LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

March 31, 2010

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	March 31 2010	December 31 2009 (audited)
Assets		
Income properties (Note 3)	**$381,766,405**	$383,889,710
Mortgage loans receivable (Note 4)	**10,050,000**	7,050,000
Cash	**2,630,383**	4,287,864
Other assets (Note 5)	**8,019,209**	7,074,109
Assets of properties held for sale (Note 6)	**123,008,897**	134,842,883
	$525,474,894	$537,144,566
Liabilities and Equity		
Mortgage loans payable (Note 7)	**$279,961,438**	$281,374,398
Mortgage bonds (Note 8)	**3,784,133**	-
Convertible debentures (Note 9)	**34,835,350**	45,940,843
Accounts payable and accrued liabilities (Note 10)	**61,279,143**	60,783,383
Bank indebtedness (Note 11)	**1,260,000**	-
Liabilities of properties held for sale (Note 6)	**97,054,134**	107,506,055
	478,174,198	495,604,679
Equity	**47,300,696**	41,539,887
	$525,474,894	$537,144,566

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended March 31, 2010:

	Units	Cumulative Income (Loss)	Cumulative Distributions	Equity Component of Debentures and Warrants	Total
Equity, December 31, 2009	$ 101,503,281	$ (14,432,282)	$ (58,635,749)	$ 13,104,637	$ 41,539,887
Maturity of Series E debentures	2,835,690	-	-	(2,835,690)	-
Series F debentures purchased under normal course issuer bid	-	-	-	(782)	(782)
Issue of warrants	-	-	-	2,111,984	2,111,984
Issue costs	(12)	-	-	-	(12)
Unit-based compensation	72,405	-	-	-	72,405
Income and comprehensive income	-	3,577,214	-	-	3,577,214
Equity, March 31, 2010	$ 104,411,364	$ (10,855,068)	$ (58,635,749)	$ 12,380,149	$ 47,300,696

Three Months Ended March 31, 2009:

	Units	Cumulative Income (Loss)	Cumulative Distributions	Equity Component of Debentures and Warrants	Total
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484
Units purchased under normal course issuer bid	(275,757)	-	-	-	(275,757)
Issue costs	(6,502)	-	-	-	(6,502)
Unit-based compensation	88,331	-	-	-	88,331
Units issued on distribution reinvestment plan	108,517	-	-	-	108,517
Loss and comprehensive loss	-	(8,530,719)	-	-	(8,530,719)
Distributions declared	-	-	(1,635,079)	-	(1,635,079)
Equity, March 31, 2009	$ 79,665,255	$ (26,460,074)	$ (39,131,543)	$ 13,104,637	$ 27,178,275

