LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

September 30, 2010

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	September 30 2010	December 31 2009 (audited)
Assets		
Income properties (Note 3)	**$363,823,989**	$369,972,965
Mortgage loans receivable (Note 4)	**4,290,650**	7,050,000
Cash	**2,228,672**	4,287,864
Other assets (Note 5)	**10,071,014**	6,789,902
Defeasance assets (Note 6)	**3,338,341**	-
Assets of properties held for sale (Note 7)	**132,465,096**	149,043,835
	$516,217,762	$537,144,566
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$264,515,779**	$271,414,070
Mortgage bonds (Note 9)	**3,982,825**	-
Convertible debentures (Note 10)	**36,200,753**	45,940,843
Accounts payable and accrued liabilities (Note 11)	**60,694,533**	60,344,987
Bank indebtedness (Note 12)	**4,875,000**	-
Defeased liability (Note 6)	**2,760,396**	-
Liabilities of properties held for sale (Note 7)	**98,428,016**	117,904,779
	471,457,302	495,604,679
Equity	**44,760,460**	41,539,887
	$516,217,762	$537,144,566

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Issued capital				
Balance, beginning of period	**$ 98,966,638**	$ 77,322,730	**$ 98,966,638**	$ 77,661,519
Units issued under dividend reinvestment plan	**-**	-	**-**	108,517
Issue of units	**79,317**	-	**79,317**	-
Issue costs	**-**	-	**-**	(6,502)
Units purchased under normal course issuer bid	**-**	-	**-**	(440,804)
Balance, end of period	**99,045,955**	77,322,730	**99,045,955**	77,322,730
Contributed surplus				
Balance, beginning of period	**7,618,559**	2,415,134	**2,536,643**	2,089,147
Value of unit options granted (Note 14)	**7,508**	22,207	**36,754**	85,803
Maturity of Series E debentures	**-**	-	**2,835,690**	-
Issue of warrants (Note 9)	**-**	-	**2,111,984**	-
Debentures purchased under normal course issuer bid	**25,235**	-	**37,481**	-
Value of deferred units granted (Note 15)	**23,250**	41,125	**116,000**	138,469
Value of deferred units redeemed (Note 15)	**(79,317)**	-	**(79,317)**	-
Units purchased under normal course issuer bid	**-**	-	**-**	165,047
Balance, end of period	**7,595,235**	2,478,466	**7,595,235**	2,478,466
Equity component of convertible debentures (Note 10)				
Balance, beginning of period	**10,256,701**	13,104,637	**13,104,637**	13,104,637
Debentures purchased under normal course issuer bid	**(25,235)**	-	**(37,481)**	-
Maturity of Series E debentures	**-**	-	**(2,835,690)**	-
Balance, end of period	**10,231,466**	13,104,637	**10,231,466**	13,104,637
Cumulative earnings (losses)				
Balance, beginning of period	**(14,733,496)**	(30,416,801)	**(14,432,282)**	(17,929,355)
Income (loss)	**1,257,049**	(3,146,599)	**955,835**	(15,634,045)
Balance, end of period	**(13,476,447)**	(33,563,400)	**(13,476,447)**	(33,563,400)
Cumulative distributions to unitholders				
Balance, beginning of period	**(58,635,749)**	(39,131,543)	**(58,635,749)**	(37,496,464)
Distributions declared	**-**	-	**-**	(1,635,079)
Balance, end of period	**(58,635,749)**	(39,131,543)	**(58,635,749)**	(39,131,543)
Total equity	**$ 44,760,460**	$ 20,210,890	**$ 44,760,460**	$ 20,210,890

