LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of equity, loss and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

March 24, 2008

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2007	December 31 2006 (restated)
Assets		
Income properties (Note 4)	**$375,796,299**	$231,564,852
Properties under development (Note 5)	**80,228,769**	20,673,140
Mortgage loans receivable (Note 6)	**10,000,000**	17,500,000
Deferred financing costs (Note 7)	**-**	4,451,849
Cash	**-**	1,588,271
Other assets (Note 8)	**6,410,441**	18,444,089
Future income taxes (Note 12)	**3,763,761**	-
	$476,199,270	$294,222,201
Liabilities and Equity		
Mortgage loans payable (Note 9)	**$341,334,043**	$171,255,511
Convertible debentures (Note 10)	**41,036,253**	42,829,557
Accounts payable and accrued liabilities (Note 11)	**31,339,325**	8,294,598
Future income taxes (Note 12)	**2,617,905**	3,277,025
Bank indebtedness (Note 13)	**1,623,651**	-
	417,951,177	225,656,691
Non-controlling interest (Note 14)	**1,685,103**	1,925,515
Equity	**56,562,990**	66,639,995
	$476,199,270	$294,222,201

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2007:

	Units	Loss and total accumulated comprehensive loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2006	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610
Change in accounting policy	-	979,385	-	-	979,385
Equity, December 31, 2006 restated	77,812,493	(7,037,853)	(17,898,958)	13,764,313	66,639,995
Change in accounting policy (Note 2)	-	116,458	-	-	116,458
Equity, January 1, 2007 restated	77,812,493	(6,921,395)	(17,898,958)	13,764,313	66,756,453
Conversion of debentures	250,659	-	-	(35,656)	215,003
Maturity of Series A debentures	301,362	-	-	(301,362)	-
Exercise of unit options	40,000	-	-	-	40,000
Issue costs	(44,049)	-	-	-	(44,049)
Unit based compensation	309,233	-	-	-	309,233
Units issued on distribution reinvestment plan	454,909	-	-	-	454,909
Loss and comprehensive loss	-	(1,400,904)	-	-	(1,400,904)
Distributions declared	-	-	(9,767,655)	-	(9,767,655)
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990

Year Ended December 31, 2006 (restated):

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2005, as previously reported	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758
Change in accounting policy	-	346,001	-	-	346,001
Equity, December 31, 2005 restated	75,115,429	(3,885,486)	(8,272,429)	3,935,245	66,892,759
Conversion of debentures	2,380,740	-	-	(439,879)	1,940,861
Equity component of issued debentures	-	-	-	10,268,947	10,268,947
Issue of units on exchange of LP units of Village West LP	600,000	-	-	-	600,000
Issue costs	(829,863)	-	-	-	(829,863)
Unit based compensation	532,406	-	-	-	532,406
Units issued on distribution reinvestment plan	13,781	-	-	-	13,781
Loss	-	(3,152,367)	-	-	(3,152,367)
Distributions declared	-	-	(9,626,529)	-	(9,626,529)
Equity, December 31, 2006	$ 77,812,493	$ (7,037,853)	$ (17,898,958)	$ 13,764,313	$ 66,639,995

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year Ended December 31 2007	2006 (restated)
Revenue		
Rentals from income properties (Note 18)	**$ 45,216,274**	$ 28,736,288
Interest and other income	**1,095,041**	1,802,560
	46,311,315	30,538,848
Expenses		
Property operating costs	**19,238,660**	13,446,191
Income before the undernoted	**27,072,655**	17,092,657
Financing expense (Note 19)	**23,015,545**	11,505,489
Trust expense	**2,056,789**	1,732,924
Amortization (Note 20)	**8,174,795**	7,816,221
	33,247,129	21,054,634
Loss before income taxes	**(6,174,474)**	(3,961,977)
Future income tax recovery	**(4,732,863)**	(735,249)
Loss before non-controlling interest	**(1,441,611)**	(3,226,728)
Non-controlling interest (Note 14)	**40,707**	74,361
Loss and comprehensive loss for the year	**$ (1,400,904)**	$ (3,152,367)
Loss per unit (Note 22)		
Basic	**$ (0.080)**	$ (0.184)
Diluted	**(0.080)**	(0.184)
Weighted average number of units (Note 22)		
Basic	**17,457,299**	17,161,415
Diluted	**17,457,299**	17,161,415

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2007	December 31 2006 (restated)
Cash provided by (used in) operating activities		
Income (loss) for the year	**$ (1,400,904)**	$ (3,152,367)
Items not affecting cash		
Straight-line rent adjustment	**(58,618)**	(50,835)
Accretion on debt component of convertible debentures (Note 10)	**2,004,220**	1,129,745
Unit-based compensation	**309,233**	532,406
Amortization (Note 20)	**9,936,080**	7,816,325
Future income taxes	**(4,732,863)**	(735,249)
Non-controlling interest	**(40,707)**	(74,361)
	6,016,441	5,465,664
Changes in non-cash operating items (net of effects of acquisition of income properties)	**1,168,265**	978,153
Tenant inducements and leasing expenses incurred through leasing activity	**(105,479)**	(70,401)
	7,079,227	6,373,416
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**180,042,264**	50,255,483
Proceeds of convertible debentures	**-**	39,412,000
Repayment of Series A debentures	**(1,677,000)**	-
Repayment of mortgage loans on refinancing	**(31,232,909)**	(9,452,843)
Repayment of principal on mortgage loans	**(4,795,045)**	(3,199,700)
Transaction costs	**(1,773,800)**	-
Deferred financing costs	**-**	(3,506,513)
Issue costs	**-**	(765,742)
Distributions paid on trust units (Note 21)	**(9,336,147)**	(9,613,279)
Distributions paid on LP units of Village West LP	**(199,705)**	(139,828)
	131,027,658	62,989,578
Cash provided by (used in) investing activities		
Acquisition of income properties and properties under development	**(91,191,965)**	(55,934,280)
Improvements to income properties	**(3,890,777)**	(1,946,579)
Increase in properties under development	**(34,231,084)**	(10,642,378)
Mortgage loan receivable advance	**(10,000,000)**	(9,000,000)
Repayment of mortgage loan receivable	**-**	850,000
Deposits on potential acquisitions	**(600,000)**	(13,580,975)
Increase in restricted cash	**(1,404,981)**	(486,108)
	(141,318,807)	(90,740,320)
Cash decrease	**(3,211,922)**	(21,377,326)
Cash, beginning of year	**1,588,271**	22,965,597
Cash (bank indebtedness), end of year	**$ (1,623,651)**	$ 1,588,271

