LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2013	December 31 2012
ASSETS		
Non-current assets		
Investment properties (Note 3)	**$428,760,016**	$427,967,800
Loans and receivables (Note 4)	**8,800,734**	11,863,320
Defeasance assets	**2,989,027**	3,025,370
Restricted cash	**8,735,259**	7,801,248
Total non-current assets	**449,285,036**	450,657,738
Current assets		
Cash	**876,272**	1,254,278
Rent and other receivables	**1,430,227**	1,274,277
Deposits and prepaids	**1,396,210**	1,363,730
	3,702,709	3,892,285
Assets classified as held for sale (Note 5)	**26,783,599**	27,002,555
Total current assets	**30,486,308**	30,894,840
TOTAL ASSETS	**$479,771,344**	$481,552,578
LIABILITIES AND EQUITY		
Liabilities		
Non-current liabilities		
Long-term debt (Note 6)	**$ 98,372,953**	$ 86,760,933
Total non-current liabilities	**98,372,953**	86,760,933
Current liabilities		
Trade and other payables (Note 7)	**56,433,396**	54,040,678
Current portion of long-term debt (Note 6)	**206,539,269**	219,463,616
Deposits from tenants	**2,536,392**	2,428,393
	265,509,057	275,932,687
Liabilities classified as held for sale (Note 5)	**15,824,385**	18,029,004
Total current liabilities	**281,333,442**	293,961,691
Total liabilities	**379,706,395**	380,722,624
Total equity	**100,064,949**	100,829,954
TOTAL LIABILITIES AND EQUITY	**$479,771,344**	$481,552,578

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31	
	2013	**2012**
Rentals from investment properties	**$ 9,768,888**	$ 10,383,920
Property operating costs	**4,075,320**	4,425,206
Net operating income	**5,693,568**	5,958,714
Interest income	**298,301**	74,567
Forgiveness of debt	**-**	859,561
Interest expense (Note 8)	**(7,841,878)**	(7,117,932)
Trust expense	**(531,297)**	(578,883)
Profit on sale of investment properties	**-**	324,225
Fair value gains (Note 3)	**137,854**	1,861,617
Fair value adjustment of Parsons Landing (Note 3)	**300,000**	(27,800,000)
Income recovery on Parsons Landing (Note 3)	**899,130**	-
Loss before discontinued operations	**(1,044,322)**	(26,418,131)
Income from discontinued operations (Note 5)	**232,094**	332,236
Loss and comprehensive loss	**$ (812,228)**	$ (26,085,895)
Loss per unit before discontinued operations: Basic and diluted	**$ (0.056)**	$ (1.425)
Income per unit from discontinued operations: Basic and diluted	**$ 0.013**	$ 0.018
Loss per unit: Basic and diluted	**$ (0.043)**	$ (1.407)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended March 31	
	2013	**2012**
Issued capital (Note 10)		
Balance, beginning of period	**$107,978,701**	$107,860,241
Issue of units on exercise of options	**2,380**	-
Units purchased under normal course issuer bid	**-**	(41,735)
Balance, end of period	**107,981,081**	107,818,506
Contributed surplus		
Balance, beginning of period	**17,211,070**	17,108,697
Value of deferred units granted	**18,750**	18,750
Value of unit options granted	**26,093**	-
Balance, end of period	**17,255,913**	17,127,447
Cumulative earnings		
Balance, beginning of period	**43,090,218**	22,991,910
Loss and comprehensive loss	**(812,228)**	(26,085,895)
Balance, end of period	**42,277,990**	(3,093,985)
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(67,450,035)**	(67,450,035)
Total equity	**$100,064,949**	$ 54,401,933