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Revenue				
Rentals from income properties	**$ 7,759,469**	$ 8,909,457	**$ 23,793,699**	$ 31,255,021
Interest and other income	**172,433**	56,580	**535,912**	339,031
	7,931,902	8,966,037	**24,329,611**	31,594,052
Expenses				
Property operating costs	**2,865,297**	3,083,141	**9,371,367**	9,737,350
Income before the undernoted	**5,066,605**	5,882,896	**14,958,244**	21,856,702
Financing expense (Note 17)	**5,713,882**	6,505,543	**18,245,147**	24,919,791
Trust expense	**657,467**	710,801	**2,311,728**	2,117,078
Amortization (Note 18)	**2,129,770**	2,121,676	**6,383,042**	6,342,416
	8,501,119	9,338,020	**26,939,917**	33,379,285
Loss from continuing operations before income taxes	**(3,434,514)**	(3,455,124)	**(11,981,673)**	(11,522,583)
Future income tax expense (Note 19)	**-**	-	**-**	2,698,804
Loss from continuing operations	**(3,434,514)**	(3,455,124)	**(11,981,673)**	(14,221,387)
Income (loss) from discontinued operations (Note 7)	**4,691,563**	308,525	**12,937,508**	(1,412,658)
Income (loss) and comprehensive income (loss) for the period	**$ 1,257,049**	$ (3,146,599)	**$ 955,835**	$ (15,634,045)
Income (loss) per unit (Note 20)				
Basic and diluted				
Continuing operations	**$ (0.188)**	$ (0.196)	**$ (0.657)**	$ (0.814)
Discontinued operations	**0.257**	0.017	**0.709**	(0.081)
Total	**$ 0.069**	$ (0.179)	**$ 0.052**	$ (0.895)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Cash provided by (used in) operating activities				
Loss from continuing operations	**$ (3,434,514)**	$ (3,455,124)	**$ (11,981,673)**	$ (14,221,387)
Items not affecting cash				
Accretion on debt component of convertible debentures (Note 17)	**621,309**	731,843	**1,913,668**	2,086,175
Accretion on debt component of mortgage bonds (Note 17)	**69,680**	-	**153,232**	-
Unit-based compensation	**30,758**	63,332	**152,754**	224,272
Amortization (Note 18)	**2,527,163**	2,430,481	**7,361,343**	7,222,507
Change in fair value of interest rate swaps (Note 17)	**(1,305,843)**	(279,367)	**(2,484,059)**	2,581,180
Future income taxes (Note 19)	**-**	-	**-**	2,698,804
Discount on repayment of mortgage loan receivable	**-**	-	**210,000**	-
	(1,491,447)	(508,835)	**(4,674,735)**	591,551
Changes in non-cash operating items	**1,124,651**	(121,329)	**1,337,319**	2,851,278
	(366,796)	(630,164)	**(3,337,416)**	3,442,829
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**5,000,000**	-	**5,000,000**	500,000
Proceeds of mortgage bond financing	**-**	-	**6,780,000**	-
Repayment of mortgage loans on refinancing	**(2,936,649)**	(1,600,000)	**(2,936,649)**	(2,100,000)
Repayment of mortgage loans from proceeds of mortgage loan receivable	**(4,500,000)**	-	**(4,500,000)**	-
Repayment of Series E debentures	**-**	-	**(11,950,000)**	-
Repayment of principal on mortgage loans	**(1,454,712)**	(1,375,018)	**(4,676,190)**	(3,834,074)
Expenditures on transaction costs	**(414,294)**	4,270	**(1,249,758)**	(121,159)
Proceeds of line of credit	**315,000**	-	**4,875,000**	1,555,000
Proceeds of revolving loan commitment	**2,534,692**	4,341,192	**8,314,692**	4,341,192
Repayment of revolving loan commitment	**(1,500,000)**	-	**(6,580,000)**	-
Units purchased and cancelled under normal course issuer bid	**-**	-	**-**	(275,757)
Debentures purchased and cancelled under normal course issuer bid	**(74,291)**	-	**(113,934)**	-
Distributions paid on units	**-**	-	**-**	(1,530,736)
	(3,030,254)	1,370,444	**(7,036,839)**	(1,465,534)
Cash provided by (used in) investing activities				
Improvements to income properties	**(48,555)**	(242,093)	**(605,745)**	(414,821)
Investment in defeasance assets	**(3,338,341)**	-	**(3,338,341)**	-
Proceeds of mortgage loan receivable	**6,340,000**	-	**6,340,000**	-
Refund of deposits	**-**	-	**-**	200,000
Increase in restricted cash	**(2,008,008)**	(85,373)	**(3,148,194)**	(22,675)
	945,096	(327,466)	**(752,280)**	(237,496)
Sub-total	**(2,451,954)**	412,814	**(11,126,535)**	1,739,799

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Balance forward	**(2,451,954)**	412,814	**(11,126,535)**	1,739,799
Cash provided by (used in) discontinued operations				
Income (loss) from discontinued operations (Note 7)	**4,691,563**	308,525	**12,937,508**	(1,412,658)
Gain on sale	**(4,247,095)**	-	**(11,839,214)**	-
Items not affecting cash				
Straight-line rent adjustment	**-**	(12,157)	**164,736**	(20,146)
Amortization	**95,312**	654,848	**574,424**	3,477,991
Future income taxes	**163,890**	130,024	**201,945**	515,583
Non-controlling interest	**-**	66,531	**-**	156,528
	703,670	1,147,771	**2,039,399**	2,717,298
Changes in non-cash operating items	**(1,093,678)**	(102,319)	**738,764**	(1,798,985)
Tenant inducements and leasing expenditures incurred through leasing activity	**-**	(34,691)	**-**	(201,173)
	(390,008)	1,010,761	**2,778,163**	717,140
Proceeds of mortgage loan financing	**-**	-	**-**	4,400,000
Repayment of mortgage loans on refinancing	**-**	-	**-**	(4,492,566)
Repayment of interim mortgage loans	**(3,972,865)**	-	**(3,972,865)**	-
Repayment of principal on mortgage loans	**(337,539)**	(717,891)	**(1,074,547)**	(2,107,776)
Expenditures on transaction costs	**(59,990)**	(40,130)	**(228,690)**	(774,409)
Distributions paid on LP units of Village West LP	**-**	-	**-**	(33,285)
Improvements to income properties	**(65,135)**	(171,886)	**(124,257)**	(476,603)
Proceeds of sale	**6,880,094**	-	**13,332,371**	-
Decrease (increase) in properties under development	**-**	15,511	**-**	(98,658)
Decrease (increase) in restricted cash	**166,888**	(47,116)	**(1,642,832)**	(174,471)
	2,221,445	49,249	**9,067,343**	(3,040,628)
Cash increase (decrease)	**(230,509)**	462,063	**(2,059,192)**	(1,300,829)
Cash, beginning of period	**2,459,181**	1,787,001	**4,287,864**	3,549,893
Cash, end of period	**$ 2,228,672**	$ 2,249,064	**$ 2,228,672**	$ 2,249,064

Supplementary cash flow information (Note 21)

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 $11,981,673 and $14,221,387 for the nine months ended September 30, 2010 and 2009, respectively; has a working capital deficit of $7,767,444 and working capital of $1,723,212 as at September 30, 2010 and December 31, 2009, respectively; and was in breach of debt service coverage requirements during the past 12 months and as of September 30, 2010.

At December 31, 2009, the Trust was in breach of the 1.4 times debt service coverage requirement of two first mortgage loans on properties located in Fort McMurray, Alberta. Mortgage amending agreements have been executed in September 2010, which alter the covenant requirements and security and authorize the previous breaches of the debt service coverage requirements.

The Trust is in breach of a net operating income achievement requirement for a $23,552,964 first mortgage loan for a property in Fort McMurray, Alberta. The Trust has notified the lender of the breach and is providing operating information to the lender on a monthly basis.