Supplementary cash flow information (Note 21)

1 Organization

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

2 Significant accounting policies

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

Income properties

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

Income properties are carried at cost. Tenant inducements and leasing expenses that are incurred to obtain a lease are capitalized to the cost of buildings and improvements. In addition, a portion of the total cost of acquisition of an income property is allocated to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in-place leases. A portion of the total cost of acquisition of an income property is allocated to intangible assets to reflect the cost of lease origination costs, tenant relationships and above market leases. If events or circumstances indicate that the carrying value of the income properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income properties. If the analysis indicated that the carrying value is not recoverable from future cash flows, the income properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings is recorded on a straight-line basis over their remaining useful lives ranging from 25 to 50 years. Amortization of improvements is recorded on a straight-line basis over their remaining useful lives ranging from 5 to 25 years. Amortization of tenant inducements and leasing expenses is recorded on a straight-line basis over the term of the respective leases. Amortization of appliances is recorded on a straight-line basis over their remaining useful lives ranging from 7 to 15 years. Amortization of intangible assets is recorded on straight-line basis over the term of respective leases.

Carrying costs during major renovations

Carrying costs incurred in regard to major in-suite renovations of income properties are capitalized in the cost of the building. Major in-suite renovations involve the temporary removal of suites from the rental market and include the replacement of flooring, draperies, appliances and cabinetry as well as related repairs and painting. Carrying costs consist of financing and certain property operating costs including property taxes, utilities, common area maintenance and salary costs relating to the suites removed from the rental market. The carrying costs are amortized at such a time as the suites are returned to the rental market with an estimated useful life of five years.

2 Significant accounting policies (continued)

Properties under development

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

Mortgage loans receivable

Mortgage loans receivable are stated at amortized cost. If events or circumstances indicate that the carrying value of a mortgage loan receivable may be impaired, the mortgage loan receivable is classified as impaired and reduced to its estimated fair value.

Intangible liabilities

A portion of the total cost of acquisition of an income property is allocated to intangible liabilities to reflect the cost of below market leases. If the carrying value is not realizable in the future, the intangible liabilities are adjusted to estimated fair value and a gain is recognized.

Convertible debentures

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

Unit options

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

Revenue recognition

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

2 Significant accounting policies (continued)

Income taxes

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

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. As the Trust does not currently meet the criteria for a Qualifying REIT for distributions to be deducted in computing taxable income, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT and allow distributions to be deducted from taxable income.

Wholly-owned operating subsidiaries of the Trust are operating businesses and provide for income tax expense using the asset and liability method of accounting for income taxes at enacted or substantively enacted rates. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Per unit calculations

Basic per unit amounts are calculated using the weighted average number of units outstanding during the year. Diluted per unit amounts are calculated after considering the potential exercise of convertible debentures, exchangeable Class B Limited Partnership units of Village West LP and outstanding unit options. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Use of estimates

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

Significant items subject to estimates include the allocation of the total cost to income properties on acquisition and the transfer of amounts from properties under development to income properties, the remaining useful life of the income properties and the calculation of future income tax assets and liabilities.

2 Significant accounting policies (continued)

Change in accounting policies

On January 1, 2007, the Trust adopted six new accounting standards that were issued by the CICA. Handbook Section 1530 - Comprehensive Income, Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges, Handbook Section 3861 - Financial Instruments - Disclosure and Presentation, Handbook Section 3251 - Equity, and Handbook Section 1506 - Accounting Changes. As required, the new standards are applied retroactively without restatement and accordingly, comparative amounts for prior periods, if any, have not been restated.

Comprehensive income, CICA Handbook Section 1530

Comprehensive income includes net income and other comprehensive income ("OCI"). OCI generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Trust's financial statements will include a statement of other comprehensive income for any items included in OCI while the cumulative amount and accumulated other comprehensive income ("AOCI"), will be presented as a category of unitholders' equity.

The Trust does not have any OCI or AOCI.

Financial instruments - Recognition and Measurement, CICA Handbook Section 3855

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

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

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

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

The Trust does not have any derivative instruments.

2 *Significant accounting policies (continued)*

The Trust may designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

The standard specifically excludes Section 3065 - Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications arising on adoption of the standard include the initial recognition of certain financial guarantees at fair value on the balance sheet (no subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative), and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Upon adoption of these new standards, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Mortgage loans receivable	Loans and receivables	Amortized cost
Other assets		
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash	Held for trading	Fair value
Mortgage loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures - debt portion	Other financial liabilities	Amortized cost
Bank indebtedness	Held for trading	Fair value

Hedges, CICA Handbook Section 3865

This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies including fair value hedges and cash flow hedges.

In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard ("effective"), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard ("ineffective") will be recognized in net earnings. The amounts recognized in AOCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item.

