LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Independent Auditors' Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lanesborough Real Estate Investment Trust and its subsidiaries which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss) and comprehensive income (loss), equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

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 Canadian Generally Accepted Accounting Principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 control 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 control. 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 the audit evidence 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

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 incurred losses from continuing operations of $20,461,027 during the year ended December 31, 2010 and, as of that date, has a working capital deficit of $12,693,162 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 Lanesborough Real Estate Investment Trust's ability to continue as a going concern.

Meyers Norris Penny LLP

Chartered Accountants

Winnipeg, Manitoba
March 28, 2011
2500-201 Portage Avenue

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2010	December 31 2009
Assets		
Income properties (Note 4)	**$361,798,003**	$369,972,965
Mortgage loans receivable (Note 5)	**500,000**	7,050,000
Cash	**1,697,498**	4,287,864
Other assets (Note 6)	**21,835,938**	6,789,902
Defeasance assets (Note 7)	**3,313,434**	-
Assets of properties held for sale (Note 8)	**121,510,739**	149,043,835
	$510,655,612	$537,144,566
Liabilities and Equity		
Mortgage loans payable (Note 9)	**$258,713,190**	$271,414,070
Mortgage bonds (Note 10)	**9,317,075**	-
Convertible debentures (Note 11)	**36,986,646**	45,940,843
Accounts payable and accrued liabilities (Note 12)	**66,138,326**	60,344,987
Bank indebtedness (Note 13)	**2,960,000**	-
Defeased liability (Note 7)	**2,753,342**	-
Liabilities of properties held for sale (Note 8)	**94,047,798**	117,904,779
	470,916,377	495,604,679
Equity	**39,739,235**	41,539,887
	$510,655,612	$537,144,566

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31 2010	2009
Issued capital (Note 14)		
Balance, beginning of year	**$ 98,966,638**	$ 77,661,519
Units issued:		
Payment of distributions	**8,814,286**	19,504,206
Distribution reinvestment plan	**-**	108,517
Exchange of LP units of Village West LP	**-**	2,139,702
Exchange of deferred units	**79,317**	-
Issue costs	**-**	(6,502)
Units purchased under normal course issuer bid	**-**	(440,804)
Balance, end of year	**107,860,241**	98,966,638
Contributed surplus		
Balance, beginning of year	**2,536,643**	2,089,147
Maturity of Series E debentures	**2,835,690**	-
Issue of warrants (Note 10)	**4,301,984**	-
Debentures purchased under normal course issuer bid	**56,280**	-
Value of unit options granted (Note 15)	**41,521**	104,355
Value of deferred units granted (Note 16)	**134,750**	178,094
Value of deferred units redeemed (Note 16)	**(79,317)**	-
Units purchased under normal course issuer bid	**-**	165,047
Balance, end of year	**9,827,551**	2,536,643
Equity component of convertible debentures (Note 11)		
Balance, beginning of year	**13,104,637**	13,104,637
Debentures purchased under normal course issuer bid	**(56,280)**	-
Maturity of Series E debentures	**(2,835,690)**	-
Balance, end of year	**10,212,667**	13,104,637
Cumulative earnings (losses)		
Balance, beginning of year	**(14,432,282)**	(17,929,355)
Income (loss)	**(6,278,907)**	3,497,073
Balance, end of year	**(20,711,189)**	(14,432,282)
Cumulative distributions to unitholders		
Balance, beginning of year	**(58,635,749)**	(37,496,464)
Distributions declared	**(8,814,286)**	(21,139,285)
Balance, end of year	**(67,450,035)**	(58,635,749)
Total equity	**$ 39,739,235**	$ 41,539,887

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

	Year Ended December 31 2010	2009
Revenue		
Rentals from income properties (Note 17)	**$ 31,385,914**	$ 39,662,949
Interest and other income	**959,149**	391,722
	32,345,063	40,054,671
Expenses		
Property operating costs	**12,464,247**	12,727,345
Income before the undernoted	**19,880,816**	27,327,326
Financing expense (Note 18)	**28,793,113**	29,068,439
Trust expense	**3,035,583**	2,760,536
Amortization (Note 19)	**8,513,147**	8,465,980
	40,341,843	40,294,955
Loss from continuing operations before income taxes	**(20,461,027)**	(12,967,629)
Future income tax expense (Note 20)	**-**	2,698,804
Loss from continuing operations	**(20,461,027)**	(15,666,433)
Income from discontinued operations (Note 8)	**14,182,120**	19,163,506
Income (loss) and comprehensive income (loss) for the period	**$ (6,278,907)**	$ 3,497,073
Income (loss) per unit (Note 21)		
Basic and diluted		
Continuing operations	**$ (1.120)**	$ (0.893)
Discontinued operations	**0.776**	1.092
Total	**$ (0.344)**	$ 0.199