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $72,352,271, on three properties located in Fort McMurray, Alberta. The Trust has received a letter of forbearance from the lender to April 30, 2010 in regard to the breach and has requested an extension of the forbearance. The Trust is also in breach of the 1.1 times debt service coverage requirement of a first mortgage loan of $18,524,849, on a property located in Fort McMurray, Alberta with the same lender. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

The Trust is in breach of the 1.2 times debt service coverage requirement of a first mortgage loan of $25,530,098, on one property located in Fort McMurray, Alberta. The terms of the forbearance are under negotiation.

The breaches of the debt service coverage requirements, as noted above, 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.

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 $5,008,561 first mortgage loan on a property located in Moose Jaw, Saskatchewan. The Moose Jaw property has been classified as discontinued operations. The Trust has requested a forbearance letter from the lender. It is the intention of the Trust to sell this property within the next twelve months, and use the proceeds from sale to repay the outstanding first mortgage loan balance.

There are no cross-default covenants between the six 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 clause of the Series F secured convertible debentures, due March 11, 2011, 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 as a result of the breaches of the debt service covenant requirements. If, under such circumstances, 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 $13,645,000. The amount of the increase would be recorded as financing expense in the period that the debentures become payable on demand.

Although none of the breaches of debt service covenant requirements relate to mortgage loans on the income properties pledged as security for the mortgage bonds, the mortgage bonds, with a $6,780,000 principal amount, due March 10, 2015, may become payable on demand under certain circumstances if at a future date, the Series F debentures are in default or acceleration or become payable as a result of a breach of the debt service coverage requirements. If the mortgage bonds become payable on demand, in accordance with GAAP, the carrying value of the mortgage bonds would be increased to the face value of the mortgage bonds. The amount of the increase would be recorded as financing expense in the period that the mortgage bonds 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 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*

September 30, 2010	Cost	Accumulated Amortization	Net Book Value
Land	$ 63,712,848	$ -	$ 63,712,848
Buildings and improvements	318,218,058	(24,055,441)	294,162,617
Furniture, equipment and appliances	9,838,294	(3,920,628)	5,917,666
Intangible assets	207,222	(176,364)	30,858
	$391,976,422	$ (28,152,433)	$363,823,989

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

At September 30, 2010 and December 31, 2009, the carrying value of the income properties was not impaired.

4 Mortgage loans receivable

	September 30 2010	December 31 2009 (audited)
Second mortgage loan receivable from Mainstreet Equity Corp., due January 1, 2014. The loan bears interest at 6% until November 30, 2013 and 12% thereafter and provides for monthly payments of interest only.	$ 790,650	$ -
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
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
	$ 4,290,650	$ 7,050,000

5 Other assets

	September 30 2010	December 31 2009 (audited)
Restricted cash		
Tenant security deposits	$ 2,074,778	$ 1,687,002
Reserves required by mortgage loan agreements	5,778,818	1,299,723
Sale proceeds in escrow	370,000	2,041,795
	8,223,596	5,028,520
Amounts receivable	714,130	523,761
Prepaid expenses, deposits and other	1,123,288	1,227,621
Deposits on potential acquisitions	10,000	10,000
	$ 10,071,014	$ 6,789,902

Amounts receivable includes rent receivable of $382,196 (2009 - $401,742) net of an allowance for doubtful accounts of $33,167 (2009 - $90,680).

6 Defeasance assets and defeased liability

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

The following table reflects the effect of the Defeasance Assets and the defeased liability.

		Three Months Ended September 30		Nine Months Ended September 30	
	Recorded as	2010	2009	2010	2009
Interest income on defeasance assets	Interest and other income	$ 3,464	$ -	$ 3,464	$ -
Interest expense on defeased liability	Financing expense	(13,114)	-	(13,114)	-
Amortization of transaction costs	Financing expense	-	-	-	-
		$ (9,650)	$ -	$ (9,650)	$ -

The unamortized balance of the defeasance transaction costs is $58,113 (2009 - nil).

7 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 - 12 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 $11.9 Million of interim loans payable (2009 - $15.9 Million). In accordance with GAAP, the interim loans payable and the related interest expense are reflected in discontinued operations.

7 Properties held for sale and discontinued operations (continued)

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

	September 30 2010	December 31 2009 (audited)
Assets		
Income properties (a)	$ 129,742,856	$ 146,486,369
All other assets	2,722,240	2,557,466
	132,465,096	149,043,835
Liabilities		
Mortgage loans payable (b)	79,413,864	94,667,469
Interim mortgage loans payable	11,846,010	15,763,338
Accounts payable and accrued liabilities	3,758,844	4,301,424
Future income taxes (e)	3,409,298	3,172,548
	98,428,016	117,904,779
Net assets of properties held for sale	$ 34,037,080	$ 31,139,056

As at September 30, 2010, eight income properties met the held-for-sale criteria and as a result are reported in discontinued operations. In addition, the Trust sold four properties during the nine months ended September 30, 2010 (2009 - nil properties sold). The Trust sold 13 properties during the year ended December 31, 2009. The results of operations from these properties have been disclosed below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenue				
Rentals from income properties	$ 5,429,911	$ 8,118,765	$ 16,237,832	$ 24,008,910
Interest and other income	25,039	51,984	114,678	149,511
	5,454,950	8,170,749	16,352,510	24,158,421
Expenses				
Property operating costs	3,009,140	4,064,532	9,388,947	12,673,243
Financing expense (c)	1,837,452	3,038,392	5,458,928	9,367,030
Amortization (d)	-	562,745	204,396	2,858,695
Income tax expense (recovery) - current and future (e)	163,890	130,024	201,945	515,583
	444,468	375,056	1,098,294	(1,256,130)
Non-controlling interest	-	(66,531)	-	(156,528)
	444,468	308,525	1,098,294	(1,412,658)
Gain on sale	4,247,095	-	11,839,214	-
Income (loss) from discontinued operations	$ 4,691,563	$ 308,525	$ 12,937,508	$ (1,412,658)

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

(a) **Income properties**

At September 30, 2010 and December 31, 2009, the carrying value of discontinued properties is not impaired.