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended March 31 2010	2009
Revenue		
Rentals from income properties (Note 15)	**$ 8,863,379**	$ 12,271,439
Interest and other income	**208,628**	205,882
	9,072,007	12,477,321
Expenses		
Property operating costs	**3,686,293**	3,811,828
Income before the undernoted	**5,385,714**	8,665,493
Financing expense (Note 16)	**6,431,439**	10,058,947
Trust expense	**696,790**	744,190
Amortization (Note 17)	**2,227,407**	2,197,250
	9,355,636	13,000,387
Loss from continuing operations before income taxes	**(3,969,922)**	(4,334,894)
Future income tax expense (Note 18)	**-**	2,698,804
Loss from continuing operations	**(3,969,922)**	(7,033,698)
Income (loss) from discontinued operations (Note 6)	**7,547,136**	(1,497,021)
Income (loss) and comprehensive income (loss) for the period	**$ 3,577,214**	$ (8,530,719)
Income (loss) per unit (Note 19)		
Basic and diluted		
Continuing operations	**$ (0.219)**	$ (0.403)
Discontinued operations	**0.416**	(0.085)
Total	**$ 0.197**	$ (0.488)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2010	2009
Cash provided by (used in) operating activities		
Loss from continuing operations	**$ (3,969,922)**	$ (7,033,698)
Items not affecting cash		
Accretion on debt component of convertible debentures (Note 16)	**710,009**	666,355
Accretion on debt component of mortgage bonds (Note 16)	**17,006**	-
Unit-based compensation	**72,405**	88,331
Amortization (Note 17)	**2,508,650**	2,482,420
Change in fair value of interest rate swaps (Note 16)	**(379,298)**	2,443,974
Future income taxes (Note 18)	**-**	2,698,804
	(1,041,150)	1,346,186
Changes in non-cash operating items	**349,915**	(115,156)
	(691,235)	1,231,030
Cash provided by (used in) financing activities		
Proceeds of mortgage bond financing	**6,780,000**	-
Repayment of Series E debentures	**(11,950,000)**	-
Repayment of principal on mortgage loans	**(1,558,183)**	(1,244,146)
Expenditures on transaction costs	**(804,360)**	(289,891)
Proceeds of line of credit	**1,260,000**	1,400,000
Proceeds of revolving loan commitment	**5,080,000**	-
Repayment of revolving loan commitment	**(5,080,000)**	-
Units purchased and cancelled under normal course issuer bid	**-**	(275,757)
Debentures purchased and cancelled under normal course issuer bid	**(2,558)**	-
Distributions paid on units	**-**	(1,530,736)
	(6,275,101)	(1,940,530)
Cash provided by (used in) investing activities		
Improvements to income properties	**(124,145)**	(113,671)
Refund of deposits	**-**	200,000
Increase in restricted cash	**(2,852,819)**	(544,988)
	(2,976,964)	(458,659)
Sub-total	**(9,943,300)**	(1,168,159)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2010	2009
Balance forward	**(9,943,300)**	(1,168,159)
Cash provided by (used in) discontinued operations		
Income (loss) from discontinued operations (Note 6)	**7,547,136**	(1,497,021)
Gain on sale	**(7,592,119)**	-
Items not affecting cash		
Straight-line rent adjustment	**164,736**	(3,111)
Amortization	**554,496**	1,692,739
Future income taxes	**33,278**	41,563
Non-controlling interest	**-**	38,603
	707,527	272,773
Changes in non-cash operating items	**(116,436)**	1,675,705
Tenant inducements and leasing expenditures incurred through leasing activity	**-**	(110,694)
	591,091	1,837,784
Repayment of principal on mortgage loans	**(357,778)**	(650,290)
Expenditures on transaction costs	**(148,700)**	(324,474)
Distributions paid	**-**	(33,285)
Improvements to income properties	**(14,801)**	(83,996)
Proceeds of sale	**6,445,841**	-
Increase in properties under development	**-**	(128,641)
Decrease (increase) in restricted cash	**1,770,166**	(33,604)
	8,285,819	583,494
Cash decrease	**(1,657,481)**	(584,665)
Cash, beginning of period	**4,287,864**	3,549,892
Cash, end of period	**$ 2,630,383**	$ 2,965,227

Supplementary cash flow information (Note 20)

1 Basis of presentation and continuing operations

The interim financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The interim financial statements reflect the operations of the Trust and wholly owned operating subsidiaries. The interim financial statements have been prepared on a consistent basis with the December 31, 2009 audited financial statements. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the December 31, 2009 audited financial statements and notes thereto.

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 $3,969,922 and $7,033,698 for the three months ended March 31, 2010 and 2009, respectively; has a working capital deficit of $2,406,317 and $10,468,086 as at March 31, 2010 and December 31, 2009, respectively; has been in breach of debt service coverage requirements during the past 12 months and was in breach of debt service coverage requirements as of March 31, 2010.

The Trust is in breach of the 1.4 times debt service coverage requirement of 2 first mortgage loans totaling $45,915,568 on properties located in Fort McMurray, Alberta.

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

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

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $72,629,959 on three properties located in Fort McMurray, Alberta.

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

The Trust has received a letter of forbearance to April 20, 2010 from the lender in regard to the breach and has requested an extension of the forbearance to December 31, 2010.

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

For the year ended December 31, 2009, the Trust was in breach of the 1.3 times debt service coverage requirement of a $5,069,735 first mortgage loan on a property located in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as discontinued operations.

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

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

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

The cross-default clauses of the Series F secured convertible debentures provide that the convertible debentures may become payable, on demand, if, at a future date, the repayment of a mortgage loan is accelerated by a lender. The Series F convertible debentures, with a face value of $13,677,000, may become payable on demand. If the convertible debentures become payable on demand, in accordance with GAAP, the carrying value of the liability component of the convertible debentures would be increased to the face value of the convertible debentures of $13,677,000. The amount of the increase in the face value of the convertible debentures would be recorded as financing expense in the period that the debentures become payable on demand.

The mortgage bonds provide that the outstanding amount of the mortgage bonds may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan on an income property pledged as security for the mortgage bonds, or the Series F or Series G debentures. If at a future date, the Series F debentures become payable as a result of a breach of the debt service coverage requirements, the mortgage bonds, with a face value of $6,780,000 may become payable on demand.

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

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

2 *Future change to significant accounting policies*

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

The impact of implementing these amendments is currently being assessed.

