LANESBOROUGH REIT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31 2012	December 31 2011
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$425,052,391**	$451,857,370
Loans and receivables	**500,000**	500,000
Defeasance assets	**3,132,596**	3,168,193
Restricted cash (Note 5)	**12,692,549**	15,246,600
Total non-current assets	**441,377,536**	470,772,163
Current assets		
Cash	**1,120,359**	1,170,619
Rent and other receivables	**2,396,080**	2,328,256
Deposits and prepaids	**1,132,382**	1,209,170
	4,648,821	4,708,045
Non-current assets classified as held for sale (Note 6)	**80,196,446**	79,739,862
Total current assets	**84,845,267**	84,447,907
TOTAL ASSETS	**$526,222,803**	$555,220,070
LIABILITIES AND EQUITY		
Non-current liabilities		
Long-term debt (Note 7)	**$140,306,674**	$130,476,452
Total non-current liabilities	**140,306,674**	130,476,452
Current liabilities		
Trade and other payables (Note 8)	**61,992,763**	65,901,274
Current portion of long-term debt (Note 7)	**200,201,394**	208,484,873
Deposits from tenants	**2,458,848**	2,829,861
	264,653,005	277,216,008
Non-current liabilities classified as held for sale (Note 6)	**66,861,191**	67,016,797
Total current liabilities	**331,514,196**	344,232,805
Total liabilities	**471,820,870**	474,709,257
Total equity	**54,401,933**	80,510,813
TOTAL LIABILITIES AND EQUITY	**$526,222,803**	$555,220,070

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

(unaudited)

The accompanying notes are an integral part of these financial statements

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31	
	2012	**2011**
Rentals from investment properties	**$ 10,383,920**	$ 9,150,517
Property operating costs	**4,425,206**	4,027,510
Net operating income	**5,958,714**	5,123,007
Interest income	**74,567**	77,667
Forgiveness of debt (Note 7)	**859,561**	-
Interest expense (Note 9)	**(7,117,932)**	(8,716,070)
Trust expense	**(578,883)**	(771,745)
Profit (loss) on sale of investment properties	**324,225**	-
Fair value gains (losses) (Note 4)	**1,861,617**	(300,707)
Impairment of investment property (Note 4)	**(27,800,000)**	-
Loss before taxes and discontinued operations	**(26,418,131)**	(4,587,848)
Income tax expense (recovery)	**-**	(117,659)
Loss before discontinued operations	**(26,418,131)**	(4,470,189)
Income from discontinued operations (Note 6)	**332,236**	723,581
Loss and comprehensive loss	**$ (26,085,895)**	$ (3,746,608)
Loss per unit before discontinued operations: Basic and diluted	**$ (1.425)**	$ (0.243)
Income per unit from discontinued operations: Basic and diluted	**$ 0.018**	$ 0.039
Loss and comprehensive loss per unit: Basic and diluted	**$ (1.407)**	$ (0.204)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Issued capital (Note 11)		
Balance, beginning of period	**$107,860,241**	$107,860,241
Units purchased under normal course issuer bid	**(41,735)**	-
Balance, end of period	**107,818,506**	107,860,241
Contributed surplus		
Balance, beginning of period	**17,108,697**	6,936,834
Value of deferred units granted	**18,750**	18,750
Value of unit options granted	**-**	2,253
Maturity of Series F debentures	**-**	3,507,495
Issue of warrants	**-**	334,874
Debentures purchased under normal course issuer bid	**-**	11,510
Balance, end of period	**17,127,447**	10,811,716
Equity component of debentures		
Balance, beginning of period	**-**	9,749,068
Debentures purchased under normal course issuer bid	**-**	(11,510)
Maturity of Series F debentures	**-**	(3,507,495)
Balance, end of period	**-**	6,230,063
Cumulative earnings (losses)		
Balance, beginning of period	**22,991,910**	17,956,679
Loss and comprehensive loss	**(26,085,895)**	(3,746,608)
Balance, end of period	**(3,093,985)**	14,210,071
Cumulative distributions to unitholders		
Balance, beginning and end of period	**(67,450,035)**	(67,450,035)
Total equity	**$ 54,401,933**	$ 71,662,056