Deferred gains or losses on the hedging instrument with respect to fair value hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in AOCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of deficit on transition.

The Trust does not have any hedging transactions.

2 Significant accounting policies (continued)

Equity, CICA Handbook Section 3251

With the introduction of the new standards relating to financial instruments, the CICA has replaced previous Section 3250 - Surplus with Section 3251 - Equity. This new section establishes standards for the presentation of equity and changes in equity during the reporting period.

Financial Instruments - Disclosure and Presentation, CICA Handbook Section 3861

This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

Accounting Changes, CICA Handbook Section 1506

The objective of this Section is to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Improvements to income properties
In order to provide reliable and more relevant information in regard to property operating costs and improvements to income properties, expenditures relating to improvements to income properties are capitalized to the cost of income properties, effective January 1, 2007. Amortization of improvements is recorded on a straight-line basis over their estimated useful lives ranging from five to twenty-five years. The policy has been applied retroactively, with restatement of prior periods. As a result of the retroactive restatement, the net book value of income properties at December 31, 2006, has increased by $989,495, non-controlling interest at December 31, 2006, has increased by $10,110, retained earnings at December 31, 2006, has increased by $979,385 and retained earnings at December 31, 2005, has increased by $346,001.

Property operating costs are lower by $729,906 for the year ended December 31, 2006, amortization expense is higher by $86,412 for the year ended December 31, 2006 and the net book value of income properties is higher by $643,494 for the year ended December 31, 2006.

Basic and diluted loss per unit is lower than would have been reported under the previous policy by $0.036 per unit for the year ended December 31, 2006.

2 *Significant accounting policies (continued)*

Impact of adopting changes in accounting policies
Effective January 1, 2007, the carrying value of financial liabilities are reduced by the cost incurred to obtain financing considered to be transaction costs which were previously disclosed as deferred financing costs on the Consolidated Balance Sheets of the Trust. Deferred financing costs of $4,451,849 that were related to outstanding debt at December 31, 2006, have been reclassified and reduce the carrying value of mortgage loans payable and convertible debentures by $1,819,569 and $2,632,280 respectively.

As a result of adopting changes in accounting policies the Trust recorded transition adjustments reducing the opening balance of cumulative losses at January 1, 2007 by $116,458.

If the accounting policy had not been implemented, financing expense would be reduced by $1,759,686 for the year ended December 31, 2007, while amortization of deferred financing costs would be increased by $1,864,233 for the year ended December 31, 2007.

Change in estimate - income taxes
In accordance with GAAP, the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

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

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT.

As the Trust does not currently meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status, notwithstanding the intent of the Trust to become a Qualifying REIT prior to 2011 to the extent possible.

Future changes to significant accounting policies
CICA Handbook Sections 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation", will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These Sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Handbook Section 3855 "Financial Instruments - Recognition and Measurement".

2 Significant accounting policies (continued)

These sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

CICA Handbook Section 1535 "Capital Disclosures", will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The section will require the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital.

Management is currently considering the effect on the financial statements of the new standards.

3 Acquisitions

During the year ended December 31, 2007, the Trust acquired four income properties comprising 442 suites and three properties under development.

The net assets acquired in the transactions are as follows:

Income properties	
Land	$ 17,408,377
Buildings	65,748,658
Furniture, equipment and appliances	1,671,242
Intangible assets	207,223
Mortgage loans payable assumed	(13,982,050)
Vendor take-back mortgage loan payable	(1,600,000)
	69,453,450
Properties under development	
Properties under development	86,222,168
Mortgage loans payable assumed	(6,120,000)
Vendor take-back mortgage loan payable	(6,250,000)
Difference between contractual and market interest rates on mortgage loans payable assumed	(858,673)
Future income tax liability	(309,981)
	72,683,514
	$142,136,964

Consideration:	
Cash	$ 91,191,965
Deposits made in prior year	14,225,000
Mortgage loan receivable, applied to purchase	17,500,000
Acquisition payable	19,219,999
	$142,136,964

Deposits of $17,375,000 for the year ended December 31, 2007 respectively, were applied to the acquisitions of income properties and properties under development.

4 Income properties

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
Land	$ 70,228,011	$ -	$ 70,228,011
Buildings and improvements	311,293,608	(13,338,109)	297,955,499
Furniture, equipment and appliances	7,825,239	(1,557,893)	6,267,346
Intangible assets	3,465,827	(2,120,384)	1,345,443
	$392,812,685	$ (17,016,386)	$375,796,299

December 31, 2006 (restated)	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,961,341	$ -	$ 31,961,341
Buildings and improvements	201,883,832	(8,408,098)	193,475,734
Furniture, equipment and appliances	4,847,496	(843,728)	4,003,768
Intangible assets	4,595,274	(2,471,265)	2,124,009
	$243,287,943	$ (11,723,091)	$231,564,852

Effective January 1, 2007, tenant improvements recorded on acquisition of income properties and tenant inducements and leasing expenses in regard to ongoing leasing, previously presented as components of deferred charges, as well as intangible assets are presented as components of income properties. The period of amortization of the applicable amounts remains unchanged.

On July 1, 2007 the major in-suite renovations at Highland Tower were substantially complete, making all suites available to the rental market. Carrying costs are no longer being capitalized and the cost of the major in-suite renovations are being amortized effective July 1, 2007. The cost of the major renovations at Highland Tower for the year ended December 31, 2007, consisted of construction costs of $2,175,714 (2006 - $1,128,731) and carrying costs of $82,073 (2006 - $156,960). Construction costs and carrying costs are included in the cost of buildings.

For a three year term expiring June 30, 2010, the tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $26,169,600 during year one, $26,873,600 during year two and $27,667,200 during year three.

