LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive income (loss), statement of changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lanesborough Real Estate Investment Trust and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Lanesborough Real Estate Investment Trust as at December 31, 2011 has a working capital deficit of $13,469,776 and is in breach of certain debt covenants. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern.

MNP LLP

Winnipeg, Manitoba
March 23, 2012

Chartered Accountants

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Non-current assets			
Investment properties (Note 5)	**$451,857,370**	$439,300,000	$440,300,000
Loans and receivables (Note 6)	**500,000**	500,000	7,050,000
Defeasance assets (Note 7)	**3,168,193**	3,313,434	-
Restricted cash (Note 8)	**14,746,600**	21,478,638	6,221,222
Deferred tax asset (Note 16)	**-**	185,859	185,859
Total non-current assets	**470,272,163**	464,777,931	453,757,081
Current assets			
Cash	**1,170,619**	925,046	3,629,456
Rent and other receivables (Note 9)	**2,328,256**	1,315,470	1,271,883
Deposits and prepaids (Note 10)	**1,209,170**	1,046,795	1,299,519
	4,708,045	3,287,311	6,200,858
Non-current assets classified as held for sale (Note 11)	**79,739,862**	79,763,934	117,896,483
Total current assets	**84,447,907**	83,051,245	124,097,341
TOTAL ASSETS	**$554,720,070**	$547,829,176	$577,854,422
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt (Note 12)	**$129,982,408**	$128,457,486	$181,890,961
Total non-current liabilities	**129,982,408**	128,457,486	181,890,961
Current liabilities			
Trade and other payables (Note 13)	**65,860,776**	59,244,173	49,976,588
Bank indebtedness (Note 14)	**-**	2,960,000	-
Current portion of long-term debt (Note 12)	**208,519,415**	225,526,496	208,109,294
Deposits from tenants	**2,829,861**	2,121,716	2,081,657
	277,210,052	289,852,385	260,167,539
Non-current liabilities classified as held for sale (Note 11)	**67,016,797**	54,466,518	55,081,902
Total current liabilities	**344,226,849**	344,318,903	315,249,441
Total liabilities	**474,209,257**	472,776,389	497,140,402
Total equity	**80,510,813**	75,052,787	80,714,020
TOTAL LIABILITIES AND EQUITY	**$554,720,070**	$547,829,176	$577,854,422

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31 2011	2010
Rentals from investment properties	**$ 41,852,726**	$ 39,902,688
Property operating costs	**16,123,335**	16,541,370
Net operating income	**25,729,391**	23,361,318
Interest income	**328,145**	482,274
Interest expense (Note 15)	**(33,162,993)**	(32,665,284)
Trust expense	**(2,611,313)**	(3,035,583)
Profit (loss) on sale of investment properties	**487,095**	1,947,913
Fair value gains (losses) (Note 5)	**11,612,337**	(1,586,890)
Income (loss) before taxes and discontinued operations	**2,382,662**	(11,496,252)
Income tax expense (recovery) (Note 16)	**91,922**	(470,623)
Income (loss) before discontinued operations	**2,290,740**	(11,025,629)
Income from discontinued operations (Note 11)	**2,744,491**	1,702,086
Income (loss) and comprehensive income (loss)	**$ 5,035,231**	$ (9,323,543)
Income (loss) per unit before discontinued operations:		
Basic	**$ 0.124**	$ (0.603)
Diluted	**$ 0.124**	$ (0.603)
Income per unit from discontinued operations:		
Basic	**$ 0.149**	$ 0.093
Diluted	**$ 0.148**	$ 0.093
Income (loss) and comprehensive income (loss) per unit:		
Basic	**$ 0.273**	$ (0.510)
Diluted	**$ 0.272**	$ (0.510)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31	
	2011	**2010**
Issued capital (Note 18)		
Balance, beginning of year	**$107,860,241**	$ 98,966,638
Payment of distributions	**-**	8,814,286
Issue of units	**-**	79,317
Balance, end of year	**107,860,241**	107,860,241
Contributed surplus		
Balance, beginning of year	**6,936,834**	461,871
Value of unit options granted	**12,921**	41,521
Maturity of Series E debentures	**-**	2,835,690
Maturity of Series F debentures	**3,507,495**	-
Maturity of Series G debentures	**6,167,055**	-
Issue of trust unit purchase warrants	**334,874**	3,486,039
Debentures purchased under normal course issuer bid	**74,518**	56,280
Value of deferred units granted	**75,000**	134,750
Value of deferred units redeemed	**-**	(79,317)
Balance, end of year	**17,108,697**	6,936,834
Equity component of debentures		
Balance, beginning of year	**9,749,068**	12,641,038
Debentures purchased under normal course issuer bid	**(74,518)**	(56,280)
Maturity of Series E debentures	**-**	(2,835,690)
Maturity of Series F debentures	**(3,507,495)**	-
Maturity of Series G debentures	**(6,167,055)**	-
Balance, end of year	**-**	9,749,068
Cumulative earnings (losses)		
Balance, beginning of year	**17,956,679**	27,280,222
Income (loss) and comprehensive income (loss)	**5,035,231**	(9,323,543)
Balance, end of year	**22,991,910**	17,956,679
Cumulative distributions to unitholders		
Balance, beginning of year	**(67,450,035)**	(58,635,749)
Distributions declared	**-**	(8,814,286)
Balance, end of year	**(67,450,035)**	(67,450,035)
Total equity	**$ 80,510,813**	$ 75,052,787

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2011	December 31 2010
Operating activities		
Income (loss) and comprehensive income (loss)	**$ 5,035,231**	$ (9,323,543)
Adjustments to reconcile income (loss) to cash flows		
Fair value gains (losses)	**(11,612,337)**	1,586,890
Profit (loss) on sale of investment properties	**(487,095)**	(1,947,913)
Discount on repayment of mortgage loan	**-**	250,000
Accrued rental revenue	**(553,953)**	432
Unit-based compensation	**87,921**	176,271
Deferred income taxes	**70,695**	(649,105)
Interest income	**(328,145)**	(779,514)
Interest received	**280,422**	611,484
Interest expense	**36,887,718**	35,922,517
Interest paid	**(32,007,967)**	(29,968,617)
Cash from operations	**(2,627,510)**	(4,121,098)
Decrease (increase) in rent and other receivables	**(373,842)**	145,134
Decrease (increase) in deposits and prepaids	**(186,671)**	469,949
Increase (decrease) in tenant deposits	**793,051**	173,196
Increase (decrease) in trade and other payables	**2,011,784**	1,767,700
	(383,188)	(1,565,119)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**51,050,000**	20,500,000
Proceeds of mortgage bond financing	**3,363,000**	19,417,000
Repayment of mortgage loans on refinancing	**(32,558,438)**	(22,809,254)
Repayment of mortgage loans from proceeds of mortgage loan receivable	**-**	(4,500,000)
Repayment of debentures	**(13,598,000)**	(11,950,000)
Repayment of mortgage bonds	**-**	(6,780,000)
Repayment of long-term debt	**(9,488,410)**	(8,578,808)
Proceeds (repayment) of line of credit	**(2,960,000)**	2,960,000
Proceeds of revolving loan commitment	**11,850,000**	13,964,692
Repayment of revolving loan commitment	**(7,200,000)**	(6,614,692)
Expenditures on transaction costs	**(4,200,857)**	(4,203,183)
Debentures purchased and cancelled under normal course issuer bid	**(299,000)**	(171,606)
	(4,041,705)	(8,765,851)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(2,288,861)**	(1,387,680)
Capital expenditures on property and equipment	**(86,344)**	(143,699)
Decrease (increase) in defeasance assets	**145,241**	(3,338,341)
Proceeds of mortgage loan receivable	**-**	10,090,000
Proceeds of sale	**52,120**	17,563,501
Change in restricted cash	**6,679,560**	(15,258,803)
	4,501,716	7,524,978
Cash increase (decrease)	**76,823**	(2,805,992)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 11)	**168,750**	101,582
	245,573	(2,704,410)
Cash, beginning of year	**925,046**	3,629,456
Cash, end of year	**$ 1,170,619**	$ 925,046

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 consolidated financial statements of Lanesborough Real Estate Investment Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated statements for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on March 23, 2012.

The consolidated financial statements of the Trust reflect the operations of the Trust and Riverside Terrace Inc, LREIT Holdings 18 Corporation, LREIT Holdings 32 Corporation, LREIT Holdings 39 Corporation, which are wholly owned subsidiaries under its control. The consolidated financial statements have been prepared on an historical cost basis except for investment properties and certain financial instruments that are measured at fair value, as explained in the accounting policies below. The consolidated financial statements have been prepared on a going concern basis and have been prepared in Canadian dollars.

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 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 generated income from investment properties of $2,290,740 for the year ended December 31, 2011 (2010 - $11,025,629 loss); has a working capital deficit of $13,469,776 as at December 31, 2011 (December 31, 2010 - $11,261,492); and was in breach of net operating income achievement, debt service coverage, restriction on the registration of secondary mortgage charges and reporting requirements on six mortgage loans and a swap mortgage loan during 2011 and as of December 31, 2011.

The Trust is in breach of a net operating income achievement requirement of a $22,699,023 first mortgage loan for six properties in Fort McMurray, Alberta. The Trust is also in breach of a 1.15 debt service coverage requirement of a $21,211,420 swap mortgage loan on a property in Fort McMurray, Alberta with the same lender. The Trust has notified the lender of the breaches and is providing operating information to the lender on a monthly basis.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $70,678,149, on three properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $16,301,762 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The three mortgage loans in breach of debt coverage requirements, in the aggregate amount of $86,979,911 have matured. A forbearance to December 31, 2011 has been obtained for the three mortgage loans and it is expected that extensions of forbearance will be obtained.

At December 31, 2011, the Trust was in breach of the 1.2 times debt service coverage and reporting requirement of a $24,858,349 first mortgage loan on one property in Fort McMurray, Alberta. Subsequent to December 31, 2011, the first mortgage loan in breach was retired from proceeds of a new first mortgage loan from another lender.

The breaches of the net operating income achievement and debt service coverage requirements on five mortgage loans and a swap mortgage loan, as noted above, are a result of the negative impact of the 2009-2010 decline of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Notwithstanding that recently 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.

The Trust is in breach of a covenant of a $19,657,184 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of a secondary mortgage charge. The lender demanded that the secondary mortgage charge be discharged and the Trust has not yet complied.

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 completion of the divestiture program in a manner which achieves the targeted sales price and timelines, the continued ability of the Trust to repay, renew or refinance its debt, the continued support of related parties in the form of the renewal of the revolving loan, 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 throughout 2011, the Trust has successfully sold 18 properties, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has successfully retired the Series E and Series F debenture debt in 2010 and 2011 and has extended the maturity date for the Series G debentures and the Trust has successfully refinanced two of the first mortgage loans with a covenant breach and the covenant breach at another property has been satisfied through 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 consolidated financial statements.

2 *Basis of presentation and continuing operations (continued)*

Statement of compliance
The consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS 1. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The consolidated financial statements are based on IFRS standards issued and outstanding as at March 23, 2012.

The Trust follows accounting policies under IFRS as disclosed in Note 3 in these statements. Note 25 discloses the impact of the transition to IFRS on the Trust's reported financial position, income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's consolidated financial statements for the year ended December 31, 2010. Subject to certain transition elections disclosed in Note 25 in these statements, the accounting policies in Note 3 have been applied consistently in all material respects.

3 *Significant accounting policies*

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Where property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise corporate acquisitions are accounted for as business combinations.