3 *Income properties*

March 31, 2010	Cost	Accumulated Amortization	Net Book Value
Land	$ 65,674,473	$ -	$ 65,674,473
Buildings and improvements	331,162,000	(21,859,636)	309,302,364
Furniture, equipment and appliances	10,136,384	(3,387,961)	6,748,423
Intangible assets	207,222	(166,077)	41,145
	$407,180,079	$ (25,413,674)	$381,766,405

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

The tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $27,667,200 until June 30, 2010. The net book value of the townhouse portion of Lakewood Manor at March 31, 2010 is $24,786,658.

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

4 *Mortgage loans receivable*

	March 31 2010	December 31 2009 (audited)
Second mortgage loan receivable from Mainstreet Equity Corp., due June 1, 2011. The loan bears interest at 3% until June 1, 2010 and 6% thereafter and provides for monthly payments of interest only.	$ 6,550,000	$ 6,550,000
Second mortgage loan receivable from Beaufort Investments Ltd. and Compark Investments Ltd., due July 1, 2014. The loan bears interest at 5.5% and provides for monthly payments of interest only.	3,000,000	-
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
	$ 10,050,000	$ 7,050,000

5 *Other assets*

	March 31 2010	December 31 2009 (audited)
Restricted cash		
Tenant security deposits	$ 1,874,477	$ 1,800,264
Reserves required by mortgage loan agreements	4,138,453	1,386,848
Sale proceeds in escrow	317,118	2,041,795
	6,330,048	5,228,907
Amounts receivable	487,135	552,717
Prepaid expenses, deposits and other	1,192,026	1,282,485
Deposits on potential acquisitions	10,000	10,000
	$ 8,019,209	$ 7,074,109

Amounts receivable includes rent receivable of $261,308 (2009 - $408,122) net of an allowance for doubtful accounts of $192,562 (2009 - $92,205).

6 Properties held for sale and discontinued operations

The Trust is pursuing a divestiture program. In this regard, the Trust has designated 8 properties as held for sale (2009 - 10 properties held for sale).

In addition, the Trust is contractually obligated to use proceeds of sale from the 8 income properties held for sale to retire $15.8 Million of interim loans payable (2009 - $15.8 Million). In accordance with GAAP, the debt and the related interest expense is reflected in discontinued operations.

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

	March 31 2010	December 31 2009 (audited)
Assets		
Income properties (a)	$ 120,997,191	$ 132,569,624
All other assets	2,011,706	2,273,259
	123,008,897	134,842,883
Liabilities		
Mortgage loans payable (b)	74,948,353	84,707,141
Interim loans payable	15,819,872	15,763,338
Accounts payable and accrued liabilities	3,080,083	3,863,028
Future income taxes (e)	3,205,826	3,172,548
	97,054,134	107,506,055
	$ 25,954,763	$ 27,336,828

6 Properties held for sale and discontinued operations (continued)

The Trust sold two properties during the three months ended March 31, 2010 (2009 - nil properties sold). As at March 31, 2010, eight income properties met the held-for-sale criteria and as a result are reported in discontinued operations. For the year ended December 31, 2009 there were 13 properties sold. The results of operations from these properties have been separately disclosed below.

	Three Months Ended March 31 2010	2009
Revenue		
Rentals from income properties	$ 4,990,967	$ 7,330,503
Interest and other income	37,712	53,871
	5,028,679	7,384,374
Expenses		
Property operating costs	2,813,562	4,337,219
Financing expense (c)	1,757,504	3,003,584
Amortization (d)	423,917	1,419,403
Income tax expense (recovery) - current and future (e)	78,679	82,586
	(44,983)	(1,458,418)
Non-controlling interest	-	(38,603)
	(44,983)	(1,497,021)
Gain on sale	7,592,119	-
Income (loss) from discontinued operations	$ 7,547,136	$ (1,497,021)

(a) **Income properties**

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

(b) **Mortgage loans payable**

	March 31 2010	December 31 2009 (audited)
Mortgage loan balances	$ 75,097,918	$ 84,789,406
Unamortized transaction costs	(188,112)	(140,085)
Difference between contract and market interest rates on mortgage loans assumed (d)	38,547	57,820
	$ 74,948,353	$ 84,707,141

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.

