LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30 2011	December 31 2010
ASSETS		
Non-current assets		
Investment properties (Note 4)	**$450,810,873**	$439,300,000
Loans and receivables (Note 5)	**500,000**	500,000
Defeasance assets (Note 6)	**3,218,099**	3,313,434
Restricted cash (Note 7)	**14,351,756**	21,478,638
Deferred tax asset (Note 12)	**-**	185,859
Total non-current assets	**468,880,728**	464,777,931
Current assets		
Cash	**1,015,122**	925,046
Rent and other receivables (Note 8)	**2,294,424**	1,315,470
Deposits, prepaids and other (Note 9)	**1,510,612**	1,046,795
	4,820,158	3,287,311
Non-current assets classified as held for sale (Note 10)	**79,988,061**	79,763,934
Total current assets	**84,808,219**	83,051,245
TOTAL ASSETS	**$553,688,947**	$547,829,176
LIABILITIES AND EQUITY		
Non-current liabilities		
Long-term debt (Note 11)	**$106,644,047**	$128,457,486
Total non-current liabilities	**106,644,047**	128,457,486
Current liabilities		
Trade and other payables (Note 13)	**60,766,727**	59,244,173
Bank indebtedness (Note 14)	**-**	2,960,000
Current portion of long-term debt (Note 11)	**237,573,795**	225,526,496
Deposits from tenants	**2,915,230**	2,121,716
	301,255,752	289,852,385
Non-current liabilities classified as held for sale (Note 10)	**66,910,991**	54,466,518
Total current liabilities	**368,166,743**	344,318,903
Total liabilities	**474,810,790**	472,776,389
Total equity	**78,878,157**	75,052,787
TOTAL LIABILITIES AND EQUITY	**$553,688,947**	$547,829,176

Approved by the Board of Trustees

"Charles Loewen" *"Cheryl Barker"*

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	**2010**	**2011**	**2010**
Rentals from investment properties	**$ 11,142,567**	$ 9,865,921	**$ 30,656,136**	$ 30,290,419
Property operating costs	**4,038,944**	3,768,612	**12,109,544**	12,623,906
Net operating income	**7,103,623**	6,097,309	**18,546,592**	17,666,513
Interest income	**40,298**	79,935	**165,309**	328,004
Interest expense (Note 18)	**(8,085,179)**	(6,729,854)	**(25,453,004)**	(21,267,256)
Trust expense	**(617,710)**	(657,467)	**(2,050,625)**	(2,311,728)
Profit (loss) on sale of investment properties	**-**	307,555	**-**	1,725,305
Fair value gains (losses) (Note 4)	**3,153,922**	(611,362)	**9,902,377**	(1,397,284)
Income (loss) before taxes and discontinued operations	**1,594,954**	(1,513,884)	**1,110,649**	(5,256,446)
Income tax expense (recovery)	**298,704**	-	**91,922**	(227,520)
Income (loss) before discontinued operations	**1,296,250**	(1,513,884)	**1,018,727**	(5,028,926)
Income from discontinued operations (Note 10)	**979,388**	524,595	**2,411,224**	1,501,455
Income (loss) and comprehensive income (loss)	**$ 2,275,638**	$ (989,289)	**$ 3,429,951**	$ (3,527,471)
Income (loss) per unit before discontinued operations: Basic and diluted	**$ 0.070**	$ (0.083)	**$ 0.055**	$ (0.276)
Income per unit from discontinued operations: Basic and diluted	**$ 0.053**	$ 0.029	**$ 0.131**	$ 0.083
Income (loss) and comprehensive income (loss) per unit: Basic and diluted	**$ 0.123**	$ (0.054)	**$ 0.186**	$ (0.193)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	**2010**	**2011**	**2010**
Issued capital				
Balance, beginning of period	**$107,860,241**	$ 98,966,638	**$107,860,241**	$ 98,966,638
Issue of units	**-**	79,317	**-**	79,317
Balance, end of period	**107,860,241**	99,045,955	**107,860,241**	99,045,955
Contributed surplus				
Balance, beginning of period	**9,455,408**	4,179,088	**5,544,362**	461,871
Value of unit options granted	**-**	7,508	**4,295**	36,754
Maturity of Series E debentures	**-**	-	**-**	2,835,690
Maturity of Series F debentures	**-**	-	**3,507,495**	-
Issue of warrants	**-**	-	**334,874**	747,285
Debentures purchased under normal course issuer bid	**13,883**	25,235	**40,765**	37,481
Value of deferred units granted	**18,750**	23,250	**56,250**	116,000
Value of deferred units redeemed	**-**	(79,317)	**-**	(79,317)
Balance, end of period	**9,488,041**	4,155,764	**9,488,041**	4,155,764
Equity component of convertible debentures				
Balance, beginning of period	**6,214,691**	9,793,102	**9,749,068**	12,641,038
Debentures purchased under normal course issuer bid	**(13,883)**	(25,235)	**(40,765)**	(37,481)
Maturity of Series E debentures	**-**	-	**-**	(2,835,690)
Maturity of Series F debentures	**-**	-	**(3,507,495)**	-
Balance, end of period	**6,200,808**	9,767,867	**6,200,808**	9,767,867
Cumulative earnings (losses)				
Balance, beginning of period	**20,503,464**	24,742,040	**19,349,151**	27,280,222
Income (loss) and comprehensive income (loss)	**2,275,638**	(989,289)	**3,429,951**	(3,527,471)
Balance, end of period	**22,779,102**	23,752,751	**22,779,102**	23,752,751
Cumulative distributions to unitholders				
Balance, beginning and end of period	**(67,450,035)**	(58,635,749)	**(67,450,035)**	(58,635,749)
Total equity	**$ 78,878,157**	$ 78,086,588	**$ 78,878,157**	$ 78,086,588

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Operating activities				
Income (loss) and comprehensive income (loss)	**$ 2,275,638**	$ (989,289)	**$ 3,429,951**	$ (3,527,471)
Adjustments to reconcile income (loss) to cash flows				
Fair value gains (losses)	**(3,153,922)**	611,362	**(9,902,377)**	1,397,284
Profit (loss) on sale of investment properties	**-**	(307,555)	**-**	(1,725,305)
Discount on repayment of mortgage loan	**-**	-	**-**	210,000
Accrued rental revenue	**(61,702)**	(55,053)	**(477,179)**	110,543
Unit-based compensation	**18,750**	30,758	**60,545**	152,754
Deferred income taxes	**2,284**	(64,850)	**(102,004)**	(203,596)
Interest income	**(40,298)**	(26,489)	**(165,309)**	(274,558)
Interest received	**40,298**	26,489	**165,309**	274,558
Interest expense	**9,035,908**	7,548,494	**27,932,043**	23,734,371
Interest paid	**(7,098,137)**	(7,426,672)	**(23,442,982)**	(22,846,774)
Cash from operations	**1,018,819**	(652,805)	**(2,502,003)**	(2,698,194)
Decrease (increase) in rent and other receivables	**(314,003)**	452,446	**(545,982)**	(590,004)
Decrease (increase) in deposits, prepaids and other	**198,836**	818,230	**(485,034)**	143,723
Increase (decrease) in tenant deposits	**121,159**	103,031	**868,219**	395,448
Increase (decrease) in trade and other payables	**(3,600,718)**	(1,442,716)	**(436,836)**	545,163
	(2,575,907)	(721,814)	**(3,101,636)**	(2,203,864)
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**34,350,000**	5,000,000	**51,050,000**	5,000,000
Proceeds of mortgage bond financing	**-**	-	**3,363,000**	6,780,000
Repayment of mortgage loans on refinancing	**(20,308,438)**	(6,909,514)	**(32,558,438)**	(6,909,514)
Repayment of mortgage loans from proceeds of mortgage loan receivable	**-**	(4,500,000)	**-**	(4,500,000)
Repayment of debentures	**-**	-	**(13,598,000)**	(11,950,000)
Repayment of long-term debt	**(2,192,654)**	(1,760,869)	**(6,801,045)**	(5,786,803)
Proceeds (repayment) of line of credit	**(4,865,000)**	315,000	**(2,960,000)**	4,875,000
Proceeds of revolving loan commitment	**700,000**	2,534,692	**9,050,000**	8,314,692
Repayment of revolving loan commitment	**(3,500,000)**	(1,500,000)	**(7,200,000)**	(6,580,000)
Expenditures on transaction costs	**(1,274,192)**	(376,688)	**(2,563,181)**	(1,478,448)
Debentures purchased and cancelled under normal course issuer bid	**(18,023)**	(74,291)	**(45,642)**	(113,934)
	2,891,693	(7,271,670)	**(2,263,306)**	(12,349,007)
Cash provided by (used in) investing activities				
Capital expenditures on investment properties	**(819,899)**	(224,942)	**(1,608,496)**	(761,339)
Capital expenditures on property and equipment	**(7,854)**	(35,871)	**(69,656)**	(53,078)
Decrease (increase) in defeasance assets	**46,743**	(3,338,341)	**95,335**	(3,338,341)
Proceeds of mortgage loan receivable	**-**	6,340,000	**-**	6,340,000
Proceeds of sale	**-**	6,886,530	**-**	13,332,371
Change in restricted cash	**(731,965)**	(1,960,999)	**7,114,681**	(3,181,971)
	(1,512,975)	7,666,377	**5,531,864**	12,337,642
Cash increase (decrease)	**(1,197,189)**	(327,107)	**166,922**	(2,215,229)
Add (deduct) decrease (increase) in cash from discontinued operations (Note 10)	**173,034**	370,041	**(76,846)**	114,969
	(1,024,155)	42,934	**90,076**	(2,100,260)
Cash, beginning of period	**2,039,277**	1,486,262	**925,046**	3,629,456
Cash, end of period	**$ 1,015,122**	$ 1,529,196	**$ 1,015,122**	$ 1,529,196

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 Convertible Debentures	LRT.DB.G
Mortgage Bonds	LRT.NT.A
Warrants expiring March 10, 2015	LRT.WT
Warrants expiring December 24, 2015	LRT.WT.A

The Trust and its subsidiaries lease, develop and sell residential real estate investments in Canada.