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2010	2009
Cash provided by (used in) operating activities		
Loss from continuing operations	**$ (20,461,027)**	$ (15,666,433)
Items not affecting cash		
Accretion of debt component of convertible debentures (Note 18)	**2,617,912**	2,853,290
Accretion of mortgage bonds (Note 18)	**2,119,923**	-
Amortization (Note 19)	**11,541,388**	9,659,959
Change in fair value of interest rate swaps (Note 18)	**(2,711,625)**	2,293,795
Unit-based compensation	**176,271**	282,449
Discount on repayment of mortgage loans receivable	**250,000**	-
Future income tax expense (Note 20)	**-**	2,698,804
	(6,467,158)	2,121,864
Changes in non-cash operating items	**2,246,300**	1,356,144
	(4,220,858)	3,478,008
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**5,000,000**	5,000,000
Repayment of mortgage loans on refinancing	**(6,936,649)**	(2,100,000)
Repayment of mortgage loans from proceeds of mortgage loan receivable	**(4,500,000)**	-
Repayment of principal on mortgage loans	**(6,348,643)**	(5,137,448)
Proceeds of mortgage bond financing	**19,417,000**	-
Repayment of mortgage bonds	**(6,780,000)**	-
Repayment of Series E debentures	**(11,950,000)**	-
Net proceeds of line of credit	**2,960,000**	(3,320,000)
Proceeds of revolving loan commitment	**13,964,692**	4,905,000
Repayment of revolving loan commitment	**(6,614,692)**	(4,905,000)
Expenditures on transaction costs	**(3,594,217)**	(248,106)
Debentures purchased and cancelled under normal course issuer bid	**(171,606)**	-
Units purchased and cancelled under normal course issuer bid	**-**	(275,757)
Distributions paid on units	**-**	(1,530,736)
	(5,554,115)	(7,612,047)
Cash provided by (used in) investing activities		
Improvements to income properties	**(1,138,978)**	(774,391)
Investment in defeasance assets	**(3,338,341)**	-
Proceeds of mortgage loans receivable	**10,090,650**	-
Increase in restricted cash	**(15,314,818)**	(2,056,496)
Refund of deposits	**-**	200,000
	(9,701,487)	(2,630,887)
Sub-total	**(19,476,460)**	(6,764,926)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2010	2009
Balance forward	**(19,476,460)**	(6,764,926)
Cash provided by (used in) discontinued operations		
Income (loss) from discontinued operations (Note 8)	**14,182,120**	19,163,506
Gain on sale	**(12,673,702)**	(21,063,885)
Items not affecting cash		
Straight-line rent adjustment	**164,736**	(9,684)
Amortization	**648,107**	3,906,581
Future income tax expense	**111,527**	385,008
Non-controlling interest	**-**	599,729
	2,432,788	2,981,255
Changes in non-cash operating items	**(44,757)**	(3,174,216)
Tenant inducements and leasing expenditures incurred through leasing activity	**-**	(683,746)
	2,388,031	(876,707)
Proceeds of interim mortgage loan financing	**15,500,000**	4,400,000
Repayment of mortgage loans on refinancing	**(2,000,000)**	(4,492,566)
Repayment of interim mortgage loans	**(13,872,605)**	(17,094,997)
Repayment of principal on mortgage loans	**(1,436,791)**	(2,714,926)
Expenditures on transaction costs	**(605,969)**	(857,829)
Improvements to income properties	**(246,680)**	(719,756)
Proceeds of sale	**17,563,501**	29,631,650
Decrease (increase) in restricted cash	**(403,393)**	359,972
Decrease (increase) in properties under development	**-**	(98,658)
Distributions paid on LP units of Village West LP	**-**	(33,285)
	16,886,094	7,502,898
Cash increase (decrease)	**(2,590,366)**	737,972
Cash, beginning of year	**4,287,864**	3,549,892
Cash, end of year	**$ 1,697,498**	$ 4,287,864

Supplementary cash flow information (Note 22)

1 Organization

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

2 Basis of presentation and continuing operations

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements reflect the operations of the Trust and wholly owned operating subsidiaries and LREIT Village West Limited Partnership ("Village West LP"), an entity controlled by the Trust to November 9, 2009, when the Village West LP was dissolved. All inter-entity transactions have been eliminated.

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

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of GAAP applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust sustained losses from continuing operations of $20,461,027 and $15,666,433 for the years ended December 31, 2010 and 2009, respectively; has a working capital deficit of $12,693,162 as at December 31, 2010 (December 31, 2009 - $1,432,545 working capital); and was in breach of net operating income achievement and debt service coverage requirements on individual mortgage loans during the past 12 months and as of December 31, 2010.

The Trust is in breach of a net operating income achievement requirement for a $23,386,597 first mortgage loan for six properties in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis.

The Trust is in breach of a 1.15 debt service coverage requirement in regard to a first mortgage loan totaling $21,693,020 on a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis.

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $71,940,847, on three properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a first mortgage loan of $18,424,309, on a property in Fort McMurray, Alberta with the same lender. The lender provided forbearance to January 31, 2011 and management expects an initial extension of the forbearance will be provided to June 30, 2011.

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan of $25,400,213, on one property in Fort McMurray, Alberta. The terms of the forbearance are under negotiation.

The breaches of the net operating income achievement and debt service coverage requirements on individual mortgage loans, 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. Given that the rental market conditions may not improve substantially in the near future, all or some of the covenant breaches may continue for the next 12 months.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of a covenant under a first mortgage loan which restricts the registration of a secondary mortgage charge. The first mortgage loan is in the amount $20,064,829 and is registered against a property in Winnipeg, Manitoba. The Winnipeg property has been classified as held for sale. It is the intention of the Trust to sell the property within the next twelve months and use a portion of the proceeds to repay the first mortgage loan. The lender has demanded that the secondary mortgage charges be discharged by March 15, 2011. The Trust has not complied.

For the years ended December 31, 2009 and December 31, 2010, the Trust was in breach of the 1.3 times debt service coverage requirement of a $4,976,540 first mortgage loan on a property in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as held for sale. The Trust has requested a forbearance letter from the lender. It is the intention of the Trust to sell this property within the next twelve months, and use a portion of the proceeds from sale to repay the first mortgage loan.

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

The breaches of the net operating income achievement and debt service coverage requirements and the covenant restricting registration of secondary mortgage charges on individual mortgage loans have not resulted in an acceleration of the repayment of the mortgage loans. There is no assurance, however, that the lenders will not accelerate repayment of the mortgage loans.

As at December 31, 2010, mortgage loans in the amount of $35,926,136 matured and had not been renewed or refinanced. Subsequent to December 31, 2010, a mortgage loan in the amount of $1,991,574 and mortgage loans included in liabilities of properties held for sale in the amount of $19,846,590 matured and has not yet been renewed or refinanced. Management is currently seeking renewals, extensions or refinancing on these mortgage loans and expects them to be achieved in the coming months. There is no assurance that the loans will be renewed or refinanced.

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 renew or refinance its debt at maturity, including the amount payable on acqusition of Parsons Landing and the revolving loan from a related party, the ability of the Trust to successfully negotiate and extend forbearance arrangements for mortgages with covenant breaches; and the ability of the Trust to retire or refinance debenture debt at maturity.

Management believes that the going concern assumption is appropriate for the financial statements as the increasing economic activity in Fort McMurray is expected to result in improved occupancy levels, the Trust has successfully sold 18 properties, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, and the Trust has successfully retired the Series E and Series F debenture debt in 2010 and 2011.