6 Properties held for sale and discontinued operations (continued)

(c) **Financing expense**

	Three Months Ended March 31 2010	2009
Mortgage loan interest	1,607,651	2,721,514
Amortization of transaction costs (d)	149,853	282,070
	$ 1,757,504	$ 3,003,584

(d) **Amortization**

	Three Months Ended March 31 2010	2009
Building	$ -	$ 1,165,620
Furniture, equipment and appliances	-	80,021
Intangible assets, except for in-place leases	-	173,762
Mortgage guarantee fees	423,917	-
	423,917	1,419,403
Transaction costs (c)	149,853	282,070
Difference between contract and market interest rates on mortgage loans assumed (b)	(19,274)	(11,043)
Above market in-place leases	-	2,543
Below market in-place leases	-	(234)
	$ 554,496	$ 1,692,739

(e) **Future income taxes**

Future income taxes consists of the following components:

	March 31 2010	December 31 2009 (audited)
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 202,553	$ 730,674
Transaction costs	115,455	105,924
	318,008	836,598
Valuation allowance	(318,008)	(836,598)
	$ -	$ -
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	$ (2,807,081)	$ (2,773,834)
Future income tax asset relating to operating losses of wholly owned subsidiaries	2,428,121	2,273,348
	(378,960)	(500,486)
Valuation allowance	(2,826,866)	(2,672,062)
	$ (3,205,826)	$ (3,172,548)

6 Properties held for sale and discontinued operations (continued)

(e) **Future income taxes (continued)**

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 March 31, 2010.

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Future income tax expense (recovery):		
Trust		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 528,121	$ (2,853,039)
Transaction costs	(9,531)	(74,268)
	518,590	(2,927,307)
Valuation allowance	(518,590)	3,657,934
	-	730,627
Wholly owned subsidiaries		
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	18,664	(657,970)
Increase (decrease) in future income tax liability resulting from changes in tax rates	14,583	(31,094)
Increase in future income tax asset resulting from operating losses	(154,773)	(182,906)
	(121,526)	(871,970)
Valuation allowance	154,804	182,906
	33,278	(689,064)
Current income taxes at statutory tax rates	45,401	41,023
	78,679	(648,041)
	$ 78,679	$ 82,586

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	499,491
	$ 7,835,955

7 *Mortgage loans payable*

	Weighted average interest rates			
	March 31 2010	December 31 2009	March 31 2010	December 31 2009
First mortgage loans				
Fixed rate	5.7%	5.7%	$ 199,364,113	$ 200,785,513
Variable rate	6.0%	6.0%	55,000,000	55,000,000
Total first mortgage loans	5.8%	5.8%	254,364,113	255,785,513
Second mortgage loans				
Fixed rate	8.6%	8.6%	9,000,000	9,000,000
Variable rate	5.8%	5.8%	17,629,959	17,766,738
Total second mortgage loans	6.7%	6.7%	26,629,959	26,766,738
Total	5.9%	5.9%	280,994,072	282,552,251
Unamortized transaction costs			(1,032,634)	(1,177,853)
			$ 279,961,438	$ 281,374,398

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $20,018,266 and $22,036,307, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

Approximate principal repayments are as follows:

Year ending December 31	
2010 - Remainder of year	$148,846,789
2011	8,490,771
2012	34,361,601
2013	39,654,242
2014	32,864,141
Thereafter	16,776,528
	$280,994,072

Certain of the mortgage loans payable are subject to covenants, including minimum debt service coverage requirements. The Trust is not in compliance with four first mortgage loans and one second mortgage loan totaling $123,615,262, as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. In accordance with GAAP the total loan balance of $123,615,262 is included in principal repayments in 2010.

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.

All mortgages which have matured prior to March 31, 2010 have been renewed.

All mortgages which have matured prior to May 12, 2010 have been renewed.

8 Mortgage bonds and warrants

On March 9, 2010, the Trust issued investments comprised of 6,780 five year 9% second mortgage bonds in the principal amount of $1,000 and 6,780,000 in warrants for gross proceeds of $6,780,000.

On the issue date, the value of the warrants was established by 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.

The mortgage bonds bear interest of 9% and mature on March 10, 2015. Interest is payable semi-annually on May 31 and November 30.

The face value of the mortgage bonds is $6,780,000, the carrying value is calculated as follows:

Value at issue	$ 4,668,016
Accretion	17,006
Transaction costs	(900,889)
	$ 3,784,133

The mortgage bonds provide that the outstanding amount of the mortgage bonds may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan on an income property pledged as security for the mortgage bonds, or the Series F or Series G debentures. The Trust is in breach of debt service coverage requirements of four first mortgage loans and a second mortgage loan totaling $123,615,262, as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayment of any of the four first mortgage loans and one second mortgage loan, the Series F or Series G debentures will be in breach and the debentures may become payable on demand. In such an event, the mortgage bonds may become payable on demand.