2 *Basis of presentation and continuing operations*

The consolidated financial statements of Lanesborough Real Estate Investment Trust have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated statements for the nine months ended September 30, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on November 14, 2011.

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

The consolidated financial statements do not give effect to adjustments that would be necessary should the Trust be required to realize its assets in other than the normal course of business. The use of IFRS applicable to a going concern may be inappropriate as a result of the potential inability of the Trust to continue as a going concern. The Trust generated income from investment properties for the three months ended September 30, 2011 of $1,296,250 and $1,018,727 for the nine months ended September 30, 2011 (2010 - $1,513,884 loss and $5,028,926 loss, respectively); has a working capital deficit of $8,269,433 as at September 30, 2011 (December 31, 2010 - $11,261,492); and was in breach of net operating income achievement, debt service coverage, restriction on the registration of secondary mortgage charges and reporting requirements on six mortgage loans and a swap mortgage loan during 2010 and as of September 30, 2011.

The Trust is in breach of a net operating income achievement requirement of a $22,874,295 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 $21,334,454 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)*

At December 31, 2010, the Trust was in breach of the 1.2 times debt service coverage requirement of a first mortgage loan and a second mortgage loan totaling $70,975,609, on three properties in Fort McMurray, Alberta. The Trust was also in breach of the 1.1 times debt service coverage requirement of a $18,173,138 first mortgage loan on a property in Fort McMurray, Alberta with the same lender. Two mortgage loans in breach of debt coverage requirements, in the aggregate amount of $35,347,748, matured in 2010 and one mortgage loan in breach of debt service coverage requirements in the amount of $53,800,999 matured on October 1, 2011. A forbearance to June 30, 2011 has been obtained for the three mortgage loans in the aggregate amount of $89,148,747. It is expected that extensions of forbearance will be obtained.

The Trust is in breach of the 1.2 times debt service coverage and reporting requirement of a $24,997,239 first mortgage loan on one property in Fort McMurray, Alberta. The terms of forbearance are under negotiation.

The breaches of the net operating income achievement and debt service coverage requirements on six mortgage loans and a swap mortgage loan, as noted above, are a result of the negative impact of the 2009-2010 decline of development activities in the oil sands industry and the associated decline in the rental market conditions in Fort McMurray. Notwithstanding that recently there has been a substantial improvement in the occupancy rate in the Fort McMurray properties of the Trust, all or some of the covenant breaches may continue for the next 12 months. There can be no assurance that the covenant breaches will be remedied.

The Trust is in breach of a covenant of a $19,761,178 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of a secondary mortgage charge. The lender demanded that the secondary mortgage charge be discharged and the Trust has not yet complied.

At December 31, 2010, the Trust was in breach of the 1.3 times debt service coverage requirement of a $4,874,122 first mortgage loan and at September 30, 2011, the Trust was in breach of a requirement to obtain mortgage insurance for a $12,500,593 first mortgage loan on seniors' housing complexes located in Moose Jaw, Saskatchewan and Port Elgin, Ontario, respectively. Subsequent to September 30, 2011, a forbearance of the 1.3 times debt covenant breach was provided by the lender and the $12,500,593 first mortgage loan has been renewed and the requirement for mortgage insurance was removed from the mortgage terms.

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

Continuation of operations is contingent upon improving cash flows from operations and in particular, the operating cash flows from the Fort McMurray portfolio, the completion of the divestiture program in a manner which achieves the targeted sales price and timelines, the continued ability of the Trust to renew or refinance its debt at maturity, the continued support of related parties in the form of the renewal of the revolving loan, the provision of advances and the deferral of fees and the ability of the Trust to successfully negotiate and extend forbearance arrangements for mortgages with covenant breaches.

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

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 18 properties, the Trust has successfully renewed mortgage loans at maturity and/or obtained forbearance arrangements, the Trust has successfully retired the Series E and Series F debenture debt in 2010 and 2011 and has extended the maturity date for the Series G debentures.

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.

Statement of compliance
The condensed consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 and IFRS 1. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The condensed consolidated financial statements are based on IFRS standards issued and outstanding as at November 14, 2011.

The Trust follows accounting policies under IFRS as disclosed in the March 31, 2011 interim report. Note 25 to the March 31, 2011 interim report discloses the impact of the transition to IFRS on the Trust's reported financial position, income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's consolidated financial statements for the year ended December 31, 2010. Subject to certain transition elections disclosed in Note 25 to the March 31, 2011 report, the accounting policies in Note 3 have been applied consistently in all material respects.

The March 31, 2011 interim report is available on SEDAR at www.sedar.com.

3 *Significant accounting policies*

Future changes to significant accounting policies

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

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

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

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

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

3 *Significant accounting policies (continued)*

Future changes to significant accounting policies (continued)

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

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

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

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

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

4 *Investment properties*

The carrying amount of investment properties is summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance, beginning of period	$446,837,052	$439,800,000	$439,300,000	$440,300,000
Additions - capital expenditures	819,899	111,362	1,608,496	397,284
Fair value gains (losses)	3,153,922	(611,362)	9,902,377	(1,397,284)
Balance, end of period	$450,810,873	$439,300,000	$450,810,873	$439,300,000

4 *Investment properties (continued)*

Investment properties have been valued using the following methods and key assumptions:

(i) *The capitalized net operating income method*. Under this method, capitalization rates are applied to net operating income. The key assumption is the capitalization rates which are based on reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region.

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

	September 30 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.00 %	8.00 %	7.50 %	8.00 %
Yellowknife	7.25 %	9.75 %	6.75 %	9.75 %
Major Canadian cities	5.00 %	6.75 %	5.00 %	7.50 %
Other	6.25 %	9.00 %	6.25 %	9.00 %
Commercial properties	6.50 %	9.25 %	7.00 %	9.25 %

(ii) *The discounted cash flow method*. Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity. The key assumption is the discount rate applied over the useful life of the investment property.

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

	September 30 2011		December 31 2010	
	Low	High	Low	High
Residential properties				
Fort McMurray	7.50 %	8.00 %	7.75 %	8.00 %
Yellowknife	7.50 %	8.50 %	7.50 %	8.50 %
Major Canadian cities	5.50 %	5.50 %	5.50 %	5.50 %
Other	6.25 %	8.00 %	6.25 %	8.00 %
Commercial properties	7.25 %	7.75 %	7.25 %	7.75 %

(iii) *Direct comparison*. For properties with condominium title or in the process of obtaining condominium title, comparisons to the sale price of similar condominium units establishes gross sales proceeds from which the cost of completing a condominium conversion and sales program are deducted to achieve a property value. The key assumption is the cost of the condominium conversion and sales program. Direct comparison valuation analyses are prepared for Colony Square, Laird's Landing, Lakewood Apartments, Lakewood Townhouses, Millennium Village, Parsons Landing, Siena Apartments and Woodland Park.

4 *Investment properties (continued)*

(iv) *External appraisals and reports.* Independent valuations on all investment properties are carried out in accordance with an established timetable, as reflected in the following schedule, in order to reduce the risk that the carrying amount of each investment property does not differ materially from its fair value:

Property Value	Number of Properties	Aggregate Value at September 30, 2011	Valuation Update Timetable
Greater than $7.5 Million	12	$ 398,021,098	Three years
Less than $7.5 Million	11	52,789,775	Five years
	23	$ 450,810,873	

The Trust utilizes capitalization and discount rates within the ranges provided in market reports by knowledgeable property valuators. To the extent that the externally provided capitalization rate and discount rate ranges change from one reporting period to the next; or should another rate within the provided ranges be considered by the Trust to be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

To assist in the determination of fair value at September 30, 2011, external appraisals were obtained in 2011 for ten properties having an aggregate appraised value of $327.1 Million representing 73% of the total carrying value of investment properties. Appraisals were obtained in 2010 for three properties having an aggregate appraised value of $61.8 Million representing 14% of the total carrying value of investment properties and in 2009 for one property having an aggregate appraised value of $8.4 Million representing 2% of the total carrying value of investment properties.

