LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

Auditors' Report

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, 2006 and 2005 and the consolidated statements of equity, operations 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, 2006 and 2005 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
February 16, 2007
except as to Note 26 which is as of March 15, 2007

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	**2005**
Assets		
Income properties (Note 4)	**$227,177,314**	$148,970,556
Properties under development (Note 5)	**20,673,140**	11,018,744
Mortgage loans receivable (Note 6)	**18,500,000**	9,350,000
Deferred charges (Note 7)	**5,725,883**	2,978,897
Cash	**1,588,271**	22,965,597
Other assets (Note 8)	**17,371,861**	3,537,927
Intangible assets (Note 9)	**2,196,237**	2,191,630
	$293,232,706	$201,013,351
Liabilities and Equity		
Mortgage loans payable (Note 10)	**$171,255,511**	$116,827,895
Convertible debentures (Note 11)	**42,829,557**	14,496,971
Accounts payable and accrued liabilities (Note 12)	**8,294,598**	3,000,755
Future income taxes (Note 13)	**3,277,025**	140,972
	225,656,691	134,466,593
Non-controlling interest (Note 14)	**1,915,405**	-
Equity	**65,660,610**	66,546,758
	$293,232,706	$201,013,351

Approved by the Trustees

"Charles Loewen"

"Cheryl Barker"

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2006:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2005	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758
Issue of units on exchange of LP units of Village West LP	600,000	-	-	-	600,000
Equity component of issued debentures	-	-	-	10,268,947	10,268,947
Issue costs	(829,863)	-	-	-	(829,863)
Conversion of debentures	2,380,740	-	-	(439,879)	1,940,861
Unit-based compensation	532,406	-	-	-	532,406
Loss	-	(3,785,751)	-	-	(3,785,751)
Distributions declared	-	-	(9,626,529)	-	(9,626,529)
Units issued on distribution reinvestment plan	13,781	-	-	-	13,781
Equity, December 31, 2006	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610

Year Ended December 31, 2005:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2004 (restated)	25,292,265	(2,096,382)	(2,042,422)	2,701,497	23,854,958
Private placement of units	38,973,424	-	-	-	38,973,424
Options exercised	40,000	-	-	-	40,000
Equity component of issued debentures	-	-	-	2,847,555	2,847,555
Issue costs	(2,741,876)	-	-	-	(2,741,876)
Conversion of debentures	13,540,228	-	-	(1,613,807)	11,926,421
Unit-based compensation	11,388	-	-	-	11,388
Loss	-	(2,135,105)	-	-	(2,135,105)
Distributions	-	-	(6,230,007)	-	(6,230,007)
Equity, December 31, 2005	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended 2006	December 31 2005
Revenue		
Rentals from income properties (Note 18)	**$ 28,736,288**	$ 17,023,087
Interest and other income (Note 19)	**1,802,560**	769,842
	30,538,848	17,792,929
Expenses		
Property operating costs	**14,176,097**	8,124,381
Operating income	**16,362,751**	9,668,548
Financing expense	**11,505,489**	7,468,518
Trust expense	**1,732,924**	186,776
Amortization of income properties	**4,478,280**	2,444,966
Amortization of deferred charges	**1,015,733**	1,150,943
Amortization of intangible assets	**2,235,796**	595,900
	20,968,222	11,847,103
Loss before income taxes	**(4,605,471)**	(2,178,555)
Future income tax recovery (Note 13)	**(735,249)**	(43,450)
Loss before the undernoted	**(3,870,222)**	(2,135,105)
Non-controlling interest (Note 14)	**84,471**	-
Loss for the year	**$ (3,785,751)**	$ (2,135,105)
Loss per unit (Note 21)		
Basic	**$ (0.221)**	$ (0.229)
Diluted	**(0.221)**	(0.229)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2006	December 31 2005
Cash provided by (used in) operating activities		
Loss from operations	**$ (3,785,751)**	$ (2,135,105)
Items not affecting cash		
Accrued rental revenue	**(50,835)**	(89,304)
Amortization of above market in-place leases	**12,836**	17,994
Amortization of below market in-place leases	**(12,732)**	(14,449)
Accretion on debt component of convertible debentures (Note 11)	**3,604,259**	2,704,761
Unit-based compensation	**532,406**	11,388
Amortization of income properties	**4,478,280**	2,444,966
Amortization of deferred charges	**1,015,733**	1,150,943
Amortization of intangible assets	**2,235,796**	595,900
Future income taxes	**(735,249)**	(43,450)
Non-controlling interest	**(84,471)**	-
Interest paid on convertible debentures	**(2,015,285)**	(1,481,775)
Cash from operations	**5,194,987**	3,161,869
Changes in non-cash operating items (net of effects of acquisition of income properties)	**518,924**	341,145
Tenant inducements and leasing expenses incurred through leasing activity	**(70,401)**	(185,201)
	5,643,510	3,317,813
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**50,255,483**	19,621,494
Proceeds of convertible debentures	**39,412,000**	12,000,000
Repayment of mortgage loans on refinancing	**(9,452,843)**	(9,500,766)
Repayment of principal on mortgage loans	**(3,199,700)**	(1,878,758)
Private placement of units	**-**	38,973,424
Options exercised	**-**	40,000
Financing costs	**(3,506,513)**	(1,142,764)
Issue costs	**(765,742)**	(2,741,876)
Distributions paid on trust units	**(9,613,279)**	(6,230,007)
Distributions paid on LP units of Village West LP	**(139,828)**	-
	62,989,578	49,140,747
Cash provided by (used in) investing activities		
Income properties acquired	**(55,934,280)**	(28,231,528)
Additions to income properties	**(1,216,673)**	(1,045,130)
Properties under development	**(10,642,378)**	(11,018,744)
Mortgage loan receivable advance	**(10,000,000)**	(10,825,000)
Repayment of mortgage loan receivable	**850,000**	3,625,000
Deposits on potential acquisitions	**(12,580,975)**	(810,000)
Change in restricted cash	**(486,108)**	(451,340)
	(90,010,414)	(48,756,742)
Cash decrease	**(21,377,326)**	3,701,818
Cash, beginning of year	**22,965,597**	19,263,779
Cash, end of year	**$ 1,588,271**	$ 22,965,597