9 Convertible debentures

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

	March 31 2010	December 31 2009 (audited)
Series E	$ -	$ 11,950,000
Series F	13,677,000	13,680,000
Series G	25,732,000	25,732,000
	$ 39,409,000	$ 51,362,000

9 Convertible debentures (continued)

During the three months ended March 31, 2010 and the year ended December 31, 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.

March 31, 2010	Debt	Equity	Total
Convertible debentures			
Series F - 7.5%, due March 11, 2011	$ 12,788,695	$ 3,563,594	$ 16,352,289
Series G - 7.5%, due December 31, 2011	22,902,432	6,704,571	29,607,003
	35,691,127	10,268,165	45,959,292
Unamortized transaction costs	(855,777)	-	(855,777)
	$ 34,835,350	$ 10,268,165	$ 45,103,515

December 31, 2009 (audited)	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 three months ended March 31, 2010 of $710,009 (2009 - $666,355), which increases the debt component from the initial carrying amount, is included in financing expense.

The Series F debentures provide that the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan or a convertible debenture. The Trust is not in compliance with four first mortgage loans and one second mortgage loan totaling $123,615,262, as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayment of any of the loans, the Series F convertible debentures, with a face value of $13,677,000, may become payable on demand.

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

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 expire on January 12, 2011.

9 Convertible debentures (continued)

During the period from January 13, 2010 to March 31, 2010, the Trust purchased and cancelled $3,000 Series F debentures at an average price of $82.00 per $100.00. Subsequent to March 31, 2010, the Trust purchased and cancelled $7,000 Series F debentures at an average price of $82.46 per $100.00, and the Trust purchased and cancelled $33,000 Series G debentures at an average price of $81.88 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

10 Accounts payable and accrued liabilities

	March 31 2010	December 31 2009 (audited)
Accounts payable and accrued liabilities	$ 2,591,603	$ 1,727,737
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Construction costs payable	1,145,968	1,134,621
Mortgage and debenture interest payable	1,728,290	1,788,794
Mortgage guarantee fees payable	276,411	290,667
Tenant security deposits	1,889,971	1,815,366
Interest rate swaps	5,926,900	6,306,198
	$ 61,279,143	$ 60,783,383

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

Interest rate swaps

The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The fair value of the swap liability decreased by $379,298 for the three months ended March 31, 2010 (2009 - $2,443,974 increase) and is included in financing expense.

11 Bank indebtedness

Bank indebtedness consists of a revolving line of credit that the Trust obtained from a Canadian chartered bank in 2007 in the maximum amount of $5,000,000, bearing interest at prime plus 3.5% (2009 - prime) and repayable on demand. The line of credit is secured by a second mortgage on an income property. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at March 31, 2010, $3,615,000 was available to the Trust (2009 - $4,875,000).

12 Units

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

	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
			(audited)	(audited)
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,893,767	$101,503,281	17,588,081	$ 79,750,666
Maturity of Series E debentures	-	2,835,690	-	
Issued on distribution reinvestment plan	-	-	48,576	108,517
Issue costs	-	(12)	-	(6,502)
Purchased and cancelled under normal course issuer bid	-	-	(99,507)	(275,757)
Unit-based compensation	-	72,405	-	282,449
Exchange of Village West Class B LP units	-	-	356,617	2,139,702
Units issued on payment of distributions	-	-	-	19,504,206
Outstanding, end of period	17,893,767	$104,411,364	17,893,767	$101,503,281

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 three months ended March 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 three months ended March 31, 2010 the Trust has not purchased and cancelled any units under its normal course issuer bid. During the three months ended March 31, 2009 the Trust purchased and cancelled 99,507 units under its normal course issuer bid at a weighted average price of $2.77 per unit.

13 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 discounted market price of the units as determined under the policies of the Exchange on the date of grant. The options will have a maximum term of five years from the date of grant.

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

Unit-based compensation expense for the three months ended March 31, 2010 of $14,780 (2009 - $32,112), 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:

	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
	Units	Weighted Average Exercise Price	Units (audited)	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	-	-
Outstanding, end of period	1,094,500	$ 5.56	1,452,000	$ 5.56
Vested, end of period	880,000		1,156,800	

At March 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	685,000	577,300	July 26, 2011
5.30	120,000	120,000	June 8, 2012
5.10	267,000	160,200	January 7, 2013
	1,094,500	880,000	

14 Deferred unit plan

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

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

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

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

Deferred units granted to Trustees, and fully vested, for the three months ended March 31, 2010, totaled 92,765 (2009 - 28,352), and 338,476 aggregate deferred units were outstanding at March 31, 2010 (2009 - 52,152).