(v) *Property sales*. The sale of properties provides valuable information on market conditions. Projects which are subject to an unconditional sale agreements are valued at the sale price less estimated selling expenses.

The valuation of investment properties considers all of the information generated by the above noted methods and assumptions.

Details on the carrying value of investment properties are provided in Schedule 1.

5 Loans and receivables

	September 30 2011	December 31 2010
Second mortgage loan due October 1, 2014, bearing interest at 5% and providing for monthly payments of interest only arising on the sale of property	$ 500,000	$ 500,000
Note receivable from a previous tenant. The loan bears interest at 12% and is secured by mortgages registered against the titles of recreational properties.	250,000	250,000
	750,000	750,000
Current portion of loans and receivables	(250,000)	(250,000)
	$ 500,000	$ 500,000

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 (Defeased Liability). The Defeased Liability is due July 1, 2016, bears interest at 5.65%, is repayable in monthly payments of $17,191 and is amortized over 30 years. The Trust purchased Government of Canada bonds, Government of Canada treasury bills and Canada mortgage bonds ("Defeasance Assets") in the amount of $3,338,341 and pledged the Defeasance Assets as security to the debt holder. The Defeasance Assets mature on or before June 1, 2016, have a weighted average interest rate of 3.77% (December 31, 2010 - 3.75%) and have been placed in escrow. The Defeasance Assets and the Defeased Liability will be measured at amortized cost using the effective interest rate method of amortization until July 1, 2016 at which time the debt will be extinguished.

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

	Recorded as	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Interest income on Defeasance Assets	Interest income	$ 4,831	$ 3,464	$ 59,388	$ 3,464
Interest expense on Defeased Liability	Interest expense	(38,703)	(13,114)	(116,641)	(13,114)
Amortization of transaction costs	Interest expense	(2,332)	-	(9,925)	-
		$ (36,204)	$ (9,650)	$ (67,178)	$ (9,650)

The unamortized balance of transaction costs in respect of the Defeased Liability is $45,947 (2010 - $52,880).

7 *Restricted cash*

	September 30 2011	December 31 2010
Tenant security deposits	$ 2,872,366	$ 2,057,086
Reserves required by mortgage loan agreements	11,479,390	10,473,737
Mortgage bond proceeds held in escrow	-	8,947,815
	$ 14,351,756	$ 21,478,638

8 *Rent and other receivables*

	September 30 2011	December 31 2010
Rent receivable	$ 762,378	$ 792,876
Estimated property operating cost recoveries	149,440	37,657
Less: allowance for uncollectible accounts	(57,009)	(364,685)
	854,809	465,848
Other receivables	543,102	430,288
Deferred rent receivable	646,513	169,334
	2,044,424	1,065,470
Current portion of loans and receivables	250,000	250,000
	$ 2,294,424	$ 1,315,470

9 *Deposits, prepaids and other*

	September 30 2011	December 31 2010
Deposits		
Property tax deposits	$ 582,931	$ 482,368
Deposit on potential acquisition	10,000	10,000
Performance deposit	166,916	166,916
Utility deposits	630	38,407
Deposit with Canada Revenue Agency	250,000	-
	1,010,477	697,691
Prepaid expenses	500,135	349,104
	$ 1,510,612	$ 1,046,795

10 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 as discontinued operations.

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

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

Assets and liabilities classified as "non-current assets and non-current liabilities held for sale" as at September 30, 2011, are as follows:

	September 30 2011	December 31 2010
ASSETS		
Assets in discontinued operations		
Property and equipment (a)	$ 78,348,355	$ 78,278,699
Cash	633,672	556,826
Restricted cash	290,872	278,671
Rent and other receivables	114,667	70,460
Deposits, prepaids and other	600,495	579,278
Non-current assets classified as held for sale	79,988,061	79,763,934
LIABILITIES		
Liabilities in discontinued operations		
Long term debt (b)	59,889,819	47,363,194
Deferred tax (c)	5,634,368	5,681,835
Trade and other payables	776,128	885,518
Deposits from tenants	610,676	535,971
Non-current liabilities classified as held for sale	$ 66,910,991	$ 54,466,518

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Rental income	$ 3,901,337	$ 3,441,930	$ 11,377,372	$ 10,064,827
Property operating expenses	2,228,397	2,106,484	6,472,346	6,137,253
Net operating income	1,672,940	1,335,446	4,905,026	3,927,574
Interest expense (d)	950,729	829,638	2,479,039	2,437,000
Current tax	12,619	46,063	113,431	(34,805)
Deferred tax	(269,796)	(64,850)	(98,668)	23,924
Income from discontinued operations	$ 979,388	$ 524,595	$ 2,411,224	$ 1,501,455
Cash inflow from operating activities	$ 803,482	$ (515,478)	$ 2,381,142	$ 676,408
Cash outflow from investing activities	(1,783,168)	179,648	(2,222,439)	(733,931)
Cash outflow from financing activities	806,652	(34,211)	(81,857)	(57,446)
Increase (decrease) in cash from discontinued operations	$ (173,034)	$ (370,041)	$ 76,846	$ (114,969)

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

(a) Property and equipment

September 30, 2011	Cost, Beginning of Period	Additions/ Disposals	Accumulated Amortization	Net Book Value
Land	$ 6,098,190	$ -	$ -	$ 6,098,190
Buildings and improvements	71,697,286	51,832	(3,050,825)	68,698,293
Furniture, equipment and appliances	1,549,743	17,824	(280,546)	1,287,021
	79,345,219	69,656	(3,331,371)	76,083,504
Valuation adjustment	2,264,851	-	-	2,264,851
	$ 81,610,070	$ 69,656	$ (3,331,371)	$ 78,348,355

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance, beginning of period	$ 78,340,501	$ 78,152,206	$ 78,278,699	$ 78,135,000
Additions - capital expenditures	7,854	35,872	69,656	53,078
Balance, end of period	$ 78,348,355	$ 78,188,078	$ 78,348,355	$ 78,188,078

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

(b) Long term debt

	September 30 2011	December 31 2010
Secured debt		
Mortgage loans	$ 60,455,495	$ 47,024,490
Unsecured debt		
Mortgage guarantee fees	285,194	338,704
Unamortized transaction costs	(850,870)	-
Total long term debt	$ 59,889,819	$ 47,363,194

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

As of December 31, 2010, the Trust was not in compliance with the debt service requirement in regard to a mortgage loan in the amount of $4,874,122. Subsequent to September 30, 2011, the lender provided a forbearance of the breach to December 31, 2011.

As of September 30, 2011, the Trust was not in compliance with a requirement to obtain mortgage insurance in regard to a mortgage loan in the amount of $12,500,593. Subsequent to September 30, 2011, the loan was renewed and the requirement for mortgage insurance was eliminated.

All mortgage loans for discontinued operations which have maturity dates prior to November 14, 2011, have been renewed.

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

(c) Deferred tax

Deferred tax liabilities consist of the following:

	September 30 2011	December 31 2010
Temporary differences between the accounting and tax bases of property and equipment	$ 5,634,368	$ 5,547,177
Temporary differences between the accounting and tax bases of investments in subsidiaries	-	134,658
	$ 5,634,368	$ 5,681,835

At September 30, 2011, the Trust has deductible temporary differences and unused tax losses related to discontinued operations for which no deferred tax asset is recognized as follows:

Deductible temporary differences:	
Property and equipment	$ 2,050,772
Transaction costs	$ 197,786
Unused tax losses expiring in:	
2026	$ 113,256
2027	2,354,011
2028	2,510,247
2029	2,397,735
2030	1,858,141
2031	877,543
	$ 10,110,933

(d) Interest expense

	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Mortgage loan interest	$ 827,704	$ 757,749	$ 2,354,464	$ 2,192,381
Amortization of transaction costs	123,025	71,889	124,575	244,619
	$ 950,729	$ 829,638	$ 2,479,039	$ 2,437,000

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11 Long-term debt

	September 30 2011	December 31 2010
Secured debt		
Mortgage loans (a)	$ 258,322,221	$ 259,104,483
Mortgage bonds (b)	13,966,014	10,826,910
Convertible debentures (c)	-	13,464,400
Swap mortgage loans (d)	43,421,345	44,832,599
Defeased liability (e)	2,768,316	2,806,222
Total secured debt	318,477,896	331,034,614
Unsecured debt		
Convertible debentures (c)	25,182,734	23,948,528
Mortgage guarantee fees (f)	48,822	73,074
Construction costs payable	343,846	333,831
Total unsecured debt	25,575,402	24,355,433
Accrued interest payable	2,593,263	1,666,375
Unamortized transaction costs		
Mortgage loans (a)	(869,330)	(1,285,457)
Mortgage bonds (b)	(1,322,762)	(1,137,864)
Convertible debentures (c)	(75,331)	(426,282)
Swap mortgage loans (d)	(115,349)	(169,957)
Defeased liability (e)	(45,947)	(52,880)
Total unamortized transaction costs	(2,428,719)	(3,072,440)
	344,217,842	353,983,982
Less current portion		
Mortgage loans (a)	(188,265,980)	(165,076,432)
Convertible debentures (c)	(25,182,734)	(37,412,928)
Swap mortgage loans (d)	(22,026,974)	(22,356,458)
Defeased liability (e)	(53,130)	(50,897)
Mortgage guarantee fees (f)	(34,039)	(32,576)
Construction costs payable	(343,846)	(333,831)
Accrued interest payable	(2,593,263)	(1,666,375)
Transaction costs	926,171	1,403,001
Total current portion	(237,573,795)	(225,526,496)
	$ 106,644,047	$ 128,457,486

Current portion of unamortized transaction costs		
Mortgage loans (a)	$ 500,054	$ 714,040
Mortgage bonds (b)	226,316	137,730
Convertible debentures (c)	75,331	426,282
Swap mortgage loans (d)	115,009	115,085
Defeased liability (e)	9,461	9,864
	$ 926,171	$ 1,403,001

11 Long-term debt (continued)

Long-term debt has both fixed and variable interest rates. At September 30, 2011, the contractual weighted average interest rate for variable rate long-term debt was 8.5% and for fixed rate long-term debt was 5.7% (December 31, 2010 - variable - 6.7%, fixed - 6.2%).