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

3 Significant accounting policies

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

Discontinued operations

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

Convertible debentures

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

Unit options

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

Revenue recognition

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

Income taxes

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

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid as returns of capital will not be subjected to this tax.

3 Significant accounting policies (continued)

Income taxes (continued)
The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). The new legislation does not apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. In the opinion of management, the Trust does not satisfy the prescribed conditions of a Qualifying REIT and will be treated as a SIFT for income tax purposes for the year ending December 31, 2011. During 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT. The Trust has made no definitive decision in respect of any such restructuring. No assurance can be given that the Trust will restructure in the future or be able to restructure such that it will not be subject to tax imposed by the SIFT legislation, or that any such restructuring if implemented, would not result in material costs or other adverse consequences to the Trust of unitholders.

As the Trust does not meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status.

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

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

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

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

3 Significant accounting policies (continued)

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

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

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

The Trust has designated its financial instruments, as follows:

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

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

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

4 *Income properties*

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Land	$ 63,712,848	$ -	$ 63,712,848
Buildings and improvements	318,316,870	(25,861,612)	292,455,258
Furniture, equipment and appliances	9,843,604	(4,239,427)	5,604,177
Intangible assets	207,222	(181,502)	25,720
	$392,080,544	$ (30,282,541)	$361,798,003

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 63,712,848	$ -	$ 63,712,848
Buildings and improvements	318,002,882	(18,642,658)	299,360,224
Furniture, equipment and appliances	9,819,404	(2,965,798)	6,853,606
Intangible assets	207,222	(160,935)	46,287
	$391,742,356	$ (21,769,391)	$369,972,965

At December 31, 2010 and December 31, 2009, the carrying value of the income properties was not impaired.

5 *Mortgage loans receivable*

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

6 *Other assets*

	December 31 2010	2009
Restricted cash		
Tenant security deposits	$ 1,884,114	$ 1,687,002
Reserves required by mortgage loan agreements	9,511,409	1,299,723
Mortgage bond proceeds held in escrow	8,947,815	-
Sale proceeds in escrow	-	2,041,795
	20,343,338	5,028,520
Amounts receivable	632,275	523,761
Prepaid expenses, deposits and other	850,325	1,227,621
Deposits on potential acquisitions	10,000	10,000
	$ 21,835,938	$ 6,789,902

6 Other assets (continued)

Amounts receivable includes rent receivable of $375,469 (2009 - $401,742) net of an allowance for doubtful accounts of $34,406 (2009 - $90,680).

In accordance with the terms of the offering of mortgage bonds and warrants which closed on December 23, 2010, the net proceeds of such offering are held in escrow to partially fund the repayment of the Series F debentures at the March 11, 2011 maturity.

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. The defeased loan 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 (hereafter "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 3.75% 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.

		Year Ended December 31	
	Recorded as	2010	2009
Interest income on defeasance assets	Interest and other income	$ 26,668	$ -
Interest expense on defeased liability	Financing expense	(52,344)	-
Amortization of transaction costs	Financing expense	(2,241)	-
		$ (27,917)	$ -

The unamortized balance of transaction costs in respect of the defeased liability is $55,872 (2009 - nil).

8 Properties held for sale and discontinued operations

The Trust is pursuing a divestiture program. In this regard, the Trust has designated seven properties as held for sale (2009 - 12 properties held for sale).

In addition, the Trust is contractually obligated to apply the net proceeds of sale (after payment of sales expenses and mortgage debt) from the seven income properties held for sale to retire $15.4 Million of interim mortgage loans payable (2009 - $15.9 Million). In accordance with GAAP, the interim mortgage loans payable and the related interest expense are reflected in discontinued operations.

8 *Properties held for sale and discontinued operations (continued)*

The following table sets forth the assets and liabilities associated with income properties classified as held for sale.

	December 31 2010	2009
Assets		
Income properties (a)	$ 119,378,067	$ 146,486,369
All other assets	2,132,672	2,557,466
	121,510,739	149,043,835
Liabilities		
Mortgage loans payable (b)	72,112,950	94,667,469
Interim mortgage loans payable (c)	15,017,389	15,763,338
Accounts payable and accrued liabilities	3,633,384	4,301,424
Future income taxes (f)	3,284,075	3,172,548
	94,047,798	117,904,779
Net assets of properties held for sale	$ 27,462,941	$ 31,139,056

As at December 31, 2010, seven income properties met the held-for-sale criteria and as a result are reported in discontinued operations. In addition, the Trust sold five properties during the year ended December 31, 2010 (2009 - 13 properties sold). The results of operations from these properties have been disclosed below.

	Year Ended December 31 2010	2009
Revenue		
Rentals from income properties	$ 21,439,361	$ 30,737,245
Interest and other income	170,525	137,736
	21,609,886	30,874,981
Expenses		
Property operating costs	12,677,758	16,847,464
Financing expense (d)	7,096,358	11,731,307
Amortization (e)	204,396	2,993,088
Income tax expense - current and future (f)	122,956	603,772
	1,508,418	(1,300,650)
Non-controlling interest	-	(599,729)
	1,508,418	(1,900,379)
Gain on sale	12,673,702	21,063,885
Income from discontinued operations	$ 14,182,120	$ 19,163,506

8 Properties held for sale and discontinued operations (continued)

(a) **Income properties**

At December 31, 2010 and 2009, the carrying value of discontinued properties is not impaired.

(b) **Mortgage loans payable**

	December 31 2010	December 31 2009
Mortgage loan balances	$ 72,125,757	$ 94,766,920
Unamortized transaction costs	(12,807)	(157,271)
Difference between contract and market interest rates on mortgage loans assumed (d)	-	57,820
	$ 72,112,950	$ 94,667,469

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

Certain of the mortgage loans payable are subject to covenants, including debt service coverage requirements and restrictions on the registration of secondary charges against the title to the property. The Trust is not in compliance with a $4,976,540 first mortgage loan, as a result of a breach of the debt service coverage requirement and is not in compliance with a $20,064,829 first mortgage loan, as a result of the registration of secondary charges against the title to the property.