Unit-based compensation expense for the three months ended March 31, 2010, relating to deferred units granted was $57,625 (2009 - $56,219) and was recorded to expense the fair value unit-based compensation.

15 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $463,035 for the three months ended March 31, 2010 (2009 - $501,358).

16 Financing expense

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Interest on acquisition payable (Note 26)	$ 2,591,585	$ 1,979,621
Forgiveness of interest on acquisition payable	(1,691,585)	-
	900,000	1,979,621
Mortgage loan interest	4,009,204	3,705,852
Mortgage bond interest	36,780	-
Accretion of the debt component of mortgage bonds	17,006	-
Convertible debenture interest	856,495	977,975
Accretion of the debt component of convertible debentures	710,009	666,355
Amortization of transaction costs	281,243	285,170
Change in fair value of interest rate swaps	(379,298)	2,443,974
	$ 6,431,439	$ 10,058,947

17 Amortization

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Building	$ 1,896,986	$ 1,869,205
Furniture, equipment and appliances	325,279	322,902
Intangible assets, except for in-place leases	5,142	5,143
	2,227,407	2,197,250
Transaction costs	281,243	285,170
	$ 2,508,650	$ 2,482,420

18 Future income taxes

Future income taxes consists of the following components:

	March 31 2010	December 31 2009 (audited)
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 5,826,562	$ 7,063,859
Transaction costs	(148,817)	(139,610)
	5,677,745	6,924,249
Valuation allowance	(5,677,745)	(6,924,249)
	$ -	$ -

	Three Months Ended March 31 2010	2009
Future income tax expenses (recoveries):		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 1,237,297	$ (4,531,225)
Transaction costs	9,207	64
	1,246,504	(4,531,161)
Valuation allowance	(1,246,504)	7,229,965
	$ -	$ 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 assets to nil at March 31, 2010.

19 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

	Three Months Ended March 31	
	2010	2009
Loss	$ (3,969,922)	$ (7,033,698)
Diluted loss	$ (3,969,922)	$ (7,033,698)
Units	17,893,767	17,467,741
Vested deferred units	235,244	901
Weighted average number of units, basic and diluted	18,129,011	17,468,642

Discontinued Operations

	Three Months Ended March 31	
	2010	2009
Income (loss)	$ 7,547,136	$ (1,497,021)
Diluted income (loss)	$ 7,547,136	$ (1,497,021)
Units	17,893,767	17,467,741
Vested deferred units	235,244	901
Weighted average number of units, basic and diluted	18,129,011	17,468,642

20 Supplementary cash flow information

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Interest paid and received		
Interest paid on mortgage loans	$ 3,982,901	$ 3,728,421
Interest paid on acquisition payable	$ 900,000	$ 1,376,772
Interest paid on convertible debentures	$ 980,082	$ 991,000
Interest received on mortgage loans receivable	$ 71,750	$ -
Other interest received	$ 123,128	$ 205,882
Cash distributions		
Distributions declared	$ -	$ 1,635,079
Distributions to participants in the DRIP	-	(104,343)
Distributions paid in cash	$ -	$ 1,530,736

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 the family trust of an officer and Trustee of the Trust.

21 Related party transactions (continued)

Management agreement
On March 29, 2010, the property management agreement with Shelter Canadian Properties Limited was renewed for a term expiring on 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. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees are capitalized to income properties; and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $427,996 for the three months ended March 31, 2010 (2009 - $684,868). 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 $79,486 for the three months ended March 31, 2010 (2009 - $201,073). Property management fees are included in property operating costs of discontinued operations and during the period of major in-suite renovations or development are capitalized to the cost of assets of properties held for sale.

The Trust incurred leasing commissions on commercial income properties included in discontinued operations payable to Shelter Canadian Properties Limited of $2,407 for the three months ended March 31, 2010 (2009 - $32,614). The amounts are capitalized to the cost of properties held for sale.

Included in accounts payable and accrued liabilities at March 31, 2010 is a balance of $29,357 (2009 - $65,076), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Included in accounts payable and accrued liabilities of discontinued operations at March 31, 2010 is a recoverable balance of $16,742 (2009 - $11,767), to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
On March 29, 2010, the services agreement with Shelter Canadian Properties Limited was renewed for a term expiring on December 31, 2015. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash.