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Operating activities		
Loss and comprehensive loss	**$ (812,228)**	$ (26,085,895)
Adjustments to reconcile income to cash flows		
Fair value gains	**(137,854)**	(1,861,617)
Profit on sale of properties	**-**	(324,225)
Fair value adjustment of Parsons Landing	**(300,000)**	27,800,000
Forgiveness of debt	**-**	(859,561)
Accrued rental revenue	**(101,298)**	102,860
Unit-based compensation	**44,843**	18,750
Deferred income tax expense	**(285,734)**	-
Interest income	**(298,301)**	(74,567)
Interest received	**160,887**	123,221
Interest expense	**8,035,547**	8,624,583
Interest paid	**(5,922,444)**	(6,779,536)
Cash from operations	**383,418**	684,013
Decrease (increase) in rent and other receivables	**(52,807)**	(317,394)
Decrease (increase) in deposits and prepaids	**(6,401)**	44,061
Increase (decrease) in tenant deposits	**96,211**	(397,859)
Increase (decrease) in trade and other payables	**(296,426)**	(967,734)
	123,995	(954,913)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**21,000,000**	30,850,000
Repayment of mortgage loans on refinancing	**(20,400,000)**	(25,486,971)
Repayment of long-term debt	**(2,087,476)**	(2,156,437)
Prepayment of mortgage loans	**(1,998,500)**	-
Proceeds of revolving loan commitment	**6,047,000**	4,200,000
Repayment of revolving loan commitment	**(3,200,000)**	(6,000,000)
Proceeds of Shelter Canadian Properties Limited advances	**-**	5,594,000
Repayment of Shelter Canadian Properties Limited advances	**-**	(6,777,000)
Expenditures on transaction costs	**(269,705)**	(983,269)
Exercise of options	**2,380**	-
Units purchased and cancelled under normal course issuer bid	**-**	(41,732)
Debentures purchased and cancelled under normal course issuer bid	**-**	(351,000)
	(906,301)	(1,152,409)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(354,362)**	(168,467)
Capital expenditures on property and equipment	**(13,989)**	(4,895)
Decrease in defeasance assets	**36,343**	35,597
Proceeds of mortgage loan receivable	**3,200,000**	-
Taxes paid on property sold	**(1,734,702)**	-
Proceeds of sale	**-**	(38,318)
Change in restricted cash	**(934,343)**	2,553,653
	198,947	2,377,570
Cash increase (decrease)	**(583,359)**	270,248
Add (deduct) decrease (increase) in cash from discontinued operations (Note 5)	**205,353**	(320,508)
	(378,006)	(50,260)
Cash, beginning of period	**1,254,278**	1,170,619
Cash, end of period	**$ 876,272**	$ 1,120,359

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

1 Organization

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

The registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of the Trust, which trade on the TSX and the related trading symbol:

Units	LRT.UN
Series G Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Trust unit purchase warrants expiring March 9, 2015	LRT.WT
Trust unit purchase warrants expiring December 23, 2015	LRT.WT.A

The Trust and its subsidiaries earn income from real estate investments in Canada.

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three months ended March 31, 2013 ("Financial Statements"), have been prepared in accordance with International Accounting Standards ("IFRS"). The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on May 10, 2013.

The Financial Statements of the Trust reflect the operations of the Trust and LREIT Holdings 36 Corporation, LREIT Holdings 32 Corporation and LREIT Holdings 39 Corporation, which are wholly owned subsidiaries under its control. The Financial Statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that are measured at fair value. The Financial Statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

The 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 IFRS 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 incurred a loss before discontinued operations of $1,044,322 for the three months ended March 31, 2013 (2012 - $26,418,131); and the Trust generated a cash flow from operating activities of $123,995 for the three months ended March 31, 2013 (2012 - sustained a $954,913 cash deficiency). In addition, the Trust has a working capital deficit of $7,045,016 as at March 31, 2013 (December 31, 2012 - $4,462,801) and the Trust was in breach of debt service and other covenant requirements on three mortgage loans and one swap mortgage loan (December 31, 2012 - three mortgage loans and one swap mortgage loan).

The Trust is in breach of the 1.2 times debt service coverage requirement of a second mortgage loan in the amount of $16,507,265, on two properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $11,201,085 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The two mortgage loans in breach of debt coverage requirements, in the aggregate amount of $27,708,350 have matured. A forbearance extension to March 31, 2013 has been obtained for the two mortgage loans.

2 Basis of presentation and continuing operations (continued)

At March 31, 2013, the Trust was in breach of the 1.2 times debt service coverage requirement of a $52,488,270 first mortgage loan on one property in Fort McMurray, Alberta. Subsequent to March 31, 2013, the first mortgage loan in breach was retired from proceeds of a new first mortgage loan and a new second mortgage loan from other lenders.