(b) Investment Properties

The Trust has adopted IAS 40-Investment Properties and has chosen the fair value method of presenting investment properties in the financial statements.

Investment properties comprise completed properties and properties under construction or re-development held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the property to the condition necessary for it to be capable of operating and similar costs. The carrying amount also includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met.

3 Significant accounting policies (continued)

(b) Investment Properties (continued)

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. An investment property is derecognized upon sale.

The fair value of investment properties is determined by the Trust using recognized valuation techniques.

Investment properties held for sale are classified as non-current assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(c) Property and Equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses, in accordance with IAS 16 "Property and equipment".

The Trust provides for amortization of property and equipment so as to apply the cost of the assets over the estimated useful lives as follows.

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Amortization is not recorded for property and equipment held in non-current assets classified as held for sale.

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. Cash generating units are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying amount of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in income (loss). Impairment losses for goodwill are not reversed.

3 Significant accounting policies (continued)

(d) Receivables

(i) Rent and other receivables

Rent and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost using the effective interest rate method. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(ii) Loans and receivables

Loans and receivables are recognized at amortized cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums directly related to the loans and receivables are recognized in income over the expected life of the loans and receivables. All loans and receivables with maturities greater than 12 months after the financial statements date are classified as non-current assets. Provision is made when there is objective evidence that the Trust will not be able to recover balances in full.

(e) Cash

Cash comprises demand and short-term deposits at the bank with an original maturity of twelve months or less.

Cash deposits, which are not available for use by the Trust within a period of twelve months, are carried as restricted cash.

(f) Non-current assets classified as held for sale

Held for sale assets
Properties are transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:

- The Board must be committed to a plan to sell the property, and an active program to locate a buyer and complete the plan must have been initiated
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification

3 Significant accounting policies (continued)

(f) Non-current assets classified as held for sale (continued)

Non-current assets classified as held for sale are recorded as follows:

Investment Properties	-	fair value as stated in subparagraph (b) Investment Properties above
All other assets	-	lower of carrying value or fair value

Non-current assets classified as held for sale will also be recovered principally through a sale transaction instead of use. Such assets are not depreciated or amortized. For an asset or disposal group to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

Discontinued operations
A discontinued operation is a part of the Trust's business that:

- It has disposed or has classified as held for sale and that represents a major line of its business or geographic area of operation;
- Is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- Is a subsidiary acquired exclusively with a view to resell.

The results of discontinued operations are presented separately on the face of the Statement of Comprehensive Income and the assets and liabilities are presented separately on the face of the Statement of Financial Position.

(g) Mortgages loans and mortgage bonds

All mortgages loans and mortgage bonds are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and bonds are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the loans and bonds are recognized in the Statement of Comprehensive Income (Loss) over the expected life of the borrowings. Interest payable is recognized on an accrual basis. All mortgage loans and mortgage bonds with maturities greater than twelve months are classified as non-current liabilities. Notwithstanding the previous statement, mortgage loans and mortgage bonds with maturities greater than twelve months, but which are in breach of a debt covenant, and the debt becomes payable on demand as a result of said breach at the financial statement date, are classified as current liabilities.

(h) Debentures

Debentures are separated into debt and equity components based on the respective fair values at the date of issue. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the debentures. The value assigned to the equity component of debentures represents the value of the conversion feature.

Subsequent to initial recognition, the liability component of a debenture is measured at amortized cost using the effective interest method. The equity component of a debenture is not measured subsequent to initial recognition.

3 Significant accounting policies (continued)

(i) 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. At the end of each reporting period, the estimate of unit options expected to vest is revised and compensation expense in regard to options granted to officers, employees and trustees is recognized.

(j) Tenant deposits

Tenant deposits liabilities are initially recognized at fair value. Where the time value of money is material, tenant deposits are carried at amortized cost, using the effective interest rate method. Any difference between the initial fair value and the nominal amount is included as a component of rentals from investment properties and recognized on a straight-line basis over the lease term.

(k) Revenue recognition

Management has determined that all of the leases with tenants are operating leases.

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 deferred rent receivable. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancelable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognized in the income statement when they arise.

Meal and other revenue is recognized on the delivery of the meal or other service.

Interest income is recognized on an accrual basis using the effective interest method.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

3 Significant accounting policies (continued)

(l) Income taxes

Current tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses and other short-term temporary differences.

Deferred tax assets are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. The recoverability of all tax assets is reassessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which that asset or liability will be settled, based on rates enacted or substantively enacted at the end of the reporting period.

(m) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur; and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(n) Per unit calculations

Basic per unit amounts are calculated using the weighted average number of units outstanding during the period, including vested deferred units. Diluted per unit amounts are calculated based on the weighted average diluted number of units for the period after considering the dilution effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential exercise of trust unit purchase warrants to the extent that the warrants are dilutive. 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.

3 Significant accounting policies (continued)

(o) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the Trust's designation of such instruments. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial assets classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until disposition of the financial asset.

Financial instruments are derecognized when the Trust no longer controls the contractual rights that comprises a financial asset or when the obligation under a financial liability has been discharged, concluded or expired.

Based on the purpose for which assets and liabilities are acquired, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Loans and receivables	Loans and receivables	Amortized cost
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Rent and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Long term debt		
Mortgage loans	Other liabilities	Amortized cost
Mortgage bonds	Other liabilities	Amortized cost
Debentures	Other liabilities	Amortized cost
Debt component of convertible debentures	Other liabilities	Amortized cost
Swap mortgage loans	Fair value in income	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage guarantee fees	Other liabilities	Amortized cost
Construction costs	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Deposits from tenants	Other liabilities	Amortized cost

The Trust assesses impairment of all it financial assets, except those classified as fair value in income. Management considers whether there has been a breach in contract, such as a default or delinquency in 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 income.

3 Significant accounting policies (continued)

(p) Future changes to significant accounting policies

The following new or amended standards have been issued by the IASB:

- IFRS 7 - Financial Instruments-Disclosure, amendments relating to disclosures with respect to the transfers of financial assets, effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.

- IAS 12 - Income Taxes, amendments applicable to the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model, effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

- IFRS 9 - replaces IAS 39 - Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 10 - Consolidated Financial Statements - replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 11 - Joint Arrangements - supersedes IAS 31 Interests in Joint Ventures and SIC-13-Jointly Controlled Entities-Non-monetary Contributions by Venturers, established principles for the financial reporting by parties to a joint arrangement, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 12 - Disclosure of Interests in Other Entities - combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangement, associates and unconsolidated structured entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IFRS 13 - Fair Value Measurement - defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- IAS 1 - Presentation of Financial Statements - amendments require grouping together items within other comprehensive income that may be reclassified to the net income. The amendments also reaffirm existing requirements that items in other comprehensive income and net income should be presented as either a single statement or two consecutive statements.

The impact of these changes is not known or reasonably estimatable at this time.

4 Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements of the Trust requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the financial statements date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

(a) Judgments other than estimates

In the process of applying the accounting policies of the Trust, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations

The Trust acquires subsidiaries that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The extent of the land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, meal services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

Operating lease contracts

The Trust has entered into leases with tenants. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and accounts for the leases as operating leases.

4 Significant accounting judgments, estimates and assumptions (continued)

(b) Estimates

Valuations of property
Investment property is stated at fair value as at the financial statement date. Gains or losses arising from changes in the fair values are included in income in the period in which they arise. The valuations are prepared using recognized valuation techniques to determine the fair value of investment properties. The techniques comprise both the capitalized net operating income method and the discounted cash flow method. In certain cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the assets of the Trust.

Investment property under construction is also valued at fair value as determined by independent real estate valuation experts, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be readily determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the discounted cash flow method or the residual method.

The determination of the fair value of investment properties requires the use of estimates on future cash flows from assets (considering the implication of lease terms, tenant profiles, anticipated capital expenditures, property conditions and similar variables) and discount rates applicable to those assets. The estimates are based on local market conditions existing at the financial statement date.

Other factors such as the continuing volatility in the global financial system and its effect on real estate markets are reflected in the estimates of market values. Management used their market knowledge and professional judgment and has not relied solely on historic transactional comparables or external appraisals obtained. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property.

Taxes
The Trust is subject to income and capital gains taxes. Estimates are required to determine the total provision for current and deferred taxes.

There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. In particular, when calculating deferred taxes, the effective tax rate applicable on the temporary differences in investment property is estimated based on the anticipated date of future transactions.

The Trust recognizes liabilities for current taxes based on estimates of whether taxes will be due. Where the actual taxes are different from the amounts that were initially recorded, the difference will impact the income and deferred tax provisions in the period in which the difference is determined.

5 Investment properties

The carrying amount of investment properties is summarized as follows:

	Year Ended December 31 2011	2010
Balance, beginning of year	$439,300,000	$440,300,000
Additions - capital expenditures	2,288,861	586,890
Fair value gains (losses)	11,612,337	(1,586,890)
Disposals	(1,343,828)	-
Balance, end of year	$451,857,370	$439,300,000

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:

	December 31 2011		December 31 2010		January 1 2010	
	Low	High	Low	High	Low	High
Residential properties						
Fort McMurray	6.75 %	8.25 %	7.50 %	8.00 %	7.00 %	8.00 %
Yellowknife	7.00 %	8.50 %	6.75 %	9.75 %	7.25 %	9.75 %
Major Canadian cities	5.25 %	6.00 %	5.00 %	7.50 %	5.00 %	7.50 %
Other	6.00 %	8.50 %	6.25 %	9.00 %	6.25 %	9.00 %
Commercial properties	7.25 %	7.75 %	7.00 %	9.25 %	6.75 %	9.25 %

(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.

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

	December 31 2011		December 31 2010		January 1 2010	
	Low	High	Low	High	Low	High
Residential properties						
Fort McMurray	8.00 %	9.50 %	7.75 %	8.00 %	7.50 %	7.75 %
Yellowknife	8.25 %	9.75 %	7.50 %	8.50 %	7.50 %	8.50 %
Major Canadian cities	6.25 %	7.00 %	5.50 %	5.50 %	5.50 %	5.50 %
Other	7.25 %	9.75 %	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	8.25 %	8.75 %	7.25 %	7.75 %	7.25 %	7.75 %

5 Investment properties (continued)

(iii) *Direct comparison*. For properties with condominium title or in the process of obtaining 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 sale price and 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, Parsons Landing, Siena Apartments 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	Aggregate Value at December 31, 2011	Valuation Update Timetable
Greater than $10 Million	11	$ 392,078,180	Three years
Less than $10 Million	12	59,779,190	Five years
	23	$ 451,857,370	

At the January 1, 2010 conversion to IFRS, the established timetable for appraisal was based on property values of less than or greater than $7.5 Million. The policy was revised effective December 31, 2011.

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 December 31, 2011, external appraisals were obtained in 2011 for 10 properties having an aggregate appraised value of $327.1 Million representing 72% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 14% of the total carrying value of investment properties and in 2009 for one property having an aggregate appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

(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.

6 *Loans and receivables*

	December 31 2011	December 31 2010	January 1 2010
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	$ 500,000
Second mortgage loan due June 1, 2011	-	-	6,550,000
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	250,000
	750,000	750,000	7,300,000
Current portion of loans and receivables	(250,000)	(250,000)	(250,000)
	$ 500,000	$ 500,000	$ 7,050,000

7 *Defeasance assets and defeased liability*

In conjunction with the sale of Woodlily Court on September 1, 2010, an existing $2,818,509 mortgage loan payable was defeased ("Defeased Liability"). The Defeased Liability is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.81% (December 31, 2010 - 3.75%) and have been placed in escrow. The Defeasance Assets and the Defeased Liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

The following table reflects the effect of the Defeasance Assets and the Defeased Liability on income.