The Trust incurred service fees of $437,885 for the three months ended March 31, 2010 (2009 - $494,862). Service fees are included in trust expense.

21 Related party transactions (continued)

Financing

On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bears interest at 7.5%, is due on June 1, 2010 and is secured by a second mortgage charge on an income property. The loan is included in mortgage loans payable at March 31, 2010. A processing fee of $15,000 was paid to 2668921 Manitoba Ltd. in regard to the loan and is included in transaction costs. Interest of the second mortgage loan for the three months ended March 31, 2010 of $9,555 (2009 - nil) is included in financing expense.

On June 30, 2009, the Trust obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $5 Million on September 2, 2009. The loan bears interest at 7.5%, is due on June 30, 2010 and is secured by a third mortgage charge on an income property and an assignment of a $500,000 mortgage loan receivable.

During the three months ended March 31, 2010, advances and repayments under the revolving loan commitment totaled $5,080,000 and $5,080,000 respectively, (2009 - nil and nil respectively). Interest on the loan commitment for the three months ended March 31, 2010 of $19,113 (2009 - nil) is included in financing expense.

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

Guarantees

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

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:

Liquidity risk

The Trust is in breach of the debt service coverage requirements on mortgage loans totaling $123,615,262 on properties in Fort McMurray, Alberta and Moose Jaw, Saskatchewan. 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 2010 which satisfy the existing debt service coverage requirements. The Trust intends to pursue a sale of the property in Moose Jaw in 2010. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust.

22 Financial instruments and risk management (continued)

Liquidity risk (continued)

The cross-default clause of the Series F secured convertible debentures provides that the convertible debentures may become payable, on demand, if the repayment of a mortgage loan is accelerated by a lender. If, at a future date, one of the lenders demands the repayment of the loans, the Series F convertible debentures, with a face value of $13,677,000, may become payable on demand.

The Bond Indenture which governs the five year 9% second mortgage bonds of LREIT provides for the bonds to become payable on demand in the event that the Series F or Series G debentures or any of the first mortgages on Beck Court, Nova Court, Norglen Terrace, Three Lakes Village or Westhaven Manor are in default for more than ten days and the default results in the acceleration of debt payments. Accordingly, there is a risk that the five year 9% second mortgage bonds, with a face value of $6,780,000, will become payable on demand in the event that the existing debt service coverage breaches result in the acceleration of repayments for the Series F debentures.

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

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

As at March 31, 2010, the weighted average term to maturity of the fixed rate mortgages on income properties is 3.9 years (2009 - 4.1 years).

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

Year ending December 31	Mortgage Loans Payable	Convertible Debentures	Total
2010 - Remainder of year	$148,846,789	-	$148,846,789
2011	8,490,771	$ 39,409,000	47,899,771
2012	34,361,601	-	34,361,601
2013	39,654,242	-	39,654,242
2014	32,864,141	-	32,864,141
Thereafter	16,776,528	-	16,776,528
	$280,994,072	$ 39,409,000	$320,403,072

In accordance with GAAP, the balance of the mortgage loans in the amount of $123,615,262 that are not in compliance with minimum debt service requirements, has been included in principal repayments in 2010.

22 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 March 31, 2010 the percentage of fixed rate mortgage loans to total mortgage loans was 74% (2009 - 74%).

The Trust has floating rate mortgages on income properties (excluding floating rate mortgages with interest rates fixed by use of interest rate swap arrangements) totaling $72,629,959, or 26% of the total mortgage loans at March 31, 2010 (2009 - 26%).

As at March 31, 2010, the Trust has total contractual mortgage principal maturities on income properties to December 31, 2012 of $64,611,862, representing 23% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $646,119 per year.

As at March 31, 2010, the Trust had floating rate mortgages totaling $72,629,959. Should interest rates change by 1%, financing expense would change by $726,300 per year.

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

Credit risk

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

Thirteen properties, representing 74% of rentals from income propertie, are located in Fort McMurray, Alberta. The credit risk associated with the tenants in Fort McMurray is mitigated due to the long-term nature of the oil sands industry and the credit worthiness of the commercial tenants which comprise a significant portion of the rent receivable. The Trust has a corporate tenant that accounts for 18% of rentals from income properties for the three months ended March 31, 2010.