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

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Convertible Debentures and Mortgage Bonds	Swap Mortgage Loans
2011 - Remainder of year (1)	$ 875,293	$156,781,459	$ 25,420,000	$21,503,885
2012	2,582,970	29,594,455	-	702,495
2013	1,344,560	39,380,857	-	18,179,071
2014	547,244	8,762,938	-	-
2015	480,779	5,796,988	16,000,000	-
Thereafter	-	12,174,678	-	-
	$ 5,830,846	$252,491,375	$ 41,420,000	$40,385,451

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees and Construction Costs Payable	Total Long-term Debt	Weighted average interest rate of long-term debt
2011 - Remainder of year	$ 12,991	$ 352,169	$204,945,797	7.3%
2012	53,813	34,542	32,968,275	5.9%
2013	56,896	5,957	58,967,341	6.4%
2014	60,155	-	9,370,337	5.0%
2015	63,602	-	22,341,369	7.8%
Thereafter	2,520,859	-	14,695,537	5.2%
	$ 2,768,316	$ 392,668	$343,288,656	6.9%

(1) Mortgage loans principal maturities and swap mortgage loans principal maturities include mortgage loans which are not in compliance with loan covenants. In accordance with IFRS, $156,781,459 in regard to mortgage loan balances and $21,334,454 in regard to swap mortgage loan balances are included in the balance due in the remainder of 2011.

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

11 Long-term debt (continued)

(a) Mortgage loans

	Weighted average interest rates			
	September 30 2011	December 31 2010	September 30 2011	December 31 2010
First mortgage loans				
Fixed rate	5.6%	5.7%	$ 150,773,474	$ 171,218,636
Variable rate	8.6%	6.8%	71,974,137	54,439,020
Total first mortgage loans	6.6%	6.0%	222,747,611	225,657,656
Second mortgage loans				
Fixed rate	11.4%	12.2%	2,100,000	15,945,000
Variable rate	8.3%	6.5%	33,474,610	17,501,827
Total second mortgage loans	8.4%	9.2%	35,574,610	33,446,827
Total	6.9%	6.4%	258,322,221	259,104,483
Unamortized transaction costs			(869,330)	(1,285,457)
			257,452,891	257,819,026
Current portion of mortgage loans			(188,265,980)	(165,076,432)
Current portion of unamortized transaction costs			500,054	714,040
			$ 69,686,965	$ 93,456,634

Certain of the mortgage loans are subject to covenants, including net operating income achievement, debt service coverage, restriction on the registration of secondary charges against the title to a property and reporting requirements. The Trust is not in compliance with five first mortgage loans and one second mortgage loan totaling $156,781,459, as a result of the breach of covenant requirements in respect of the mortgage loans. In accordance with IFRS the total loan balance of $156,781,459 is included in current portion of mortgage loans.

A forbearance to June 30, 2011 has been obtained for two first mortgage loans and one second mortgage loan in the aggregate amount of $89,148,747. It is expected that further extensions of forbearance will continue to be obtained. Two mortgage loans in breach of debt service coverage requirements, in the aggregate amount of $35,347,748, matured in 2010 and have not been renewed and one mortgage loan in breach of debt service coverage requirements in the amount of $53,800,999 matured on October 1, 2011 and has not been renewed. The maturity dates have not been extended and the loans are payable on demand. The forbearance to June 30, 2011 in the aggregate amount of $89,148,747 is in regard to the three mortgage loans which matured.

Except for the three mortgage loans in the amount of $89,148,747, all mortgages which have matured prior to November 14, 2011 have been renewed or refinanced.

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

11 Long-term debt (continued)

(b) Mortgage bonds and warrants

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

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

	September 30 2011	December 31 2010
Balance, beginning of period	$ 10,826,910	$ -
Value at issue	2,910,467	16,624,166
Accretion	228,637	982,744
Redemption	-	(6,780,000)
Balance, end of period	13,966,014	10,826,910
Unamortized transaction costs	(1,322,762)	(1,137,864)
	12,643,252	9,689,046
Current portion of unamortized transaction costs	(226,316)	(137,730)
	$ 12,416,936	$ 9,551,316

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

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

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

On December 23, 2010, the Trust issued 12,637 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 12,637,000 in warrants for gross proceeds of $12,637,000. Each warrant entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $53,861,000 (December 31, 2010 - $54,600,000).

11 Long-term debt (continued)

(b) Mortgage bonds and warrants (continued)

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

On January 28, 2011, the second closing of the December 2010 mortgage bond offering, the Trust issued 3,363 five year 9% mortgage bonds in the principal amount of $1,000, due December 24, 2015, and 3,363,000 in warrants for gross proceeds of $3,363,000. Each warrant entitles the holder to purchase one unit at a price of $0.75 until December 23, 2015. The mortgage bonds are secured by second mortgage charges registered against five investment properties with a fair value of $53,861,000.

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

(c) Convertible debentures

The face value of the convertible debentures is as follows:

	September 30 2011	December 31 2010
Series F	$ -	$ 13,601,000
Series G	25,420,000	25,595,000
	$ 25,420,000	$ 39,196,000

During the three and nine months ended September 30, 2011, 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 the Series E, Series F and Series G debentures.

11 Long-term debt (continued)

(c) Convertible debentures (continued)

September 30, 2011	Debt	Equity	Total
Convertible debentures Series G - 7.5%, due December 31, 2011	$ 25,182,734	$ 6,623,277	$ 31,806,011
Deferred tax liability charged to equity	-	(422,469)	(422,469)
Unamortized transaction costs	(75,331)	-	(75,331)
	25,107,403	6,200,808	31,308,211
Current portion of convertible debentures	(25,182,734)	-	(25,182,734)
Current portion of unamortized transaction costs	75,331	-	75,331
	$ -	$ 6,200,808	$ 6,200,808

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

Subsequent to September 30, 2011, the terms of the Series G convertible debentures were revised as follows:

- The rate of interest on the debentures will be 9.5%, effective December 31, 2011;
- The maturity date was extended to February 28, 2015;
- The conversion features of the debentures were eliminated;
- The option of the Trust to distribute trust units to satisfy the monthly interest payments and the final principal and interest payment at maturity was eliminated;
- A redemption feature was implemented which, subject to notice requirements, provides the Trust with the option to redeem the debentures and which requires the Trust to redeem debentures from the net proceeds of property sales; and
- The addition of security whereby the debentures are secured by a Personal Property Security Act, Manitoba, registration against all of the assets and property of LREIT, subject to the priority of existing and future senior debt and permitted encumbrances.

11 Long-term debt (continued)

(c) Convertible debentures (continued)

The accretion of the debt component for the three months ended September 30, 2011 of $559,034 (2010 - $621,309) and for the nine months ended September 30, 2011 of $1,536,183 (2010 - $1,913,668), which increases the debt component from the initial carrying amount, is included in interest expense.

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

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

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

During the period from January 1, 2011 to September 30, 2011, the Trust purchased and cancelled Series F debentures with a face value of $3,000 at an average price of $98.00 per $100.00 and Series G debentures with a face value of $191,000 at an average price of $76.77 per $100.00.

Subsequent to September 30, 2011, the Trust purchased and cancelled Series G debentures with a face value of $32,000 at an average price of $69.25 per $100.00.

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

11 Long-term debt (continued)

(d) Swap mortgage loans

The Trust has entered into interest rate swap arrangements whereby the interest rate on variable rate mortgage loans, in the amounts of $19,050,997 and $21,334,454, have fixed rates of 5.74% and 5.82% and mature in 2013 and 2018, respectively.