	Recorded as	Year Ended December 31 2011	Year Ended December 31 2010
Interest income on Defeasance Assets	Interest income	$ 61,055	$ 26,668
Interest expense on Defeased Liability	Interest expense	(155,164)	(52,344)
Amortization of transaction costs	Interest expense	(12,280)	(2,241)
		$ (106,389)	$ (27,917)

The unamortized balance of transaction costs in respect of the Defeased Liability is $43,592 (2010 - $52,880).

8 Restricted cash

	December 31 2011	December 31 2010	January 1 2010
Tenant security deposits	$ 2,792,816	$ 2,057,086	$ 2,067,736
Reserves required by mortgage loan agreements	11,953,784	10,473,737	2,111,691
Mortgage bond proceeds held in escrow	-	8,947,815	-
Sale proceeds in escrow	-	-	2,041,795
	$ 14,746,600	$ 21,478,638	$ 6,221,222

9 Rent and other receivables

	December 31 2011	December 31 2010	January 1 2010
Rent receivable	$ 728,258	$ 792,876	$ 759,950
Estimated property operating cost recoveries	-	37,657	-
Less: allowance for uncollectible accounts	(163,553)	(364,685)	(422,793)
	564,705	465,848	337,157
Other receivables	790,264	430,288	514,960
Deferred rent receivable	723,287	169,334	169,766
	2,078,256	1,065,470	1,021,883
Current portion of loans and receivables	250,000	250,000	250,000
	$ 2,328,256	$ 1,315,470	$ 1,271,883

10 Deposits and prepaids

	December 31 2011	December 31 2010	January 1 2010
Deposits			
Property tax deposits	$ 522,304	$ 482,368	$ 339,705
Deposit on potential acquisition	10,000	10,000	10,000
Performance deposit	-	166,916	166,916
Utility deposits	630	38,407	12,320
Deposit with Canada Revenue Agency	250,000	-	-
	782,934	697,691	528,941
Prepaid expenses	426,236	349,104	770,578
	$ 1,209,170	$ 1,046,795	$ 1,299,519

11 Non-current assets and non-current 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.

In addition, the following investment properties which were sold during 2010 and 2011, were also classified as non-current assets classified as held for sale.

	December 31 2011	December 31 2010	January 1 2010
Chancellor Gate	$ -	$ -	$ 7,814,000
McIvor Mall	-	-	10,951,000
Woodlily Courts	-	-	5,000,000
Nova Manor	-	-	3,100,000
Three Lakes Village	-	-	11,100,000
	$ -	$ -	$ 37,965,000

During 2010, the Trust sold the following properties:

Property	Sale Date	Consideration
Chancellor Gate	March 1, 2010	$ 7,970,000
McIvor Mall	March 1, 2010	11,200,000
Woodlily Courts	September 1, 2010	6,600,000
Nova Manor	September 30, 2010	3,415,000
Three Lakes Village	November 1, 2010	11,200,000

11 Non-current assets and non-current liabilities of properties held for sale (continued)

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at December 31, 2011, are as follows:

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Investment properties held for sale	$ -	$ -	$ 37,965,000
Assets in discontinued operations			
Property and equipment (a)	78,383,871	78,278,699	78,135,000
Cash	388,076	556,826	658,408
Restricted cash	331,149	278,671	277,284
Rent and other receivables	33,192	70,460	89,195
Deposits, prepaids and other	603,574	579,278	771,596
	79,739,862	79,763,934	79,931,483
Non-current assets classified as held for sale	79,739,862	79,763,934	117,896,483
LIABILITIES			
Liabilities in discontinued operations			
Long term debt (b)	59,811,088	47,363,194	48,025,668
Deferred tax (c)	5,654,133	5,681,835	5,617,997
Trade and other payables	930,699	885,518	1,035,403
Deposits from tenants	620,877	535,971	402,834
Non-current liabilities classified as held for sale	$ 67,016,797	$ 54,466,518	$ 55,081,902

Details of income and cash flow information relating to discontinued operations are as follows.

	Year Ended December 31 2011	Year Ended December 31 2010
Rental income	$ 15,371,667	$ 13,626,439
Property operating expenses	8,849,075	8,600,637
Net operating income	6,522,592	5,025,802
Interest expense (d)	3,724,725	3,216,211
Current tax	81,078	(20,762)
Deferred tax	(27,702)	128,267
Income from discontinued operations	$ 2,744,491	$ 1,702,086
Cash inflow from operating activities	$ 2,880,803	$ 2,198,748
Cash outflow from financing activities	(2,891,903)	(2,153,960)
Cash outflow from investing activities	(157,650)	(146,370)
Increase (decrease) in cash from discontinued operations	$ (168,750)	$ (101,582)

11 Non-current assets and non-current liabilities of properties held for sale (continued)

(a) Property and equipment

December 31, 2011	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,697,286	84,717	(3,050,825)	68,731,178
Furniture, equipment and appliances	1,549,743	20,455	(280,546)	1,289,652
	79,345,219	105,172	(3,331,371)	76,119,020
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,610,070	$ 105,172	$ (3,331,371)	$ 78,383,871

December 31, 2010	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,652,524	44,762	(3,050,825)	68,646,461
Furniture, equipment and appliances	1,450,806	98,937	(280,546)	1,269,197
	79,201,520	143,699	(3,331,371)	76,013,848
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,466,371	$ 143,699	$ (3,331,371)	$ 78,278,699

January 1, 2010	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,652,524	-	(3,050,825)	68,601,699
Furniture, equipment and appliances	1,450,806	-	(280,546)	1,170,260
	79,201,520	-	(3,331,371)	75,870,149
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,466,371	$ -	$ (3,331,371)	$ 78,135,000

11 Non-current assets and non-current liabilities of properties held for sale (continued)

(a) Property and equipment (continued)

The carrying value in property and equipment is comprised of the following:

	Year Ended December 31 2011	2010
Balance, beginning of year	$ 78,278,699	$ 78,135,000
Additions - capital expenditures	105,172	143,699
Balance, end of year	$ 78,383,871	$ 78,278,699

(b) Long term debt

	December 31 2011	December 31 2010	January 1 2010
Secured debt			
Mortgage loans	$ 60,152,797	$ 47,024,490	$ 47,654,114
Unsecured debt			
Mortgage guarantee fees	267,319	338,704	409,652
Unamortized transaction costs	(609,028)	-	(38,098)
Total long term debt	$ 59,811,088	$ 47,363,194	$ 48,025,668

Certain of the mortgage loans are subject to covenants, including debt service coverage requirements and a requirement to obtain mortgage insurance.

As of December 31, 2011, the Trust was in compliance with all mortgage covenants for properties held for sale.

All mortgage loans which matured prior to March 23, 2012 have been renewed or refinanced.

11 Non-current assets and non-current liabilities of properties held for sale (continued)

(c) Deferred tax

Deferred tax liabilities consist of the following:

	December 31 2011	December 31 2010	January 1 2010
Temporary differences between the accounting and tax bases of property and equipment	$ 5,663,279	$ 5,547,177	$ 5,483,339
Temporary differences between the accounting and tax bases of transaction costs	(9,146)	-	-
Temporary differences between the accounting and tax bases of investments in subsidiaries	-	134,658	134,658
	$ 5,654,133	$ 5,681,835	$ 5,617,997

The Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:

	December 31 2011	December 31 2010	January 1 2010
Property and equipment	$ 3,738,010	$ 2,050,773	$ 2,217,438
Transaction costs	$ 347,623	$ 282,790	$ 170,342

Unused tax losses expiring in:

	December 31 2011	December 31 2010	January 1 2010
2026	$ 102,771	$ 113,256	$ 113,256
2027	2,354,011	2,354,011	2,354,011
2028	2,510,247	2,510,247	2,510,247
2029	2,397,735	2,397,735	2,397,735
2030	1,858,141	1,858,141	-
2031	928,264	-	-
	$ 10,151,169	$ 9,233,390	$ 7,375,249

(d) Interest expense

	Year Ended December 31 2011	Year Ended December 31 2010
Mortgage loan interest	$ 3,340,258	$ 3,019,413
Amortization of transaction costs	384,467	196,798
	$ 3,724,725	$ 3,216,211

12 Long-term debt

	December 31 2011	December 31 2010	January 1 2010
Secured debt			
Mortgage loans (a)	$ 254,863,171	$ 259,104,483	$ 293,241,134
Mortgage bonds (b)	14,058,307	10,826,910	-
Debentures (c)	25,312,000	-	-
Convertible debentures (d)	-	13,464,400	24,402,020
Swap mortgage loans (e)	42,942,356	44,832,599	48,625,212
Defeased liability (f)	2,755,325	2,806,222	-
Total secured debt	339,931,159	331,034,614	366,268,366
Unsecured debt			
Convertible debentures (d)	-	23,948,528	22,541,667
Mortgage guarantee fees (g)	40,498	73,074	290,667
Construction costs payable	-	333,831	1,134,621
Total unsecured debt	40,498	24,355,433	23,966,955
Accrued interest payable	2,019,182	1,666,375	2,099,067
Unamortized transaction costs			
Mortgage loans (a)	(1,231,004)	(1,285,457)	(1,213,654)
Mortgage bonds (b)	(1,269,679)	(1,137,864)	-
Debentures (c)	(849,554)	-	-
Convertible debentures (d)	-	(426,282)	(1,002,844)
Swap mortgage loans (e)	(95,187)	(169,957)	(117,635)
Defeased liability (f)	(43,592)	(52,880)	-
Total unamortized transaction costs	(3,489,016)	(3,072,440)	(2,334,133)
	338,501,823	353,983,982	390,000,255
Less current portion			
Mortgage loans (a)	(185,523,843)	(165,076,432)	(171,514,458)
Convertible debentures (d)	-	(37,412,928)	(11,814,796)
Swap mortgage loans (e)	(21,913,931)	(22,356,458)	(22,774,002)
Defeased liability (f)	(53,813)	(50,897)	-
Mortgage guarantee fees (g)	(34,542)	(32,576)	(58,195)
Construction costs payable	-	(333,831)	(800,790)
Accrued interest payable	(2,019,182)	(1,666,375)	(2,099,067)
Transaction costs	1,025,896	1,403,001	952,014
Total current portion	(208,519,415)	(225,526,496)	(208,109,294)
	$ 129,982,408	$ 128,457,486	$ 181,890,961
Current portion of unamortized transaction costs			
Mortgage loans (a)	$ 458,322	$ 714,040	$ 859,553
Mortgage bonds (b)	235,975	137,730	-
Debentures (c)	208,905	-	-
Convertible debentures (d)	-	426,282	15,143
Swap mortgage loans (e)	113,145	115,085	77,318
Defeased liability (f)	9,549	9,864	-
	$ 1,025,896	$ 1,403,001	$ 952,014

12 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At December 31, 2011, the contractual weighted average interest rate for variable rate long-term debt was 8.5% and for fixed rate long-term debt was 5.7% (December 31, 2010 - variable - 6.7%, fixed - 6.2%).

