18 Amortization

	Year Ended December 31	
	2009	2008
Building	$ 7,548,790	$ 6,090,479
Furniture, equipment and appliances	1,294,559	941,668
Intangible assets, except for in-place leases	20,572	55,359
	8,863,921	7,087,506
Transaction costs	1,199,449	1,020,555
	$ 10,063,370	$ 8,108,061

19 Future income taxes

Future income taxes consists of the following components:

	December 31 2009	December 31 2008
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis held in the Trust expected to reverse after 2010 for:		
Income properties	$ 7,063,859	$ 2,758,833
Transaction costs	(139,610)	(60,029)
	6,924,249	2,698,804
Valuation allowance	(6,924,249)	-
	$ -	$ 2,698,804

	Year Ended December 31 2009	Year Ended December 31 2008
Future income tax expenses (recoveries):		
Trust		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ (4,305,026)	$ 161,130
Transaction costs	79,581	(43,111)
Valuation allowance	6,924,249	-
	2,698,804	118,019
Decrease (increase) in future income tax asset resulting from a change in tax rate for:		
Income properties	-	141,936
Transaction costs	-	(5,563)
	-	136,373
	$ 2,698,804	$ 254,392

20 *Per unit calculations*

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

Income (loss) per unit calculations are based on the following:

Continuing Operations

	Year Ended December 31 2009	2008
Loss	$ (15,478,729)	$ (6,796,592)
Diluted loss	$ (15,478,729)	$ (6,796,592)
Units	17,465,519	17,483,454
Vested deferred units	72,851	2,149
Weighted average basic number of units	17,538,370	17,485,603
Weighted average diluted number of units	17,538,370	17,485,603

Discontinued Operations

	Year Ended December 31 2009	2008
Income (loss)	$ 18,975,802	$ (2,810,464)
Diluted income (loss)	$ 18,975,802	$ (2,810,464)
Units	17,465,519	17,483,454
Vested deferred units	72,851	2,149
Weighted average basic number of units	17,538,370	17,485,603
Weighted average diluted number of units	17,538,370	17,485,603

21 Supplementary cash flow information

	Year Ended December 31	
	2009	2008
Interest paid and received		
Interest paid on mortgage loans	$ 15,642,725	$ 13,117,509
Interest paid on acquisition payable	$ 4,076,771	$ 2,445,014
Interest paid on convertible debentures	$ 3,911,900	$ 3,982,686
Interest received on mortgage loans receivable	$ -	$ 313,865
Other interest received	$ 396,597	$ 483,567
Cash distributions		
Distributions declared	$ 21,139,285	$ 9,829,851
Distributions paid in units	(19,504,206)	-
Distributions to participants in the DRIP	(104,343)	(1,725,598)
Distributions paid in cash	$ 1,530,736	$ 8,104,253

22 Distribution of taxable income

In accordance with the Declaration of Trust, the Trust intends, but is not obligated, to make distributions in an amount equal to the aggregate of taxable income from operations and realized capital gains, net of any realized allowable capital losses.

The following table reflects a comparison of realized capital gains to distributions declared.

	Year Ended December 31	
	2009	2008
Realized capital gains	$ 19,153,410	$ -
Distributions declared	$ 21,139,285	$ 9,829,851

23 Financial instruments and risk management

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

23 Financial instruments and risk management (continued)

Liquidity risk
The Trust is in breach of the debt service coverage requirements on mortgage loans totaling $124,161,746 on properties in Fort McMurray, Alberta and one property in Moose Jaw, Saskatchewan. The Trust is continuing to communicate with the lenders and management believes that all of the covenant breaches will be resolved in some manner. As rental market conditions in Fort McMurray may not improve substantially in the near future, all of the affected properties may not attain income levels in 2010 which satisfy the existing debt service coverage requirements. The Trust intends to pursue a sale of the property in Moose Jaw in 2010. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

The cross-default clauses of the Series E and F secured convertible debentures provide that the convertible debentures may become payable, on demand, if the repayment of a mortgage loan is accelerated by a lender. Subsequent to December 31, 2009, the Series E debentures in the amount of $11,950,000 were paid in full. If, at a future date, one of the lenders demands the repayment of the loans, the Series F convertible debentures, with a face value of $13,680,000, may become payable on demand.

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

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

As at December 31, 2009, the weighted average term to maturity of the fixed rate mortgages on income properties is 4.1 years (2008 - 5.2 years).