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

	September 30 2011	December 31 2010
Face value of mortgage loans, subject to swaps	$ 40,385,451	$ 41,238,026
Fair value of interest rate swaps	3,035,894	3,594,573
	43,421,345	44,832,599
Unamortized transaction costs	(115,349)	(169,957)
	43,305,996	44,662,642
Current portion of swap mortgage loans	(22,026,974)	(22,356,458)
Current portion of unamortized transaction costs	115,009	115,085
	$ 21,394,031	$ 22,421,269

The swap mortgage loans are subject to covenants, including debt service coverage requirements. The Trust is not in compliance with a swap mortgage loan in the amount of $21,334,454, as a result of a breach of the debt service coverage requirement. In accordance with IFRS the total balance of $21,334,454 is included in current portion of swap mortgage loans.

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

(e) Defeased liability

	September 30 2011	December 31 2010
Face value	$ 2,768,316	$ 2,806,222
Unamortized transaction costs	(45,947)	(52,880)
	2,722,369	2,753,342
Current portion of defeased liability	(53,130)	(50,897)
Current portion of unamortized transaction costs	9,461	9,864
	$ 2,678,700	$ 2,712,309

11 Long-term debt (continued)

(f) Mortgage guarantee fees

	September 30 2011	December 31 2010
Nelson Ridge Estates	$ 48,822	$ 73,074
Current portion of mortgage guarantee fees	(34,039)	(32,576)
	$ 14,783	$ 40,498

12 Income taxes

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

	Three Months Ended September 30 2011	2010	Nine Months Ended September 30 2011	2010
Current tax expense (recovery)	$ -	$ -	$ -	$ -
Deferred tax expense relating to origination and reversal of temporary differences or tax losses	316,454	-	246,845	-
Benefit from previously unrecognized tax loss or temporary difference of a prior period used to reduce deferred tax expense	(17,750)	-	(154,923)	(227,520)
Deferred tax expense (recovery)	298,704	-	91,922	(227,520)
Income tax expense (recovery)	$ 298,704	$ -	$ 91,922	$ (227,520)

12 Income taxes (continued)

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

	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Income (loss) from continuing operations before income taxes	$ 1,594,954	$ (1,513,884)	$ 1,110,649	$ (5,256,446)
Statutory income tax rate	26%	0%	26%	0%
Income tax expense (recovery) calculated using the combined federal and provincial statutory income tax rate	$ 414,688	$ -	$ 288,769	$ -
Non-deductible unit-based compensation	4,875	-	15,742	-
Interest revenue received from wholly owned subsidiaries	196,800	-	582,786	-
Recognition of previously unrecognized deferred tax assets	(17,750)	-	(154,923)	(227,520)
Non-taxable/allowance portion of capital (gains) losses	(430,507)	-	(621,159)	-
Other	130,598	-	(19,293)	-
Income tax expense (recovery)	$ 298,704	$ -	$ 91,922	$ (227,520)

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

	September 30 2011	December 31 2010
Temporary differences between the accounting and tax bases of:		
Investment properties	$ 1,304,455	$ (872,143)
Transaction costs	(520,663)	(247,938)
Convertible debentures and mortgage bonds	590,525	934,222
Unused tax losses	(1,374,317)	-
	$ -	$ (185,859)

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12 Income taxes (continued)

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Investment properties	$ 562,537	$ -	$ 2,176,598	$ (227,520)
Transaction costs	(23,635)	-	(272,725)	-
Convertible debentures and mortgage bonds	(169,559)	-	(437,631)	-
Unused tax losses	(70,639)	-	(1,374,320)	-
	$ 298,704	$ -	$ 91,922	$ (227,520)

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

	September 30 2011	December 31 2010
Deductible temporary differences		
Investment properties	$ -	$ 595,846

13 Trade and other payables

	September 30 2011	December 31 2010
Accounts payable - vendor invoices	$ 1,185,416	$ 1,845,566
Accrued payables	1,212,423	1,120,144
Prepaid rent	1,448,888	1,208,463
Payable on acquisition of Parsons Landing	47,720,000	47,720,000
Revolving loan from 2668921 Manitoba Ltd.	9,200,000	7,350,000
	$ 60,766,727	$ 59,244,173

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

14 Bank indebtedness

Bank indebtedness consisted of a revolving line of credit that the Trust obtained from a Canadian chartered bank in the maximum amount of $5,000,000, bearing interest at prime plus 3.5% (2010 - prime plus 3.5%) and repayable on demand. The line of credit was secured by a second mortgage on a property classified as discontinued operations. As at September 30, 2011, the line of credit was fully repaid and terminated.

15 Units

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

	Nine Months Ended September 30, 2011		Year Ended December 31, 2010	
	Units	Amount	Units	Amount
Outstanding, beginning of period	17,988,339	$107,860,241	17,893,767	$ 98,966,638
Exchange of deferred units	-	-	94,572	79,317
Units issued on payment of distributions	-	-	-	8,814,286
Outstanding, end of period	17,988,339	$107,860,241	17,988,339	$107,860,241

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

16 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 TSX on the date of grant. Options granted to Trustees vest immediately. Options granted to senior officers and consultants vest on a straight-line basis over five years. The options will have a maximum term of five years from the date of grant.

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

Unit-based compensation expense for the three months ended September 30, 2011 of nil (2010 - $7,508) and for the nine months ended September 30, 2011 of $4,295 (2010 - $36,754), relating to options issued was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

16 Unit option plan (continued)

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

	Nine Months Ended September 30, 2011		Year Ended December 31, 2010	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	968,500	$ 5.58	1,452,000	$ 5.56
Cancelled, July 26, 2011	(625,000)	5.80	-	-
Cancelled, January 17, 2011	(22,500)	5.42	-	-
Cancelled, October 8, 2010	-	-	(3,000)	5.10
Cancelled, September 16, 2010	-	-	(110,000)	5.47
Cancelled, September 12, 2010	-	-	(6,500)	5.64
Cancelled, April 1, 2010	-	-	(6,500)	5.64
Cancelled, March 29, 2010	-	-	(357,500)	5.60
Outstanding, end of period	321,000	$ 5.16	968,500	$ 5.58
Vested, end of period	292,800		912,100	

At September 30, 2011 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.30	90,000	90,000	June 8, 2012
5.10	231,000	202,800	January 7, 2013
	321,000	292,800	

17 Deferred unit plan

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

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

17 Deferred unit plan (continued)

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

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 58,594 for the three months ended September 30, 2011 (2010 - 33,482) and 146,034 for the nine months ended September 30, 2011 (2010 - 210,016) and 545,453 aggregate deferred units were outstanding at September 30, 2011 (2010 - 361,154).

Unit-based compensation expense of $18,750 for the three months ended September 30, 2011 (2010 - $23,250) and $56,250 for the nine months ended September 30, 2011 (2010 - $116,000) relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is recorded in trust expense.

18 Interest expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest on acquisition payable	$ 2,649,175	$ 2,649,175	$ 7,861,141	$ 7,861,141
Forgiveness of interest on acquisition payable	(1,749,175)	(1,749,175)	(5,161,141)	(5,161,141)
	900,000	900,000	2,700,000	2,700,000
Mortgage loan interest	4,784,092	4,511,655	14,780,806	13,302,343
Mortgage bond interest	360,000	152,542	1,080,000	341,880
Accretion of mortgage bonds	90,854	77,656	228,637	153,232
Convertible debenture interest	476,625	736,381	1,687,186	2,341,767
Accretion of the debt component of convertible debentures	559,034	621,309	1,536,183	1,913,668
Swap mortgage loan interest	584,918	614,456	1,767,414	1,836,894
Change in fair value of interest rate swaps	(186,074)	(1,305,843)	(558,679)	(2,484,059)
Amortization of transaction costs	515,730	421,698	2,231,457	1,161,531
	$ 8,085,179	$ 6,729,854	$ 25,453,004	$ 21,267,256

19 Per unit calculations

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Income (loss) and diluted income (loss) before discontinued operations	$ 1,296,250	$ (1,513,884)	$ 1,018,727	$ (5,028,926)
Weighted average number of:				
Units	17,988,339	17,987,311	17,988,339	17,925,291
Deferred units	486,859	317,985	441,141	306,801
Total, basic and diluted	18,475,198	18,305,296	18,429,480	18,232,092

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Income and diluted income discontinued operations	$ 979,388	$ 524,595	$ 2,411,224	$ 1,501,455
Weighted average number of:				
Units	17,988,339	17,987,311	17,988,339	17,925,291
Deferred units	486,859	317,985	441,141	306,801
Total, basic and diluted	18,475,198	18,305,296	18,429,480	18,232,092

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Income (loss) and diluted income (loss)	$ 2,275,638	$ (989,289)	$ 3,429,951	$ (3,527,471)
Weighted average number of:				
Units	17,988,339	17,987,311	17,988,339	17,925,291
Deferred units	486,859	317,985	441,141	306,801
Total, basic and diluted	18,475,198	18,305,296	18,429,480	18,232,092

20 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 $440,598 for the three months ended September 30, 2011 (2010 - $405,193) and $1,234,979 for the nine months ended September 30, 2011 (2010 - $1,224,579). 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 $6,245 for the three months ended September 30, 2011 (2010 - nil) and $8,507 for the nine months ended September 30, 2011 (2010 - $2,407).