Normal principal installments and principal maturities at face value are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Debentures and Mortgage Bonds	Swap Mortgage Loans
2012 (1)	$ 2,582,970	$183,815,871	$ -	$21,913,931
2013	1,344,560	39,380,857	-	18,179,050
2014	547,244	8,762,938	-	-
2015	480,779	5,800,175	41,312,000	-
2016	64,412	10,663,030	-	-
Thereafter	-	1,420,335	-	-
	$ 5,019,965	$249,843,206	$ 41,312,000	$40,092,981

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Total Long-term Debt	Weighted average interest rate of long-term debt
2012	$ 53,813	$ 34,542	$208,401,127	7.0%
2013	56,896	5,956	58,967,319	6.4%
2014	60,155	-	9,370,337	5.0%
2015	63,602	-	47,656,556	8.7%
2016	2,520,859	-	13,248,301	5.1%
Thereafter	-	-	1,420,335	5.5%
	$ 2,755,325	$ 40,498	$339,063,975	7.0%

(1) Mortgage loans principal maturities and swap mortgage loans principal maturities include mortgage loans which are not in compliance with loan covenants. In accordance with IFRS, $154,194,467 of mortgage loan balances and $21,211,420 in regard to swap mortgage loan balances are included in the balance due in 2012.

Subsequent to December 31, 2011, a mortgage loan on one property in Fort McMurray, Alberta, in the amount of $24,858,349, was refinanced and the breach was eliminated.

The Trust intends to renew or refinance all mortgage debt and debentures at market rates on maturity.

12 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates					
	December 31		January 1	December 31		January 1
	2011	2010	2010	2011	2010	2010
First mortgage loans						
Fixed rate	5.6%	5.7%	5.7%	$ 149,648,260	$ 171,218,636	$ 194,528,633
Variable rate	8.6%	6.8%	6.0%	69,895,499	54,439,020	55,000,000
Total first mortgage loans	6.6%	6.0%	5.8%	219,543,759	225,657,656	249,528,633
Second mortgage loans						
Fixed rate	11.4%	12.2%	10.1%	1,935,000	15,945,000	25,945,763
Variable rate	8.3%	6.5%	5.8%	33,384,412	17,501,827	17,766,738
Total second mortgage loans	8.4%	9.2%	8.3%	35,319,412	33,446,827	43,712,501
Total	6.9%	6.4%	6.1%	254,863,171	259,104,483	293,241,134
Unamortized transaction costs				(1,231,004)	(1,285,457)	(1,213,654)
				253,632,167	257,819,026	292,027,480
Current portion of mortgage loans				(185,523,843)	(165,076,432)	(171,514,458)
Current portion of unamortized transaction costs				458,322	714,040	859,553
				$ 68,566,646	$ 93,456,634	$ 121,372,575

Certain of the mortgage loans are subject to covenants, including net operating income achievement and debt service coverage, restriction on the registration of secondary charges against the title to a property and reporting requirements. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $154,194,467, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $154,194,467 is included in current portion of mortgage loans.

A forbearance to December 31, 2011 has been obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $86,979,911. Three mortgage loans in breach of debt service coverage requirements, in the aggregate amount of $86,979,911, matured and have not been renewed. The maturity dates have not been extended and the loans are payable on demand. The forbearance to December 31, 2011 in the aggregate amount of $86,979,911 is in regard to the three mortgage loans which matured.

Except for the three mortgage loans in the amount of $86,979,911, all mortgages which have matured prior to March 23, 2011 have been renewed or refinanced.

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

12 Long-term debt (continued)

(b) Mortgage bonds and trust unit purchase warrants

The face value of the mortgage bonds is $16,000,000 (December 31, 2010 - $12,637,000).

The carrying value of the mortgage bonds is summarized as follows:

	December 31 2011	December 31 2010	January 1 2010
Balance, beginning of year	$ 10,826,910	$ -	$ -
Value at issue	2,910,467	16,624,166	-
Accretion	320,930	982,744	-
Redemption	-	(6,780,000)	-
Balance, end of year	14,058,307	10,826,910	-
Unamortized transaction costs	(1,269,679)	(1,137,864)	-
	12,788,628	9,689,046	-
Current portion of unamortized transaction costs	(235,975)	(137,730)	-
	$ 12,552,653	$ 9,551,316	$ -

On March 9, 2010, the Trust issued 6,780 five year 9% second mortgage bonds in the principal amount of $1,000 and 6,780,000 of trust unit purchase warrants for gross proceeds of $6,780,000. Each warrant entitles the holder to purchase one unit at a price of $1.00 until March 9, 2015.

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $227,520 was identified and the residual value of $747,285 was assigned to the trust unit purchase warrants.

In December 2010, the mortgage bonds were redeemed using proceeds from property sales and the December 23, 2010 mortgage bond issue. At redemption, $875,076 of accretion and $838,423 of unamortized transaction costs were recorded to financing expense. The trust unit purchase warrants related to the March 9, 2010 mortgage bond issue continue to be exercisable until their expiry on March 9, 2015.

In September 2011, LREIT initiated a normal course issuer bid for the March 9, 2015 trust unit purchase warrrants, under which the Trust is entitled to purchase up to 678,000 trust unit purchase warrants. The normal course issuer bid commenced on September 19, 2011 and expires on September 18, 2012.

On December 23, 2010, the Trust issued 12,637 five year 9% mortgage bonds in the principal amount of $1,000, due December 23, 2015, and 12,637,000 in trust unit purchase warrants for gross proceeds of $12,637,000. Each trust unit purchase warrants entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $54,398,000 (December 31, 2010 - $54,600,000).

12 Long-term debt (continued)

(b) Mortgage bonds and trust unit purchase warrants (continued)

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $470,623 was identified, and the residual value of $1,346,282 was assigned to the warrants.

On January 28, 2011, the second closing of the December 2010 mortgage bond offering, the Trust issued 3,363 five year 9% mortgage bonds in the principal amount of $1,000, due December 23, 2015, and 3,363,000 in trust unit purchase warrants for gross proceeds of $3,363,000. Each trust unit purchase warrants entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $54,398,000.

On the issue date, the value of the mortgage bonds was established based on the net present value of future interest and principal payments with an estimated cost of borrowing of 13.0%, a deferred tax liability of $117,659 was identified and the residual value of $334,874 was assigned to the trust unit purchase warrants.

In September 2011, LREIT initiated a normal course issuer bid for the December 23, 2015 trust unit purchase warrrants, under which the Trust is entitled to purchase up to 1,600,000 trust unit purchase warrants. The normal course issuer bid commenced on September 19, 2011 and expires on September 18, 2012.

(c) Debentures

The carrying value of debentures is summarized as follows:

December 31, 2011	
Series G - 9.5%, due February 28, 2015	$ 25,312,000
Unamortized transaction costs	(849,554)
	24,462,446
Current portion of unamortized transaction costs	208,905
	$ 24,671,351

Effective October 27, 2011, the Series G convertible debentures were extended as Series G debentures. The Series G debentures are redeemable, subject to notice requirements, and the Trust is required to redeem debentures from the net proceeds of property sales after repayment of mortgage loan and mortgage bond indebtedness and any amounts owing to 2668921 Manitoba Ltd. under the revolving loan commitment. The debentures are secured by a Personal Property Security Act registration against all of the assets and property of LREIT, subject to existing and future senior debt and permitted encumbrances.

12 Long-term debt (continued)

(d) Convertible debentures

The face value of convertible debentures is as follows:

	December 31 2011	December 31 2010	January 1 2010
Series E	$ -	$ -	$ 11,950,000
Series F	-	13,601,000	13,680,000
Series G	-	25,595,000	25,732,000
	$ -	$ 39,196,000	$ 51,362,000

During the year ended December 31, 2011, there have not been any conversions of convertible debentures.

The allocation of the 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 the Series E, Series F and Series G convertible debentures.

12 Long-term debt (continued)

(d) Convertible debentures (continued)

December 31, 2010	Debt	Equity	Total
Convertible debentures			
Series F - 7.5%, due March 11, 2011	$ 13,464,400	$ 3,543,792	$ 17,008,192
Series G - 7.5%, due December 31, 2011	23,948,528	6,668,875	30,617,403
	37,412,928	10,212,667	47,625,595
Deferred tax liability charged to equity	-	(463,599)	(463,599)
Unamortized transaction costs	(426,282)	-	(426,282)
	36,986,646	9,749,068	46,735,714
Current portion of convertible debentures	(37,412,928)	-	(37,412,928)
Current portion of unamortized transaction costs	426,282	-	426,282
	$ -	$ 9,749,068	$ 9,749,068

January 1, 2010	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
Deferred tax liability charged to equity	-	(466,096)	(466,096)
Unamortized transaction costs	(1,002,844)	-	(1,002,844)
	45,940,843	12,638,541	58,579,384
Current portion of convertible debentures	(11,814,796)	-	(11,814,796)
Current portion of unamortized transaction costs	15,143	-	15,143
	$ 34,141,190	$ 12,638,541	$ 46,779,731

12 Long-term debt (continued)

(d) Convertible debentures (continued)

The accretion of the debt component for the year ended December 31, 2011 of $1,772,446 (2010 - $2,617,912), which increases the debt component from the initial carrying amount, is included in interest expense.

In January 2010, LREIT initiated normal course issuer bids for the Series F debentures and Series G debentures, under which the Trust is entitled to purchase up to $1,368,000 of Series F debentures and up to $2,573,000 of Series G debentures. The normal course issuer bids commenced on January 13, 2010 and expired on January 12, 2011.

In January 2011, LREIT renewed its normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,557,000 of Series G debentures. The normal course issuer bid commenced January 13, 2011 and expired on December 31, 2011.

In January 2012, LREIT renewed its normal course issuer bid for the Series G debentures under which, the Trust is entitled to purchase up to $2,529,000 of Series G debentures. The normal course issuer bid commenced January 12, 2012 and expires on January 11, 2013.

During the period from January 1, 2010 to December 31, 2010, the Trust purchased and cancelled Series F debentures with a face value of $79,000 at an average price of $89.29 per $100.00 and Series G debentures with a face value of $137,000 at an average price of $73.47 per $100.00.

During the period from January 1, 2011 to December 31, 2011, the Trust purchased and cancelled Series F debentures with a face value of $3,000 at an average price of $98.00 per $100.00 and Series G debentures with a face value of $283,000 at an average price of $77.85 per $100.00.

Subsequent to December 31, 2011, the Trust purchased and cancelled Series G debentures with a face value of $331,000 at an average price of $90.75 per $100.00.

The Trust is not required to purchase any debentures under the normal course issuer bid.

12 Long-term debt (continued)

(e) Swap mortgage loans

The Trust has entered into interest rate swap arrangements whereby the interest rate on variable rate mortgage loans, in the amounts of $18,881,560 and $21,211,420, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

The swap arrangements are used to hedge the exposure to the variable interest rate payments on variable rate mortgage loans. The loans and interest rate swaps have the same contractual terms. The aggregate fair value of the swap mortgage loans is as follows:

	December 31		January 1
	2011	2010	2010
Face value of mortgage loans, subject to swaps	$ 40,092,981	$ 41,238,026	$ 42,319,014
Fair value of interest rate swaps	2,849,375	3,594,573	6,306,198
	42,942,356	44,832,599	48,625,212
Unamortized transaction costs	(95,187)	(169,957)	(117,635)
	42,847,169	44,662,642	48,507,577
Current portion of swap mortgage loans	(21,913,931)	(22,356,458)	(22,774,002)
Current portion of unamortized transaction costs	113,145	115,085	77,318
	$ 21,046,383	$ 22,421,269	$ 25,810,893

The swap mortgage loans are subject to covenants, including debt service coverage requirements. The Trust is not in compliance with one swap mortgage loan totaling $21,211,420, as a result of a breach of the debt service coverage requirement. In accordance with IFRS the total balance of $21,211,420 is included in current portion of swap mortgage loans.