(b) **Mortgage loans payable**

	September 30 2010	December 31 2009 (audited)
Mortgage loan balances	$ 79,428,048	$ 94,766,920
Unamortized transaction costs	(14,184)	(157,271)
Difference between contract and market interest rates on mortgage loans assumed (d)	-	57,820
	$ 79,413,864	$ 94,667,469

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

Certain of the mortgage loans payable are subject to covenants, including minimum debt service coverage requirements. The Trust is not in compliance with one first mortgage loan totaling $5,008,561, as a result of a breach of the debt service coverage requirement in respect of the mortgage loan.

(c) **Financing expense**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Mortgage loan interest	1,722,866	2,934,862	5,031,079	8,716,818
Amortization of transaction costs (d)	114,586	103,530	427,849	650,212
	$ 1,837,452	$ 3,038,392	$ 5,458,928	$ 9,367,030

(d) **Amortization**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Building	$ -	$ 528,063	$ 191,692	$ 2,445,022
Furniture, equipment and appliances	-	34,682	12,704	166,902
Intangible assets, except for in-place leases	-	-	-	246,771
Mortgage guarantee fees	-	-	-	-
	-	562,745	204,396	2,858,695
Transaction costs (c)	114,586	103,530	427,849	650,212
Difference between contract and market interest rates on mortgage loans assumed (b)	(19,274)	(11,427)	(57,821)	(33,704)
Above market in-place leases	-	-	-	3,129
Below market in-place leases	-	-	-	(341)
	$ 95,312	$ 654,848	$ 574,424	$ 3,477,991

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

(e) **Future income taxes**

Future income taxes consists of the following components:

	September 30 2010	December 31 2009 (audited)
Future income tax asset relating to the assets of the Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 107,361	$ 793,898
Transaction costs	125,379	102,498
	232,740	896,396
Valuation allowance	(232,740)	(896,396)
	$ -	$ -
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax asset (liability) relating to the temporary differences between the accounting and tax basis for income properties	$ (3,010,485)	$ (2,773,834)
Future income tax asset relating to operating losses of the wholly owned subsidiaries	2,711,340	2,273,348
	(299,145)	(500,486)
Valuation allowance	(3,110,085)	(2,672,062)
	$ (3,409,230)	$ (3,172,548)

In recognition of the uncertainty with respect to the realization of the income tax assets, a valuation allowance was recorded to reduce the future income tax assets to nil at September 30, 2010.

7 Properties held for sale and discontinued operations (continued)

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

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 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	$ 197,426	$ 3,646,631	$ 686,537	$ 137,660
Transaction costs	(13,349)	(68,007)	(22,881)	(156,657)
	184,077	3,578,624	663,656	(18,997)
Valuation allowance	(184,077)	(3,578,624)	(663,656)	749,624
	-	-	-	730,627
Wholly owned subsidiaries				
Increase (decrease) in future income tax liability resulting from a change in temporary differences relating to income properties	122,312	2,070	222,269	(735,073)
Increase (decrease) in future income tax liability resulting from changes in tax rates	(4,485)	-	14,482	(31,094)
Increase in future income tax asset resulting from operating losses	(143,170)	(528,514)	(438,561)	(713,782)
	(25,343)	(526,444)	(201,810)	(1,479,949)
Valuation allowance	143,170	597,556	438,561	1,117,352
	117,827	71,112	236,751	(362,597)
Current (recovery of) income taxes at statutory tax rates	46,063	58,912	(34,805)	147,553
	163,890	130,024	201,946	(215,044)
	$ 163,890	$ 130,024	$ 201,946	$ 515,583

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

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,353,597
2028	2,437,741
2029	2,431,870
2030	1,414,815
	$ 8,751,279

8 Mortgage loans payable

	Weighted average interest rates			
	September 30 2010	December 31 2009	September 30 2010	December 31 2009
First mortgage loans				
Fixed rate	5.7%	5.7%	$ 188,609,630	$ 190,807,999
Variable rate	6.8%	6.0%	55,000,000	55,000,000
Total first mortgage loans	5.9%	5.8%	243,609,630	245,807,999
Second mortgage loans				
Fixed rate	5.3%	8.6%	4,500,000	9,000,000
Variable rate	6.5%	5.8%	17,352,271	17,766,738
Total second mortgage loans	6.3%	6.8%	21,852,271	26,766,738
Total	6.0%	5.9%	265,461,901	272,574,737
Unamortized transaction costs			(946,122)	(1,160,667)
			$ 264,515,779	$ 271,414,070

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $19,705,021 and $21,809,114, 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	$144,894,132
2011	6,252,053
2012	31,596,945
2013	39,572,551
2014	9,774,479
Thereafter	33,371,741
	$265,461,901

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 $139,960,182, as a result of a breach of the debt service coverage requirements in respect of the mortgage loans. In accordance with GAAP the total loan balance of $139,960,182 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.

At September 30, 2010, a mortgage loan in the amount of $18,524,849 had matured and had not been renewed or refinanced. Subsequent to September 30, 2010 a mortgage loan in the amount of $17,352,271 matured and has not yet been renewed or refinanced. Both mortgage loans are loans with breach of debt service covenant requirements with a forbearance to April 30, 2010. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

9 Mortgage bonds and warrants

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

On the issue date, the value of the warrants was established using the Black Scholes option pricing model using a risk free interest rate of 2.69% over the expected life of 5 years with an expected volatility rate of 50% and an expected dividend yield of nil. The value of the warrants in the amount of $2,111,984 was recognized in equity and the residual amount of $4,668,016, representing the value of the mortgage bonds, was recognized in liabilities.

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	153,232
Unamortized transaction costs	(838,423)
	$ 3,982,825

Accretion for the three months ended September 30, 2010 of $69,680 (2009 - nil) and for the nine months ended September 30, 2010 of $153,232 (2009 - nil) is included in financing expense.