Included in trade and other payables at September 30, 2011 is a balance of $28,660 (December 31, 2010 - $24,741), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

The Trust incurred renovation fees on commercial investment properties included in continuing operations payable to Shelter Canadian Properties Limited of $2,759 for the three and nine months ended September 30, 2011 (2010 - nil).

Included in trade and other payables at September 30, 2011 is a balance of $2,759 (December 31, 2010 - nil), payable to Shelter Canadian Properties Limited in regard to outstanding renovation fees.

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

20 Related party transactions (continued)

The Trust incurred service fees of $420,628 for the three months ended September 30, 2011 (2010 - $433,588) and $1,273,160 for the nine months ended September 30, 2011 (2010 - $1,302,361). Service fees are included in trust expense.

Included in trade and other payables at September 30, 2011 is a balance of nil (2010 - $869,639) payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Financing

On June 30, 2009, the Trust obtained a second mortgage loan in the amount of $500,000 from 2668921 Manitoba Ltd. The loan bore interest at 7.5%, was due on January 1, 2011 and was secured by a second mortgage charge on an income property. The loan was extended to June 30, 2011 at the same terms and conditions, and a processing fee of $7,500 was paid to 2668921 Manitoba Ltd. in regard to the extension of the loan. The loan was retired from proceeds of a new first mortgage loan during the three months ended September 30, 2011. Interest of $13,973 for the three months ended September 30, 2011 (2010 - $9,452) and of $32,568 for the nine months ended September 30, 2011 (2010 - $9,555) is included in interest expense.

On June 30, 2009, the Trust obtained a $2.7 Million revolving loan commitment from 2668921 Manitoba Ltd. for general operating purposes. The loan commitment was increased to $5 Million on September 2, 2009; to $10 Million on November 9, 2010 and to $12 Million on June 8, 2011. The loan bears interest at 14% to June 30, 2011 and 11% thereafter (2010 - 14%), is due on December 31, 2011 and is secured by mortgage charges against the title to six income properties and the assignment of a $500,000 mortgage loan receivable. As of September 30, 2011, $9,200,000 has been drawn and is included in trade and other payables.

Subsequent to September 30, 2011, the loan commitment was renewed effective on the maturity date, at an interest rate of 14% and a maturity date of April 30, 2012, with an increase in the commitment from $12 Million to $15 Million. The renewal is subject to regulatory approval.

During the three months ended September 30, 2011, the Trust obtained and fully repaid a $2,282,000 interest free advance from Shelter Canadian Properties Limited.

Interest on the revolving loan of $169,558 for the three months ended September 30, 2011 (2010 - $34,692) and of $936,562 for the nine months ended September 30, 2011 (2010 - $53,804) is included in interest expense.

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

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.

21 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 - debt covenant requirements
The Trust is in breach of the net operating income achievement, debt service coverage and reporting requirements on five mortgage loans and a swap mortgage loan totaling $158,354,735 on properties in Fort McMurray, Alberta. The Trust had obtained a forbearance to June 30, 2011 on three mortgage loans totaling $89,148,747. The Trust is continuing to negotiate with the lenders and management believes that all of the covenant breaches will be resolved. Notwithstanding that recently there has been a substantial improvement in the occupancy rate in the Fort McMurray properties of the Trust, all or some of the covenant breaches may continue for the next 12 months. There can be no assurance that the covenant breaches will be remedied.

The Trust is in breach of a title registration covenant on a $19,761,178 first mortgage loan on a property in Winnipeg, Manitoba which restricts the registration of secondary charges against the title to the property.

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

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

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

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

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years.

As at September 30, 2011, the weighted average term to maturity of the fixed rate mortgages on investment properties is 2.7 years (2010 - 2.9 years).

21 *Financial instruments and risk management (continued)*

Liquidity risk - debt maturities (continued)

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

	Mortgage Loans			
Year ending December 31	Normal Principal Installments	Principal Maturities	Convertible Debentures and Mortgage Bonds	Swap Mortgage Loans
2011 - Remainder of year	$ 875,293	$156,781,459	$ 25,420,000	$21,503,885
2012	2,582,970	29,594,455	-	702,495
2013	1,344,560	39,380,857	-	18,179,071
2014	547,244	8,762,938	-	-
2015	480,779	5,796,988	16,000,000	-
Thereafter	-	12,174,678	-	-
	$ 5,830,846	$252,491,375	$ 41,420,000	$40,385,451

Year ending December 31	Defeased Liability	Mortgage Guarantee Fees and Construction Costs Payable	Other Payables	Total
2011 - Remainder of year	$ 12,991	$ 352,169	$ 15,961,957	$220,907,754
2012	53,813	34,542	47,720,000	80,688,275
2013	56,896	5,957	-	58,967,341
2014	60,155	-	-	9,370,337
2015	63,602	-	-	22,341,369
Thereafter	2,520,859	-	-	14,695,537
	$ 2,768,316	$ 392,668	$ 63,681,957	$406,970,613

Other payables include trade and other payables, bank indebtedness, and deposits from tenants.

In accordance with IFRS, the balance of the six mortgage loans and one swap mortgage loan in the amount of $156,781,459 and $21,334,454, respectively, which are not in compliance with covenants, including net operating income achievement, debt service coverage, restriction on the registration of secondary charges against the title to the property and reporting requirements have been included with amounts due in 2011.

21 *Financial instruments and risk management (continued)*

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

The Trust has variable rate mortgage loans on investment properties totaling $105,448,747, or 41% of the total mortgage loans at September 30, 2011 (December 31, 2010 - 28%). Should interest rates change by 1%, interest expense would change by $1,054,487 per year.

As at September 30, 2011, the Trust has total contractual mortgage principal maturities on investment properties which mature on or prior to September 30, 2014 of $90,127,785, representing 35% of total mortgage loans. Should the amounts be refinanced upon maturity at an interest rate differential of 1%, interest expense would change by $901,278 per year.

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

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

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

	September 30 2011	December 31 2010
Rent receivable overdue:		
0 to 30 days	347,895	166,510
31 to 60 days	51,778	38,556
More than 60 days	362,705	587,810
	$ 762,378	$ 792,876

21 *Financial instruments and risk management (continued)*

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

	September 30 2011	December 31 2010
Balance, beginning of period	$ 364,685	$ 419,680
Amount charged to bad debt expense relating to impairment of rent receivable	150,232	56,254
Amounts written off as uncollectible	(457,908)	(111,249)
Balance, end of period	$ 57,009	$ 364,685
Amount charged to bad debts as a percent of rentals from investment properties	0.49%	0.15%

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

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

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

21 *Financial instruments and risk management (continued)*

Fair values

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

	Carrying Value	
	September 30 2011	December 31 2010
Financial assets		
Loans and receivables	500,000	500,000
Defeasance assets	3,218,099	3,313,434
Restricted cash	14,351,756	21,478,638
Cash	1,015,122	925,046
Rent and other receivables	2,294,424	1,315,470
Deposits	1,010,477	697,691
Financial liabilities		
Mortgages loans	258,322,221	259,104,483
Mortgage bonds	13,966,014	10,826,910
Convertible debentures	25,182,734	37,412,928
Defeased liability	2,768,316	2,806,222
Mortgage guarantee fees	48,822	73,074
Construction costs payable	343,846	333,831
Trade and other payables	60,766,727	59,244,173
Bank indebtedness	-	2,960,000
Deposits from tenants	2,915,230	2,121,716

	Fair Value	
	September 30 2011	December 31 2010
Financial assets		
Loans and receivables	414,952	397,542
Defeasance assets	-	-
Restricted cash	14,351,756	21,478,638
Cash	1,015,122	925,046
Rent and other receivables	2,294,424	1,315,470
Deposits	1,010,477	697,691
Financial liabilities		
Mortgages loans	258,638,025	259,121,541
Mortgage bonds	14,538,967	11,331,068
Convertible debentures	18,709,360	31,772,040
Defeased liability	-	-
Mortgage guarantee fees	48,822	73,074
Construction costs payable	343,846	333,831
Trade and other payables	60,766,727	59,244,173
Bank indebtedness	-	2,960,000
Deposits from tenants	2,915,230	2,121,716

21 Financial instruments and risk management (continued)

Fair values (continued)

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

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

Fair value hierarchy

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

22 Management of capital

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

	September 30 2011	December 31 2010
Mortgage loans	$257,452,891	$257,819,026
Mortgage bonds	12,643,252	9,689,046
Convertible debentures - debt component	25,107,403	36,986,646
Swap mortgage loans	43,305,996	44,662,642
Equity	78,878,157	75,052,787
	$417,387,699	$424,210,147

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

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimise the leveraged returns from the real estate portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust provides for mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- Whenever possible, the Trust will utilize fixed rate debt financing.
- Mortgage due dates are structured to reflect the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk.
- The Trust is undertaking a divestiture program targeting the sale of assets in order to reduce total debt including 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 (i) issue units, debentures or mortgage debt and other securities, such as unit purchase warrants; (ii) adjust the amount of distributions (if any) paid to unitholders; (iii) return capital to unitholders; (iv) purchase units or debentures; and/or (v) reduce debt.