The effect of the changes in fair value of the interest rate swaps is included in interest expense.

(f) Defeased liability

	December 31		January 1
	2011	2010	2010
Face value	$ 2,755,325	$ 2,806,222	$ -
Unamortized transaction costs	(43,592)	(52,880)	-
	2,711,733	2,753,342	-
Current portion of defeased liability	(53,813)	(50,897)	-
Current portion of unamortized transaction costs	9,549	9,864	-
	$ 2,667,469	$ 2,712,309	$ -

12 *Long-term debt (continued)*

(g) Mortgage guarantee fees

	December 31 2011	December 31 2010	January 1 2010
Nelson Ridge Estates	$ 40,498	$ 73,074	$ 103,797
Three Lakes Village	-	-	186,870
	40,498	73,074	290,667
Current portion of mortgage guarantee fees	(34,542)	(32,576)	(58,195)
	$ 5,956	$ 40,498	$ 232,472

13 *Trade and other payables*

	December 31 2011	December 31 2010	January 1 2010
Accounts payable - vendor invoices	$ 2,428,036	$ 1,845,566	$ 815,263
Accrued payables	1,139,695	1,120,144	730,522
Prepaid rent	1,390,045	1,208,463	710,803
Payable on acquisition of Parsons Landing	47,720,000	47,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	12,000,000	7,350,000	-
Interest-free advances from Shelter Canadian Properties Limited	1,183,000	-	-
	$ 65,860,776	$ 59,244,173	$ 49,976,588

The amount payable on acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,233,000, before GST.

14 *Bank indebtedness*

Bank indebtedness consisted of a revolving line of credit that the Trust obtained from a Canadian chartered bank in the maximum amount of $5,000,000, bearing interest at prime plus 3.5% (2010 - prime plus 3.5%) and repayable on demand. The line of credit was secured by a second mortgage on a property classified as discontinued operations. As at December 31, 2011, the line of credit was fully repaid and terminated.

15 Interest expense

	Year Ended December 31 2011	2010
Mortgage loan interest	$ 19,468,784	$ 17,710,780
Mortgage bond interest	1,440,000	530,334
Accretion of mortgage bonds	324,448	2,111,947
Debenture interest	2,159,766	3,076,585
Accretion of the debt component of debentures	1,772,441	2,617,912
Swap mortgage loan interest	2,353,579	2,454,198
Change in fair value of interest rate swaps	(745,198)	(2,711,625)
Interest on acquisition payable	3,600,000	3,600,000
Amortization of transaction costs	2,789,173	3,275,153
	$ 33,162,993	$ 32,665,284

16 Income taxes

The major components of income tax expense (recovery) are as follows:

	Year Ended December 31 2011	2010
Current tax expense (recovery)	$ -	$ -
Deferred tax expense relating to origination and reversal of temporary differences or tax losses	661,154	(2,497)
Benefit from previously unrecognized tax loss or temporary difference of a prior period used to reduce deferred tax expense	(569,232)	(468,126)
Deferred tax expense (recovery)	91,922	(470,623)
Income tax expense (recovery)	$ 91,922	$ (470,623)

The aggregate current and deferred tax relating to items that are charged directly to equity is $117,659 (2010 - $470,623).

16 *Income taxes (continued)*

The income tax expense (recovery) of the Trust can be reconciled to its income tax expense (recovery) that would be calculated using the statutory income tax rate as follows:

	Year Ended December 31 2011	2010
Income (loss) from continuing operations before income taxes	$ 2,382,662	$ (11,496,252)
Statutory income tax rate	26%	0%
Income tax expense (recovery) calculated using the combined federal and provincial statutory income tax rate	$ 619,492	$ -
Non-deductible unit-based compensation	22,859	-
Interest revenue received from wholly owned subsidiaries	782,390	-
Recognition of previously unrecognized deferred tax assets	(569,232)	(468,126)
Non-taxable/allowable portion of capital (gains) losses	(784,910)	-
Other	21,323	(2,497)
Income tax expense (recovery)	$ 91,922	$ (470,623)

The Trust's deferred tax liabilities (assets) in respect of continuing operations are as follows:

	December 31 2011	2010	January 1 2010
Temporary differences between the accounting and tax bases of:			
Investment properties	$ 1,306,711	$ (872,143)	$ (404,017)
Transaction costs	(479,035)	(247,938)	(247,938)
Debentures and mortgage bonds	504,840	934,222	466,096
Interest rate swaps	(220,560)	-	-
Unused tax losses	(1,111,956)	-	-
	$ -	$ (185,859)	$ (185,859)

16 Income taxes (continued)

The Trust's deferred tax expense (recovery) recognized in income (loss) from continuing operations, in respect of each type of temporary difference or in respect of unused tax losses, is as follows:

	Year Ended December 31 2011	2010
Investment properties	$ 2,178,854	$ (468,126)
Transaction costs	(231,097)	-
Debentures and mortgage bonds	(547,041)	(2,497)
Unused tax losses	(1,111,956)	-
Interest rate swaps	(220,560)	-
Other	23,722	-
	$ 91,922	$ (470,623)

The Trust has deductible temporary differences and unused tax losses related to continuing operations for which no deferred tax asset is recognized as follows:

	December 31 2011	December 31 2010	January 1 2010
Deductible temporary differences:			
Investment properties	$ -	$ 595,846	$ 1,833,396
Interest rate swaps	$ 2,001,067	$ 3,594,573	$ 6,306,198

17 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, 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 trust unit purchase warrants to the extent that the trust unit purchase warrants are dilutive.

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

	Year Ended December 31 2011	2010
Income (loss) and diluted income (loss) before discontinued operations	$ 2,290,740	$ (11,025,629)
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

	Year Ended December 31 2011	2010
Income and diluted income from discontinued operations	$ 2,744,491	$ 1,702,086
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

	Year Ended December 31 2011	2010
Income (loss) and diluted income (loss)	$ 5,035,231	$ (9,323,543)
Weighted average number of:		
Units	17,988,339	17,941,183
Deferred units	467,433	323,553
Total, basic	18,455,772	18,264,736
Weighted average diluted number of units	18,493,272	18,264,736

18 Units

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Units	Amount	Units	Amount
Outstanding, beginning of year	17,988,339	$107,860,241	17,893,767	$ 98,966,638
Exchange of deferred units	-	-	94,572	79,317
Units issued on payment of distributions	-	-	-	8,814,286
Outstanding, end of year	17,988,339	$107,860,241	17,988,339	$107,860,241

Units issued on payment of distribution
As a result of realized capital gains, the Trust paid a "special" distribution in the form of additional units on December 31, 2010. The distribution was followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distribution as were held prior to the distribution.

19 Unit option plan

The Trust may grant options to the Trustees, senior officers and consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the market price of the units as determined under the policies of the TSX on the date of grant. Options granted to Trustees vest immediately. Options granted to senior officers and consultants vest on a straight-line basis over five years. 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, 2011 of $12,921 (2010 - $41,521), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

19 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, 2011		Year Ended December 31, 2010	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	968,500	$ 5.58	1,452,000	$ 5.56
Issued, December 12, 2011	250,000	0.34	-	-
Cancelled, July 26, 2011	(625,000)	5.80	-	-
Cancelled, January 17, 2011	(22,500)	5.42	-	-
Cancelled, October 8, 2010	-	-	(3,000)	5.10
Cancelled, September 16, 2010	-	-	(110,000)	5.47
Cancelled, September 12, 2010	-	-	(6,500)	5.64
Cancelled, April 1, 2010	-	-	(6,500)	5.64
Cancelled, March 29, 2010	-	-	(357,500)	5.60
Outstanding, end of year	571,000	$ 3.05	968,500	$ 5.58
Vested, end of year	542,800		912,100	

At December 31, 2011 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.30	90,000	90,000	June 8, 2012
5.10	231,000	202,800	January 7, 2013
0.34	250,000	250,000	December 12, 2016
	571,000	542,800	

20 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 whole or in part, 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 termination other than for cause, retirement, or death. 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.

20 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, totaled 198,117 for the year ended December 31, 2011 (2010 - 248,281) and 597,536 aggregate deferred units were outstanding at December 31, 2011 (2010 - 399,419).

Unit-based compensation expense of $75,000 for the year ended December 31, 2011 (2010 - $134,750) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

21 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.

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 income properties, except for the seniors housing complexes and Siena Apartments. 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 and tenant improvement fees are capitalized to income 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 $1,669,318 for the year ended December 31, 2011 (2010 - $1,587,663). Property management fees are included in property operating costs.

The Trust incurred leasing commissions on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of $8,507 for the year ended December 31, 2011 (2010 - $60,555).

The Trust incurred renovation fees on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of $2,759 for the year ended December 31, 2011 (2010 - nil).

21 Related party transactions (continued)

Included in trade and other payables at December 31, 2011 is a balance of $13,641 (December 31, 2010 - $24,741), 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, valuation adjustments and defeasance assets.

The Trust incurred service fees of $1,698,992 for the year ended December 31, 2011 (2010 - $1,752,587). Service fees are included in trust expense.

Included in trade and other payables at December 31, 2011 is a balance of $425,833 (2010 - nil) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Services Fee and Renovation Fee for Lakewood Townhomes Condominium Sales Program

The condominium sales program for the Lakewood Townhomes encompasses a services fee payable to Shelter Canadian Properties Limited in the amount of 5% of the gross sale proceeds. Shelter Canadian Properties Limited is responsible for payment of a fixed fee to an external real estate broker for providing brokerage services. If it is necessary to increase the fixed fee due to market conditions, the fee payable to Shelter Canadian Properties Limited increases by the amount of the increase in the fixed fee.

Shelter Canadian Properties Limited is also entitled to a renovation fee equal to 5% of the cost of the in-suite upgrade costs for the condominium sales program.

During 2011, Shelter Canadian Properties Limited received renovation fees of nil and service fees of $25,589 in regard to the Lakewood Townhome condominium sales program.

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 June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bore interest at 7.5%, was due on January 1, 2011 and was secured by a second mortgage charge on an income property. The loan was extended to June 30, 2011 at the same terms and conditions, and a processing fee of $7,500 was paid to 2668921 Manitoba Ltd. in regard to the extension of the loan. In July 2011, the loan was retired from proceeds of a new first mortgage loan. Interest of $32,568 for the year ended December 31, 2011 (2010 - $37,500) is included in interest 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; to $10 Million on November 9, 2010 and to $12 Million on June 8, 2011. The loan bears interest at 14% to June 30, 2011 and 11% thereafter (2010 - 14%), is due on December 31, 2011 and is secured by mortgage charges against the title to six income properties and the assignment of a $500,000 mortgage loan receivable. As of December 31, 2011, $12,000,000 has been drawn and is included in trade and other payables.

21 Related party transactions (continued)

Financing (continued)
Interest on the revolving loan of $1,230,505 for the year ended December 31, 2011 (2010 - $189,861) is included in interest expense.

Included in accrued interest payable at December 31, 2011 is a balance of $293,943 (2010 - nil) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

During the year ended December 31, 2011, Shelter Canadian Properties Limited advanced $4,765,000 on an interest-free basis as an interim funding measure. LREIT made repayments of $3,582,000 resulting in an outstanding balance of $1,183,000 (2010 - nil) at December 31, 2011.

The second mortgage loan, the revolving loan from 2668921 Manitoba Ltd. and the interest-free advances from Shelter Canadian Properties Limited were approved by the independent Trustees.