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 (i) a mortgage loan on an income property pledged as security for the mortgage bonds; or (ii) the Series F or Series G debentures. The Trust is in breach of debt service coverage requirements of four first mortgage loans, one first mortgage loan for a held for sale property and one second mortgage loan totaling $144,968,743. While none of the breaches relate to mortgage loans on an income property pledged as security for the mortgage bonds, the lenders, may at a future date, demand the repayment of any of the six first mortgage loans and one second mortgage loan. In such circumstances, the Series F debentures will be in breach and may become payable on demand. If, at a future date, the Series F debentures become payable on demand, the mortgage bonds may also become payable on demand.

10 Convertible debentures

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

	September 30 2010	December 31 2009 (audited)
Series E	$ -	$ 11,950,000
Series F	13,645,000	13,680,000
Series G	25,623,000	25,732,000
	$ 39,268,000	$ 51,362,000

10 Convertible debentures (continued)

During the nine months ended September 30, 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.

September 30, 2010	Debt	Equity	Total
Convertible debentures			
Series F - 7.5%, due March 11, 2011	$ 13,210,302	$ 3,555,257	$ 16,765,559
Series G - 7.5%, due December 31, 2011	23,564,825	6,676,209	30,241,034
	36,775,127	10,231,466	47,006,593
Unamortized transaction costs	(574,374)	-	(574,374)
	$ 36,200,753	$ 10,231,466	$ 46,432,219

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 September 30, 2010 of $621,309 (2009 - $731,843) and for the nine months ended September 30, 2010 of $1,913,668 (2009 - $2,086,175), 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 in breach of debt service coverage requirements of four first mortgage loans, one first mortgage loan for a held for sale property and one second mortgage loan totaling $144,968,743. The lenders, may at a future date, demand the repayment of any of the six first mortgage loans and one second mortgage loan. In such circumstances, the Series F convertible debentures, with a face value of $13,645,000, will be in breach and may become payable on demand.

The Series F debentures of the Trust are secured by a security interest on all of 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.

10 Convertible debentures (continued)

During the period from January 13, 2010 to September 30, 2010, the Trust purchased and cancelled $35,000 Series F debentures at an average price of $84.69 per $100.00 and $109,000 Series G debentures at an average price of $73.89 per $100.00. Subsequent to September 30, 2010, the Trust purchased and cancelled $20,000 Series F debentures at an average price of $91.25 per $100.00 and $12,000 Series G debentures at an average price of $73.33 per $100.00. The Trust is not required to purchase any debentures under the normal course issuer bids.

11 Accounts payable and accrued liabilities

	September 30 2010	December 31 2009 (audited)
Accounts payable and accrued liabilities	$ 2,573,929	$ 1,444,635
Revolving loan from 2668921 Manitoba Ltd.	1,734,692	-
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Construction costs payable	770,566	1,134,621
Interest payable	1,902,461	1,746,778
Mortgage guarantee fees payable	80,924	290,667
Tenant security deposits	2,089,822	1,702,088
Interest rate swaps	3,822,139	6,306,198
	$ 60,694,533	$ 60,344,987

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

Interest rate swaps
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swaps are derivative financial instruments classified as held-for-trading and are recorded on the balance sheet at fair value. The fair value of the swap liability decreased by $1,305,843 for the three months ended September 30, 2010 (2009 - $279,367 decrease) and $2,484,059 for the nine months ended September 30, 2010 (2009 - $2,581,180 increase). The effect of the change in value of interest rate swaps is included in financing expense.

12 Bank indebtedness

Bank indebtedness consists of a revolving line of credit that the Trust obtained from a Canadian chartered bank in the maximum amount of $5,000,000, bearing interest at prime plus 3.5% (2009 - prime) 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 September 30, 2010, the line of credit is fully drawn compared to $4,875,000 available to the Trust at December 31, 2009.

13 Units

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

	Nine Months Ended September 30, 2010		Year Ended December 31, 2009	
			(audited)	(audited)
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,893,767	$ 98,966,638	17,588,081	$ 77,661,519
Units issued	94,572	79,317	-	-
Issued on distribution reinvestment plan	-	-	48,576	108,517
Issue costs	-	-	-	(6,502)
Purchased and cancelled under normal course issuer bid	-	-	(99,507)	(440,804)
Exchange of Village West Class B LP units	-	-	356,617	2,139,702
Units issued on payment of distributions	-	-	-	19,504,206
Outstanding, end of period	17,988,339	$ 99,045,955	17,893,767	$ 98,966,638

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 nine months ended September 30, 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 nine months ended September 30, 2010 the Trust has not purchased and cancelled any units under its normal course issuer bid. During the year ended December 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.

14 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 of $7,508 for the three months ended September 30, 2010 (2009 - $22,207) and for the nine months ended September 30, 2010 of $36,754 (2009 - $85,803), 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:

	Nine Months Ended September 30, 2010		Year Ended December 31, 2009	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
			(audited)	
Outstanding, beginning of period	1,452,000	$ 5.56	1,452,000	$ 5.56
Cancelled, March 29, 2010	(357,500)	5.60	-	-
Cancelled, April 1, 2010	(5,000)	5.80	-	-
Cancelled, April 1, 2010	(1,500)	5.10	-	-
Cancelled, September 12, 2010	(1,500)	5.10	-	-
Cancelled, September 12, 2010	(5,000)	5.80	-	-
Cancelled, September 16, 2010	(110,000)	5.47	-	-
Outstanding, end of period	971,500	$ 5.55	1,452,000	$ 5.56
Vested, end of period	913,300		1,156,800	

At September 30, 2010 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	22,500	22,500	January 17, 2011
5.80	625,000	625,000	July 26, 2011
5.30	90,000	90,000	June 8, 2012
5.10	234,000	175,800	January 7, 2013
	971,500	913,300	

15 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, totaled 33,482 for the three months ended September 30, 2010 (2009 - 88,177) and 210,016 for the nine months ended September 30, 2010 (2009 - 162,867), and 361,154 aggregate deferred units were outstanding at September 30, 2010 (2009 - 186,668).