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

23 Segmented financial information

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

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

Three months ended September 30, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	7,618,972	3,523,595	-	11,142,567
Property operating costs	2,523,116	1,515,828	-	4,038,944
Interest income	8,383	4,349	27,566	40,298
Interest expense	4,515,496	1,103,152	2,466,531	8,085,179
Income (loss) and comprehensive income (loss) before discontinued operations	1,968,797	2,667,885	(3,340,432)	1,296,250
Cash from operating activities	(6,031,182)	18,037,148	(16,049,759)	(4,043,793)
Cash from financing activities	6,759,158	(18,109,021)	15,836,407	4,486,544
Cash from investing activities	(1,133,469)	(308,642)	(78,257)	(1,520,368)
Total assets excluding non-current assets held for sale at September 30, 2011	340,928,258	120,085,976	12,686,652	473,700,886

Three months ended September 30, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	5,964,861	3,901,060	-	9,865,921
Property operating costs	2,155,049	1,613,563	-	3,768,612
Interest income	5,482	(20,525)	94,978	79,935
Interest expense	3,099,435	980,943	2,649,476	6,729,854
Income (loss) and comprehensive income (loss) before discontinued operations	(413,028)	2,111,900	(3,212,756)	(1,513,884)
Cash from operating activities	1,218,646	4,783,596	(6,927,413)	(925,171)
Cash from financing activities	(1,041,831)	1,551,593	(7,520,115)	(7,010,353)
Cash from investing activities	(326,662)	(6,348,479)	14,594,160	7,919,019
Total assets excluding non-current assets held for sale at December 31, 2010	329,832,749	117,102,384	21,130,109	468,065,242

23 *Segmented financial information (continued)*

Nine months ended September 30, 2011:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	20,157,182	10,498,954	-	30,656,136
Property operating costs	7,503,762	4,605,782	-	12,109,544
Interest income	28,539	13,299	123,471	165,309
Interest expense	13,798,366	2,867,487	8,787,151	25,453,004
Income (loss) and comprehensive income (loss) before discontinued operations	6,006,648	5,790,756	(10,778,677)	1,018,727
Cash from operating activities	(802,047)	3,356,707	(8,037,435)	(5,482,775)
Cash from financing activities	3,553,352	(2,852,806)	(741,413)	(40,867)
Cash from investing activities	(2,697,956)	(609,184)	8,920,861	5,613,721

Nine months ended September 30, 2010:

	Investment Properties			
	Fort McMurray	Other	Trust	Total
Rental revenue	18,391,788	11,898,631	-	30,290,419
Property operating costs	7,051,870	5,572,036	-	12,623,906
Interest income	9,652	22,180	296,172	328,004
Interest expense	10,630,682	2,828,470	7,808,104	21,267,256
Income (loss) and comprehensive income (loss) before discontinued operations	(1,030,426)	5,594,653	(9,593,153)	(5,028,926)
Cash from operating activities	4,424,958	(2,431,951)	(4,873,279)	(2,880,272)
Cash from financing activities	(3,537,592)	541,610	(8,619,094)	(11,615,076)
Cash from investing activities	(1,197,870)	1,563,798	12,029,160	12,395,088

24 *Adoption of International Financial Reporting Standards*

Effective January 1, 2011, the Trust adopted International Financial Reporting Standards ("IFRS") on a prospective basis. As a result, financial information which was previously issued under Canadian generally accepted accounting principles ("GAAP") has been recalculated and presented in accordance with IFRS. Details on the accounting policies and transition elections are disclosed in the March 31, 2011 interim report. The March 31, 2011 interim report is available on SEDAR at www.sedar.com.

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

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

24 Adoption of International Financial Reporting Standards (continued)

Schedule 2 attached provides a reconciliation of the information previously issued under GAAP in the Statement of Financial Position as of September 30, 2010 to the IFRS presentation.

Schedule 3 attached provides a reconciliation of the information previously issued under GAAP for the nine months ended September 30, 2010 to the IFRS presentation in the Statement of Comprehensive Income (Loss) and Statement of Cash Flows.

Schedule 4 attached provides a reconciliation of the information previously issued under GAAP for the three months ended September 30, 2010 to the IFRS presentation in the Statement of Comprehensive Income (Loss) and Statement of Cash Flows.

25 Commitments

Acquisition

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

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 September 30, 2012, with interest of $28,910,579 from January 1, 2010 to September 30, 2012. The vendor has agreed to accept interest payments of $300,000 per month to September 30, 2012 and 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. A purchase instalment payment of $500,000 was also made on May 12, 2009.

On closing, the vendor has agreed to provide a second mortgage to a maximum of $12,000,000, for a 3 year term with interest at 8% for the first 30 months, 12% for the next 4 months and 24% thereafter, provided that the Trust makes an additional payment of $2,000,000 on February 1, 2012 and $3,000,000 prior to closing. On closing, the vendor has also agreed to provide a credit of $1,440,000 for furniture purchased by the Trust. In addition, 2668921 Manitoba Ltd. has agreed to maintain the revolving loan with the Trust, in the amount of $8,800,000, until closing.

As of September 30, 2011, 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.

25 Commitments (continued)

Management Contracts

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

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

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

26 Contingencies

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.

27 Subsequent events

Series G Debentures
Subsequent to September 30, 2011, the terms of the debentures were revised as follows:

- The rate of interest on the debentures will be 9.5%, effective December 31, 2011;
- The maturity date was extended to February 28, 2015;
- The conversion features of the debentures were eliminated;
- The option of the Trust to distribute Trust units to satisfy the monthly interest payments and the final principal and interest payment on the debentures at maturity was eliminated;
- A redemption feature was implemented which, subject to notice requirements, provides the Trust with the option to redeem the debentures and which requires the Trust to redeem the debentures from the net proceeds of property sales; and
- The addition of security whereby the debentures are secured by a Personal Property Security Act, Manitoba, registration against all of the assets and property of LREIT, subject to the priority of existing and future senior debt and permitted encumbrances.

Condominium sale program
Subsequent to September 30, 2011, the Trust commenced a condominium sale program of the condominium units at Lakewood Townhomes. To November 14, 2011, one condominium unit was sold for gross proceeds of $480,000. After funding closing costs, suite renovation costs and a contribution to the reserve fund of the condominium corporation, the net sale proceeds were applied to the first mortgage loan.

27 Subsequent events (continued)

Revolving loan

Subsequent to September 30, 2011, the Trustees approved the renewal of the loan commitment effective on the maturity date, at an interest rate of 14% and a maturity date of April 30, 2012, with an increase in the commitment from $12 Million to $15 Million. The renewal is subject to regulatory approvals.

Subsequent to September 30, 2011, the Trust obtained $1,400,000 in advances from the revolving loan.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

Schedule 1

INVESTMENT PROPERTIES AND PROPERTY & EQUIPMENT
SUMMARY OF CARRYING VALUE

	Carrying Value				
	September 30 2011	December 31 2010	Appraised Value	Date of Appraisal	Valuators
FORT McMURRAY					
Gannet Place	7,222,417	7,100,000	10,300,000	September 2008	Colliers International Realty Advisors Inc.
Laird's Landing	54,517,593	53,700,000	56,000,000	March 2011	Colliers International Realty Advisors Inc.
Lakewood Apartments	27,200,000	22,400,000	34,290,000	April 2011	Independent Appraisals Ltd.
Lakewood Townhomes	21,501,249	21,200,000	18,800,000	January 2011	Colliers International Realty Advisors Inc.
Lunar Apartments	4,114,836	3,900,000	6,800,000	September 2008	Colliers International Realty Advisors Inc.
Millennium Village	21,723,467	21,700,000	32,545,000	November 2007	Independent Appraisals Ltd.
Nelson Ridge Estates	59,012,659	59,000,000	57,400,000	January 2011	Colliers International Realty Advisors Inc.
Parkland Apartments	2,518,089	2,500,000	3,450,000	September 2008	Colliers International Realty Advisors Inc.
Parsons Landing	46,410,749	45,900,000	44,200,000	January 2011	Colliers International Realty Advisors Inc.
Siena Apartments	30,200,000	29,600,000	29,175,000	April 2011	Independent Real Property Appraisals Ltd.
Skyview Apartment	4,820,173	4,700,000	8,400,000	September 2008	Colliers International Realty Advisors Inc.
Snowbird Manor	7,120,886	6,900,000	10,000,000	September 2008	Colliers International Realty Advisors Inc.
Whimbrel Terrace	7,648,306	7,500,000	11,130,000	September 2008	Colliers International Realty Advisors Inc.
Woodland Park	39,600,000	39,100,000	40,250,000	January 2011	Independent Real Property Appraisals Ltd.
Total Fort McMurray	333,610,423	325,200,000	362,740,000		
OTHER					
156 / 204 East Lake Boulevard	2,600,000	2,500,000	2,600,000	October 2010	Cushman & Wakefield Ltd.
Beck Court	18,207,076	18,000,000	20,000,000	January 2011	Colliers International Realty Advisors Inc.
Colony Square	52,000,000	48,400,000	53,630,000	November 2010	Hoffer Wilkinson & Associates Ltd.
Highland Tower	6,800,000	6,800,000	8,400,000	December 2009	Dennis T. Browaty & Associates Ltd.
Norglen Terrace	4,844,415	4,800,000	5,550,000	January 2010	Colliers International Realty Advisors Inc.
Nova Court	20,000,000	21,000,000	19,000,000	January 2011	Colliers International Realty Advisors Inc.
Purolator	1,573,554	1,500,000	1,300,000	June 2003	Royal LePage Advisors Inc.
Westhaven Manor	4,009,578	4,000,000	4,400,000	December 2007	Colliers International Realty Advisors Inc.
Willowdale Gardens	7,165,826	7,100,000	8,000,000	March 2011	Hoffer Wilkinson & Associates Ltd.
Total Other	117,200,450	114,100,000	122,880,000		
Total Investment Properties	450,810,873	439,300,000	485,620,000		