The Trust is in breach of a 1.15 debt service coverage requirement of a $16,281,737 swap mortgage loan on a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis.

The breaches of the debt service coverage requirements on three mortgage loans and one swap mortgage loan, as noted above, are a result of the slowdown of development activities in the oil sands industry experienced in 2009 and the associated decline in the rental market conditions in Fort McMurray. Notwithstanding that there has been a substantial improvement in the occupancy rate in the Fort McMurray properties of the Trust, all or some of the covenant breaches may continue for the next 12 months. There can be no assurance that the covenant breaches will be remedied.

There are no cross-default covenants between the mortgage loans noted above and the other mortgage loans, mortgage bonds or debentures of the Trust.

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the continuation of the divestiture program, the continued ability of the Trust to renew or refinance its debt and the continued support of related parties in the form of the renewal of the revolving loan commitment, the provision of advances and the deferral of fees.

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, the Trust has successfully sold 21 properties, including 3 properties during the year ended December 31, 2012, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has extended the maturity date for the Series G debentures to 2015 and the Trust has successfully eliminated covenant breaches on five mortgage loans through refinancing and/or improved operations.

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 Financial Statements.

Statement of compliance
The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same presentation and accounting policies under International Financial Reporting Standards ("IFRS") as disclosed in the December 31, 2012 audited financial statements. The Financial Statements are based on IFRS standards issued and effective as at May 10, 2013.

Effective January 1, 2013, the Trust adopted IFRS 10 - Consolidated Financial Statements and IFRS 13 - Fair Value Measurement. The adoption of IFRS 10 did not result in any change to the consolidation status of any of its subsidiaries. The adoption of IFRS 13 did not require any changes to the valuation techniques used by the Trust to measure fair value and did not result in changes in the carrying values as at January 1, 2013.

The December 31, 2012 annual report is available on SEDAR at www.sedar.com.

3 *Investment properties*

	Three Months Ended March 31 2013	2012
Balance, beginning of period	$427,967,800	$451,857,370
Additions - capital expenditures	354,362	168,467
Fair value gains	137,854	1,861,617
Dispositions (a)	-	(1,035,063)
Fair value adjustment of Parsons Landing (b)	300,000	(27,800,000)
Balance, end of period	$428,760,016	$425,052,391

The Trust values investment properties at fair value using recognized valuation techniques and, on a periodic basis, external property valuations.

Investment properties have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method.* Under this method, capitalization rates are applied to net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

The table below provides details of the range of capitalization rates used for valuing the investment properties of the Trust:

	March 31 2013		December 31 2012	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	7.50 %	7.00 %	7.50 %
Yellowknife	7.50 %	8.75 %	7.50 %	8.75 %
Major Canadian cities	4.75 %	4.75 %	4.75 %	4.75 %
Impaired property	7.00 %	7.00 %	7.00 %	7.00 %
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	7.00 %	7.50 %	7.00 %	7.50 %

(ii) *The discounted cash flow method*. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity. The key assumption is the discount rate applied over the useful life of the investment property.

3 *Investment properties (continued)*

The table below provides details of the range of discount rates used for valuing the investment properties of the Trust:

	March 31 2013		December 31 2012	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.00 %	9.50 %	9.00 %	9.50 %
Yellowknife	9.50 %	10.75 %	9.50 %	10.75 %
Major Canadian cities	6.75 %	6.75 %	6.75 %	6.75 %
Impaired property	9.00 %	9.00 %	9.00 %	9.00 %
Other	8.25 %	10.00 %	8.25 %	10.00 %
Commercial properties	9.00 %	9.50 %	9.00 %	9.50 %

(iii) *Direct comparison*. For properties with condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value. The key assumption is the cost of the condominium conversion and sales program. Direct comparison valuation analyses are prepared for Colony Square, Laird's Landing, Lakewood Apartments, Lakewood Townhomes, Millennium Village and Woodland Park.