Unit-based compensation expense of $23,250 for the three months ended September 30, 2010 (2009 - $41,125) and $116,000 for the nine months ended September 30, 2010 (2009 - $138,469) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in Trust expense.

Units issued on redemption of deferred units totaled 94,573 for the three and nine months ended September 30, 2010 (2009 - nil). The value of units issued on redemption of deferred units of $79,317 for the three and nine months ended September 30, 2010 (2009 - nil) relates to the exchange of deferred units for issued units upon the resignation of a Trustee.

16 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $121,593 for the three months ended September 30, 2010 (2009 - $295,373) and $832,364 for the nine months ended September 30, 2010 (2009 - $1,071,418).

17 Financing expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Interest on acquisition payable:				
Interest charged	$ 2,649,176	$ 2,649,176	$ 7,861,141	$ 7,269,233
Forgiveness of interest	(1,749,176)	(1,609,373)	(5,161,141)	(1,609,373)
	900,000	1,039,803	2,700,000	5,659,860
Mortgage loan interest	4,129,179	3,726,484	12,287,127	10,778,560
Mortgage bond interest	152,550	-	341,880	-
Defeased liability interest	13,114	-	13,114	-
Accretion of the debt component of mortgage bonds	69,680	-	153,232	-
Convertible debenture interest	736,500	977,975	2,341,884	2,933,925
Accretion of the debt component of convertible debentures	621,309	731,843	1,913,668	2,086,175
Amortization of transaction costs	397,393	308,805	978,301	880,091
Change in fair value of interest rate swaps	(1,305,843)	(279,367)	(2,484,059)	2,581,180
	$ 5,713,882	$ 6,505,543	$ 18,245,147	$ 24,919,791

18 Amortization

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Building	$ 1,806,176	$ 1,795,564	$ 5,412,783	$ 5,372,637
Furniture, equipment and appliances	318,451	320,970	954,830	954,351
Intangible assets, except for in-place leases	5,143	5,142	15,429	15,428
	2,129,770	2,121,676	6,383,042	6,342,416
Transaction costs	397,393	308,805	978,301	880,091
	$ 2,527,163	$ 2,430,481	$ 7,361,343	$ 7,222,507

19 Future income taxes

Future income taxes consists of the following components:

	September 30 2010	December 31 2009 (audited)
Future income tax asset relating to the assets of the Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis for:		
Income properties	$ 5,674,860	$ 7,000,636
Transaction costs	(68,921)	(136,185)
	5,605,939	6,864,451
Valuation allowance	(5,605,939)	(6,864,451)
	$ -	$ -

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Future income tax expense (recovery):				
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:				
Income properties	$ 9,444	$(2,946,301)	$ 1,325,776	$(4,498,013)
Transaction costs	(65,160)	176,555	(67,264)	95,734
	(55,716)	(2,769,746)	1,258,512	(4,402,279)
Valuation allowance	55,716	2,769,746	(1,258,512)	7,101,083
	$ -	$ -	$ -	$ 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 September 30, 2010.

20 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 September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Loss	$ (3,434,514)	$ (3,455,124)	$ (11,981,673)	$ (14,221,387)
Diluted loss	$ (3,434,514)	$ (3,455,124)	$ (11,981,673)	$ (14,221,387)
Units	17,987,311	17,537,150	17,925,291	17,428,306
Vested deferred units	317,985	87,752	306,801	41,034
Weighted average number of units, basic and diluted	18,305,296	17,624,902	18,232,092	17,469,340

Discontinued Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Income (loss)	$ 4,691,563	$ 308,525	$ 12,937,508	$ (1,412,658)
Diluted income (loss)	$ 4,691,563	$ 308,525	$ 12,937,508	$ (1,412,658)
Units	17,987,311	17,537,150	17,925,291	17,428,306
Vested deferred units	317,985	87,752	306,801	41,034
Weighted average number of units, basic and diluted	18,305,296	17,624,902	18,232,092	17,469,340

21 Supplementary cash flow information

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Interest paid on:				
Acquisition payable	$ 900,000	$ 900,000	$ 2,700,000	$ 3,376,772
Mortgage loans	$ 4,145,134	$ 3,741,819	$ 12,370,587	$ 10,862,146
Mortgage bonds	$ -	$ -	$ 138,787	$ -
Convertible debentures	$ 512,382	$ 991,000	$ 2,466,823	$ 2,946,950
Interest received on:				
Mortgage loans receivable	$ 104,724	$ -	$ 289,473	$ -
Other	$ 92,190	$ 102,076	$ 257,169	$ 339,031
Cash distributions				
Distributions declared	$ -	$ -	$ -	$ 1,635,079
Distributions to participants in the DRIP	-	-	-	(104,343)
Distributions paid in cash	$ -	$ -	$ -	$ 1,530,736

22 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.

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 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.

22 Related party transactions (continued)

Management agreement (continued)
The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $403,586 for the three months ended September 30, 2010 (2009 - $571,069) and $1,224,579 for the nine months ended September 30, 2010 (2009 - $1,895,083). 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 $83,365 for the three months ended September 30, 2010 (2009 - $226,142) and $268,170 for the nine months ended September 30, 2010 (2009 - $672,004). Property management fees are included in property operating costs of discontinued operations.

The Trust incurred leasing commissions on commercial income properties included in discontinued operations payable to Shelter Canadian Properties Limited of nil for the three months ended September 30, 2010 (2009 - $45,881) and $2,407 for the nine months ended September 30, 2010 (2009 - $90,247). The amounts are capitalized to the cost of properties held for sale.