Supplementary cash flow information (Note 20)

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. 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 appliances.

Income properties are carried at cost. 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 appliances is recorded on a straight-line basis over their remaining useful lives ranging from 7 to 15 years.

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.

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 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.

2 Significant accounting policies (continued)

Deferred charges

Deferred charges include tenant inducements and leasing expenses that are incurred to obtain a lease, and financing costs relating to mortgage loans payable and the debt component of convertible debentures. Tenant inducements and leasing expenses are deferred and amortized on a straight-line basis over the term of the respective leases and financing costs are deferred and amortized over the term of the respective mortgages and convertible debentures.

In addition, a portion of the total cost of acquisition of an income property is allocated to deferred charges to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in-place leases. If the carrying value is not recoverable from future cash flows, the deferred charges are written down to estimated fair value and a loss is recognized.

Intangible assets and liabilities

A portion of the total cost of acquisition of an income property is allocated to intangible assets and intangible liabilities to reflect the cost of lease origination costs, tenant relationships, above market leases and below market leases. Intangible assets and liabilities are amortized over the term of the tenant leases. If the carrying value is not realizable in the future, the intangible assets and liabilities are adjusted to estimated fair value and a loss or 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 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 deferred 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. A provision for income taxes is, therefore, not required.

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 substantially 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 of acquisition of income properties and the remaining useful life of the assets acquired.

Recent accounting pronouncements issued and not yet applied

(i) Financial instruments, recognition and measurement:

In January 2005, The Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, Financial Instruments, Recognition and Measurement, effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished. The effect of this new standard on the Trust's Consolidated Balance Sheets and Consolidated Statements of Operations is disclosed in Note 22.

2 Significant accounting policies (continued)

Recent accounting pronouncements issued and not yet applied (continued)

(ii) Comprehensive income and equity:

In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income and Section 3251, Equity, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.

3 Acquisitions

On January 1, 2006, the Trust acquired Willowdale Gardens, a residential property located in Brandon, Manitoba for a total cost of $4,419,425. The acquisition was funded from the assumption of a first mortgage loan of $2,169,426, with the balance paid in cash. On April 7, 2006, a new first mortgage loan was obtained in the amount of $3,685,500.