Key management compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust does not pay any compensation directly to its key management personnel. The services are provided to the Trust by Shelter Canadian Properties Limited pursuant to the Services Agreement. The estimated aggregate compensation for those services under the agreement for the year ended December 31, 2011 was $554,000 (2010 - $554,000). In addition, the Trust granted unit options to its key management personnel with a fair value of $1,500 (2010 - $7,576).

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.

22 Financial instruments and risk management

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

22 Financial instruments and risk management (continued)

Liquidity risk - debt covenant requirements

At December 31, 2011, the Trust was in breach of the net operating income achievement, debt service coverage and reporting requirements on five mortgage loans and a swap mortgage loan totaling $155,748,703 on properties in Fort McMurray, Alberta. Subsequent to December 31, 2011, one mortgage loan in breach of a debt service covenant in the amount of $24,858,349 was retired from the proceeds of a new first mortgage loan from another lender. The Trust has obtained a forbearance to December 31, 2011 on three mortgage loans totaling $86,979,911. The Trust is continuing to negotiate with the lenders and management believes that all of the covenant breaches will be resolved. Notwithstanding that recently 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.

The Trust is in breach of a title registration covenant on a $19,657,184 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of secondary charges against the title to the property.

There is no assurance that the lenders will not accelerate payment of the mortgage loans.

The Bond Indenture which governs the mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series G debentures or any of the first mortgages on Beck Court, Nova Court, Norglen Terrace, Highland Tower or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments.

There are no others cross-default covenants with respect to other mortgage loans of the Trust.

22 Financial instruments and risk management (continued)

Liquidity risk - debt maturities
Liquidity risk arises from the possibility that the Trust will not have sufficient debt or equity capital available to complete the acquisition of Parsons Landing on the agreed date and 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.

As at December 31, 2011, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.5 years (2010 - 2.9 years).

The repayment obligations in regard to the financial liabilities of the Trust, are as follows:

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Debentures and Mortgage Bonds	Swap Mortgage Loans
2012	$ 2,582,970	$183,815,871	$ -	$21,913,931
2013	1,344,560	39,380,857	-	18,179,050
2014	547,244	8,762,938	-	-
2015	480,779	5,800,175	41,312,000	-
2016	64,412	10,663,030	-	-
Thereafter	-	1,420,335	-	-
	$ 5,019,965	$249,843,206	$ 41,312,000	$40,092,981

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees	Other Payables	Total
2012	$ 53,813	$ 34,542	$ 68,690,637	$277,091,764
2013	56,896	5,956	-	58,967,319
2014	60,155	-	-	9,370,337
2015	63,602	-	-	47,656,556
2016	2,520,859	-	-	13,248,301
Thereafter	-	-	-	1,420,335
	$ 2,755,325	$ 40,498	$ 68,690,637	$407,754,612

Other payables include trade and other payables and deposits from tenants.

In accordance with IFRS, the balance of the six mortgage loans and one swap mortgage loan in the amount of $154,194,467 and $21,211,420, respectively, which are not in compliance with covenants, including net operating income achievement, debt service coverage, restriction on the registration of secondary charges against the title to the property and reporting requirements have been included with amounts due in 2012.

22 *Financial instruments and risk management (continued)*

Interest rate risk
Interest rate risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgage loans with terms as favourable as those of existing mortgage loans. The risk is minimized by having 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, 2011 the percentage of fixed rate mortgage loans to total mortgage loans was 59% (December 31, 2010 - 72%).

The Trust has variable rate mortgage loans on investment properties totaling $103,279,911, or 41% of the total mortgage loans at December 31, 2011 (December 31, 2010 - 28%). Should interest rates change by 1%, interest expense would change by $1,032,799 per year.

As at December 31, 2011, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to December 31, 2014 of $89,233,888 representing 35% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $892,339 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 that 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.

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 2011	December 31 2010	January 1 2010
Rent receivable overdue:			
0 to 30 days	$ 207,365	$ 166,510	$ 146,409
31 to 60 days	33,970	38,556	29,555
More than 60 days	486,923	587,810	583,986
	$ 728,258	$ 792,876	$ 759,950

22 Financial instruments and risk management (continued)

Credit risk (continued)
A reconciliation of allowance for doubtful accounts is as follows:

	December 31 2011	December 31 2010	January 1 2010
Balance, beginning of year	$ 364,685	$ 419,680	$ 97,903
Amount charged to bad debt expense relating to impairment of rent receivable	168,400	56,254	-
Amounts written off as uncollectible	(369,532)	(111,249)	-
Balance, end of year	$ 163,553	$ 364,685	$ 97,903
Amount charged to bad debts as a percent of rentals from investment properties	0.40%	0.15%	N/A

Market risk
Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The Trust does not have financial instruments that are affected by changes in market prices.

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 the financial instruments of the Trust are not exposed to other price risk.

22 *Financial instruments and risk management (continued)*

Fair values

Except for swap mortgage loans which are carried at fair value, a comparison of the carrying amounts and fair value of the financial instruments of the Trust is provided below.

	Carrying Value		
	December 31		January 1
	2011	2010	2010
Financial assets			
Loans and receivables	500,000	500,000	7,050,000
Defeasance assets	3,168,193	3,313,434	-
Restricted cash	14,746,600	21,478,638	6,221,222
Cash	1,170,619	925,046	3,629,456
Rent and other receivables	2,328,256	1,315,470	1,271,883
Deposits	782,934	697,691	528,941
Financial liabilities			
Mortgages loans	254,863,171	259,104,483	293,241,134
Mortgage bonds	14,058,307	10,826,910	-
Debentures	25,312,000	-	-
Convertible debentures	-	37,412,928	46,943,687
Defeased liability	2,755,325	2,806,222	-
Mortgage guarantee fees	40,498	73,074	290,667
Construction costs payable	-	333,831	1,134,621
Trade and other payables	65,860,776	59,244,173	49,976,588
Bank indebtedness	-	2,960,000	-
Deposits from tenants	2,829,861	2,121,716	2,081,657

	Fair Value		
	December 31		January 1
	2011	2010	2010
Financial assets			
Loans and receivables	422,400	397,542	7,390,271
Defeasance assets	-	-	-
Restricted cash	14,746,600	21,478,638	6,221,222
Cash	1,170,619	925,046	3,629,456
Rent and other receivables	2,328,256	1,315,470	1,271,883
Deposits	782,934	697,691	528,941
Financial liabilities			
Mortgages loans	255,170,735	259,121,541	293,241,134
Mortgage bonds	14,606,879	11,331,068	-
Debentures	19,962,452	-	-
Convertible debentures	-	31,772,040	31,325,026
Defeased liability	-	-	-
Mortgage guarantee fees	40,498	73,074	290,667
Construction costs payable	-	333,831	1,010,582
Trade and other payables	65,860,776	59,244,173	49,976,588
Bank indebtedness	-	2,960,000	-
Deposits from tenants	2,829,861	2,121,716	2,081,657

22 Financial instruments and risk management (continued)

Fair values (continued)
The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, rent and other receivables, deposits, trade and other payables and deposits from tenants approximate their carrying amounts due to the short-term maturities of these instruments.
- Loans and receivables are estimated by discounting expected future cash flows using current market interest rates.
- The fair value of the defeasance assets and the defeased liability have a fair value of nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.
- In regard to mortgages loans, mortgage bonds, the debt component of debentures, mortgage guarantee fees and construction costs payable:
  - The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. Given the variable interest rate, the fair value approximates the carrying value before deducting unamortized transaction costs.
  - The fair value of the fixed rate borrowings is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.
  - The fair value of debt component of debentures are based on quoted market prices.

Fair value hierarchy

The fair value of the swap mortgage loans has been determined using Level 2 of the fair value hierarchy whereby the Trust makes use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

23 Management of capital

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

	December 31		January 1
	2011	2010	2010
Mortgage loans	$253,632,167	$257,819,026	$292,027,480
Mortgage bonds	12,788,628	9,689,046	-
Debentures	24,462,446	-	-
Convertible debentures - debt component	-	36,986,646	45,940,843
Swap mortgage loans	42,847,169	44,662,642	48,507,577
Equity	80,510,813	75,052,787	80,714,020
	$414,241,223	$424,210,147	$467,189,920

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

23 Management of capital (continued)

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units, debentures or other securities of the Trust.
- Mortgage debt financing is arranged to optimise 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 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 (i) issue units, debentures or mortgage debt and other securities, such as trust unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units, debentures or trust unit purchase warrants; and/or (v) reduce debt.

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

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24 Segmented financial information

Investment properties are located in Fort McMurray, Alberta (14 properties), Yellowknife, Northwest Territories (2 properties) and other locations in Canada (7 properties).

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

Year ended December 31, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	27,768,479	14,084,247	-	41,852,726
Property operating costs	9,922,897	6,200,438	-	16,123,335
Net operating income	17,845,582	7,883,809	-	25,729,391
Interest income	34,113	31,389	262,643	328,145
Interest expense	18,140,374	3,993,730	11,028,889	33,162,993
Income (loss) before discontinued operations	8,660,620	7,071,485	(13,441,365)	2,290,740
Cash from operating activities	87,981	4,345,126	(7,697,098)	(3,263,991)
Cash from financing activities	3,272,742	(3,555,425)	(867,119)	(1,149,802)
Cash from investing activities	(3,365,923)	(885,775)	8,911,064	4,659,366
Total assets excluding non-current assets held for sale at December 31, 2011	341,349,975	120,661,605	12,968,628	474,980,208

Year ended December 31, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	24,129,908	15,772,780	-	39,902,688
Property operating costs	9,411,740	7,129,630	-	16,541,370
Net operating income	14,718,168	8,643,150	-	23,361,318
Interest income	21,947	31,688	428,639	482,274
Interest expense	14,972,007	3,602,150	14,091,127	32,665,284
Income (loss) before discontinued operations	(2,111,398)	7,015,977	(15,930,208)	(11,025,629)
Cash from operating activities	(3,614,999)	3,645,048	(3,793,917)	(3,763,868)
Cash from financing activities	4,547,689	(21,756,143)	10,596,563	(6,611,891)
Cash from investing activities	(1,429,813)	17,551,522	(8,450,360)	7,671,349
Total assets excluding non-current assets held for sale at December 31, 2010	329,832,749	117,102,384	21,130,109	468,065,242

25 Adoption of International Financial Reporting Standards

Effective January 1, 2011, the Trust adopted International Financial Reporting Standards ("IFRS") on a prospective basis. As a result, financial information which was previously issued under Canadian generally accepted accounting principles ("GAAP") has been recalculated and presented in accordance with IFRS as reflected in Note 3.

The effects of the transition to IFRS are summarized as follows:

a) Transition elections made under IFRS 1 and other applicable standards

(i) Investment Properties
The Trust has elected to carry Investment Properties at fair value.

(ii) Property and Equipment
The Trust has elected to restate Property and Equipment at fair value on transition to IFRS.

(iii) Business combinations
The Trust has elected not to restate business combinations that occurred prior to January 1, 2010. Accordingly, acquisition-related transaction costs associated with business combinations completed prior to January 1, 2010 continue to be capitalized.

b) Reconciliation between financial information previously reported under GAAP to IFRS

In accordance with IFRS 1, a Statement of Financial Position as of the date of transition to IFRS, January 1, 2010, prepared in accordance with IFRS is to be included in the financial statements. This is necessary for the first reporting year. IFRS 1 also requires reconciliation between financial information previously disclosed under GAAP to the IFRS presentation, as reflected in the following schedules:

- Schedule 1 attached provides a reconciliation of the information previously issued under GAAP at December 31, 2009 to the IFRS presentation of the January 1, 2010 opening Statement of Financial Position in these financial statements;

- Schedule 2 attached provides a reconciliation of the information previously issued under GAAP as of December 31, 2010 to the IFRS presentation provided on the Statement of Financial Position in these financial statements;

- Schedule 3 attached provides a reconciliation of the information previously issued under GAAP in the Statement of Comprehensive Income (Loss) and the Statement of Cash Flows for the year ended December 31, 2010 to the IFRS presentation.