Included in accounts payable and accrued liabilities at September 30, 2010 is a balance of $12,741 (December 31, 2009 - $17,713), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Included in accounts payable and accrued liabilities of discontinued operations at September 30, 2010 is a balance of $2,652 (December 31, 2009 - $16,157), payable 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 $433,588 for the three months ended September 30, 2010 (2009 - $487,253) and $1,302,361 for the nine months ended September 30, 2010 (2009 - $1,475,939). Service fees are included in trust expense.

Financing
On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bears interest at 7.5%, is due on January 1, 2011 and is secured by a second mortgage charge on an income property. The loan is included in mortgage loans payable at September 30, 2010. A processing fee of $15,000 was paid to 2668921 Manitoba Ltd. in 2009 in regard to the loan and was included in transaction costs. Interest on the second mortgage loan for the three months ended September 30, 2010 of $9,452 (2009 - $9,452) and $28,048 for the nine months ended September 30, 2010 (2009 - $15,205) 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 December 31, 2010 and is secured by a third mortgage charge on an income property and an assignment of a $500,000 mortgage loan receivable. As of September 30, 2010, $1,734,692 has been drawn and is included in accounts payable.

22 Related party transactions (continued)

Financing (continued)
Interest on the loan commitment for the three months ended September 30, 2010 of $34,692 (2009 - $36,192) and $53,804 for the nine months ended September 30, 2010 (2009 - $36,192) is included in financing expense.

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

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

23 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 $144,968,743 for four first mortgage loans, one second mortgage loan and one first mortgage loan in the amount of $5,008,561,for a held for sale property. 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. There is no assurance that the lenders will not accelerate payment of the mortgage loans. There are no cross-default covenants with respect to the other mortgage loans of the Trust, other than the mortgage loans on income properties which secure the mortgage bonds.

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 mortgage loans as a result of the breach in the debt service covenant, the Series F convertible debentures, with a face value of $13,645,000, may become payable on demand.

The Bond Indenture which governs the five year 9% mortgage bonds 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.

23 Financial instruments and risk management (continued)

Liquidity risk (continued)
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 September 30, 2010, the weighted average term to maturity of the fixed rate mortgages on income properties is 3.5 years (2009 - 4.0 years).

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

Year ending December 31	Mortgage Loans Payable	Convertible Debentures and Mortgage Bonds	Total
2010 - Remainder of year	$ 144,894,132	-	$ 144,894,132
2011	6,252,053	$ 39,268,000	45,520,053
2012	31,596,945	-	31,596,945
2013	39,572,551	-	39,572,551
2014	9,774,479	-	9,774,479
Thereafter	33,371,741	6,780,000	40,151,741
	$ 265,461,901	$ 46,048,000	$ 311,509,901

In accordance with GAAP, the balance of the mortgage loans in the amount of $139,960,182 that are not in compliance with minimum debt service requirements has been included in principal repayments in 2010.

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 September 30, 2010 the percentage of fixed rate mortgage loans to total mortgage loans was 73% (2009 - 73%).

The Trust has variable rate mortgages on income properties (excluding variable rate mortgages with interest rates fixed by use of interest rate swap arrangements) totaling $72,352,271, or 27% of the total mortgage loans at September 30, 2010 (2009 - 27%).

As at September 30, 2010, the Trust has mortgage loans totaling $54,367,818 which mature on or prior to December 31, 2012, representing 20% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, financing expense would change by $543,678 per year.

As at September 30, 2010, the Trust had variable rate mortgages totaling $72,352,271. Should interest rates change by 1%, financing expense would change by $723,523 per year.

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

23 Financial instruments and risk management (continued)

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

Thirteen properties, representing 77% of rentals from income properties, 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.

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:

	September 30 2010	December 31 2009 (audited)
Rent receivable overdue:		
0 to 30 days	$ 144,898	$ 127,814
31 to 60 days	33,135	31,883
More than 60 days	204,163	242,045
	$ 382,196	$ 401,742

A reconciliation of allowance for doubtful accounts is as follows:

	September 30 2010	December 31 2009 (audited)
Balance, beginning of period	$ 90,680	$ 64,818
Amount charged to bad debt expense relating to impairment of rent receivable	33,249	180,821
Amounts written off as uncollectible	(90,762)	(154,959)
Balance, end of period	$ 33,167	$ 90,680
Amount charged to bad debts as a percent of rentals from income properties	0.14%	0.46%

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

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

23 Financial instruments and risk management (continued)

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

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

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

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

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

	September 30, 2010		December 31, 2009	
	Quoted Prices	Observed Inputs	Quoted Prices	Observed Inputs
Cash	$ 2,228,654	$ -	$ 4,287,864	$ -
Restricted cash	8,223,596	-	5,028,520	-
Interest rate swaps	-	3,822,139	-	6,306,198
Bank indebtedness	4,875,000	-	-	-

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

The fair value of the mortgage loans receivable is impacted by the difference between the yield for such instruments in an open market and the yield negotiated as part of a sale of property and by changes in market yields. The fair value of the mortgage loans receivable has been estimated based on the current market rates for second mortgage loans with similar terms and conditions. The estimated fair value of mortgage loans receivable at September 30, 2010 is $3,500,000 (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 September 30, 2010 is $266,200,000 (December 31, 2009 - $280,800,000).

23 Financial instruments and risk management (continued)

Fair values (continued)
The fair value of the mortgage bonds is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instrument. The fair value of the mortgage bonds has been estimated based on the current market rate for second mortgage loans with similar terms and conditions. The estimated fair value of the mortgage bonds payable at September 30, 2010 is $6,100,000 (December 31, 2009 - nil).

The carrying value of the debt component of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable at September 30, 2010 is $30,700,000 (December 31, 2009 - $31,300,000).

The fair value of the defeasance assets is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The fair value of the defeasance assets has been estimated based on current market rates for Government of Canada bonds. The estimated fair value of the defeasance assets at September 30, 2010 is $3,310,000 (December 31, 2009 - nil).