As at December 31, 2007, no circumstances have occurred that indicate that the carrying value of income properties is less than the fair value.

5 Properties under development

	December 31 2007	December 31 2006
Laird's Landing (formerly Park View Apartments)	$ 45,439,063	$ 19,434,308
Clarington Seniors Residence	25,023,068	-
Elgin Lodge	9,766,638	1,238,832
	$ 80,228,769	$ 20,673,140

The cost of properties under development for the year ended December 31, 2007, includes carrying costs of $2,111,781 (2006 - $246,788).

6 Mortgage loans receivable

	December 31 2007	December 31 2006
Parsons Landing	$ 10,000,000	$ -
Lakewood Manor	-	8,500,000
Millennium Village	-	4,000,000
Nova Court	-	5,000,000
	$ 10,000,000	$ 17,500,000

Parsons Landing Apartments
The Trust invested in a second mortgage loan, secured by a 160-suite multi-family apartment property in Fort McMurray, Alberta. The loan advance of $10,000,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property upon closing, which is expected to occur in two phases in June and September 2008.

Lakewood Manor
The Trust invested in a second mortgage loan, secured by a 175-suite multi-family apartment and townhouse property in Fort McMurray, Alberta. The loan advance of $8,500,000 bore interest at 8%. Interest was payable quarterly. The loan was applied toward the purchase price of the property effective July 1, 2007.

Millennium Village
The Trust invested in a second mortgage loan, secured by a 72-suite multi-family townhouse complex in Fort McMurray, Alberta. The loan advance of $4,000,000 bore interest at 8%. Interest was payable quarterly. The loan was applied toward the purchase price of the property upon acquisition of Phase I, effective August 3, 2007.

Nova Court
The Trust invested in mortgage loan, secured by a residential property in Yellowknife, Northwest Territories. The loan advance of $5,000,000 bore interest at 10%. Interest was payable monthly. The loan was applied toward the purchase price of the property on March 23, 2007.

7 *Deferred financing costs*

Deferred financing costs are net of accumulated amortization of nil (December 31, 2006 - $1,208,527).

Effective January 1, 2007, financing costs previously presented as deferred charges are presented as transaction costs and are included as components of mortgage loans payable and convertible debentures.

8 *Other assets*

	December 31 2007	December 31 2006
Amounts receivable	$ 1,667,624	$ 1,158,445
Property tax deposits and other	897,759	1,302,853
Deposits on potential acquisitions	650,000	14,240,975
Straight-line rent receivable	291,548	232,930
Restricted cash	2,841,639	1,436,658
Above market in place leases, net of accumulated amortization of $61,855, (2006 - $51,498)	61,871	72,228
	$ 6,410,441	$ 18,444,089

Amounts receivable includes amounts due from tenants of $547,827 (2006 - $340,016) and a loan receivable from a tenant of $91,557 (2006 - $210,091).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by lenders of $641,028 (2006 - $48,250).

9 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2007			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2007
Income properties				
Fixed rate mortgages	4.1% - 11.0%	5.9%	5.3 years	$263,514,757
Floating rate mortgages	6.3% - 7.3%	7.1%	Demand	25,500,000
Non interest bearing vendor take-back second mortgage			Demand	236,475
				289,251,232
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	1.2 years	11,370,000
Floating rate mortgages	7.0% - 8.0%	7.0%	Demand	42,647,928
				54,017,928
				343,269,160
Difference between contractual and market interest rates on mortgage loans assumed				301,060
Unamortized transaction costs				(2,236,177)
				$341,334,043

	Interest Rates at December 31, 2006			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2006
Income properties				
Fixed rate mortgages	4.1% - 12.5%	5.6%	6.5 years	$156,322,913
Floating rate mortgages	6.5% - 7.0%	7.0%	Demand	8,046,123
Non interest bearing vendor take-back second mortgage			Demand	236,475
				164,605,511
Properties under development				
Floating rate mortgages	7.0%	7.0%	Demand	6,650,000
				$171,255,511

9 *Mortgage loans payable (continued)*

Approximate principal repayments are as follows:

Year ending December 31	
2008	$ 96,467,923
2009	32,344,736
2010	7,375,861
2011	12,398,450
2012	5,128,274
Thereafter	189,553,916
	$343,269,160

The floating rate mortgage loans payable are payable on demand until such time as the interest rate and term are fixed. The income properties have been pledged as security under the related mortgage agreements.

The difference between contractual and market interest rates on mortgage loans assumed is amortized over the term of the respective mortgages. The balance of $301,060 is net of accumulated amortization of $557,613 (2006 - nil) at December 31, 2007. The difference relates to mortgage loans assumed on acquisition of properties under development. The amortization of $557,613 (2006 - nil) for the year ended December 31, 2007 is recorded as a reduction of the carrying value of properties under development.

Certain of the mortgage loans payable are subject to covenants, including minimum debt service ratios. The Trust is in compliance with all covenants in regard to mortgage loans payable as at December 31, 2007.

10 *Convertible debentures*

The Series A debentures which bore interest at 10%, matured on August 31, 2007. The Trust repaid $1,677,000 in respect of the Series A debentures.

The Series D debentures bear interest at 8%, mature on March 16, 2008 and are subordinate to the mortgage loans payable. The Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

The Series E debentures bear interest at 8%, mature on February 17, 2010 and are subordinate to the Series D debentures. The Series E debentures are convertible at the request of the holder at any time during the year ending February 17, 2008, at a conversion price per unit of $6.50, during the year ending February 17, 2009 at $7.15, and during the year ending February 17, 2010 at $7.90.