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2012	2011
Operating activities		
Loss and comprehensive loss	**$ (26,085,895)**	$ (3,746,608)
Adjustments to reconcile loss to cash flows		
Fair value losses (gains)	**(1,861,617)**	300,707
Profit (loss) on sale of investment properties	**(324,225)**	-
Impairment of investment property	**27,800,000**	-
Forgiveness of debt	**(859,561)**	-
Accrued rental revenue	**102,860**	(39,908)
Unit-based compensation	**18,750**	21,003
Deferred income taxes	**-**	(64,989)
Interest income	**(74,567)**	(77,667)
Interest received	**123,221**	77,667
Interest expense	**8,624,583**	9,528,170
Interest paid	**(6,779,536)**	(7,289,317)
Cash from operations	**684,013**	(1,290,942)
Decrease (increase) in rent and other receivables	**(317,394)**	(185,333)
Decrease (increase) in deposits and prepaids	**44,061**	(45,633)
Increase (decrease) in tenant deposits	**(397,859)**	358,019
Increase (decrease) in trade and other payables	**(967,734)**	1,935,009
	(954,913)	771,120
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**30,850,000**	400,000
Proceeds of mortgage bond financing	**-**	3,363,000
Repayment of mortgage loans on refinancing	**(25,486,971)**	-
Repayment of debentures	**-**	(13,598,000)
Repayment of long-term debt	**(2,156,437)**	(2,141,614)
Proceeds (repayment) of line of credit	**-**	1,915,000
Proceeds of revolving loan commitment	**4,200,000**	3,650,000
Repayment of revolving loan commitment	**(6,000,000)**	(1,000,000)
Proceeds of Shelter Canadian Properties Limited advances	**5,594,000**	-
Repayment of Shelter Canadian Properties Limited advances	**(6,777,000)**	-
Expenditures on transaction costs	**(983,269)**	(651,150)
Units purchased and cancelled under normal course issuer bid	**(41,732)**	-
Debentures purchased and cancelled under normal course issuer bid	**(351,000)**	(12,246)
	(1,152,409)	(8,075,010)
Cash provided by (used in) investing activities		
Capital expenditures on investment properties	**(168,467)**	(300,707)
Capital expenditures on property and equipment	**(4,895)**	(30,104)
Decrease (increase) in defeasance assets	**35,597**	-
Proceeds of sale	**(38,318)**	-
Change in restricted cash	**2,553,653**	8,214,978
	2,377,570	7,884,167
Cash increase (decrease)	**270,248**	580,277
Add (deduct) decrease (increase) in cash from discontinued operations (Note 6)	**(320,508)**	57,565
	(50,260)	637,842
Cash, beginning of period	**1,170,619**	925,046
Cash, end of period	**$ 1,120,359**	$ 1,562,888

(unaudited)

The accompanying notes are an integral part of these financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012

1 *Organization*

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

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

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

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

2 *Basis of presentation and continuing operations*

The condensed consolidated financial statements of the Trust for the three months ended March 31, 2012 ("Financial Statements"), have been prepared in accordance with International Accounting Standards ("IAS") 34. The Financial Statements were authorized for issue in accordance with a resolution of the Board of Trustees on May 11, 2012.

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

The Financial Statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust sustained losses from investment properties of $26,418,131 for the three months ended March 31, 2012 (2011 - $4,470,189); has a working capital deficit of $9,670,156 as at March 31, 2012 (December 31, 2011 - $13,510,274); and was in breach of net operating income achievement and debt service coverage and other covenant requirements on six mortgage loans and a swap mortgage loan during 2010, 2011 and as of March 31, 2012.

The Trust is in breach of a net operating income achievement requirement of a $22,521,455 first mortgage loan for six properties in Fort McMurray, Alberta. The Trust is also in breach of a 1.15 debt service coverage requirement of a $21,086,588 swap mortgage loan on a property in Fort McMurray, Alberta with the same lender. The Trust has notified the lender of the breaches and is providing operating information to the lender on a monthly basis.

2 Basis of presentation and continuing operations (continued)

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $70,345,300, on three properties in Fort McMurray, Alberta. The Trust is also in breach of the 1.1 times debt service coverage requirement of a $14,782,637 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. The three mortgage loans in breach of debt coverage requirements, in the aggregate amount of $85,127,937 have matured. A forbearance to December 31, 2011 has been obtained for the three mortgage loans.

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

The Trust is in breach of a covenant of a $19,551,770 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of a secondary mortgage charge. The lender demanded that the secondary mortgage charge be discharged and the Trust has not complied.