The fair value of the defeased loan is impacted by changes in market yields which can result in differences between the carrying value and the fair value of the instruments. The fair value of the defeased loan has been estimated based on current market rates for mortgages with similar terms and conditions. The estimated fair value of the defeased loan at September 30, 2010 is $2,820,000 (December 31, 2009 - nil).

24 Management of capital

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

	September 30 2010	December 31 2009 (audited)
Mortgage loans payable	$265,461,901	$272,574,737
Mortgage bonds	4,821,248	-
Convertible debentures		
Debt component	36,775,127	46,943,687
Equity component	10,231,466	13,104,637
	47,006,593	60,048,324
Trust units	99,045,955	98,966,638
Warrants	2,111,984	-
	$418,447,681	$431,589,699

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

24 Management of capital (continued)

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever appropriate, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent 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 (if any) paid to unitholders; return capital to unitholders; purchase units or debentures; or reduce debt.

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

25 Segmented financial information

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

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

Nine months ended September 30, 2010:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	18,197,681	4,089,410	1,506,608	-	23,793,699
Interest and other income	203,759	14,152	18,030	299,971	535,912
Property operating costs	7,051,872	1,619,992	699,503	-	9,371,367
Financing expense	10,630,682	671,199	544,534	6,398,732	18,245,147
Amortization	5,514,028	522,822	346,192	-	6,383,042
Income (loss) from continuing operations	(4,795,138)	1,289,549	(65,596)	(8,410,488)	(11,981,673)
Total assets from continuing operations	330,164,125	27,029,506	12,758,883	13,800,152	383,752,666

25 Segmented financial information (continued)

Nine months ended September 30, 2009:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	25,809,999	3,894,531	1,550,491	-	31,255,021
Interest and other income	286,932	15,506	17,558	19,035	339,031
Property operating costs	7,579,362	1,573,439	584,549	-	9,737,350
Financing expense	17,485,224	686,965	514,532	6,233,070	24,919,791
Amortization	5,487,202	515,858	339,356	-	6,342,416
Income (loss) from continuing operations	(4,454,858)	1,133,776	129,613	(11,029,918)	(14,221,387)
Total assets from continuing operations at December 31, 2009	334,990,309	28,524,006	11,815,253	12,771,163	388,100,731

Three months ended September 30, 2010:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	5,904,207	1,339,627	515,635	-	7,759,469
Interest and other income	66,143	3,897	7,396	94,997	172,433
Property operating costs	2,155,049	475,454	234,794	-	2,865,297
Financing expense	3,099,434	222,871	271,251	2,120,326	5,713,882
Amortization	1,838,830	175,184	115,756	-	2,129,770
Income (loss) from continuing operations	(1,122,966)	470,015	(98,767)	(2,682,796)	(3,434,514)

Three months ended September 30, 2009:

	Fort McMurray	Yellowknife	Other	Trust	Total
Rentals from income properties	7,031,013	1,366,948	511,496	-	8,909,457
Interest and other income	48,209	4,634	3,572	165	56,580
Property operating costs	2,392,464	502,347	188,330	-	3,083,141
Financing expense	3,953,131	228,888	171,883	2,151,641	6,505,543
Amortization	1,835,187	172,696	113,793	-	2,121,676
Income (loss) from continuing operations	(1,101,562)	467,653	41,063	(2,862,278)	(3,455,124)

26 Commitments

Acquisition

Parsons Landing Apartments

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

26 Commitments (continued)

Acquisition (continued)

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

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

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

As of September 30, 2010, the amount payable in regard to the acquisition of Parsons Landing, including GST and excluding accrued interest, is $47,720,000.

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

Management Contracts

The Trust has retained the following third party managers to provide on-site management services to the seniors housing complexes:

Property	Manager	Term Expiring
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2015
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

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

27 Contingencies

GST Assessment

The Trust has been assessed for additional GST in the amount of $2,393,503, plus interest of $302,111, for a total amount of $2,662,065 in regard to the acquisition of a property in Fort McMurray. The Trust has appealed the assessment. The outcome of the appeal is uncertain and, as a result, the Trust has not made an accrual in this regard.

Contingent consideration - Elgin Lodge

During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at September 30, 2010 of $434,982 (2009 - $434,982) is included in assets of discontinued operations.

Contingent consideration - Clarington Seniors Residence

During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at September 30, 2010 of $477,901 (2009 - $477,901) is included in assets of discontinued operations.

28 Subsequent events

Divestitures

On November 1, 2010 the Trust sold Three Lakes Village for gross proceeds of $11.2 Million resulting in an approximate gain on sale of $600,000. Net cash proceeds, after expenses, closing adjustments and the assumption by the purchaser of approximately $7 Million first mortgage debt, were approximately $4.15 Million. As Three Lakes Village is pledged as security under the mortgage bonds, the net proceeds will be used to partially repay the mortgage bond liability in December 2010.

Revolving loan

The revolving loan commitment from 2668921 Manitoba Ltd. was increased from $5,000,000 to $10,000,000 and the expiry date was extended to June 30, 2011. The extended loan bears interest at 14%, is subject to a 1/2 of 1% refinancing fee of $50,000 and is secured by second and third mortgage charges against the title to six income properties and an assignment of a mortgage loan note receivable in the amount of $500,000. The increased loan was approved by the independent Trustees.

Subsequent to September 30, 2010, the Trust utilized $2,725,000 of the revolving loan from 2668921 Manitoba Ltd.

Mortgage refinancing

The maturing second mortgage loan on Siena Apartments in the amount of $4,000,000 was refinanced from the proceeds of a second mortgage loan bearing interest at 12% and maturing May 1, 2012.

Two interim second mortgage loans in the amount of $11.9 Million were retired from the proceeds of a new interim second mortgage loan in the aggregate amount of $11,500,000 and $400,000 of proceeds from the sale of Nova Manor. The new interim second mortgage loan bears interest at 12.5% and matures on November 1, 2011.

29 Comparative figures

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