The Series F debentures bear interest at 7.5%, mature on March 11, 2011 and are subordinate to the Series D debentures and Series E debentures. The Series F debentures are convertible at the request of the holder at any time during the year ending March 11, 2009 at a conversion price per unit of $6.00, during the year ending March 11, 2010 at $6.60, and during the year ending March 11, 2011 at $7.30.

10 Convertible debentures (continued)

The unsecured Series G debentures bear interest at 7.5%, mature on December 31, 2011 and are subordinate to the Series D debentures, Series E debentures, and Series F debentures. The Series G debentures are convertible at the request of the holder at any time prior to their maturity date at a conversion price of $7.00. The Trust has the right to redeem in whole or in part, the Series G debentures at par plus accrued interest, provided that the weighted average trading price of the units during the twenty consecutive trading days ending five trading days preceding the date on which the notice of redemption is given must not be less than 125% of the applicable conversion price for the period from December 31, 2009 to December 31, 2010 and at par plus accrued interest from December 31, 2010. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

During the year ended December 31, 2007, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 6.00	2,166
Series D	5.00	31,200
Series E	6.50	7,692

During the year ended December 31, 2006, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 5.50	6,544
Series A	6.00	7,166
Series D	5.00	420,800

December 31, 2007	Debt	Equity	Total
Convertible debentures			
Series D - 8%, due March 16, 2008	$ 1,565,705	$ 322,658	$ 1,888,363
Series E - 8%, due February 17, 2010	10,456,183	2,835,690	13,291,873
Series F - 7.5%, due March 11, 2011	11,113,418	3,564,376	14,677,794
Series G - 7.5%, due December 31, 2011	20,072,606	6,704,571	26,777,177
	43,207,912	13,427,295	56,635,207
Unamortized transaction costs	(2,171,659)	-	(2,171,659)
	$ 41,036,253	$ 13,427,295	$ 54,463,548

10 Convertible debentures (continued)

December 31, 2006	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,638,179	$ 293,557	$ 1,931,736
Series D - 8%, due March 16, 2008	1,616,384	354,254	1,970,638
Series E - 8%, due February 17, 2010	9,957,343	2,847,555	12,804,898
Series F - 7.5%, due March 11, 2011	10,528,607	3,564,376	14,092,983
Series G - 7.5%, due December 31, 2011	19,089,044	6,704,571	25,793,615
	$ 42,829,557	$ 13,764,313	$ 56,593,870

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

The accretion of the debt component for the year ended December 31, 2007 of $2,004,220 (2006 - $1,129,745), which increases the debt component from the initial carrying amount, is included in financing expense.

11 Accounts payable and accrued liabilities

	December 31 2007	December 31 2006
Accounts payable and accrued liabilities	$ 2,191,916	$ 2,207,600
Acquisition payable	19,615,893	-
Construction costs payable on properties under development	4,710,619	2,730,762
Mortgage and debenture interest payable	2,276,599	1,732,235
Tenant security deposits	2,535,202	1,606,147
Below market in-place leases, net of accumulated amortization of $66,498 (2006 - $57,740)	9,096	17,854
	$ 31,339,325	$ 8,294,598

The acquisition payable relates to the acquisition of Millennium Village. The acquisition payable is due up to 180 days from November 15, 2007. The acquisition payable bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007, and at prime plus 3% thereafter. The acquisition payable is expected to be paid in April 2008. Included in acquisition payable at December 31, 2007 is accrued interest of $395,894.

12 Future income taxes

Future income taxes consists of the following components:

	December 31 2007	December 31 2006
Future income tax assets:		
Future income taxes related to difference in tax and book value of the Trust	$ 3,763,761	$ -
Future income tax liabilities:		
Future income taxes related to difference in tax and book value of wholly owned operating subsidiaries	$ 3,507,101	$ 3,389,586
Future income taxes related to operating losses of wholly owned operating subsidiaries	(889,196)	(112,561)
	$ 2,617,905	$ 3,277,025

Future income tax recoveries:

	Year Ended December 31 2007	Year Ended December 31 2006
Current income tax recovery at Canadian statutory tax rates	$ 668,354	$ 352,299
Increase in future income tax recoveries resulting from the change in tax status with the enactment of Bill C-52	3,763,761	-
Lease-up period operations capitalized to Properties Under Development, included in taxable income	285,253	-
Differences between net income per the financial statements and taxable income per wholly-owned operating subsidiaries	170,014	295,941
Adjustment to future tax liabilities for changes to the difference between Tax and GAAP carrying values	(154,519)	87,009
	$ 4,732,863	$ 735,249

13 Bank indebtedness

Bank indebtedness consists of a revolving line of credit less cash in bank. The Trust obtained a revolving line of credit on November 16, 2007 in the maximum amount of $5,000,000, bearing interest at prime and repayable on demand. An income property has been pledged as security under the terms of the line of credit. As at December 31, 2007, $1,960,000 is available to the Trust under the terms of the line of credit.

Bank indebtedness consists of the following:

	December 31 2007	December 31 2006
Line of credit	$ 3,040,000	-
Less: Cash in bank	1,416,349	$ -
	$ 1,623,651	$ -

14 Non-controlling interest

Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of Village West LP, an entity controlled by the Trust, which is consolidated in the financial statements. The holder of the LP Units of Village West LP is entitled to receive distributions equal to those provided to holders of units of the Trust. LP Units are transferable and are exchangeable, at the option of the holder on a one for one basis for units of the Trust. As at December 31, 2007, there were 356,617 (2006 - 356,617) LP Units of Village West LP outstanding.

Non-controlling interest consists of the following:

	December 31 2007	December 31 2006 (restated)
Opening balance	$ 1,925,515	$ -
LP Units of Village West LP issued	-	2,739,704
Share of loss of Village West Townhouses	(40,707)	(74,361)
Distributions on LP Units of Village West LP	(199,705)	(139,828)
Exchange of 100,000 LP Units for Units of the Trust	-	(600,000)
	$ 1,685,103	$ 1,925,515

15 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 and services agreement with the Trust.