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value. The following schedule outlines the expected timetable for completion of appraisals:

Property Value	Number of Properties	Carrying Value at March 31, 2013	Valuation Update Timetable
Greater than $10 Million	10	$ 371,305,362	Three years
Less than $10 Million	12	57,454,654	Five years
	22	$ 428,760,016	

The Trust utilizes capitalization and discount rates within the ranges provided in market reports by knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount rate ranges change from one reporting period to the next, or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

To assist in the determination of fair value at March 31, 2013, external appraisals were obtained in 2012 for 14 properties having a fair value of $250.0 Million representing 58% of the total carrying value of investment properties. Appraisals were obtained in 2011 for 6 properties having an aggregate fair value of $171.3 Million representing 40% of the total carrying value of investment properties. Appraisals were obtained in 2010 for 2 properties having an aggregate fair value of $7.4 Million representing 2% of the total carrying value of investment properties.

3 Investment properties (continued)

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions and also considers anticipated capital expenditures.

(a) Property dispositions

The following table reflects the results of the sale of condominium units at Lakewood Townhomes:

	Three Months Ended March 31	
	2013	2012
Units sold	nil	3
Gross proceeds	nil	$1,470,700
Gain on sale	nil	$324,225

(b) Fair value adjustment of Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement, with a requirement for LREIT to make additional payments on the balance owing of $500,000 on May 12, 2009, $2 Million on February 17, 2012 and $3 Million at closing. The builder also agreed to accept interest payments of $300,000 per month to the closing date and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to the closing date, provided the acquisition is completed on the closing date, as extended. As of March 31, 2013, interest in excess of $300,000 per month amounted to $22,051,560.

On closing, the builder has agreed to provide a second mortgage, to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter. On closing, the builder has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. The Trust may also elect, at any time, to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1. In addition, 2668921 Manitoba Ltd. agreed to maintain the revolving loan commitment with the Trust, in the amount of $8,800,000, until closing.

In February 2012, a fire occurred at Parsons Landing which destroyed one wing of the property and resulted in substantial damage to the other two wings. In June 2012, an agreement was reached with the builder under which the builder agreed to reconstruct the property and attend to the recovery of the insurance claims for property damage and revenue losses. The cost of reconstruction is expected to be fully covered under the insurance policy. All damaged materials have been removed from the property, the construction manager has been appointed and reconstruction work has commenced.

3 Investment properties (continued)

(b) Fair value adjustment of Parsons Landing (continued)

In June 2012, the purchase agreement was also amended to provide for an extension of the closing date to the date which is 90 days following the date on which an occupancy permit is issued for the last residential units to be reconstructed. In addition, under the terms of the amended agreement, insurance proceeds for revenue losses shall be for the benefit of the Trust. To the extent that insurance proceeds for revenue losses are less than the interest payment during the reconstruction period, the shortfall shall be forgiven. The payment of $300,000 monthly interest will be funded from insurance proceeds as noted above.

As of March 31, 2013, the balance owing in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $45,720,000.

Impact on Financial Statements
The Financial Statements reflect the following:

Fair value adjustment of Parsons Landing
Parsons Landing is classified as an investment property and is carried at fair value. The carrying value of the property at March 31, 2013 is $44,600,000 (December 31, 2012 - $44,300,000), which represents the estimated fair value at closing, discounted at 9% for the estimated time period of reconstruction.

Income recovery and interest expense
The Financial Statements reflect operating revenues and expenses of Parsons Landing from January 1, 2012 to the date of the fire on February 5, 2012.

Subsequent to February 5, 2012, the Financial Statements reflect the monthly interest in the amount of $300,000 and the accrued revenue in regard to recovery of insurance proceeds for revenue losses. The accrued revenue is reflected as "Income recovery on Parsons Landing" in the income of the Trust.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

4 Loans and receivables

	March 31 2013	December 31 2012
Second mortgage loan due May 8, 2014, bearing interest at 12.5%, of which 5% shall be payable monthly and 7.5% shall be capitalized and added to the outstanding principal amount	$ 8,025,734	$ 7,888,320
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	500,000	500,000
Second mortgage loan due December 6, 2017, bore interest at 5% and provided for monthly payments of interest only arising on the sale of property	-	3,200,000
Interest free mortgage loan due on the earlier of the sale date of a condominium unit or the maturity date of May 8, 2014	275,000	275,000
Note receivable from a previous tenant. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	250,000	250,000
	9,050,734	12,113,320
Current portion of loans and receivables	(250,000)	(250,000)
	$ 8,800,734	$ 11,863,320

5 Assets and liabilities of properties held for sale

The Trust intends to dispose of assets, which do not meet the definition of assets of qualifying REITs as defined by the Income Tax Act (Canada). As a result, the Trust has classified the seniors' housing complexes, which are owned by wholly owned subsidiary companies, as discontinued operations.