With the exception of two mortgage loans in the aggregate amount of $19,846,540, all of the mortgage loans payable, which have matured prior to March 28, 2011, have been renewed or refinanced. Management expects that the two mortgage loans will be renewed or refinanced on similar terms.

(c) **Interim mortgage loans payable**

	December 31 2010	December 31 2009
Interim mortgage loan balances	$ 15,445,000	$ 15,872,605
Unamortized transaction costs	(427,611)	(109,267)
	$ 15,017,389	$ 15,763,338

(d) **Financing expense**

	Year Ended December 31 2010	Year Ended December 31 2009
Mortgage loan interest	6,594,827	10,767,624
Amortization of transaction costs (e)	501,531	963,683
	$ 7,096,358	$ 11,731,307

8 Properties held for sale and discontinued operations (continued)

(e) **Amortization**

	Year Ended December 31 2010	2009
Building	$ 191,692	$ 2,454,739
Furniture, equipment and appliances	12,704	183,260
Intangible assets, except for in-place leases	-	355,089
Mortgage guarantee fees	-	-
	204,396	2,993,088
Transaction costs (d)	501,531	963,683
Difference between contract and market interest rates on mortgage loans assumed (b)	(57,820)	(52,978)
Above market in-place leases	-	3,129
Below market in-place leases	-	(341)
	$ 648,107	$ 3,906,581

(f) **Future income taxes**

Future income taxes consists of the following components:

	December 31 2010	2009
Future income tax asset relating to the assets of the Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 237,987	$ 793,898
Transaction costs	120,383	102,498
	358,370	896,396
Valuation allowance	(358,370)	(896,396)
	$ -	$ -
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax asset (liability) relating to the temporary differences between the accounting and tax basis for income properties	$ (2,940,530)	$ (2,773,834)
Future income tax asset relating to operating losses of the wholly owned subsidiaries	2,387,335	2,273,348
	(553,195)	(500,486)
Valuation allowance	(2,730,880)	(2,672,062)
	$ (3,284,075)	$ (3,172,548)

In recognition of the uncertainty with respect to the realization of the income tax assets, a valuation allowance was recorded to reduce the future income tax assets to nil at December 31, 2010 and 2009.

8 Properties held for sale and discontinued operations (continued)

(f) **Future income taxes (continued)**

	Year Ended December 31 2010	2009
Income tax expense:		
Trust		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 519,298	$ (63,733)
Transaction costs	(36,405)	(135,448)
Change in tax rate	55,133	-
	538,026	(199,181)
Valuation allowance	(538,026)	929,808
Future income taxes	-	730,627
Wholly owned subsidiaries		
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	284,416	(676,981)
Increase (decrease) in future income tax liability resulting from changes in tax rates	322,021	(18,202)
Increase in future income tax asset resulting from operating losses	(553,728)	(752,924)
	52,709	(1,448,107)
Valuation allowance	58,818	1,102,488
Future income taxes	111,527	(345,619)
Current income taxes at statutory tax rates	11,429	218,764
	122,956	(126,855)
Income tax expense - future and current	$ 122,956	$ 603,772

Income tax expense future and current is comprised of the following:

	Year Ended December 31 2010	2009
Future income taxes - Trust	$ -	$ 730,627
Future income taxes - Wholly owned subsidiaries	111,527	(345,619)
	111,527	385,008
Current income taxes - Wholly owned subsidiaries	11,429	218,764
Income tax expense - future and current	$ 122,956	$ 603,772

8 *Properties held for sale and discontinued operations (continued)*

(f) **Future income taxes (continued)**

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

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,353,597
2028	2,437,741
2029	2,431,870
2030	1,788,663
	$ 9,125,127

9 *Mortgage loans payable*

	Weighted average interest rates December 31 2010	2009	December 31 2010	2009
First mortgage loans				
Fixed rate	5.7%	5.7%	$ 187,348,601	$ 190,807,999
Variable rate	6.8%	6.0%	54,439,020	55,000,000
Total first mortgage loans	6.0%	5.8%	241,787,621	245,807,999
Second mortgage loans				
Fixed rate	7.5%	8.6%	500,000	9,000,000
Variable rate	6.5%	5.8%	17,501,827	17,766,738
Total second mortgage loans	6.5%	6.8%	18,001,827	26,766,738
Total	6.0%	5.9%	259,789,448	272,574,737
Unamortized transaction costs			(1,076,258)	(1,160,667)
			$ 258,713,190	$ 271,414,070

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $19,545,006 and $21,693,020, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

9 Mortgage loans payable (continued)

Approximate principal repayments are as follows:

Year ending December 31	
2011	$166,615,440
2012	31,153,231
2013	39,031,649
2014	9,201,245
2015	6,165,818
Thereafter	7,622,065
	$259,789,448

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.

Certain of the mortgage loans payable are subject to covenants, including net operating income and minimum debt service coverage requirements. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $160,844,986, as a result of a breach of covenant requirements in respect of the mortgage loans. In accordance with GAAP the total loan balance of $160,844,986 is included in principal repayments in 2011.

Two of the above noted mortgage loans in breach of debt coverage requirements, in the aggregate amount of $35,926,136, matured in 2010 and have not been renewed. The maturity dates have not been extended and the loans are payable on demand. A forbearance to January 31, 2011 has been obtained for both loans and an initial extension to June 30, 2011 is expected.

With the exception of a $1,991,574 mortgage loan which matured January 1, 2011, all mortgage loans which matured subsequent to January 1, 2011 have been renewed or refinanced. Management expects that the mortgage loan will be renewed or refinanced on similar terms.

10 Mortgage bonds and warrants

On March 9, 2010, the Trust issued 6,780 five year 9% mortgage bonds in the principal amount of $1,000, due March 10, 2015, and 6,780,000 in 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 warrants was established using the Black Scholes option pricing model using a risk free interest rate of 2.69% over the expected life of 5 years with an expected volatility rate of 50% and an expected dividend yield of nil. The value of the warrants in the amount of $2,111,984 was recognized in equity and the residual amount of $4,668,016, representing the value of the mortgage bonds, was recognized in liabilities.