25 Adoption of International Financial Reporting Standards (continued)

Generally speaking, the reconciliation reflects five types of adjustments between GAAP and IFRS as follows:

1. Changes in presentation of Statement of Financial Position items to conform to IFRS requirements for continuing operations.
2. Changes in presentation of Statement of Financial Position items to conform with IFRS requirements for held for sale properties and discontinued operations;
3. Changes in presentation of the Statement of Comprehensive Income (Loss);
4. Changes in presentation of the Statement of Cash Flows; and
5. Changes in measurement affecting the Statement of Financial Position, the Statement of Comprehensive Income (Loss) and the Statement of Equity.

Changes in presentation of Statement of Financial Position items to conform with IFRS requirements for continuing operations.

The changes in presentation are:

a) the statement of financial position under IFRS is classified between current and non-current assets and liabilities;

b) under GAAP, several classes of assets were included in the caption "other assets" whereas under IFRS, the assets are segregated by asset type;

c) under IFRS, tenant deposits are segregated from accounts payable; and

d) under IFRS, several classes of liabilities, including mortgage loans, convertible debentures and mortgage bonds, are included in the caption "Long term debt" whereas under GAAP, the liabilities were segregated under separate categories.

The adjustments to the GAAP carrying values which result from these changes are reflected in Schedule 1 and 2 under the caption "Change in Presentation".

Changes in presentation of Statement of Financial Position items to conform to IFRS requirements for held for sale properties and discontinued operations.

Under GAAP, any property which is held for sale may be presented as discontinued operations with all assets, liabilities, revenues and expenses included in discontinued operations.

Under IFRS: (a) discontinued operations only apply to a discontinued line of business or geographic segment; (b) assets and liabilities of discontinued properties are carried as current assets; and (c) Investment property assets of held for sale properties are carried as current assets.

The changes in presentation are:

a) only the seniors housing complexes which are a distinct line of business continue to be included in discontinued operations;

b) for properties identified as held for sale, only the carrying value of the distinct property is classified as held for sale, all other assets and liabilities are reflected as continuing operations; and

25 Adoption of International Financial Reporting Standards (continued)

c) some income properties which were reflected as held for sale under GAAP are not recognized as held for sale under IFRS.

The adjustments to the GAAP carrying values which result from these changes are reflected in Schedule 1 and 2 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

Changes in presentation of the Statement of Comprehensive Income (Loss)

The changes in presentation are:

a) Under GAAP, Interest income was recorded as revenue under the caption "Interest and other income". Upon adoption to IFRS, Interest income is reflected separately following the calculation of Net Operating Income;

b) Under GAAP, miscellaneous revenues are recorded as revenue under the caption "Interest and other income". Upon adoption of IFRS, such revenues are included in Rentals from investment properties;

The adjustments to the Statement of Comprehensive Income (Loss) which result from these changes are reflected in Schedule 3 under the caption "Change in Presentation".

c) Upon adoption of IFRS, discontinued operations are comprised solely of operating revenues and expenses from the seniors housing complexes. Operating revenues and expenses from investment properties which were classified as discontinued operations under GAAP have been reclassified to the appropriate revenue and expense category.

The adjustments to the Statement of Comprehensive Income (Loss) which result from these changes are reflected in Schedule 3 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

The above changes do not result in a change to income or opening equity.

Changes in presentation of the Statement of Cash Flows

The changes in presentation are:

a) Under GAAP, cash flow from discontinued operations is reflected separately. Upon adoption of IFRS, cash flow transactions from discontinued operations are reflected with cash flow from operating activities, financing activities and investing activities. The net increase/decrease in cash transactions from discontinued operations is deducted from/added to the total change in cash flow to arrive at net cash flow from investment properties; and

b) Under GAAP, cash balances in discontinued properties is included in cash. Upon adoption of IFRS, cash balances in discontinued properties are included in assets of discontinued properties.

The adjustments to the Statements of Cash Flows which result from these changes are reflected in Schedule 3 under the caption "Change in Recognition of Held for Sale Properties and Discontinued Operations".

25 Adoption of International Financial Reporting Standards (continued)

Changes in measurement affecting the Statement of Financial Position, Statement of Comprehensive Income (Loss) and Statement of Equity.

There are five areas where changes in measurement affecting the Statement of Equity and Income Statement have occurred, as follows:

1. Investment properties are measured at fair value for IFRS and were valued at amortized cost for GAAP;
2. Property and equipment is valued at fair value on conversion to IFRS;
3. Change in measurement of convertible debentures;
4. Change in measurement of mortgage bonds; and
5. Change in treatment of leasehold improvements.

The following is a summary of the adjustments that were made to effect the above noted changes.

<u>Investment properties are measured at fair value for IFRS and were valued at amortized cost for GAAP</u>

The measurement of investment properties at fair value rather than amortized cost resulted in the following financial statement impacts.

Statement of Financial Position

- Investment properties and investment property held for sale were adjusted by the difference between fair value at the financial statement date and the carrying value;
- A deferred tax asset associated with the difference between carrying value and tax value was recognized;
- Opening retained earnings as of January 1, 2010 is adjusted to reflect the above; and
- The income component of retained earnings is adjusted for the income effect noted below.

Statement of Comprehensive Income (Loss)

- Amortization recorded under GAAP was reversed;
- Valuation adjustments required to carry the assets at fair value were recorded; and
- Gain on sale recorded under GAAP was reversed.

<u>Property and equipment is valued at fair value on conversion to IFRS</u>

IFRS 1 provides an option to re-value property and equipment at fair value on conversion to IFRS. The Trust exercised this option.

Statement of Financial Position

- Property and equipment were adjusted by the difference between fair value at the January 1, 2010 transition to IFRS and the carrying value;
- A deferred tax liability associated with the difference between carrying value and tax value is recognized;
- Opening retained earnings is adjusted for the difference as of January 1, 2010; and
- The income component of retained earnings is adjusted for the income effect noted below.

25 Adoption of International Financial Reporting Standards (continued)

Statement of Comprehensive Income (Loss)

- An adjustment to deferred income tax liability is made of each financial statement date.

<u>Change in measurement of convertible debentures under IFRS</u>

Under IFRS, there is a requirement to apply deferred tax calculations to the carrying value of convertible debentures with the following financial statement impacts:

Statement of Financial Position

- A deferred tax liability relating to the equity portion of convertible debentures is recognized;
- A deferred tax asset relating to transaction costs on convertible debentures is recognized;
- Contributed surplus is reduced by the deferred liability recognized; and
- Opening retained earnings is adjusted.

The application of this revision did not result in a change to income.

<u>Change in measurement of mortgage bonds</u>

a) Change in measurement of trust unit purchase warrants

The sale of mortgage bonds included the sale of trust unit purchase warrants. Under GAAP, the value assigned to trust unit purchase warrants is established by a Black-Scholes calculation and the value assigned to the mortgage bonds is a residual value. Under IFRS, the value assigned to the mortgage bonds is calculated first based on an effective interest rate calculation, and the value assigned to the trust unit purchase warrants is the residual value. The completion of the calculation using IFRS resulted in a different value for trust unit purchase warrants being recognized with the following financial statement impacts:

Statement of Financial Position

- Mortgage bond debt was adjusted by the change in the value of the debt/warrants;
- The value of trust unit purchase warrants carried in contributed surplus was revised; and
- The income component of retained earnings is adjusted for the income effect noted below.

Income statement

- Accretion expense is adjusted to reflect the revised value of the trust unit purchase warrants.

b) Apply deferred income tax calculations to the carrying value of mortgage bonds

The adjustments are the same as noted above for convertible debentures.

25 Adoption of International Financial Reporting Standards (continued)

Change in treatment of leasehold improvements

Under GAAP, leasehold improvements are either charged to expense or capitalized to building and amortized on a straight line basis over the term of the lease. Under IFRS, leasehold improvements are treated as rental incentives and are amortized as a reduction of rental revenue over the term of the lease.

The adjustment to the Statement of Financial Position and Statement of Comprehensive Income (Loss) which result from the changes are reflected in Schedule 1, 2, and 3 under the "Change in Measurements".

c) Change in estimates

Except for items noted below, estimates previously made by the Trust under GAAP were consistently applied under IFRS

Change in valuation under IFRS involving unit options

Under IFRS, there is a requirement to estimate the value of forfeited options at the inception of each option issue.

Statement of Financial Position

- Contributed surplus was reduced to reflect the revised value of unit options; and
- Opening retained earnings is adjusted as of January 1, 2010.

There is no income statement effect.

Change in valuation under IFRS involving contingent considerations

As part of the establishment of fair values for property and equipment, the assumptions surrounding the accrual of a liability for contingent consideration were re-examined. The financial statements reflect the current estimate that no contingent consideration will be payable with the following financial statement impacts:

Statement of Financial Position

- A reduction of non current liability of properties held for sale to reflect the revised liability estimate; and
- Opening retained earnings is adjusted as of January 1, 2010.

The adjustment to the Statement of Financial Position which result from these changes are reflected in Schedule 1 and 2.

26 Commitments

Acquisition

Parsons Landing Apartments
On September 1, 2008, the Trust acquired possession of Parsons Landing, a newly constructed luxury residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. After accounting for the payment of total deposits of $15,000,000, the balance owing on Parsons Landing was $48,220,000 as of December 31, 2008, including GST.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder has agreed to several extensions to September 30, 2012. The builder has also agreed to accept interest payments of $300,000 per month to September 30, 2012.

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, provided that the Trust makes an additional payment of $2,000,000 on February 17, 2012 (this payment has been deferred) and $3,000,000 at closing. On closing, the builder has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. In addition, 2668921 Manitoba Ltd. has agreed to maintain the revolving loan with the Trust, in the amount of $8,800,000, until closing. 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.

As of December 31, 2011, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000 and the property is carried as an investment property at a fair value of $47,800,000.

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. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

The time frame for reconstruction of the property is estimated to be more than one year, and there will likely not be any occupancies permitted until the reconstruction has been completed. The property is carried at fair value and the fair value is determined at each reporting date. The impact of the fire on the carrying value during the reconstruction period has not been determined.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

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, 2015
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

In addition, Siena Apartments is managed by Pacer Management Inc. for a term expiring June 30, 2012.

27 Contingencies

Parsons Landing
The purchase agreement relating to Parsons Landing provides for the builder to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to September 30, 2012 in the amount of $19,010,579, on closing of the acquisition of Parsons Landing on September 30, 2012. Management expects that the closing date for the acquisition of Parsons Landing will be delayed until 2013 after reconstruction and occupancy of the property. The Trust has not recorded interest expense in excess of $300,000 per month as the closing is expected to occur after reconstruction and occupancy of the property. (See Note 26).

GST Assessment
The Trust has been assessed for additional GST in the amount of $2,393,503 in regard to the acquisition of a property in Fort McMurray. The Trust has appealed the assessment. The outcome of the appeal is uncertain and, as a result, the Trust has not made an accrual in this regard. A deposit in the amount of $250,000 has been paid to the Canada Revenue Agency.