Assets and liabilities classified as "held for sale" as at March 31, 2013, are as follows:

	March 31 2013	December 31 2012
ASSETS		
Assets in discontinued operations		
Property and equipment	$ 26,129,103	$ 26,115,114
Cash	579,094	784,447
Restricted cash	40,460	40,128
Rent and other receivables	8,046	9,891
Deposits, prepaids and other	26,896	52,975
Assets classified as held for sale	$ 26,783,599	$ 27,002,555
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 14,948,211	$ 15,278,462
Deferred tax	-	285,734
Trade and other payables	623,202	2,200,048
Deposits from tenants	252,972	264,760
Liabilities classified as held for sale	$ 15,824,385	$ 18,029,004

Income and cash flow information relating to discontinued operations are as follows.

	Three Months Ended March 31	
	2013	2012
Rental income	$ 1,394,482	$ 4,005,251
Property operating expenses	890,128	2,267,840
Net operating income	504,354	1,737,411
Interest expense	193,669	1,506,651
Current tax expense (recovery)	364,325	(101,476)
Deferred tax expense (recovery)	(285,734)	-
Income from discontinued operations	$ 232,094	$ 332,236

	Three Months Ended March 31	
	2013	2012
Cash inflow (outflow) from operating activities	$ 128,935	$ 405,627
Cash inflow (outflow) from financing activities	1,414,735	(79,826)
Cash outflow from investing activities	(1,749,023)	(5,293)
Increase (decrease) in cash from discontinued operations	$ (205,353)	$ 320,508

5 *Assets and liabilities of properties held for sale (continued)*

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24,000,000 resulting in a gain on sale of $1,904,697.

On December 6, 2012, Riverside Terrace was sold for gross proceeds of $44,000,000 resulting in a gain on sale of $13,129,614.

6 *Long-term debt*

	March 31 2013	December 31 2012
Secured debt		
Mortgage loans (a)	$ 244,663,763	$ 247,654,245
Swap mortgage loan (b)	17,688,081	17,888,836
Mortgage bonds (c)	14,568,272	14,458,831
Debentures (d)	24,961,000	24,961,000
Defeased liability	2,687,583	2,701,511
Total secured debt	304,568,699	307,664,423
Mortgage guarantee fees	123,428	133,864
Total debt	304,692,127	307,798,287
Accrued interest payable	2,565,319	1,746,367
Unamortized transaction costs		
Mortgage loans	(689,937)	(1,531,326)
Swap mortgage loan	(103,757)	(108,024)
Mortgage bonds	(968,285)	(1,033,704)
Debentures	(551,767)	(613,105)
Defeased liability	(31,478)	(33,946)
Total unamortized transaction costs	(2,345,224)	(3,320,105)
	304,912,222	306,224,549
Less current portion		
Mortgage loans	(187,200,763)	(201,725,598)
Swap mortgage loan	(17,688,081)	(17,888,836)
Defeased liability	(57,693)	(56,896)
Mortgage guarantee fees	(43,014)	(42,502)
Accrued interest payable	(2,565,319)	(1,746,367)
Transaction costs	1,015,601	1,996,583
Total current portion	(206,539,269)	(219,463,616)
	$ 98,372,953	$ 86,760,933
Current portion of unamortized transaction costs		
Mortgage loans	$ 342,141	$ 1,340,398
Swap mortgage loan	103,757	108,024
Mortgage bonds	290,812	278,909
Debentures	268,786	259,240
Defeased liability	10,105	10,012
	$ 1,015,601	$ 1,996,583