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

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

Management believes that the going concern assumption is appropriate for the Financial Statements as the increasing economic activity in Fort McMurray has resulted in improved occupancy levels, the Trust has successfully sold 20 properties, including 2 properties which are scheduled to close subsequent to March 31, 2012 (Note 17), the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust extended the maturity date for the Series G debentures to 2015 and the Trust has successfully refinanced two of the first mortgage loans with covenant breaches and the covenant breach at another property has been satisfied through improved operations.

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

2 Basis of presentation and continuing operations (continued)

Statement of compliance
The Financial Statements of the Trust have been prepared in accordance with International Accounting Standards ("IAS") 34 using the same presentation and accounting policies under International Financial Reporting Standards ("IFRS") as disclosed in the December 31, 2011 annual report. The Financial Statements are based on IFRS standards issued and outstanding as at May 11, 2012.

The December 31, 2011 annual report is available on SEDAR at www.sedar.com.

3 Significant accounting judgments, estimates and assumptions

In addition to the significant judgments, estimates and assumptions which are outlined in the December 31, 2011 audited financial statements, the preparation of the Financial Statements required judgments and estimates concerning the fair value of Parsons Landing, such as the fair value of the entitlement to insurance proceeds and the impaired value of the property as a result of the February 2012 fire.

4 Investment properties

The carrying amount of investment properties is summarized as follows:

	Three Months Ended March 31	
	2012	2011
Balance, beginning of period	$451,857,370	$439,300,000
Additions - capital expenditures	168,467	300,707
Fair value gains (losses)	1,861,617	(300,707)
Dispositions (a)	(1,035,063)	-
Impairment of investment property (b)	(27,800,000)	-
Balance, end of period	$425,052,391	$439,300,000

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

4 *Investment properties (continued)*

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

	March 31 2012		December 31 2011	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.25 %	7.50 %	7.50 %	7.50 %
Yellowknife	7.50 %	8.75 %	7.50 %	8.75 %
Major Canadian cities	5.25 %	5.25 %	5.25 %	5.25 %
Impaired property	7.13 %	7.13 %	N/A	N/A
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	7.50 %	7.50 %	7.50 %	7.50 %

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

	March 31 2012		December 31 2011	
	Low	High	Low	High
Residential properties				
Fort McMurray	9.25 %	9.50 %	8.75 %	8.75 %
Yellowknife	9.50 %	10.75 %	8.75 %	10.00 %
Major Canadian cities	7.25 %	7.25 %	6.25 %	6.25 %
Impaired property	9.13 %	9.13 %	N/A	N/A
Other	8.25 %	10.00 %	7.25 %	9.25 %
Commercial properties	9.50 %	9.50 %	8.50 %	8.50 %

To assist in the determination of fair value at March 31, 2012, external appraisals were obtained in 2012 for one property having an appraised value of $45.7 Million representing 11% of the total carrying value of investment properties. Appraisals were obtained in 2011 for nine properties having an aggregate appraised value of $286.9 Million representing 68% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 15% of the total carrying value of investment properties and in 2009 for one property having an appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

(a) Property Disposition

For the three month period ended March 31, 2012, the Trust sold three condominium units at the Lakewood Townhomes for gross proceeds of $1,470,700 and a gain on sale of $324,225. The net sale proceeds were applied to the first mortgage loan secured by the property.

(b) Impairment of investment property

On February 5, 2012, a fire occurred at Parsons Landing, a luxury residential property located in Fort McMurray, Alberta, which destroyed one wing of the property and resulted in substantial damage to the other two wings. The property is insured with property and revenue loss coverage and losses resulting from the fire are covered by insurance.

4 Investment properties (continued)

(b) Impairment of investment property (continued)

The time period for reconstruction of the property is estimated to be more than one year, and occupancies are unlikely until the reconstruction has been completed.

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total cost of $63,200,000, including GST. Parsons Landing has been reflected as an investment property and has been carried at fair value. The carrying value of the property at December 31, 2011 was $47,800,000.

The permanent mortgage financing for the purchase of Parsons Landing is uncompleted and, as a result, the builder agreed to several extensions of the closing date under the purchase agreement to September 30, 2012, with a requirement for LREIT to submit an additional payment of $2 million on February 17, 2012. The builder also agreed to accept interest payments of $300,000 per month to September 30, 2012.

As of March 31, 2012, the balance owing in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000.