In December 2010, the mortgage bonds were redeemed using proceeds from property sales and the December 23, 2010 mortgage bond issue. At redemption, $1,895,913 of accretion and $838,423 of unamortized transaction costs were recorded to financing expense. The warrants related to the March 9, 2010 mortgage bond issue continue to be exercisable until their expiry.

10 Mortgage bonds and warrants (continued)

On December 23, 2010, the Trust issued 12,637 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 12,637,000 in warrants for gross proceeds of $12,637,000. Each warrant 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 income properties with a book value of $37,285,440.

On the issue date, the value of the warrants was established using the Black Scholes option pricing model using a risk free interest rate of 2.56% over the expected life of 5 years with an expected volatility rate of 71% and an expected dividend yield of nil. The value of the warrants in the amount of $2,190,000 was recognized in equity and the residual amount of $10,447,000, representing the value of the mortgage bonds, was recognized in liabilities.

The face value of the mortgage bonds is $12,637,000 and the carrying value is calculated as follows:

Value at issue	$ 10,447,000
Accretion	7,939
Unamortized transaction costs	(1,137,864)
	$ 9,317,075

Accretion for the year ended December 31, 2010 of $7,939 (2009 - nil) is included in financing expense.

11 Convertible debentures

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

	December 31 2010	December 31 2009
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 years ended December 31, 2010 and 2009, there have not been any conversions of convertible debentures.

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

December 31, 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
Unamortized transaction costs	(426,282)	-	(426,282)
	$ 36,986,646	$ 10,212,667	$ 47,199,313

11 Convertible debentures (continued)

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

The accretion of the debt component for the year ended December 31, 2010 of $2,617,912 (2009 - $2,853,290), which increases the debt component from the initial carrying amount, is included in financing expense.

Subsequent to December 31, 2010, the Series F debentures with a face value of $13,601,000 were paid in full.

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 expires on December 31, 2011.

During the period from January 13, 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. Subsequent to December 31, 2010, 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 $44,000 at an average price of $76.82 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

In accordance with the terms of the trust indenture for the Series G debentures, the Trust has an option to retire the debentures, in whole or in part, by the issue of units, on the maturity of the Series G debentures.

12 Accounts payable and accrued liabilities

	December 31 2010	December 31 2009
Accounts payable and accrued liabilities	$ 3,654,449	$ 1,444,635
Revolving loan from 2668921 Manitoba Ltd.	7,350,000	-
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Construction costs payable	333,831	1,134,621
Interest payable	1,511,906	1,746,778
Mortgage guarantee fees payable	73,074	290,667
Tenant security deposits	1,900,493	1,702,088
Interest rate swaps	3,594,573	6,306,198
	$ 66,138,326	$ 60,344,987

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

Interest rate swaps
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The fair value of the swap liability decreased by $2,711,625 for the year ended December 31, 2010 (2009 - $2,293,795 increase). The effect of the change in value of interest rate swaps is included in financing expense.

13 Bank indebtedness

Bank indebtedness consists 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% (2009 - prime plus 3.5%) and repayable on demand. The line of credit is secured by a second mortgage on an income property. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at December 31, 2010, $1,915,000 was available to the Trust (2009 - $4,875,000).

14 Units

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

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Units	Amount	Units	Amount
Outstanding, beginning of year	17,893,767	$ 98,966,638	17,588,081	$ 77,661,519
Exchange of deferred units	94,572	79,317	-	-
Units issued on payment of distributions	-	8,814,286	-	19,504,206
Issued on distribution reinvestment plan	-	-	48,576	108,517
Issue costs	-	-	-	(6,502)
Purchased and cancelled under normal course issuer bid	-	-	(99,507)	(440,804)
Exchange of Village West Class B LP units	-	-	356,617	2,139,702
Outstanding, end of year	17,988,339	$107,860,241	17,893,767	$ 98,966,638

Units issued on payment of distribution
As a result of realized capital gains, the Trust paid a "special" distributions in the form of additional units on December 31, 2009 and December 31, 2010. The distributions were followed by an immediate consolidation of units resulting in Unitholders holding the same number of units after the distributions as were held prior to the distributions.

Distribution Reinvestment Plan
Pursuant to the distribution reinvestment plan ("DRIP"), holders of units may elect to have all or a portion of their distributions automatically reinvested in additional units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the units for the five trading days immediately preceding the distribution payment date. During the year ended December 31, 2010, nil (2009 - 48,576) units have been issued pursuant to the DRIP.

Units purchased and cancelled under normal course issuer bid
The Trust maintains a normal course issuer bid to acquire up to 1,368,158 units over the twelve month period ending January 12, 2011.

Units purchased by the Trust under its normal course issuer bid are cancelled. During the year ended December 31, 2010 the Trust did not purchase and cancel any units under the normal course issuer bid. During the year ended December 31, 2009, the Trust purchased and cancelled 99,507 units under the normal course issuer bid at a weighted average price of $2.77 per unit.

15 Unit option plan

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

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

Unit-based compensation expense for the year ended December 31, 2010 of $41,521 (2009 - $104,355), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

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

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	1,452,000	$ 5.56	1,452,000	$ 5.56
Cancelled, March 29, 2010	(357,500)	5.60	-	-
Cancelled, April 1, 2010	(5,000)	5.80	-	-
Cancelled, April 1, 2010	(1,500)	5.10	-	-
Cancelled, September 12, 2010	(1,500)	5.10	-	-
Cancelled, September 12, 2010	(5,000)	5.80	-	-
Cancelled, September 16, 2010	(110,000)	5.47	-	-
Cancelled, October 8, 2010	(3,000)	5.10	-	-
Outstanding, end of period	968,500	$ 5.58	1,452,000	$ 5.56
Vested, end of period	912,100		1,156,800	

At December 31, 2010 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	22,500	22,500	January 17, 2011
5.80	625,000	625,000	July 26, 2011
5.30	90,000	90,000	June 8, 2012
5.10	231,000	174,600	January 7, 2013
	968,500	912,100	

16 Deferred unit plan

The Trust has adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid, in 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 the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

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 248,281 for the year ended December 31, 2010 (2009 - 221,910) and 399,419 aggregate deferred units were outstanding at December 31, 2010 (2009 - 245,710).