6 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates			
	March 31 2013	December 31 2012	March 31 2013	December 31 2012
First mortgage loans				
Fixed rate	4.7%	4.8%	$ 117,940,643	$ 97,891,938
Variable rate	8.2%	8.9%	86,414,355	107,325,680
Total first mortgage loans	6.2%	7.0%	204,354,998	205,217,618
Second mortgage loans				
Variable rate	9.0%	9.1%	40,308,765	42,436,627
Total second mortgage loans	9.0%	9.1%	40,308,765	42,436,627
Total	6.7%	7.3%	$ 244,663,763	$ 247,654,245

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. At March 31, 2013, the Trust was not in compliance with two first mortgage loans and one second mortgage loan totaling $80,196,620, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $80,196,620 is included in current portion of long-term debt. A forbearance to March 31, 2013 was obtained for a first mortgage loan and one second mortgage loan in the aggregate amount of $27,708,350. These loans have matured and are payable on demand.

Subsequent to March 31, 2013, a first mortgage loan of $52,488,270 in breach of debt service covenant requirements was retired from the proceeds of new first and second mortgage loans.

Except for four mortgage loans in the amount of $61,394,320, all mortgages which have matured prior to May 10, 2013 have been renewed or refinanced.

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

(b) Swap mortgage loan

	March 31 2013	December 31 2012
Face value of mortgage loan, subject to swap	$ 16,281,737	$ 16,414,032
Fair value of interest rate swap	1,406,344	1,474,804
	$ 17,688,081	$ 17,888,836

The Trust is not in compliance with a debt service coverage requirement for the swap mortgage loan. In accordance with IFRS the total balance of $17,688,081 is included in current portion of long-term debt.

6 Long-term debt (continued)

(c) Mortgage bonds

	March 31 2013	December 31 2012
Balance, beginning of period	$ 14,458,831	$ 14,058,307
Accretion	109,441	400,524
Balance, end of period	$ 14,568,272	$ 14,458,831

The face value of the 9% mortgage bonds due December 24, 2015 is $16,000,000 (December 31, 2012 - $16,000,000).

(d) Debentures

The face value and carrying value of the 9.5% Series G debentures due February 28, 2015 is $24,961,000 (December 31, 2012 - $24,961,000).

7 Trade and other payables

	March 31 2013	December 31 2012
Accounts payable - vendor invoices	$ 943,131	$ 1,416,737
Accrued payables	1,167,552	1,114,567
Prepaid rent	730,713	764,374
Payable on acquisition of Parsons Landing	45,720,000	45,720,000
Revolving loan from 2668921 Manitoba Ltd.	7,872,000	5,025,000
	$ 56,433,396	$ 54,040,678

8 Interest expense

	Three Months Ended March 31 2013	2012
Mortgage loan interest	$ 4,459,189	$ 4,439,842
Swap mortgage loan interest	244,298	576,945
Change in fair value of interest rate swaps	(68,460)	(184,675)
Mortgage bond interest	360,000	360,000
Accretion of mortgage bonds	109,441	96,585
Debenture interest	592,824	591,200
Amortization of transaction costs	1,244,586	338,035
Interest on acquisition payable	900,000	900,000
	$ 7,841,878	$ 7,117,932

9 *Per unit calculations*

	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Loss before discontinued operations	$ (1,044,322)	$ (26,418,131)
Income and diluted income from discontinued operations	232,094	332,236
Loss	$ (812,228)	$ (26,085,895)

	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Weighted average number of units:		
Units	18,087,433	17,943,375
Deferred units	725,484	597,536
Total basic	18,812,917	18,540,911
Weighted average diluted number of units	18,974,129	18,636,366

10 *Units*

	Three Months Ended March 31, 2013		Year Ended December 31, 2012	
	Units	Amount	Units	Amount
Outstanding, beginning of period	18,084,011	$107,978,701	17,988,339	$107,860,241
Units issued on exercise of unit options	7,000	2,380	-	-
Units issued on exercise of warrants	-	-	175,000	160,195
Purchased and cancelled under normal course issuer bid	-	-	(79,328)	(41,735)
Outstanding, end of period	18,091,011	$107,981,081	18,084,011	$107,978,701

11 Unit option plan

On January 15, 2013, the Trust granted options to purchase 180,000 units at $0.65 per Trust unit. The options vested immediately and will expire five years from the date they were granted. The fair value of the options issued of $26,093 was calculated using the Black-Scholes option pricing model, assuming a weighted average volatility of 21.77% on the underlying trust units, a dividend yield rate of 0% and the risk free interest rate of 1.47%. The fair value of the options issued was charged to unit-based compensation.