The purchase agreement provided that, on closing, the builder agreed to provide a second mortgage to a maximum amount of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, and that the Trust make the additional payment of $2,000,000 on February 17, 2012 and $3,000,000 at closing. On closing, the builder also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. In addition, 2668921 Manitoba Ltd. agreed to maintain the revolving loan commitment with the Trust, in the amount of $8,800,000, until closing. The purchase agreement also provided that the Trust may also elect at any time to surrender possession of Parsons Landing, along with the furniture, to the builder for the amount of $1.

The builder retained title to the property and is responsible to insure the property for replacement cost and revenue loss coverage. The additional payment of $2,000,000, which was due on February 17, 2012, was deferred by LREIT due to the destruction of the property.

The builder has commenced a legal claim for payment of all amounts due under the purchase agreement, or an order of foreclosure. The Trust is contesting the claim and seeking an agreement which addresses the extension of the closing date to 90 days after the reconstruction period; the commitment of the builder to deliver the property at closing in accordance with the term of the original construction specifications and a determination of revenue loss proceeds under the terms of the insurance policies.

Management expects that an agreement will be negotiated.

The purchase agreement relating to Parsons Landing provided for the builder to forgive interest in excess of $300,000 per month, for the period from January 1, 2010 to September 30, 2012 in the amount of $19,010,579, on closing of the acquisition of Parsons Landing on September 30, 2012. The Trust has not recorded interest expense in excess of $300,000 per month as Management expects that the closing date for the acquisition of Parsons Landing will be extended until 2013, 90 days after reconstruction of the property.

4 Investment properties (continued)

Impact on the Financial Statements
The Financial Statements reflect the following:

Impairment of investment property
In accordance with IFRS, the land, building and paving of the investment property have been written down from the carrying value of $46,675,000 at December 31, 2011 to $20,000,000, which represents the fair value of the unaffected portion of the investment property. In addition, the furniture and equipment, which is owned by the Trust, was also written down from the carrying value of $1,125,000 to nil. The Financial Statements reflect an Impairment of investment property in the total amount of $27,800,000.

Insurance proceeds
Notwithstanding that the builder is responsible to insure the property, the Trust is entitled under the terms of the purchase agreement to benefit from the proceeds of insurance to reconstruct the building and replace revenue losses. In addition, the Trust is entitled to receive insurance proceeds for the replacement of furniture and equipment.

In accordance with IFRS, the above noted entitlements may be carried at fair value once the receipt of the amounts are "virtually certain". As the amount and timing of the payment of the insurance proceeds have not been finalized, virtual certainty has not been satisfied and the Trust has not recorded any amounts in regard to insurance proceeds.

Net operating income and interest expense
The Financial Statements reflect revenues and expenses for the operations of Parsons Landing from January 1 to February 5, 2012, the date of the fire.

Subsequent to February 5, 2012, the Financial Statements reflect monthly interest of $300,000 with respect to the acquisition payable. Payment of the $300,000 monthly interest to the builder has been deferred pending the receipt of revenue loss insurance proceeds.

5 Restricted cash

	March 31 2012	December 31 2011
Tenant security deposits	$ 2,412,634	$ 2,792,816
Reserves required by mortgage loan agreements	10,279,915	12,453,784
	$ 12,692,549	$ 15,246,600

6 Non-current assets and non-current liabilities of properties held for sale

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

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at March 31, 2012, are as follows:

	March 31 2012	December 31 2011
ASSETS		
Assets in discontinued operations		
Property and equipment	$ 78,388,766	$ 78,383,871
Cash	708,584	388,076
Restricted cash	331,547	331,149
Rent and other receivables	131,248	33,192
Deposits, prepaids and other	636,301	603,574
Non-current assets classified as held for sale	80,196,446	79,739,862
LIABILITIES		
Liabilities in discontinued operations		
Long term debt	$ 59,457,229	$ 59,543,769
Deferred tax	5,654,133	5,654,133
Trade and other payables	1,155,798	1,198,018
Deposits from tenants	594,031	620,877
Non-current liabilities classified as held for sale	$ 66,861,191	$ 67,016,797

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

	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Rental income	$ 4,005,251	$ 3,703,887
Property operating expenses	2,267,840	2,058,537
Net operating income	1,737,411	1,645,350
Interest expense	1,506,651	812,100
Current tax expense (recovery)	(101,476)	56,999
Deferred tax expense	-	52,670
Income from discontinued operations	$ 332,236	$ 723,581
Cash inflow from operating activities	$ 405,627	$ 823,834
Cash outflow from financing activities	(79,826)	(836,129)
Cash outflow from investing activities	(5,293)	(45,270)
Increase (decrease) in cash from discontinued operations	$ 320,508	$ (57,565)