22 Financial instruments and risk management (continued)

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

	March 31 2010	December 31 2009 (audited)
Rent receivable overdue:		
0 to 30 days	$ 178,472	$ 132,944
31 to 60 days	30,348	33,133
More than 60 days	52,488	242,045
	$ 261,308	$ 408,122

A reconciliation of allowance for doubtful accounts is as follows:

	March 31 2010	December 31 2009 (audited)
Balance, beginning of period	$ 92,205	$ 70,119
Amount charged to bad debt expense relating to impairment of rent receivable	146,918	183,558
Amounts written off as uncollectible	(46,561)	(161,472)
Balance, end of period	$ 192,562	$ 92,205
Amount charged to bad debts as a percent of rentals from income properties	1.66%	0.44%

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

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

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

Financial instruments carried at fair value include cash, restricted cash, interest rate swaps and bank indebtedness. Except for interest rate swaps where the value is imputed based on quoted interest rates (Level 2), fair value is determined based on quoted market price (Level 1).

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

22 Financial instruments and risk management (continued)

Fair values (continued)

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 March 31, 2010 is $8,860,000 (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 mortgages with similar terms and conditions. The estimated fair value of mortgage loans payable at March 31, 2010 is $281,600,000 (December 31, 2009 - $291,000,000).

The fair value of the mortgage bonds payable 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 payable has been estimated based on the current market rate for second mortgage loans with similar terms and conditions. The estimated fair value of the mortgage bonds payable at March 31, 2010 is $6,100,000 (December 31, 2009 - nil).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable at March 31, 2010 is $32,100,000 (December 31, 2009 - $31,300,000).

23 Management of capital

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

	March 31 2010	December 31 2009 (audited)
Mortgage loans payable	$280,994,072	$282,552,251
Mortgage bonds payable	4,685,022	-
Convertible debentures		
Debt component	35,691,127	46,943,687
Equity component	10,268,165	13,104,637
	45,959,292	60,048,324
Trust units	104,411,364	101,503,281
Warrants	2,111,984	-
	$438,161,734	$444,103,856

23 *Management of capital (continued)*

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

The overall capital management strategy addresses the following considerations:

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

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

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

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

24 *Segmented financial information*

The assets are located in Fort McMurray, Alberta (13 properties), Yellowknife, Northwest Territories (3 properties) and other locations in Canada (5 properties).

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

Three months ended March 31, 2010:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	6,585,919	1,612,445	665,015	-	8,863,379
Interest and other income	104,404	7,421	6,402	90,401	208,628
Property operating costs	2,664,372	680,727	341,194	-	3,686,293
Financing expense	3,752,674	311,356	180,085	2,187,324	6,431,439
Amortization	1,837,064	234,426	155,917	-	2,227,407
Income (loss) from continuing operations	(1,563,784)	393,358	(5,784)	(2,793,712)	(3,969,922)
Total assets from continuing operations	333,441,642	37,925,427	16,354,022	13,307,208	401,028,299

24 Segmented financial information (continued)

Three months ended March 31, 2009:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	10,049,628	1,530,521	691,290	-	12,271,439
Interest and other income	174,045	5,294	10,510	16,033	205,882
Property operating costs	2,880,547	632,647	298,634	-	3,811,828
Financing expense	7,498,732	317,592	211,489	2,031,134	10,058,947
Amortization	1,819,907	223,335	154,008	-	2,197,250
Income (loss) from continuing operations	(1,975,507)	362,241	37,663	(5,458,095)	(7,033,698)
Total assets from continuing operations	341,121,675	38,765,345	74,675,605	546,615	455,109,240

25 Commitments

Acquisition

Parsons Landing Apartments

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

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

The permanent mortgage financing for Parsons Landing is uncompleted and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing to July 31, 2010, with interest of $6,104,624 from January 1, 2010 to July 31, 2010. The vendor received payment of $500,000 on May 12, 2009 to be applied to the balance owing. The vendor received payment of interest payments of $300,000 per month from March to December 2009 and has forgiven interest in excess of $300,000 per month to December 31, 2009 in the amount of $5,841,638. The vendor has agreed to accept interest payments of $300,000 per month for January to July 2010. On closing, the vendor has agreed to provide a credit of $1,440,000 for furniture purchased by the Trust and also a $12,000,000 second mortgage loan, with a 15 month term. The vendor has also agreed to forgive interest in excess of $300,000 per month for the period from January 1 to July 31, 2010 of $4,004,624 contingent on the closing of the sale by July 31, 2010. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $30,000,000 by June 30, 2010. The previous reduction of the purchase price of $3,100,000, on closing, has been rescinded in exchange for a reduced interest rate on the loan payable to the vendor.

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

25 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 condominium is managed by Pacer Management Inc. for a term expiring 2012.

26 Contingent consideration on acquisition

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

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

27 Comparative figures

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