Unit-based compensation expense of $134,750 for the year ended December 31, 2010 (2009 - $178,094) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in Trust expense.

During 2010, 94,572 units, with a value of $79,317, were issued on the exchange of deferred units upon resignation of a Trustee.

17 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $920,449 for the year ended December 31, 2010 (2009 - $1,408,924).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

18 Financing expense

	Year Ended December 31 2010	2009
Interest on acquisition payable:		
Interest charged	$ 10,510,317	$ 9,918,409
Forgiveness of interest	(6,910,317)	(5,841,638)
	3,600,000	4,076,771
Mortgage loan interest	16,479,399	14,738,704
Mortgage bond interest	530,334	-
Accretion of mortgage bonds	2,119,923	-
Defeased liability interest	52,344	-
Convertible debenture interest	3,076,585	3,911,900
Accretion of the debt component of convertible debentures	2,617,912	2,853,290
Amortization of transaction costs	3,028,241	1,193,979
Change in fair value of interest rate swaps	(2,711,625)	2,293,795
	$ 28,793,113	$ 29,068,439

Upon the repayment of the March 6, 2010 mortgage bonds, $1,895,913 of accretion and $838,423 of unamortized transaction costs were recorded to financing expense.

19 Amortization

	Year Ended December 31 2010	2009
Building	$ 7,218,954	$ 7,176,140
Furniture, equipment and appliances	1,273,620	1,269,267
Intangible assets, except for in-place leases	20,573	20,573
	8,513,147	8,465,980
Transaction costs	3,028,241	1,193,979
	$ 11,541,388	$ 9,659,959

20 Future income taxes

Future income taxes consists of the following components:

	December 31 2010	December 31 2009
Future income tax asset relating to the assets of the Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 3,939,390	$ 7,000,636
Transaction costs	179,466	(136,185)
	4,118,856	6,864,451
Valuation allowance	(4,118,856)	(6,864,451)
	$ -	$ -

	Year Ended December 31 2010	Year Ended December 31 2009
Future income tax expense (recovery):		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 2,455,186	$(4,211,816)
Transaction costs	(343,262)	79,581
Change in tax rates	633,671	-
	2,745,595	(4,132,235)
Valuation allowance	(2,745,595)	6,831,039
	$ -	$ 2,698,804

In recognition of the uncertainty with respect to the realization of the income tax assets, a valuation allowance was recorded to reduce the future income tax asset to nil at December 31, 2010.

21 *Per unit calculations*

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

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

Continuing Operations

	Year Ended December 31	
	2010	2009
Income (loss) and diluted income (loss)	$ (20,461,027)	$ (15,666,433)
Weighted average number of:		
Units	17,941,183	17,465,519
Deferred units	323,553	72,851
Total, basic and diluted	18,264,736	17,538,370

Discontinued Operations

	Year Ended December 31	
	2010	2009
Income and diluted income	$ 14,182,120	$ 19,163,506
Weighted average number of:		
Units	17,941,183	17,465,519
Deferred units	323,553	72,851
Total, basic and diluted	18,264,736	17,538,370

22 Supplementary cash flow information

	Year Ended December 31 2010	2009
Interest paid on:		
Acquisition payable	$ 3,600,000	$ 4,076,771
Mortgage loans	$ 16,501,599	$ 15,642,725
Mortgage bonds	$ 502,290	$ -
Convertible debentures	$ 3,427,741	$ 3,911,900
Interest received on:		
Mortgage loans receivable	$ 346,905	$ -
Other	$ 380,355	$ 396,597
Cash distributions		
Distributions declared	$ 8,814,286	$ 21,139,285
Distributions paid in units	(8,814,286)	(19,504,206)
Distributions to participants in the DRIP	-	(104,343)
Distributions paid in cash	$ -	$ 1,530,736

23 Distribution of taxable income

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

The following table reflects a comparison of taxable income to distributions declared.

	Year Ended December 31 2010	2009
Realized capital gains	$ 8,860,436	$ 19,153,410
Taxable capital gains	$ 4,430,218	$ 9,576,705
Rental income (loss)	(3,869,049)	-
Taxable income	$ 561,169	$ 9,576,705
Distributions declared	$ 8,814,286	$ 21,139,285

24 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 extended the property management agreement with Shelter Canadian Properties Limited, with the same terms and conditions, to December 31, 2015. 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 $1,248,936 for the year ended December 31, 2010 (2009 - $1,539,072). Property management fees are included in property operating costs.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited on discontinued operations of $1,040,109 for the year ended December 31, 2010 (2009 - $1,089,163). Property management fees are included in property operating costs of discontinued operations.

The Trust incurred leasing commissions on commercial income properties included in discontinued operations payable to Shelter Canadian Properties Limited of $60,555 for the year ended December 31, 2010 (2009 - $113,453). The amounts are capitalized to the cost of properties held for sale.

Included in accounts payable and accrued liabilities at December 31, 2010 is a balance of $22,033 (December 31, 2009 - $16,066), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Included in accounts payable and accrued liabilities of discontinued operations at December 31, 2010 is a balance of $2,707 (December 31, 2009 - $12,144 recoverable), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

24 Related party transactions (continued)

Services agreement
The Trust has extended the services agreement with Shelter Canadian Properties Limited for a term expiring on December 31, 2015. The terms of the services agreement were also amended in December 2010. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash and defeasance assets.

The Trust incurred service fees of $1,752,587 for the year ended December 31, 2010 (2009 - $1,961,963). Service fees are included in trust expense.

Financing
On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bears interest at 7.5%, was due on January 1, 2011 and is secured by a second mortgage charge on an income property. The loan is included in mortgage loans payable at December 31, 2010. A processing fee of $15,000 was paid to 2668921 Manitoba Ltd. in 2009 in regard to the loan and was included in transaction costs. Interest of $37,500 for the year ended December 31, 2010 (2009 - $24,657) is included in financing expense. Subsequent to December 31, 2010, 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.