7 Long-term debt

	March 31 2012	December 31 2011
Secured debt		
Mortgage loans (a)	$ 256,436,064	$ 254,863,171
Swap mortgage loans (b)	42,460,970	42,942,356
Mortgage bonds (c)	14,154,892	14,058,307
Debentures (d)	24,961,000	25,312,000
Defeased liability	2,742,151	2,755,325
Total secured debt	340,755,077	339,931,159
Accrued interest payable	3,364,144	2,019,182
Unamortized transaction costs		
Mortgage loans	(1,452,304)	(731,004)
Swap mortgage loans	(119,310)	(95,187)
Mortgage bonds	(1,214,330)	(1,269,679)
Debentures	(783,995)	(849,554)
Defeased liability	(41,214)	(43,592)
Total unamortized transaction costs	(3,611,153)	(2,989,016)
	340,508,068	338,961,325
Less current portion		
Mortgage loans	(176,718,941)	(185,523,843)
Swap mortgage loans	(21,799,219)	(21,913,931)
Defeased liability	(54,568)	(53,813)
Accrued interest payable	(3,364,144)	(2,019,182)
Transaction costs	1,735,478	1,025,896
Total current portion	(200,201,394)	(208,484,873)
	$ 140,306,674	$ 130,476,452
Current portion of unamortized transaction costs		
Mortgage loans	$ 1,151,913	$ 458,322
Swap mortgage loans	111,254	113,145
Mortgage bonds	246,045	235,975
Debentures	216,597	208,905
Defeased liability	9,669	9,549
	$ 1,735,478	$ 1,025,896

7 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates			
	March 31 2012	December 31 2011	March 31 2012	December 31 2011
First mortgage loans				
Fixed rate	5.5%	5.6%	$ 142,608,127	$ 149,648,260
Variable rate	8.6%	8.6%	68,151,922	69,895,499
Total first mortgage loans	6.5%	6.6%	210,760,049	219,543,759
Second mortgage loans				
Fixed rate	9.0%	11.4%	400,000	1,935,000
Variable rate	9.3%	8.3%	45,276,015	33,384,412
Total second mortgage loans	9.3%	8.4%	45,676,015	35,319,412
Total	7.0%	6.9%	$ 256,436,064	$ 254,863,171

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage and restrictions on the registration of secondary charges against the title to a property. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $127,201,162, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $127,201,162 is included in current portion of mortgage loans. A forbearance to December 31, 2011 was obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $85,127,937. These loans have matured and are payable on demand.

Except for the three mortgage loans in the amount of $85,127,937 and a $28,306,403 mortgage loan which matured on April 5, 2012, all mortgages which have matured prior to May 11, 2012 have been renewed or refinanced. Management expects that the $28,306,403 mortgage loan will be renewed for a one year term at 3%.

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.

On January 30, 2012, a mortgage loan in the amount of $24,811,531 was retired by the application of restricted cash deposits in the amount of $2,701,970 and a cash payment of $21,250,000 resulting in the forgiveness of debt in the amount of $859,561.

7 *Long-term debt (continued)*

(b) Swap mortgage loans

	March 31 2012	December 31 2011
Face value of mortgage loans, subject to swaps	$ 39,796,270	$ 40,092,981
Fair value of interest rate swaps	2,664,700	2,849,375
	42,460,970	42,942,356

The swap mortgage loans are subject to covenants, including debt service coverage requirements. The Trust is not in compliance with one swap mortgage loan totaling $21,086,588, as a result of a breach of the debt service coverage requirement. In accordance with IFRS the total balance of $21,086,588 is included in current portion of swap mortgage loans.

(c) Mortgage bonds and warrants

The face value of the 9% mortgage bonds due December 23, 2015 is $16,000,000 (December 31, 2011 - $16,000,000).

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

	March 31 2012	December 31 2011
Balance, beginning of period	$ 14,058,307	$ 10,826,910
Value at issue	-	2,910,467
Accretion	96,585	320,930
Balance, end of period	14,154,892	14,058,307

(d) Debentures

At March 31, 2011, the carrying value and face value of the 9.5% Series G debentures due February 28, 2015 is $24,961,000 (December 31, 2011 - $25,312,000).