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 2**
RECONCILIATION OF SEPTEMBER 30, 2010 STATEMENT OF FINANCIAL POSITION BETWEEN GAAP AND IFRS

	GAAP	Change in presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in measurement	IFRS
ASSETS					
Non-current assets					
Investment properties	363,823,989	(55,483)	52,807,398	22,724,096	439,300,000
Loans and receivables	4,290,650			-	4,290,650
Defeasance assets	3,338,341				3,338,341
Restricted cash	-	8,258,994	1,090,556		9,349,550
Deferred tax asset				185,859	185,859
Total Non-current assets	371,452,980	8,203,511	53,897,954	22,909,955	456,464,400
Current assets					
Cash	2,228,672	(144,157)	(555,319)	-	1,529,196
Other assets	10,071,014	(10,071,014)		-	-
Rent and other receivables	-	934,638	882,956	-	1,817,594
Deposits, prepaids and other	-	1,077,022	192,955	-	1,269,977
	12,299,686	(8,203,511)	520,592	-	4,616,767
Non-current assets classified as held for sale	132,465,096		(54,418,546)	12,880,164	90,926,714
Total current assets	144,764,782	(8,203,511)	(53,897,954)	12,880,164	95,543,481
TOTAL ASSETS	516,217,762	-	-	35,790,119	552,007,881
LIABILITIES AND EQUITY					
LIABILITIES					
Lakewood Apartments					
Long-term liabilities					
Long-term debt	-	136,773,289	43,557,769	1,129,204	181,460,262
Mortgage loans	264,515,779	(264,515,779)		-	-
Mortgage bonds	3,982,825	(3,982,825)		-	-
Convertible debentures	36,200,753	(36,200,753)		-	-
Total long-term liabilities	304,699,357	(167,926,068)	43,557,769	1,129,204	181,460,262
Current liabilities					
Deposits from tenants	-	2,089,822	292,946	-	2,382,768
Accounts payable & accrued liabilities	60,694,533	(60,694,533)		-	-
Trade and other payables	-	52,029,139	555,981	-	52,585,120
Bank indebtedness	4,875,000	-		-	4,875,000
Defeased liability	2,760,396	(2,760,396)			-
Current portion of long term debt	-	177,262,036	962,048	-	178,224,084
	68,329,929	167,926,068	1,810,975	-	238,066,972
Non-current liabilities classified as held for sale	98,428,016	-	(45,368,744)	1,334,787	54,394,059
Total current liabilities	166,757,945	167,926,068	(43,557,769)	1,334,787	292,461,031
TOTAL LIABILITIES	471,457,302	-	-	2,463,991	473,921,293
EQUITY					
Issued capital	99,045,955				99,045,955
Contributed surplus	7,595,235			(3,439,471)	4,155,764
Equity component of convertible debentures	10,231,466			(463,599)	9,767,867
Cumulative earnings	(13,476,447)			37,229,198	23,752,751
Cumulative distributions to unit holders	(58,635,749)				(58,635,749)
TOTAL EQUITY	44,760,460	-	-	33,326,128	78,086,588
TOTAL LIABILITIES AND EQUITY	516,217,762	-	-	35,790,119	552,007,881

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 3**
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Rentals from investment properties	23,793,699	226,369	6,270,351	-	**30,290,419**
Interest and other income	535,912	(535,912)		-	**-**
Property operating costs	9,371,367	-	3,252,539	-	**12,623,906**
Net operating income	14,958,244	(309,543)	3,017,812	-	**17,666,513**
Interest income	-	309,543	18,461	-	**328,004**
Interest expense	(18,245,147)	-	(3,022,109)		**(21,267,256)**
Amortization expense	(6,383,042)	-	-	6,383,042	**-**
Trust expense	(2,311,728)	-	-		**(2,311,728)**
Profit (loss) on sale of investment property	-	-	-	1,725,305	**1,725,305**
Fair value gains (losses)	-	-	-	(1,397,284)	**(1,397,284)**
Income (loss) for the period before taxes and discontinued operations	(11,981,673)	-	14,164	6,711,063	**(5,256,446)**
Income tax expense (recovery)	-			(227,520)	**(227,520)**
Income (loss) for the period before discontinued operations	(11,981,673)	-	14,164	6,938,583	**(5,028,926)**
Income from discontinued operations	12,937,508	-	(14,164)	(11,421,889)	**1,501,455**
Income (loss) and comprehensive income (loss)	955,835	-	-	(4,483,306)	**(3,527,471)**

Lakewood Apartments

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	GAAP	Change in Presentation	Change in Recognition of Held for Sale Properties and Discontinued Operations	Change in Measurement	IFRS
Cash flow from operating activities	(3,337,416)	-	1,133,552	-	**(2,203,864)**
Cash flow from investing activities	(752,280)	-	13,089,922	-	**12,337,642**
Cash flow from financing activities	(7,036,839)	-	(5,312,168)	-	**(12,349,007)**
Cash flow from discontinued operations	9,067,343	-	(9,067,343)	-	**-**
Cash decrease	(2,059,192)	-	(156,037)	-	**(2,215,229)**
Deduct: Cash increase from discontinued operations	-	-	114,969	-	**114,969**
	(2,059,192)	-	(41,068)	-	**(2,100,260)**
Cash at the beginning of the period	4,287,864	-	(658,408)	-	**3,629,456**
Cash at September 30, 2010	2,228,672	-	(699,476)	-	**1,529,196**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST **Schedule 4**
RECONCILIATION OF COMPREHENSIVE INCOME (LOSS)
BETWEEN GAAP AND IFRS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	GAAP	**Change in Presentation**	**Change in Recognition of Held for Sale Properties and Discontinued Operations**	**Change in Measurement**	**IFRS**
Rentals from investment properties	7,759,469	70,530	2,035,922	-	**9,865,921**
Interest and other income	172,433	(172,433)		-	**-**
Property operating costs	2,865,297	-	903,315	-	**3,768,612**
Net operating income	5,066,605	(101,903)	1,132,607	-	**6,097,309**
Interest income	-	101,903	(21,968)	-	**79,935**
Interest expense	(5,713,882)	-	(1,015,972)	-	**(6,729,854)**
Amortization expense	(2,129,770)	-	-	2,129,770	**-**
Trust expense	(657,467)	-	-	-	**(657,467)**
Profit (loss) on sale of investment property	-	-	-	307,555	**307,555**
Fair value gains (losses)	-	-	-	(611,362)	**(611,362)**
Income (loss) for the period before taxes and discontinued operations	(3,434,514)	-	94,667	1,825,963	**(1,513,884)**
Income tax expense (recovery)	-			-	**-**
Income (loss) for the period before discontinued operations	(3,434,514)	-	94,667	1,825,963	**(1,513,884)**
Income from discontinued operations	4,691,563	-	(94,667)	(4,072,301)	**524,595**
Income (loss) and comprehensive income (loss)	1,257,049	-	-	(2,246,338)	**(989,289)**

Lakewood Apartments

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
RECONCILIATION OF CASH FLOWS BETWEEN GAAP AND IFRS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	GAAP	**Change in Presentation**	**Change in Recognition of Held for Sale Properties and Discontinued Operations**	**Change in Measurement**	**IFRS**
Cash flow from operating activities	(366,796)	-	(355,018)	-	**(721,814)**
Cash flow from investing activities	945,096	-	6,721,281	-	**7,666,377**
Cash flow from financing activities	(3,030,254)	-	(4,241,416)	-	**(7,271,670)**
Cash flow from discontinued operations	2,221,445	-	(2,221,445)	-	**-**
Cash decrease	(230,509)	-	(96,598)	-	**(327,107)**
Deduct: Cash increase from discontinued operations	-	-	370,041	-	**370,041**
	(230,509)	-	273,443	-	**42,934**
Cash at the beginning of the period	2,459,181	-	(972,919)	-	**1,486,262**
Cash at September 30, 2010	2,228,672	-	(699,476)	-	**1,529,196**