28 Subsequent events

Condominium sale program
Subsequent to December 31, 2011, the Trust sold five condominium units under the condominium sale program at Lakewood Townhomes, for gross proceeds of $2,467,800. The sale of three units closed prior to March 23, 2012 and two units are sold subject to unconditional sale agreements. After funding closing costs, 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.

Revolving loan
Subsequent to December 31, 2011, the revolving loan commitment from 2668921 Manitoba Ltd. was extended to March 31, 2012 at an interest rate of 9.75% subject to a maximum interest charge of $162,594.

Subsequent to December 31, 2011, the revolving loan commitment from 2668921 Manitoba Ltd. was extended effective April 1, 2012, at an interest rate of 10% and a maturity date of August 31, 2012, with an increase in the commitment from $12 Million to $15 Million. The renewal encompasses a $75,000 extension fee.

Subsequent to December 31, 2011, the Trust repaid $6,000,000 on and utilized $3,800,000 of the revolving loan from 2668921 Manitoba Ltd.

28 Subsequent events (continued)

Normal Course Issue Bid
On January 10, 2012, the Trust renewed its normal course issuer bid to purchase up to an aggregate of 1,383,378 trust units for a one year period expiring January 11, 2013. Any units purchased by the Trust will be cancelled.

Subsequent to December 31, 2011, the Trust purchased and cancelled 79,328 units under its normal course issuer bid at a weighted average price of $0.53 per unit.

On January 10, 2012, the Trust initiated a normal course issuer bid to purchase up to an aggregate principal amount of $2,529,000 of Series G Debentures over a 12 month period ending January 11, 2013. Any debentures purchased by the Trust will be cancelled.

Mortgage financing and loan repayment
Subsequent to December 31, 2011, a first mortgage loan in the amount of $24,811,532 and interest to January 31, 2012 of $64,885 were retired from the proceeds of new mortgage financing in the amount of $18,850,000, cash reserves previously paid to the lender of $2,201,970, and an interest-free advance from Shelter Canadian Properties Limited in the amount of $2,966,886, with forgiveness of debt of $857,561.

The forgiveness of debt results in a capital gain in the amount of $857,561 less legal and other costs.

Subsequent to December 31, 2011, the trust obtained additional mortgage loan financing of $12 Million. The loan bears interest at the prime rate plus 9% for the first 11 months and 25% thereafter, matures on March 1, 2013 and is secured by mortgage charges on multiple properties. The net proceeds from the loan were used to repay $1.5 Million of interim mortgage loan debt, repay $6 Million of the revolving loan from 2668921 Manitoba Ltd., repay the advances from Shelter Canadian Properties Limited and reduce the extent of the working capital deficiency.

Interest-free advances from Shelter Canadian Properties Limited
Subsequent to December 31, 2011, the Trust utilized $5,594,000 and repaid $6,777,000 of interest-free advances from Shelter Canadian Properties Limited.

Parsons Landing
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. The property is insured with property and revenue loss coverage and losses resulting from the fire are expected to be covered by insurance.

Management expects that the closing date for Parsons Landing, and the final payment, will be deferred until 2013 pending the reconstruction and occupancy of the property and that the $2 Million payment, which was due on February 17, 2012, will also be deferred pending the resolution of the insurance claim. Management also expects that interest payments of $300,000 per month, including payment of interest from February 1, 2012, will be deferred pending the receipt of revenue loss insurance proceeds.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 1**
RECONCILIATION OF DECEMBER 31, 2009 GAAP BALANCE SHEET TO JANUARY 1, 2010 IFRS STATEMENT OF FINANCIAL POSITION

	GAAP	Change in presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in measurement	IFRS
ASSETS					
Non-current assets					
Investment properties	383,889,710		40,601,761	15,808,529	440,300,000
Loans and receivables	7,050,000			-	7,050,000
Restricted cash	-	5,228,907	992,315	-	6,221,222
Deferred tax asset	-			185,859	185,859
Total Non-current assets	390,939,710	5,228,907	41,594,076	15,994,388	453,757,081
Current assets					
Cash	4,287,864		(658,408)	-	3,629,456
Other assets	7,074,109	(7,074,109)		-	-
Rent and other receivables	-	642,479	629,404	-	1,271,883
Deposits, prepaids and other	-	1,202,723	96,796	-	1,299,519
	11,361,973	(5,228,907)	67,792	-	6,200,858
Non-current assets classified as held for sale	134,842,883		(41,661,868)	24,715,468	117,896,483
Total current assets	146,204,856	(5,228,907)	(41,594,076)	24,715,468	124,097,341
TOTAL ASSETS	537,144,566	-	-	40,709,856	577,854,422
LIABILITIES AND EQUITY					
LIABILITIES					
Long-term liabilities					
Long-term debt	-	129,036,500	52,854,461	-	181,890,961
Mortgage loans	281,374,398	(281,374,398)		-	-
Mortgage bonds	-			-	-
Convertible debentures	45,940,843	(45,940,843)		-	-
Total long-term liabilities	327,315,241	(198,278,741)	52,854,461	-	181,890,961
Current liabilities					
Deposits from tenants	-	1,815,366	266,291	-	2,081,657
Accounts payable & accrued liabilities	60,783,383	(60,783,383)		-	-
Trade and other payables	-	49,137,464	839,124	-	49,976,588
Bank indebtedness	-	-		-	-
Current portion of long term debt	-	208,109,294		-	208,109,294
	60,783,383	198,278,741	1,105,415	-	260,167,539
Non-current liabilities classified as held for sale	107,506,055	-	(53,959,876)	1,535,723	55,081,902
Total current liabilities	168,289,438	198,278,741	(52,854,461)	1,535,723	315,249,441
TOTAL LIABILITIES	495,604,679	-	-	1,535,723	497,140,402
EQUITY					
Issued capital	98,966,638				98,966,638
Contributed surplus	2,536,643			(2,074,772)	461,871
Equity component of convertible debentures	13,104,637			(463,599)	12,641,038
Retained earnings	(73,068,031)			73,068,031	-
Cumulative earnings	-			27,280,222	27,280,222
Cumulative distributions to unit holders	-			(58,635,749)	(58,635,749)
TOTAL EQUITY	41,539,887	-	-	39,174,133	80,714,020
TOTAL LIABILITIES AND EQUITY	537,144,566	-	-	40,709,856	577,854,422

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 2**
RECONCILIATION OF DECEMBER 31, 2010 STATEMENT OF FINANCIAL POSITION BETWEEN GAAP AND IFRS

	GAAP	Change in presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in measurement	IFRS
ASSETS					
Non-current assets					
Investment properties	361,798,003		52,614,902	24,887,095	439,300,000
Loans and receivables	500,000			-	500,000
Defeasance assets	3,313,434				3,313,434
Restricted cash	-	20,395,044	1,083,594		21,478,638
Deferred tax asset				185,859	185,859
Total Non-current assets	365,611,437	20,395,044	53,698,496	25,072,954	464,777,931
Current assets					
Cash	1,697,498	(232,608)	(539,844)	-	925,046
Other assets	21,835,938	(21,835,938)		-	-
Rent and other receivables	-	689,703	566,922	58,845	1,315,470
Deposits, prepaids and other	-	983,799	62,996	-	1,046,795
	23,533,436	(20,395,044)	90,074	58,845	3,287,311
Non-current assets classified as held for sale	121,510,739		(53,788,570)	12,041,765	79,763,934
Total current assets	145,044,175	(20,395,044)	(53,698,496)	12,100,610	83,051,245
TOTAL ASSETS	510,655,612	-	-	37,173,564	547,829,176
LIABILITIES AND EQUITY					
LIABILITIES					
Long-term liabilities					
Long-term debt	-	88,464,470	39,621,045	371,971	128,457,486
Mortgage loans	258,713,190	(258,713,190)		-	-
Mortgage bonds	9,317,075	(9,317,075)		-	-
Convertible debentures	36,986,646	(36,986,646)		-	-
Total long-term liabilities	305,016,911	(216,552,441)	39,621,045	371,971	128,457,486
Current liabilities					
Deposits from tenants	-	1,900,493	221,223	-	2,121,716
Accounts payable & accrued liabilities	66,138,326	(66,138,326)		-	-
Trade and other payables	-	58,671,855	572,318	-	59,244,173
Bank indebtedness	2,960,000	-		-	2,960,000
Defeased liability	2,753,342	(2,753,342)			-
Current portion of long term debt	-	224,871,761	654,735		225,526,496
	71,851,668	216,552,441	1,448,276	-	289,852,385
Non-current liabilities classified as held for sale	94,047,798	-	(41,069,321)	1,488,041	54,466,518
Total current liabilities	165,899,466	216,552,441	(39,621,045)	1,488,041	344,318,903
TOTAL LIABILITIES	470,916,377	-	-	1,860,012	472,776,389
EQUITY					
Issued capital	107,860,241				107,860,241
Contributed surplus	9,827,551			(2,890,717)	6,936,834
Equity component of convertible debentures	10,212,667			(463,599)	9,749,068
Cumulative earnings	(20,711,189)			38,667,868	17,956,679
Cumulative distributions to unit holders	(67,450,035)				(67,450,035)
TOTAL EQUITY	39,739,235	-	-	35,313,552	75,052,787
TOTAL LIABILITIES AND EQUITY	510,655,612	-	-	37,173,564	547,829,176

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 3**
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE YEAR ENDED DECEMBER 31, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Rentals from investment properties	31,385,914	504,807	7,953,122	58,845	**39,902,688**
Interest and other income	959,149	(959,149)		-	**-**
Property operating costs	12,464,247	-	4,077,123	-	**16,541,370**
Net operating income	19,880,816	(454,342)	3,875,999	58,845	**23,361,318**
Interest income	-	454,342	27,932	-	**482,274**
Interest expense	(28,793,113)	-	(3,880,147)	7,976	**(32,665,284)**
Amortization expense	(8,513,147)	-	(204,396)	8,717,543	**-**
Trust expense	(3,035,583)	-	-		**(3,035,583)**
Profit (loss) on sale of investment property	-	-	-	1,947,913	**1,947,913**
Fair value gains (losses)	-	-	-	(1,586,890)	**(1,586,890)**
Income (loss) for the year before taxes and discontinued operations	(20,461,027)	-	(180,612)	9,145,387	**(11,496,252)**
Income tax expense (recovery)	-			(470,623)	**(470,623)**
Income (loss) for the year before discontinued operations	(20,461,027)	-	(180,612)	9,616,010	**(11,025,629)**
Income from discontinued operations	14,182,120	-	180,612	(12,660,646)	**1,702,086**
Income (loss) and comprehensive income (loss)	(6,278,907)	-	-	(3,044,636)	**(9,323,543)**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE YEAR ENDED DECEMBER 31, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Cash flow from operating activities	(4,220,858)	-	2,655,739	-	**(1,565,119)**
Cash flow from investing activities	(9,701,487)	-	17,226,465	-	**7,524,978**
Cash flow from financing activities	(5,554,115)	-	(3,211,736)	-	**(8,765,851)**
Cash flow from discontinued operations	16,886,094	-	(16,886,094)	-	**-**
Cash decrease	(2,590,366)	-	(215,626)	-	**(2,805,992)**
Deduct: Cash increase from discontinued operations	-	-	101,582	-	**101,582**
	(2,590,366)	-	(114,044)	-	**(2,704,410)**
Cash at the beginning of year	4,287,864	-	(658,408)	-	**3,629,456**
Cash at December 31, 2010	1,697,498	-	(772,452)	-	**925,046**