Management agreement
The Trust entered into a property management agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. On August 9, 2007, the property management agreement was renewed with the same terms and conditions for a further five year term expiring on August 30, 2012. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regards 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.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,605,530 for the year ended December 31, 2007 (2006 - $974,256). Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development.

Included in accounts payable and accrued liabilities at December 31, 2007 is a balance of $65,926 (2006 - $61,836), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

15 Related party transactions (continued)

Services agreement
The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. 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. Effective January 1, 2006, the services agreement was amended to provide for a service fee payable to Shelter Canadian Properties Limited, equal to 0.3% of the net book value of the assets of the Trust, excluding cash and accumulated amortization. On August 30, 2007, the services agreement was renewed with the same terms and conditions for a one year term expiring on August 30, 2008.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $1,176,967 for the year ended December 31, 2007 (2006 - $636,881). Service fees are included in trust expense.

Included in accounts payable and accrued liabilities at December 31, 2007 is a balance of $265,902 (2006 - nil), payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Unit-based compensation expense for the period ended December 31, 2007 of $7,506 (2006 - $11,388), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the initial term of the services agreement that expired August 30, 2007.

Acquisition
The Trust has entered into a development agreement with Shelter Canadian Properties Limited to develop Laird's Landing (formerly Park View Apartments), a residential property located in Fort McMurray, Alberta. During the year ended December 31, 2007, $431,421 (2006 - $334,405) was recorded to properties under development in regard to the development and construction supervision services provided by Shelter Canadian Properties Limited.

Included in construction costs payable on properties under development at December 31, 2007 is a balance of $553,826 (2006 - $122,405) payable to Shelter Canadian Properties Limited in regard to the development and construction services.

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited.

16 Units

A summary of the status of the units and changes during the year is as follows:

	Year Ended December 31 2007	Year Ended December 31 2006
Outstanding, beginning of year	17,392,235	16,855,286
Units issued on conversion of debentures	41,058	434,510
Units issued on distribution reinvestment plan	86,601	2,439
Units issued on exchange of LP units of Village West LP	-	100,000
Units issued on exercise of unit option	10,000	-
Outstanding, end of year	17,529,894	17,392,235

Distribution Reinvestment Plan

Pursuant to the distribution reinvestment plan ("DRIP"), holders of Units may elect to have all or a portion of their regular monthly distributions automatically reinvested in additional Units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the Units for the five trading days immediately preceding the distribution payment date. During the year ended ended December 31, 2007, 61,018 (2006 - 2,439) units have been issued pursuant to the DRIP.

17 Unit option plan

On June 8, 2007, the Trust granted options to each of the four independent trustees to acquire 30,000 units at $5.30 per unit. The options have vested and expire on June 8, 2012.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used for the options granted on June 8, 2007 are dividend yield of 9.35%, expected volatility of 23.46%, risk-free interest rate of 4.66% and life of options of five years.

17 Unit option plan (continued)

Unit-based compensation expense of $301,727 for the year ended December 31, 2007 (2006 - $521,018), relating to options issued was recorded to expense the fair value unit-based compensation, including $45,058 for the year ended December 31, 2007 relating to the options issued on June 8, 2007. Unit-based compensation is included in trust expense.

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

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	1,000,000	$ 5.77	10,000	$ 4.00
Granted, January 17, 2006	-	-	30,000	5.42
Granted, July 26, 2006	-	-	960,000	5.80
Granted, June 8, 2007	120,000	5.30	-	-
Exercised, October 26, 2007	(10,000)	4.00	-	-
Outstanding, end of year	1,110,000	$ 5.72	1,000,000	$ 5.77
Vested, end of year	654,000		392,000	

At December 31, 2007 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	30,000	30,000	January 17, 2011
$ 5.80	960,000	504,000	July 26, 2011
$ 5.30	120,000	120,000	June 8, 2012
	1,110,000	654,000	

18 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $2,244,485 (2006 - $1,645,274).

19 Financing expense

	Year Ended December 31 2007	Year Ended December 31 2006
Mortgage loan interest	$ 15,092,084	$ 7,901,230
Convertible debenture interest	4,159,555	2,474,514
Accretion of the debt component of convertible debentures	2,004,220	1,129,745
Amortization of transaction costs	1,759,686	-
	$ 23,015,545	$ 11,505,489

20 Amortization

	Year Ended December 31 2007	Year Ended December 31 2006 (restated)
Building	$ 6,551,383	$ 4,460,592
Furniture, equipment and appliances	637,624	495,437
Intangible assets, except for in-place leases	985,788	2,235,796
Deferred financing costs	-	624,396
	8,174,795	7,816,221
Transaction costs	1,759,686	-
Above market in-place leases	10,357	12,836
Below market in-place leases	(8,758)	(12,732)
	9,936,080	7,816,325
Difference between contractual and market interest rates on mortgage loans assumed	(557,613)	-
	$ 9,378,467	$ 7,816,325

21 Supplementary cash flow information

	Year Ended December 31 2007	Year Ended December 31 2006
Interest paid and received		
Interest paid on mortgage loans	$ 14,215,038	$ 7,678,142
Interest paid on convertible debentures	$ 4,484,041	$ 2,015,285
Interest received on mortgage loans receivable	$ 717,356	$ 882,466
Other interest received	$ 470,430	$ 714,625
Cash distributions		
Distributions declared	$ 9,767,655	$ 9,626,529
Distributions to participants in the DRIP	(431,508)	(13,250)
Distributions paid on trust units	$ 9,336,147	$ 9,613,279

22 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the year. Diluted per unit information is calculated based on the weighted average diluted number of units for the year, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive and the potential conversion of the outstanding Class B units of Village West LP to the extent that the units are dilutive.