8 Trade and other payables

	March 31 2012	December 31 2011
Accounts payable - vendor invoices	$ 1,204,390	$ 2,468,534
Accrued payables	1,484,790	1,139,695
Prepaid rent	1,383,583	1,390,045
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	10,200,000	12,000,000
Interest-free advances from Shelter Canadian Properties Limited	-	1,183,000
	$ 61,992,763	$ 65,901,274

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

9 Interest expense

	Three Months Ended March 31 2012	2011
Mortgage loan interest	$ 4,439,842	$ 4,861,557
Swap mortgage loan interest	576,945	585,450
Change in fair value of interest rate swaps	(184,675)	(189,869)
Mortgage bond interest	360,000	360,000
Accretion of mortgage bonds	96,585	53,052
Debenture interest	591,200	732,586
Accretion of the debt component of debentures	-	551,073
Amortization of transaction costs	338,035	862,221
Interest on acquisition payable	900,000	(829,364)
	$ 7,117,932	$ 8,716,070

10 Per unit calculations

Per unit calculations reflect the following:

	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Loss and diluted loss before discontinued operations	$ (26,418,131)	$ (4,470,189)
Income and diluted income from discontinued operations	332,236	723,581
Loss and diluted loss	$ (26,085,895)	$ (3,746,608)

	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Weighted average number of units:		
Units	17,943,375	17,988,339
Deferred units	597,536	399,419
Total basic and diluted	18,540,911	18,387,758

11 Units

	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,988,339	$107,860,241	17,988,339	$107,860,241
Purchased and cancelled under normal course issuer bid	(79,328)	(41,735)	-	-
Outstanding, end of period	17,909,011	$107,818,506	17,988,339	$107,860,241

12 Unit option plan

Unit-based compensation expense for the three months ended March 31, 2012 of nil (2011 - $2,253), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

13 Deferred unit plan

Deferred units granted to Trustees, and fully vested, totaled 33,482 for the three months ended March 31, 2012 (2011 - 36,765) and 631,018 aggregate deferred units were outstanding at March 31, 2012 (2011 - 436,184).

Unit-based compensation expense of $18,750 for the three months ended March 31, 2012 (2011 - $18,750) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

14 Related party transactions

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

Management agreement
The Trust has entered into a property management agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes and Siena Apartments. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regard to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work. Property management fees are included in property operating costs; leasing fees and tenant improvement fees are capitalized to income properties; and, during the period of major in-suite renovations or development, renovation fees are capitalized to the cost of buildings and properties under development.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $389,361 for the three months ended March 31, 2012 (2011 - $368,068). Property management fees are included in property operating costs.

The Trust incurred leasing commissions on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of nil for the three months ended March 31, 2012 (2011 - $2,097).

The Trust incurred renovation fees on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of nil for the three months ended March 31, 2012 (2011 - nil).

Included in trade and other payables at March 31, 2012 is a recoverable balance of $40,420 (December 31, 2011 - payable balance of $13,641), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust has entered into a services agreement with Shelter Canadian Properties Limited, the current term of which expires on December 31, 2019. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. The Trust pays service fees equal to 0.3% of the gross book value of the assets of the Trust, excluding cash, fair value adjustments and defeasance assets.

The Trust incurred service fees of $423,442 for the three months ended March 31, 2012 (2011 - $426,699). Service fees are included in trust expense.

Included in trade and other payables at March 31, 2012 is a balance of nil (2011- $425,833) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

14 Related party transactions (continued)

Services Fee and Renovation Fee for Lakewood Townhomes Condominium Sales Program

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

The Trust incurred service fees of $77,213 for the three months ended March 31, 2012 (2011 - nil) and renovation fees of $426 for the three months ended March 31, 2012 (2011 - nil).

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

Financing

On January 1, 2011, the Trust had a $10 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $12 Million on June 8, 2011. The revolving loan bears interest at 9.75% subject to maximum interest of $162,594 to March 31, 2012 (2011 - 14% to June 30 and 11% to December 31), is due on March 31, 2012 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 March 31, 2012, $10,200,000 has been drawn and is included in trade and other payables.

Effective April 1, 2012, the revolving loan commitment from 2668921 Manitoba Ltd. was increased to $15 Million bears interest at 10% and is due August 31, 2012. The renewal encompassed the payment of a $75,000 extension fee.