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

Year ending December 31	Mortgage Loans Payable	Convertible Debentures	Total
2010	$150,425,443	$ 11,950,000	$162,375,443
2011	8,490,771	39,412,000	47,902,771
2012	34,341,150	-	34,341,150
2013	39,654,242	-	39,654,242
2014	32,864,141	-	32,864,141
Thereafter	16,776,504	-	16,776,504
	$282,552,251	$ 51,362,000	$333,914,251

In accordance with GAAP, the balance of the mortgage loans that are not in compliance with minimum debt service requirements, has been included in principal repayments in 2010.

23 Financial instruments and risk management (continued)

Interest rate risk
Interest risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgages with terms as favourable as those of existing mortgages. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2009 the percentage of fixed rate mortgage loans to total mortgage loans was 74% (2008 - 74%).

The Trust has floating rate mortgages on income properties (excluding floating rate mortgages with interest rates fixed by use of interest rate swap arrangements) totaling $72,766,738, or 26% of the total mortgage loans at December 31, 2009 (2008 - 26%).

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

As at December 31, 2009, the Trust has total contractual mortgage principal maturities on income properties to December 31, 2012 of $64,943,582, representing 23% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $649,436 per year.

As at December 31, 2009, the Trust had floating rate mortgages totaling $72,766,738. Should interest rates change by 1%, financing expense would change by $727,667 per year.

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

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

Thirteen properties, representing 78% of rentals from income properties, are located in Fort McMurray, Alberta. The credit risk associated with the tenants in Fort McMurray is mitigated due to the long-term nature of the oil sands industry and the credit worthiness of the commercial tenants which comprise a significant portion of the rent receivable. The Trust has a corporate tenant that accounts for 20% of rentals from income properties for the year ended December 31, 2009.

23 Financial instruments and risk management (continued)

Credit risk (continued)

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

	December 31 2009	December 31 2008
Rent receivable overdue:		
0 to 30 days	$ 132,944	$ 264,350
31 to 60 days	33,133	67,191
More than 60 days	242,045	86,114
	$ 408,122	$ 417,655

A reconciliation of allowance for doubtful accounts is as follows:

	December 31 2009	December 31 2008
Balance, beginning of year	$ 70,119	$ 23,742
Amount charged to bad debt expense relating to impairment of rent receivable	183,558	131,528
Amounts written off as uncollectible	(161,472)	(85,151)
Balance, end of year	$ 92,205	$ 70,119
Amount charged to bad debts as a percent of rentals from income properties	0.44%	0.31%

Currency risk

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

Other price risk

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

Fair values

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

Financial instruments carried at fair value include cash, restricted cash, interest rate swaps and bank indebtedness. Fair value is determined based on quoted market price.

23 Financial instruments and risk management (continued)

Fair values (continued)
The fair value of the mortgages receivable is impacted by the difference between the yield for such instruments in an open market and the yield negotiated as part of a sale of property and by changes in market yields. The fair value of the mortgages receivable has been estimated based on the current market rates for second mortgage loans with similar terms and conditions. The estimated fair value of mortgages receivable is $7,390,271.

The fair value of the fixed rate mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of fixed rate mortgage loans payable for the period ended December 31, 2009 is $291,000,000 (December 31, 2008 - $298,000,000).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable for the period ended December 31, 2009 is $31,325,026 (December 31, 2008 - $33,290,680).

24 Management of capital

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

	December 31 2009	December 31 2008
Mortgage loans payable	$282,552,251	$284,968,987
Convertible debentures		
Debt component	46,943,687	44,090,397
Equity component	13,104,637	13,104,637
	60,048,324	57,195,034
Trust units	101,503,281	79,750,666
	$444,103,856	$421,914,687

24 Management of capital (continued)

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

The overall capital management strategy addresses the following considerations:

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

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

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

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

25 Segmented financial information

The assets are located in Fort McMurray, Alberta (13 properties), Yellowknife, Northwest Territories (3 properties) and other locations in Canada (4 properties).

Revenue is primarily derived from the operations of residential real estate comprised of multi family rental properties.

Year ended December 31, 2009:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	32,433,428	6,248,101	2,733,879	-	41,415,408
Interest and other income	320,266	22,751	26,717	26,863	396,597
Property operating costs	9,817,401	2,478,322	1,087,041	-	13,382,764
Financing expense	18,976,939	1,265,093	826,741	8,515,936	29,584,709
Amortization	7,323,073	922,073	618,775	-	8,863,921
Income (loss) from continuing operations	(3,363,719)	1,605,361	228,045	(13,948,416)	(15,478,729)
Total assets from continuing operations	334,990,309	39,337,965	15,202,246	9,358,061	398,888,581