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 and to $10 Million on November 9, 2010. The loan bears interest at 14% (2009 - 7.5%), is due on June 30, 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, 2010, $7,350,000 has been drawn and is included in accounts payable.

Interest on the revolving loan of $189,861 for the year ended December 31, 2010 (2009 - $93,406) is included in financing expense.

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

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.

25 Financial instruments and risk management

Risk management

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

Liquidity risk

The Trust is in breach of net operating income achievement and debt service coverage requirements and covenant restricting the registration of a secondary charge against the title to a property on mortgage loans totaling $160,844,986 for five first mortgage loans and one second mortgage loan and $25,041,369 for two first mortgage loans for two held for sale properties. The Trust is continuing to negotiate with the lenders and management believes that all of the covenant breaches will be resolved. As rental market conditions in Fort McMurray may not improve substantially in the near future, all of the affected properties may not attain income levels in 2011 which satisfy the existing debt service coverage requirements. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust, other than the mortgage loans on income properties which are security for the mortgage bonds.

In addition to the liquidity risk noted above and relating to the mortgage financing for Parsons Landing (Note 28), liquidity risk arises from the possibility of the Trust not having sufficient debt and equity capital available to refinance its debt as it matures.

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

As at December 31, 2010, the weighted average term to maturity of the fixed rate mortgages on income properties is 3.3 years (2009 - 4.0 years).

The repayment obligations in regard to debt financial instruments are as follows:

Year Ending December 31	Mortgage Loans Payable	Convertible Debentures and Mortgage Bonds	Defeased Liability	Other Debt Financial Instruments	Total
2011	$ 166,615,440	$ 39,196,000	$ 50,897	$ 65,503,753	$ 271,366,090
2012	31,153,231	-	53,813	-	31,207,044
2013	39,031,649	-	56,896	-	39,088,545
2014	9,201,245	-	60,155	-	9,261,400
2015	6,165,818	12,637,000	63,602	-	18,866,420
Thereafter	7,622,065	-	2,520,859	-	10,142,924
	$ 259,789,448	$ 51,833,000	$ 2,806,222	$ 65,503,753	$ 379,932,423

In accordance with GAAP, the mortgage loans in the amount of $160,844,986 that are not in compliance with net operating income achievement and debt service coverage requirements are included in principal repayments in 2011.

25 Financial instruments and risk management (continued)

Interest rate risk

Interest risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgages with terms as favourable as those of existing mortgages. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2010 the percentage of fixed rate mortgage loans (including mortgage loans with fixed rates under interest rate swaps) to total mortgage loans was 72% (2009 - 73%) and to the percentage of variable rate mortgage loans to total mortgage loans was 28% (2009 - 27%).

As at December 31, 2010, the Trust has mortgage loans totaling $92,469,469 which mature on or prior to December 31, 2013, representing 36% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $924,695 per year.

As at December 31, 2010, the Trust had variable rate mortgages totaling $71,940,847. Should interest rates change by 1%, financing expense would change by $719,408 per year.

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

Credit risk

Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Trust has credit policies to address credit risk which include the analysis of the 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	
	2010	2009
Rent receivable overdue:		
0 to 30 days	$ 141,705	$ 127,814
31 to 60 days	29,741	31,883
More than 60 days	204,023	242,045
	$ 375,469	$ 401,742

25 Financial instruments and risk management (continued)

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

	December 31 2010	December 31 2009
Balance, beginning of year	$ 90,680	$ 64,818
Amount charged to bad debt expense relating to impairment of rent receivable	42,526	180,821
Amounts written off as uncollectible	(98,800)	(154,959)
Balance, end of year	$ 34,406	$ 90,680
Amount charged to bad debts as a percent of rentals from income properties	0.14%	0.46%

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

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

Fair values
Financial instruments include mortgage loans receivable, cash, restricted cash, amounts receivable, defeasance assets, mortgage loans payable, mortgage bonds, the debt component of convertible debentures, accounts payable and accrued liabilities, interest rate swaps, bank indebtedness and the defeased liability.

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at the financial statement date may not represent fair values at any other date. The determination of fair value is affected by the use of judgment and by uncertainty.

Financial instruments carried at fair value include cash, restricted cash, interest rate swaps and bank indebtedness. The methods used to establish fair values are summarized as follows:

- Quoted prices in active markets for identical assets or liabilities;
- Use of a model with inputs other than quoted prices that are directly or indirectly observable market data.

25 Financial instruments and risk management (continued)

Fair values (continued)
The following schedule summarizes the method used to determine the fair value of financial instruments, which are carried at fair value.

	December 31, 2010		December 31, 2009	
	Quoted Prices	Observed Inputs	Quoted Prices	Observed Inputs
Cash	$ 1,697,498	$ -	$ 4,287,864	$ -
Restricted cash	20,343,338	-	5,028,520	-
Interest rate swaps	-	3,594,573	-	6,306,198
Bank indebtedness	2,960,000	-	-	-

The carrying values of amounts receivable and accounts payable and accrued liabilities approximate fair value due to the short term nature of the financial instruments.

The fair value of the mortgage loans receivable is impacted by the difference between the yield for such instruments in an open market and the yield negotiated as part of a sale of property and by changes in market yields. The fair value of the mortgage loans receivable has been estimated based on the current market rates for second mortgage loans with similar terms and conditions. The estimated fair value of mortgage loans receivable at December 31, 2010 is $400,000 (December 31, 2009 - $7,390,000).

The fair value of the fixed rate mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgage loans with similar terms and conditions. The estimated fair value of mortgage loans payable at December 31, 2010 is $260,400,000 (December 31, 2009 - $280,800,000).

The fair value of the mortgage bonds is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instrument. The fair value of the mortgage bonds has been estimated based on the current market rate for mortgage loans with similar terms and conditions. The estimated fair value of the mortgage bonds payable at December 31, 2010 is $11,300,000 (December 31, 2009 - nil).

The carrying value of the debt component of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable at December 31, 2010 is $31,800,000 (December 31, 2009 - $31,300,000).