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

	Three Months Ended March 31, 2013		Year Ended December 31, 2012	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	891,000	$ 1.69	571,000	$ 3.05
Cancelled, January 7, 2013	(231,000)	5.10		
Issued, January 15, 2013	180,000	0.65		
Exercised, February 15, 2013	(7,000)	0.34		
Cancelled, June 8, 2012	-	-	(90,000)	5.30
Issued, November 19, 2012	-	-	410,000	0.60
Outstanding, end of period	833,000	$ 0.53	891,000	$ 1.69
Vested, end of period	833,000		891,000	

At March 31, 2013 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 0.34	243,000	243,000	December 12, 2016
0.60	410,000	410,000	November 19, 2017
0.65	180,000	180,000	January 15, 2018
	833,000	833,000	

12 Deferred unit plan

Deferred units granted to Trustees totaled 26,408 for the three months ended March 31, 2013 (2012 - 33,482). Aggregate deferred units outstanding and fully vested at March 31, 2013 were 751,893 (2012 - 631,018).

Unit-based compensation expense of $18,750 for the three months ended March 31, 2013 (2012 - $18,750) relating to deferred units granted was recorded to expense the fair value of unit-based compensation. Unit-based compensation is recorded in trust expense.

13 Related party transactions

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

13 Related party transactions (continued)

Management agreement

The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of investment properties, except for the seniors' housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the investment 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 and tenant improvement fees are capitalized to investment properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $407,110 for the three months ended March 31, 2013 (2012 - $389,361).

The Trust incurred leasing commissions on commercial investment properties payable to Shelter Canadian Properties Limited of nil for the three months ended March 31, 2013 (2012 - nil).

Included in trade and other payables at March 31, 2013 is a balance of $30,970 (December 31, 2012 - 29,337), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement

The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. 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, fair value gains (losses) and defeasance assets. Service fees are included in trust expense.

The Trust incurred service fees of $366,493 for the three months ended March 31, 2013 (2012 - $423,442).

13 Related party transactions (continued)

Services fee and renovation fee for Lakewood Townhomes condominium sales program
The Trust has entered into an agreement with Shelter Canadian Properties Limited, in regard to the condominium sales program at Lakewood Townhomes. Under the agreement, Shelter Canadian Properties Limited will administer the sales program and the completion of the in-suite renovations. The Trust pays a service fee equal to 5% of the gross sales proceeds and Shelter Canadian Properties Limited is responsible for the payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee to the external real estate broker due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed rate. The Trust also pays a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

The Trust incurred service fees payable to SCPL of nil for the three months ended March 31, 2013 (2012 - $77,213). The Trust incurred renovation fees payable to SCPL of nil for the three months ended March 31, 2013 (2012 - $426).

The terms of the condominium sales program, including the service fee and renovation fee, were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the service fee and renovation fee.

Financing
On January 1, 2012, the Trust had a $12 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $15 Million on April 1, 2012 and reduced to $12 Million effective January 1, 2013. The loan bears interest at 12% subject to a maximum interest and fee payment of $404,916 for the period from January 1, 2013 to June 30, 2013 (2012 - 9.75%, subject to a maximum interest payment of $162,594 to March 31, 2012, 10% from April 1, 2012 to August 31, 2012, and 12% from September 1, 2012, subject to a maximum interest and fee payment of $650,870 for the period from September 1 to December 31, 2012). The renewal at January 1, 2013, encompassed the payment of an extension fee of $25,000 (2012 - $75,000 at April 1, 2012 and $150,000 at August 31, 2012). The loan is secured by mortgage charges against the title to six investment properties, two seniors' housing complexes and the assignment of a mortgage loan receivable in the amount of $8,025,734. As of March 31, 2013, $7,872,000 has been drawn and is included in trade and other payables.