On February 1, 2006, the Trust acquired Broadview Meadows, a residential property located in Sherwood Park, Alberta for a total cost of $6,825,556. The acquisition was funded entirely in cash. On February 6, 2006, a first mortgage loan was obtained in the amount of $5,550,000.

On June 1, 2006, the Trust acquired Village West Townhouses, a residential property located in Saskatoon, Saskatchewan for a total cost of $5,213,550 through Village West LP. The acquisition was funded with the assumption of a first mortgage loan of $2,339,121, the issuance of 456,617 Class B Limited Partnership Units of Village West LP in the amount of $2,739,704 and the balance in cash.

On June 1, 2006, the Trust acquired Woodlily Courts, a residential property located in Moose Jaw, Saskatchewan for a total cost of $3,717,600. The acquisition was funded with a new first mortgage loan of $3,000,000 with the balance in cash.

On June 1, 2006, the Trust acquired Chateau St. Michael's, a seniors housing complex located in Moose Jaw, Saskatchewan for a total cost of $7,639,811 through a wholly owned operating subsidiary. The acquisition was funded from the assumption of a first mortgage loan of $5,016,129 with the balance in cash. On September 29, 2006, an advance of $492,188 was received on the existing mortgage loan.

On June 1, 2006, the Trust acquired Elgin Lodge Retirement Home, a seniors housing complex located in Port Elgin, Ontario for a total cost of $8,500,309 through a wholly owned operating subsidiary. The acquisition was funded entirely in cash. On July 5, 2006, a new first mortgage loan was obtained in the amount of $5,900,000.

On June 30, 2006, the Trust acquired Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor and Whimbrel Terrace, six residential properties located in Fort McMurray, Alberta for a total cost of $32,132,409. The acquisition was funded with a new first mortgage loan of $21,618,751 with the balance in cash.

3 *Acquisitions (continued)*

On July 27, 2006, the Trust acquired land in Fort McMurray, Alberta for the development of Park View Apartments at total cost of $9,300,000. The acquisition was funded with a vendor take-back mortgage of $7,300,000, with the balance in cash. On December 18, 2006, the vendor take-back mortgage was repaid in full with the initial advance of $6,650,000 of a new mortgage loan, with the balance in cash.

The net assets acquired in the transactions are as follows:

Land	$ 15,001,264
Buildings	50,547,334
Furniture, equipment and appliances	605,223
Properties under development	9,300,000
Intangible assets	
Lease origination costs	1,768,077
Tenant relationships	485,162
Vendor take-back mortgage	(7,300,000)
Mortgage loans payable assumed	(9,524,677)
Working capital, net	41,601
	$ 60,923,984
Consideration:	
Cash	$ 57,934,280
Class B units of Village West LP	2,739,704
Deposits made in year ended December 31, 2005	250,000
	$ 60,923,984

Deposits of $3,300,000 were applied to the acquisitions of income properties during the year ended December 31, 2006 (2005 - $2,000,000).

4 *Income properties*

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,961,341	$ -	$ 31,961,341
Buildings	198,396,670	(7,129,412)	191,267,258
Furniture, equipment & appliances	4,793,124	(844,409)	3,948,715
	$235,151,135	$ (7,973,821)	$227,177,314

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Land	$ 15,360,952	$ -	$ 15,360,952
Buildings	133,158,960	(3,109,495)	130,049,465
Furniture, equipment & appliances	3,946,185	(386,046)	3,560,139
	$152,466,097	$ (3,495,541)	$148,970,556

4 Income properties (continued)

The cost of the major renovation at Highland Tower for the year ended December 31, 2006, consists of construction costs of $1,128,731 (2005 - $900,066) and carrying costs of $156,960 (2005 - $42,062) and is included in the cost of buildings.

During the year ended December 31, 2006, the cost of buildings was increased by an amount of $3,871,302 relating to an adjustment of the net assets acquired on the purchase of Riverside Terrace Inc.

5 Properties under development

	December 31	
	2006	2005
Park View Apartments	$ 19,434,308	$ -
Elgin Lodge	1,238,832	-
Three Lakes Village	-	11,018,744
	$ 20,673,140	$ 11,018,744

The cost of properties under development for the year ended December 31, 2006, consists of land of $9,300,000, construction costs of $11,126,352 and carrying costs of $246,788.