The fair value of the defeasance assets is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The fair value of the defeasance assets is based on market price for the bonds which comprise the defeasance assets. The fair value of the defeasance assets at December 31, 2010 is $3,237,487 (December 31, 2009 - nil).

25 Financial instruments and risk management (continued)

Fair values (continued)
The fair value of the defeased liability is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The fair value of the defeased liability has been estimated based on current market rates for mortgages with similar terms and conditions. The estimated fair value of the defeased loan at December 31, 2010 is $2,810,000 (December 31, 2009 - nil).

26 Management of capital

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

	December 31 2010	December 31 2009
Mortgage loans payable	$258,713,190	$271,414,070
Mortgage bonds	9,317,075	-
Convertible debentures - debt component	36,986,646	45,940,843
Equity	39,739,235	41,539,887
	$344,756,146	$358,894,800

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.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever appropriate, 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 practicable, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including convertible debenture debt and higher cost mortgage loan financing.

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 unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv)purchase units or debentures; or (v) reduce debt.

26 Management of capital (continued)

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

27 Segmented financial information

The assets are located in Fort McMurray, Alberta (13 properties), Yellowknife, Northwest Territories (2 properties) and other locations in Canada (4 properties).

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

Year ended December 31, 2010:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	23,956,986	5,407,251	2,021,677	-	31,385,914
Interest and other income	194,869	18,039	20,363	725,878	959,149
Property operating costs	9,411,743	2,188,444	864,060	-	12,464,247
Financing expense	14,972,007	892,836	723,630	12,204,640	28,793,113
Amortization	7,353,094	696,939	463,114	-	8,513,147
Income (loss) from continuing operations	(7,584,990)	1,647,071	(8,763)	(14,514,345)	(20,461,027)
Total assets from continuing operations	327,998,797	26,740,034	12,675,870	21,730,172	389,144,873

Year ended December 31, 2009:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	32,433,428	5,171,141	2,058,380	-	39,662,949
Interest and other income	320,266	20,697	23,896	26,863	391,722
Property operating costs	9,817,401	2,118,468	791,476	-	12,727,345
Financing expense	18,976,939	913,000	662,564	8,515,936	29,068,439
Amortization	7,323,073	689,220	453,687	-	8,465,980
Income (loss) from continuing operations	(3,363,719)	1,471,147	174,555	(13,948,416)	(15,666,433)
Total assets from continuing operations at December 31, 2009	334,990,309	28,524,006	11,815,253	12,771,163	388,100,731

28 Commitments

Acquisition

Parsons Landing Apartments

On September 1, 2008, the Trust acquired possession of Parsons Landing, a residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. On November 1, 2007, the Trust provided a $10,000,000 second mortgage loan which bore interest at 8%. On possession of Phase I of the property on May 14, 2008, a purchase instalment payment of $2,500,000 was made and $5,250,000 of the second mortgage loan was applied to the purchase price. On possession of Phase II of the property on September 1, 2008, the balance of the second mortgage loan of $4,750,000 was applied to the purchase price. After accounting for the payment of an additional deposit of $2,500,000 on October 1, 2008, the balance owing on Parsons Landing was $48,220,000 as of December 31, 2008, including GST. The balance owing was originally due on February 28, 2009.

28 Commitments (continued)

Acquisition (continued)

Parsons Landing Apartments (continued)
The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to several extensions of the deadline for payment of the balance owing, the latest of which extends the deadline for payment of the balance owing to June 30, 2011, with interest of $15,722,287 from January 1, 2010 to June 30, 2011. The vendor has agreed to accept interest payments of $300,000 per month to June 30, 2011 and to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to June 30, 2011 in the amount of $10,322,287, on closing. A purchase instalment payment of $500,000 was also made on May 12, 2009.

On closing, the vendor has agreed to provide a second mortgage to a maximum of $12,000,000, for a 15 month term with interest at 8% for the first 8 months, 12% for the next 4 months and 24% thereafter, provided that the Trust makes an additional payment in a minimum amount of $5,000,000, prior to closing. On closing, the vendor has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust.

The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing by April 30, 2011.

As of December 31, 2010, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000.

The Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the vendor for the amount of $1.

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 2012.

29 Contingencies

GST Assessment
The Trust has been assessed for additional GST in the amount of $2,393,503, plus interest of $335,659, for a total amount of $2,729,162 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.

Contingent consideration - Elgin Lodge
During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Contingent consideration recorded at December 31, 2010 of $434,982 (2009 - $434,982) is included in assets of discontinued operations.

Contingent consideration - Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Contingent consideration recorded at December 31, 2010 of $477,901 (2009 - $477,901) is included in assets of discontinued operations.

30 Subsequent events

Convertible Debentures
On March 11, 2011, the Series F debentures matured and were repaid in full.

Public Offering Mortgage Bonds and Warrants
On January 28, 2011, the Trust issued 3,363 five year 9% mortgage bonds in the principal amount of $1,000 per unit, due December 24, 2015, and 3,363,000 warrants for gross proceeds of $3,363,000. The aggregate gross proceeds of the mortgage bond and warrant offering which closed on December 23, 2010 and January 28, 2011 were $16,000,000. Each warrant entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015.

The proceeds were held in escrow to partially fund the repayment of the Series F debentures.

Bank indebtedness

Subsequent to December 31, 2010, the Trust utilized $1,915,000 of the line of credit.

Revolving loan

Subsequent to December 31, 2010, the Trust utilized $3,650,000 of and repaid $1,000,000 on the revolving loan from 2668921 Manitoba Ltd.

30 Subsequent events (continued)

Mortgage refinancing

Subsequent to December 31, 2010, a new second mortgage loan was obtained in the amount of $400,000 bearing interest at 9% and maturing September 1, 2013.

A new mortgage loan in the amount of $16,300,000 bearing interest of 8% and maturing on April 2013 has been arranged with funding by March 31, 2011. The proceeds of the loan will be used to retire a 12 1/2% interim mortgage loan in the amount of $11,500,000 and partially repay the revolving loan.

31 Comparative figures

As a result of the reclassification of certain properties from income properties to assets of properties held for sale; certain of the prior year figures have been reclassified.