25 Segmented financial information (continued)

Year ended December 31, 2008:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	33,604,718	6,004,036	2,626,938	-	42,235,692
Interest and other income	257,039	35,101	27,098	449,769	769,007
Property operating costs	8,766,336	2,459,794	1,117,525	-	12,343,655
Financing expense	17,010,937	1,287,642	776,580	8,417,606	27,492,765
Amortization	5,567,847	881,010	638,649	-	7,087,506
Income (loss) from continuing operations	2,516,636	1,410,692	121,282	(10,925,140)	(6,876,530)
Total assets from continuing operations	342,318,641	38,537,426	17,311,018	212,798	398,379,883

26 Commitments

Acquisition

Parsons Landing Apartments

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

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

The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing to May 31, 2010, with interest of $4,348,105 from January 1, 2010 to May 31, 2010. The vendor received payment of $500,000 on May 12, 2009 to be applied to the balance owing. The vendor received payment of interest payments of $300,000 per month from March to December 2009 and has forgiven interest in excess of $300,000 per month to December 31, 2009 in the amount of $5,841,638. The vendor has agreed to accept interest payments of $300,000 per month for January to May 2010. On closing, the vendor has agreed to provide a credit of $1,440,000 for furniture purchased by the Trust and also a $12,000,000 second mortgage loan, with a 15 month term, and to forgive interest in excess of $300,000 per month for the period from January 1 to May 31, 2010 of $2,848,105. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $30,000,000 by April 30, 2010. The previous reduction of the purchase price of $3,100,000, on closing, has been rescinded in exchange for a reduced interest rate on the loan payable to the vendor.

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.

26 Commitments (continued)

Management Contracts

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

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

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

27 Contingent consideration on acquisition

Elgin Lodge
During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at December 31, 2009 of $434,982 (2008 - $314,869), which increases the cost of the building, is included in assets of discontinued operations.

Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at December 31, 2009 of $477,901 (2008 - $313,951), which increases the cost of the building, is included in assets of discontinued operations.

28 Subsequent events

Divestitures
On March 1, 2010 the Trust sold McIvor Mall for gross proceeds of $11.2 Million resulting in an approximate gain on sale of $5.69 Million. The Trust provided second mortgage financing to the purchaser in the amount of $3 Million, bearing interest at 5.5% and maturing on July 1, 2014. Net cash proceeds, after expenses, closing adjustments and the assumption by the purchaser of approximately $4.8 Million in first mortgage debt and the $3.0 Million of financing provided to the purchaser, was approximately $3.1 Million and will be utilized to improve the working capital of the Trust.

On March 1, 2010 the Trust sold Chancellor Gate for gross proceeds of $7.97 Million, resulting in an approximate gain on sale of $2.0 Million. Net cash proceeds, after expenses, closing adjustments, and retiring the first mortgage loan of approximately $4.8 Million, was approximately $3.3 Million and will be utilized to improve the working capital of the Trust.

Convertible Debentures
The Series E debentures in the amount of $11,950,000 matured on February 17, 2010 and were repaid in full.

28 Subsequent events (continued)

Normal Course Issue Bid
On January 11, 2010, the Trust renewed its normal course issuer bid to purchase up to an aggregate of 1,368,158 trust units for a one year period expiring January 12, 2011. Purchases will be made at market prices through the facilities of the Toronto Stock Exchange. Any units purchased by the Trust will be cancelled.

On January 11, 2010, the Trust announced its intent to make a normal course issuer bid to purchase up to an aggregate principal amount of $1,368,000 of 5 Year 7.5% Subordinated Series F Convertible Debentures and up to an aggregate principal amount of $2,573,000 of 5 Year 7.5% Series G Convertible Redeemable Unsecured Subordinated Debentures over a 12 month period ending January 12, 2011. Purchases will be made at market prices through the facilities of the Toronto Stock Exchange. Any debentures purchased by the Trust will be cancelled.

Public Offering of Second Mortgage Bonds and Warrants
On March 9, 2010, the Trust sold 6,780 investment units at a price of $1,000 per unit for aggregate gross proceeds $6,780,000. Each Unit is comprised of one 5 year 9% second mortgage bond in the principal amount of $1,000 and 1,000 trust unit purchase warrants. Each Warrant entitles the holder thereof to purchase one trust unit of LREIT at a price of $1.00 until March 9, 2015.

Bank indebtedness
Subsequent to December 31, 2009, the Trust drew $4,970,000 and repaid $4,130,000 on the line of credit.

Revolving loan
Subsequent to December 31, 2009, the Trust drew $5,000,000 and repaid $5,000,000 on the revolving loan from 2668921 Manitoba Ltd.

29 Comparative figures

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