Interest on the revolving loan of $162,594 for the three months ended March 31, 2012 (2011 - $268,337) is included in interest expense.

Included in accrued interest payable at March 31, 2012 is a balance of nil (2011- $293,943) payable to 2668921 Manitoba Ltd. in regard to outstanding interest on the revolving loan.

During the three months ended March 31, 2012, Shelter Canadian Properties Limited advanced $5,594,000 on an interest-free basis as an interim funding measure. LREIT made repayments of $6,777,000 resulting in an outstanding balance of nil (2011 - 1,183,000) at March 31, 2012.

The revolving loan commitment and the interest-free advances from Shelter Canadian Properties Limited were approved by the independent Trustees. Mr. Arni Thorsteinson abstained from voting in regard to all matters concerning the revolving loan commitment and the interest-free advances from Shelter Canadian Properties Limited.

Guarantees

Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited. No fees were charged to the Trust in regard to the guarantees.

15 Segmented financial information

Operating segments are established on a geographic basis comprised of properties located in Fort McMurray and properties located in other areas ("Other Operating Properties"). Commencing in the first quarter of 2012, an Impaired Property segment has been established to disclose the operations of Parsons Landing.

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

Three months ended March 31, 2012:

	Investment Properties				
	Fort McMurray	Other Operating Properties	Impaired Property	Trust	Total
Rental revenue	6,362,137	3,627,356	394,427	-	10,383,920
Property operating costs	2,332,624	1,798,199	294,383	-	4,425,206
Net operating income	4,029,513	1,829,157	100,044	-	5,958,714
Interest income	7,698	4,185	797	61,887	74,567
Interest expense	3,274,041	1,066,355	900,011	1,877,525	7,117,932
Income (loss) before discontinued operations	2,917,512	1,654,208	(28,599,171)	(2,390,680)	(26,418,131)
Cash from operating activities	1,283,988	776,881	(525,160)	(2,896,249)	(1,360,540)
Cash from financing activities	(3,374,921)	(528,948)	180,000	2,651,286	(1,072,583)
Cash from investing activities	2,139,799	(99,682)	387,250	(44,504)	2,382,863
Total assets excluding non-current assets held for sale at March 31, 2012	290,877,588	121,974,191	20,162,612	13,011,966	446,026,357

Three Months ended March 31, 2011:

	Investment Properties				
	Fort McMurray	Other Operating Properties	Impaired Property	Trust	Total
Rental revenue	4,912,291	3,481,824	756,402	-	9,150,517
Property operating costs	1,996,562	1,627,456	403,492	-	4,027,510
Net operating income	2,915,729	1,854,368	352,910	-	5,123,007
Interest income	10,646	4,251	1,175	61,595	77,667
Interest expense	3,859,939	696,835	900,011	3,259,285	8,716,070
Income (loss) before discontinued operations	(1,163,712)	1,089,745	(545,926)	(3,850,296)	(4,470,189)
Cash from operating activities	521,667	1,496,758	(341,065)	(1,730,074)	(52,714)
Cash from financing activities	357,847	(1,194,852)	491,342	(6,893,218)	(7,238,881)
Cash from investing activities	(684,547)	(178,944)	(157,600)	8,950,528	7,929,437
Total assets excluding non-current assets held for sale at December 31, 2011	295,475,875	120,661,605	46,374,100	12,968,628	475,480,208

16 Contingency

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

17 Subsequent events

Divestiture program

On May 9, 2012, Clarington Seniors' Residence was sold for gross proceeds of $24 Million and net proceeds of approximately $1.3 Million after repayment of mortgage loan debt, the assumption of a vendor take-back mortgage in the amount of $7.5 Million and sales expenses.

On May 1, 2012, Siena Apartments was sold for gross proceeds of $30.5 Million and net proceeds of approximately $11.4 Million after assumption of mortgage loan debt and sales expenses. The sale is subject to the receipt of mortgagee approval for the assumption of the first mortgage loan by the purchaser.

Condominium sale program
Subsequent to March 31, 2012, the Trust sold three condominium units under the condominium sale program at Lakewood Townhomes, for gross proceeds of $1,481,800. After funding closing costs, in-suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan secured by the property.

Revolving loan
Subsequent to March 31, 2012, the Trust repaid $1,480,000 and readvanced $1,500,000 of the revolving loan from 2668921 Manitoba Ltd., resulting in a balance of $10,220,000 as of the date of the financial statements.