The cost of properties under development relating to Three Lakes Village for the year ended December 31, 2005 consists of land of $1,599,125, building of $9,088,275, appliances of $224,000 and carrying costs of $107,343. On January 1, 2006, Three Lakes Village achieved a satisfactory level of occupancy and the costs were capitalized to income properties.

6 Mortgage loans receivable

	December 31	
	2006	2005
Lakewood Manor	$ 8,500,000	$ 8,500,000
Millennium Village	5,000,000	-
Nova Court	5,000,000	-
Edmonton land	-	850,000
	$ 18,500,000	$ 9,350,000

Lakewood Manor
The Trust has 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 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property, which is expected to close on May 1, 2007, in the amount of $58,735,825.

6 Mortgage loans receivable (continued)

Millennium Village
The Trust has invested in a second mortgage loan, secured by a 72 unit multi-family townhouse complex, which is currently under construction in Fort McMurray, Alberta. The loan advance of $5,000,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property upon closing of Phase one of the project in August 2007.

Nova Court
The Trust has invested in a mortgage loan, secured by a residential property in Yellowknife, Northwest Territories. The loan advance of $5,000,000 bears interest at 10%. Interest is payable monthly. The loan shall be applied toward the purchase price of the property on closing.

Edmonton land
The Trust invested in a mortgage loan, secured by land in Edmonton, Alberta. The loan advance of $850,000 bore interest at 12%. The loan was repaid on July 15, 2006.

7 Deferred charges

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 1,745,767	$ (897,919)	$ 847,848
Financing costs	5,660,376	(1,208,527)	4,451,849
Leasing expenses	165,871	(79,162)	86,709
Amounts recorded on acquisition of income properties			
Tenant inducements	569,203	(229,726)	339,477
	$ 8,141,217	$ (2,415,334)	$ 5,725,883

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 1,777,982	$ (712,239)	$ 1,065,743
Financing costs	2,753,783	(1,359,076)	1,394,707
Leasing expenses	170,975	(64,750)	106,225
Amounts recorded on acquisition of income properties			
Tenant inducements	569,203	(156,981)	412,222
	$ 5,271,943	$ (2,293,046)	$ 2,978,897

7 *Deferred charges (continued)*

Amortization of deferred charges consists of the following:

	Year Ended December 31 2006	Year Ended December 31 2005
Tenant inducements	$ 290,212	$ 282,138
Financing costs	624,396	764,520
Leasing expenses	28,381	26,477
Amounts recorded on income property acquisition		
Tenant inducements	72,744	77,808
	$ 1,015,733	$ 1,150,943

8 *Other assets*

	December 31 2006	December 31 2005
Amounts receivable	$ 948,354	$ 513,796
Loan receivable from tenant	210,091	236,105
Property tax deposits and other	1,302,853	746,381
Deposits on potential acquisitions	13,240,975	910,000
Deferred rent receivable	232,930	182,095
Restricted cash	1,436,658	949,550
	$ 17,371,861	$ 3,537,927

Deposits on potential acquisitions includes a $13,000,000 non-refundable deposit in regard to Woodland Park which was applied on closing of the purchase of the property in March 2007.

Restricted cash consists of funds held in trust for residential tenant security deposits.

9 Intangible assets

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Lease origination costs	$ 3,554,364	$ (2,107,639)	$ 1,446,725
Tenant relationships	1,040,910	(363,626)	677,284
	4,595,274	(2,471,265)	2,124,009
Above market in-place leases	123,726	(51,498)	72,228
	$ 4,719,000	$ (2,522,763)	$ 2,196,237

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Lease origination costs	$ 2,653,441	$ (1,003,469)	$ 1,649,972
Tenant relationships	589,618	(133,024)	456,594
Cash flow guarantee	250,500	(250,500)	-
	3,493,559	(1,386,993)	2,106,566
Above market in-place leases	123,726	(38,662)	85,064
	$ 3,617,285	$ (1,425,655)	$ 2,191,630

Amortization of intangible assets consists of the following:

	Year Ended December 31	
	2006	2005
Lease origination costs	$ 1,971,324	$ 471,096
Tenant relationships	264,472	74,804
Cash flow guarantee	-	50,000
	2,235,796	595,900
Above market in-place leases	12,836	17,994
	$ 2,248,632	$ 613,894

Amortization of the above market in-place leases is charged to rentals from income properties.