Loss per unit calculations are based on the following:

	Year Ended December 31 2007	Year Ended December 31 2006 (restated)
Loss	$ (1,400,904)	$ (3,152,367)
Diluted loss	$ (1,400,904)	$ (3,152,367)
Weighted average number of units	17,457,299	17,161,415
Weighted average diluted number of units	17,457,299	17,161,415

23 Distribution of income

In accordance with the Declaration of Trust, the Trust shall make cash distributions in an amount not less than the aggregate of taxable income from operations and realized capital gains, net of any realized allowable capital losses.

The minimum distribution required by the Declaration of Trust is nil (2006 - nil) for the year ended December 31, 2007.

24 Financial instruments and risk management

Fair values

The carrying values of cash, restricted cash, amounts receivable, mortgage loans receivable and accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these instruments.

The value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages of similar terms and conditions. The estimated fair value of mortgage loans payable is $343,000,000 at December 31, 2007 (2006 - $172,000,000).

The fair value of the debt components of convertible debentures are impacted by changes in market yields which can result in differences in the carrying value and fair value of the instruments. The fair value of the debt components of convertible debentures has been estimated based on the current market rates for debentures with similar terms and conditions. The carrying value of the debt components of convertible debentures at December 31, 2007 and 2006 approximates fair value.

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. The Trust does not manage risk through the use of hedging transactions. As part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. The Trust manages the risks, as follows:

Fluctuations in interest rates creates a cash flow risk which is minimized by obtaining long-term mortgages. There is a risk that interest rates will fluctuate subsequent to the date the Trust commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. The declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties.

Credit risk arises from the possibility that tenants may experience financial difficulty and may not be able to fulfil their lease commitments. The credit risk is limited to the recorded amount of tenant receivables. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. The risk of credit loss is mitigated by ensuring that the tenant mix is diversified and by limiting the exposure to any one tenant. Prior to July 1, 2007 no single tenant accounted for 10% or more of the rentals from income properties. On the lease of Lakewood Manor to a single tenant on July 1, 2007, the Trust has a tenant accounting for approximately 10% of rentals from income properties. Credit risk has been managed by the Trust leasing to a credit worthy tenant. Credit risk also arises from the possibility that a borrower may default on the repayment of a loan from the Trust. The risk is mitigated by ensuring that security is obtained in support of the mortgage loans receivable and the loan receivable from tenant.

25 Segmented financial information

The assets are located in and revenue is derived from the operation of commercial, light industrial and residential real estate in Canada. Commercial real estate consists of retail properties and office and retail mixed-use properties. Residential real estate consists of multi family residential properties and seniors housing complexes.

Year ended December 31, 2007:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,151,475	363,649	40,701,150	-	45,216,274
Interest and other income	27,834	1,217	331,812	734,178	1,095,041
Property operating costs	1,754,682	92,663	17,391,315	-	19,238,660
Financing expense	1,011,485	136,866	12,481,929	9,385,265	23,015,545
Amortization	860,383	31,345	7,283,067	-	8,174,795
Income (loss)	552,758	103,992	4,886,462	(6,944,116)	(1,400,904)
Total assets	18,742,321	2,729,861	442,275,294	12,451,794	476,199,270

Year ended December 31, 2006 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,056,179	351,350	24,328,759	-	28,736,288
Interest and other income	43,501	5,829	353,319	1,399,911	1,802,560
Property operating costs	1,748,420	47,915	11,649,856	-	13,446,191
Financing expense	1,008,348	125,816	6,767,066	3,604,259	11,505,489
Amortization	925,612	32,417	6,420,828	437,364	7,816,221
Income (loss)	417,481	151,031	653,754	(4,374,633)	(3,152,367)
Total assets	19,577,360	2,796,990	235,714,906	36,132,945	294,222,201

Year ended December 31, 2007:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	20,548,300	1,439,007	5,792,407	1,872,594	5,051,458	10,512,508	-	45,216,274
Interest and other income	274,533	14,266	49,141	(61,194)	28,637	55,480	734,178	1,095,041
Property operating costs	6,367,049	872,869	2,628,237	1,218,702	2,057,851	6,093,952	-	19,238,660
Financing expense	7,674,083	353,961	1,575,248	648,191	1,210,037	2,168,760	9,385,265	23,015,545
Amortization	3,471,522	187,306	1,296,307	276,535	791,634	2,151,491	-	8,174,795
Income (loss)	3,310,182	39,138	341,753	263,624	1,020,573	567,942	(6,944,116)	(1,400,904)
Total assets	271,242,401	10,848,911	34,132,475	45,231,275	39,306,839	62,985,575	12,451,794	476,199,270

25 Segmented financial information (continued)

Year ended December 31, 2006 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	9,926,967	1,294,144	5,477,775	1,084,873	2,681,860	8,270,669	-	28,736,288
Interest and other income	200,182	13,381	58,546	62,727	17,397	50,416	1,399,911	1,802,560
Property operating costs	3,544,970	931,516	2,544,975	598,904	1,141,515	4,684,311	-	13,446,191
Financing expense	3,103,598	367,706	1,491,270	280,434	889,664	1,768,558	3,604,259	11,505,489
Amortization	2,427,782	190,833	2,182,926	260,447	500,404	1,816,465	437,364	7,816,221
Income (loss)	1,050,796	(182,529)	(682,848)	104,111	167,674	765,062	(4,374,633)	(3,152,367)
Total assets	118,692,774	10,998,100	33,144,725	11,556,938	24,614,664	59,082,055	36,132,945	294,222,201

26 Commitments

Acquisitions

Millennium Village
On August 3, 2007, the Trust acquired Millennium Village, a residential property located in Fort McMurray, Alberta , for a total cost of $25,150,000, including GST. The acquisition will be funded with a new first mortgage loan, with the balance in cash. The Trust had provided a $4,000,000 second mortgage loan, which bore interest at 8%, and was credited toward the purchase price on acquisition.