Interest on the revolving loan of $192,906 for the three months ended March 31, 2013 (2012 - $162,594) is included in interest expense.

The revolving loan commitment was approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the revolving loan commitment.

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited and/or its parent company, 2668921 Manitoba Ltd. No fees were charged to the Trust in regard to the guarantees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

14 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Investment Properties").

Commencing in the first quarter of 2012, an Impaired Property segment was established to disclose the operations of Parsons Landing and a Properties Sold segment was established to disclose the operations of the investment properties which have been sold under the divestiture program.

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

Three months ended March 31, 2013:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	6,154,755	3,614,133	-	-	-	9,768,888
Property operating costs	2,265,234	1,810,086	-	-	-	4,075,320
Net operating income	3,889,521	1,804,047	-	-	-	5,693,568
Interest income	7,154	11,195	-	32	279,920	298,301
Interest expense	3,427,564	1,307,585	-	900,000	2,206,729	7,841,878
Income (loss) before discontinued operations	764,306	350,315	-	299,162	(2,458,105)	(1,044,322)
Cash from operating activities	1,087,734	524,382	(55,754)	(213,506)	(1,347,796)	(4,940)
Cash from financing activities	(39,164)	(438,959)	55,754	194,988	(2,093,655)	(2,321,036)
Cash from investing activities	(1,101,628)	(175,846)	-	-	3,225,444	1,947,970
Total assets excluding assets held for sale at March 31, 2013	266,576,803	124,300,850	-	44,836,381	17,273,711	452,987,745

Three months ended March 31, 2012:

	Investment Properties					
	Fort McMurray	Other Investment Properties	Properties Sold	Impaired Property	Trust	Total
Rental revenue	5,691,533	3,627,356	670,604	394,427	-	10,383,920
Property operating costs	2,278,983	1,775,193	76,647	294,383	-	4,425,206
Net operating income	3,412,550	1,852,163	593,957	100,044	-	5,958,714
Interest income	7,557	4,185	141	797	61,887	74,567
Interest expense	3,085,189	1,066,355	188,852	900,011	1,877,525	7,117,932
Income (loss) before discontinued operations	2,189,260	1,677,214	705,246	(28,599,171)	(2,390,680)	(26,418,131)
Cash from operating activities	914,418	776,881	369,570	(525,160)	(2,896,249)	(1,360,540)
Cash from financing activities	(3,034,093)	(528,948)	(340,828)	180,000	2,651,286	(1,072,583)
Cash from investing activities	2,144,299	(99,682)	(4,500)	387,250	(44,504)	2,382,863
Total assets excluding assets held for sale at December 31, 2012	265,210,801	124,345,591	-	44,342,231	20,651,400	454,550,023

15 Contingencies

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 determined, management believes that any such outcome will not be material.

16 Subsequent events

Mortgage financing
Subsequent to March 31, 2013, the Trust received a new $42,000,000, 3.7%, 5 year first mortgage loan. The proceeds were used to repay a $22,700,000, 7%, first mortgage loan; repay a $16,300,000, 8% second mortgage loan, and repay $2,200,000 of a 12% second mortgage loan.

Subsequent to March 31, 2013, the Trust received a new $39,700,000, 6%, first mortgage loan and a new $14,300,000, 10.825%, second mortgage loan. After application of collateral deposits of $2,700,000, the proceeds were used to repay the balance of a $49,700,000, 8.75% first mortgage loan in breach of a debt service covenant and to repay $3,300,000 of a 12% second mortgage loan.

Subsequent to March 31, 2013, the balance of the 12% second mortgage loan in the amount of $2,000,000 was repaid from working capital.

Revolving loan
Subsequent to March 31, 2013, the Trust received advances of $2,105,000 and repaid advances of $500,000 against the revolving loan, resulting in a balance of $9,477,000 as of the date of the Financial Statements.

Condominium sale program
Subsequent to March 31, 2013, the Trust sold a condominium unit under the condominium sale program at Lakewood Townhomes, for gross proceeds of $474,900. After funding closing costs, in-suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan secured by the property.

17 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.