10 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2006			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2006
Fixed rate mortgage loans payable	4.1% - 12.5%	5.6%	6.5 years	$156,322,913
Floating rate mortgage loans payable	6.5% - 7.0%	7.0%	Demand	14,696,123
Non interest bearing vendor take-back second mortgage loans payable	-	-	Demand	236,475
				$171,255,511

	Interest Rates at December 31, 2005			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2005
Fixed rate mortgage loans payable	4.1% - 7.4%	5.6%	7.2 years	$114,388,293
Floating rate mortgage loans payable	6.0%	6.0%	Demand	2,189,602
Non interest bearing vendor take-back second mortgage loans payable			0.5 years	250,000
				$116,827,895

Approximate principal repayments are as follows:

Year ending December 31	
2007	$ 23,541,121
2008	9,822,337
2009	25,128,074
2010	3,450,835
2011	8,224,117
Thereafter	101,089,027
	$171,255,511

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.

11 Convertible debentures

The Series A debentures bear interest at 10%, mature on August 30, 2007 and are subordinate only to the mortgage loans payable. The Series A debentures are convertible at the request of the holder at any time during the year ending August 31, 2007, at $6.00. The Trust has the right to redeem all, but not less than all of the Series A 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 the applicable conversion price. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

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 A debentures and 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 Trust issued $13,680,000 of Series F debentures by way of private placement on March 10, 2006. The Series F debentures bear interest at 7.5%, mature on March 11, 2011 and are subordinate to the Series A debentures, 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.

The Trust issued $25,000,000 of unsecured Series G debentures by way of public offering on December 8, 2006 and an additional $732,000 under the over-allotment option on December 22, 2006. The Series G debentures bear interest at 7.5%, mature on December 31, 2011 and are subordinate to the Series A debentures, 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, 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

11 Convertible debentures (continued)

During the year ended December 31, 2005, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 5.00	246,200
Series B	5.00	188,400
Series C	4.50	2,251,333
Series D	5.00	29,400

The following 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 A, Series D, Series E, Series F and Series G debentures:

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

December 31, 2005	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,640,931	$ 307,280	$ 1,948,211
Series D - 8%, due March 16, 2008	3,368,169	780,410	4,148,579
Series E - 8%, due February 17, 2010	9,487,871	2,847,555	12,335,426
	$ 14,496,971	$ 3,935,245	$ 18,432,216

The accretion of the debt component for the year ended December 31, 2006 of $3,604,259 (2005 - $2,704,761), which increases the debt component from the initial carrying amount, is included in financing expense.

12 Accounts payable and accrued liabilities

	December 31 2006	December 31 2005
Accounts payable and accrued liabilities	$ 2,207,600	$ 983,512
Construction costs payable on properties under development	2,730,762	-
Mortgage and debenture interest payable	1,732,235	1,026,663
Tenant security deposits	1,606,147	959,994
Below market in-place leases, net of accumulated amortization of $57,740 (2005 - $45,008)	17,854	30,586
	$ 8,294,598	$ 3,000,755

13 *Future income taxes*

The future income tax liability of wholly-owned operating subsidiaries, which are subject to income taxes, consists of the following:

	December 31 2006	December 31 2005
Tax liabilities related to difference in tax and book value	$ 3,509,275	$ 195,885
Tax assets related to difference in tax and book value	(119,689)	-
Tax assets related to operating losses	(112,561)	(54,913)
	$ 3,277,025	$ 140,972

The future income tax liability and related increase in the cost of Riverside Terrace Inc. was recorded in the year ended December 31, 2006.

The future income tax recovery of wholly-owned subsidiaries consists of the following:

	Year Ended December 31 2006	Year Ended December 31 2005
Tax recovery relating to operating losses based on the effective rate	$ (64,642)	$ (54,913)
Adjustment to future tax assets and liabilities relating to timing differences	(159,582)	11,463
Adjustment for future tax assets and liabilities for change in the effective tax rate	(511,025)	-
	$ (735,249)	$ (43,450)

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 these 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 exchangeable, at the option of the holder on a one for one basis into units of the Trust.