The balance owing on the acquisition bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007 and prime plus 3% thereafter. The balance owing is due up to 180 days from November 15, 2007 and is expected to be paid in April 2008, on receipt of the first mortgage loan proceeds. As at December 31, 2007, the amount owing on acquisition totaled $19,615,893, including accrued interest of $395,894, is included in accounts payable and accrued liabilities.

Laird's Landing (formerly Park View Apartments)
The Trust has acquired and agreed to develop Laird's Landing (formerly Park View Apartments), a residential property located in Fort McMurray, Alberta. The Trust acquired the land for $9,300,000 funded by a vendor take-back mortgage in the amount of $7,300,000, with the balance in cash. The vendor take-back mortgage was repaid with the proceeds of the new mortgage financing of $6,650,000, with the balance in cash. The $6,650,000 represents the initial draw of a mortgage loan in the maximum amount of $45,000,000. In addition, the Trust entered into a development agreement with Shelter Canadian Properties Limited in which Shelter Canadian Properties Limited has agreed to (i) develop the project for a total cost not to exceed $57,750,000 (inclusive of the purchase price of the land); (ii) arrange and guarantee construction financing, in the approximate amount of $45,000,000 and permanent financing after completion of construction; and (iii) provide all development and construction supervision services for the project. The Trust will pay to Shelter Canadian Properties Limited a fee of $1,000,000 in consideration for services provided under the development agreement. The construction of the apartment project is to be completed in April 2008.

26 Commitments (continued)

Parsons Landing Apartments

The Trust has agreed to acquire Parsons Landing Apartments, a residential property located in Fort McMurray, Alberta, which is currently under construction, for a total cost of $63,800,000, including GST. The acquisition will be funded with a new first mortgage loan of $50,000,000. On November 1, 2007, The Trust provided a $10,000,000 second mortgage loan, bearing interest at 8%, to be credited toward the purchase price upon closing which is expected to occur in two phases. Purchase installment payments of $2,500,000 will be paid on closing in each of June 2008 and September 2008. The payment of the balance owing is expected to occur in December 2008 on receipt of the first mortgage loan proceeds.

Mortgage Guarantee Fees

The Trust has outstanding commitments to pay mortgage guarantee fees to guarantors on certain of the mortgage loans payable until the mortgage terms are amended to remove the guarantors or the mortgages are refinanced.

Amounts due under the commitments are as follows:

Year ending December 31	
2008	$ 173,824
2009	170,329
2010	166,615
2011	162,668
2012	158,473
Thereafter	327,953
	$ 1,159,862

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, 2010
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

27 Contingent consideration on acquisition

Elgin Lodge

During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at December 31, 2007 of $194,756 (2006 - nil), which increases the cost of the building, is included in accounts payable and accrued liabilities.

27 Contingent consideration on acquisition (continued)

Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at December 31, 2007 of $150,001 (2006 - nil), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

28 Subsequent events

Acquisitions
On March 15, 2008, the Trust has agreed to acquire a 90% beneficial interest in Colony Square, a residential and commercial property located in Winnipeg, Manitoba for $34,200,000. The Trust currently owns a 1.5% beneficial interest and is permitting certain existing owners, who own an aggregate of 8.5% beneficial interest, to remain as part of the ownership syndicate. The acquisition will be funded with the pro-rata assumption of a first mortgage loan of $21,000,000 with the balance in cash.

Distributions
Distributions of $724,214 and $720,104 were paid on February 15, 2008 and March 15, 2008 to unitholders of the Trust. Units of 20,220 and 21,191 were issued on February 15, 2008 and March 15, 2008 respectively, to unitholders of the Trust in regard to participation in the DRIP. Distributions of $16,642 and $16,642 were paid on February 15, 2008 and March 15, 2008 respectively, to the holder of the LP units of Village West LP.

Issuance of unit options
On January 7, 2008, the Trust granted options to each of the four independent trustees, the chief executive officer, the chief financial officer and to a total of 20 management and other senior employees of Shelter Canadian Properties Limited who are engaged in functions related to the Trust, to acquire an aggregate of 370,000 units, exercisable at $5.10 per unit. The options granted to each of the four independent trustees vested immediately. The balance of the options granted will vest equally on each of the grant date and the first, second, third and fourth anniversaries of the grant date. The units issued upon exercise of the options will be subject to a minimum hold period of four months and a day from the date of the grant of the options.

Normal course issuer bid
On January 16, 2008, the Trust announced its intention to make a normal course issuer bid to acquire up to 876,494 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ended January 20, 2009, in accordance with the policies of the Toronto Stock Exchange. Any units purchased by the Trust under its normal course issuer bid will be cancelled. The Trust has repurchased 2,400 units under its normal course issuer bid at an average price of $4.94 per unit.

Upward refinancing
On February 12, 2008, a 12% $5,400,000 second mortgage loan was obtained on Lakewood Manor, Nova Court, Nova Ridge Estates and Nova Villa. The mortgage loan payable is due on January 1, 2009.

28 Subsequent events (continued)

Convertible debentures
The series D debentures which bore interest at 8%, matured on March 16, 2008. The Trust repaid $1,593,000 in respect of the Series D debentures.

29 Comparative figures

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