Non-controlling interest consists of the following:

	December 31 2006	December 31 2005
LP Units of Village West LP	$ 2,739,704	$ -
Share of loss of Village West Townhouses	(84,471)	-
Distributions on LP Units of Village West LP	(139,828)	-
Exchange of 100,000 LP Units for Units of the Trust	(600,000)	-
	$ 1,915,405	$ -

15 Related party transactions

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. 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 to Shelter Canadian Properties Limited of $974,256 for the year ended December 31, 2006 (2005 - $577,195). Property management fees are included in property operating expenses.

Included in accounts payable and accrued liabilities at December 31, 2006 is a balance of $61,836 (2005 - $58,116), payable to Shelter Canadian Properties Limited.

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. On January 17, 2006 and as subsequently amended, the terms of the services agreement between the Trust and Shelter Canadian Properties Limited were modified. For the period from January 1, 2006 to August 31, 2007, a service fee is 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.

The Trust incurred service fees to Shelter Canadian Properties Limited of $636,881 for the year ended December 31, 2006 (2005 - $nil). Service fees are included in Trust expense.

Unit-based compensation expense for the year ended December 31, 2006 of $11,388 (2005 - $11,388), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

Acquisition

Effective January 1, 2006, the Trust acquired Willowdale Gardens. Prior to the acquisition a related party, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, which is owned by the Arni Thorsteinson Family Trust, the Chief Executive Officer and a trustee of the Trust, held an 18.67% undivided interest in Willowdale Gardens. From January 1, 2006 until April 6, 2006, the assumed first mortgage loan was guaranteed by Shelter Canadian Properties Limited.

15 Related party transactions (continued)

Acquisition (continued)

On July 27, 2006, the Trust acquired and agreed to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust has purchased the land and 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. During the year ended December 31, 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, 2006 is a balance of $122,405 payable to Shelter Canadian Properties Limited in regard to the development and construction services.

16 Units

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

	Year Ended December 31 2006	2005
Outstanding, beginning of year	16,855,286	6,461,213
Units issued on conversion of debentures	434,510	2,715,333
Units issued on exchange of LP units of Village West LP	100,000	-
Units issued on distribution reinvestment plan	2,439	-
Units issued by private placement	-	7,668,740
Units issued on exercise of unit option	-	10,000
Outstanding, end of year	17,392,235	16,855,286

Distribution Reinvestment Plan

Commencing with the November 30, 2006 cash distribution, the Trust implemented a distribution reinvestment plan ("DRIP"). Pursuant to the 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 December 31, 2006, 2,439 units have been issued pursuant to the DRIP.

17 Unit option plan

The maximum number of units reserved for issuance under the unit option plan will be limited to 10% 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 fair market price of the units on the date of grant. The options will have a maximum term of five years from the date of grant.

On January 17, 2006, the Trust granted options to the three Trustees and the Chief Financial Officer to acquire 7,500 units each at $5.42 per unit. The options have vested and expire on January 17, 2011.

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 January 17, 2006 are dividend yield of 10.13%, expected volatility of 36.22%, risk-free interest rate of 3.84% and life of options of five years.

Unit-based compensation expense of $22,843 for the year ended December 31, 2006 (2005 - $nil) relating to options issued on January 17, 2006, was recorded to expense the fair value of unit-based compensation and is including in Trust expense.

On July 26, 2006, the Trust granted options to each of the independent Trustees, the Chief Executive Officer and the Chief Financial Officer as well as seventeen management and senior employees of Shelter Canadian Properties Limited who are engaged in functions related to the Trust to acquire a total of 960,000 units at $5.80 per unit. The options granted to the independent Trustees have vested. The balance of the options vest equally on the grant date and the first, second, third and fourth anniversaries of the grant date. The options expire on July 26, 2011.

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 July 26, 2006, are a dividend yield of 9.61%, expected volatility of 43.10%, risk-free interest rate of 4.25% and life of options of five years.

Unit based compensation expense of $498,175 for the year ended December 31, 2006 (2005 - $nil), relating to the options issued on July 26, 2006, was recorded to expense the fair value unit-based compensation and is included in Trust expense.

17 *Unit option plan (continued)*

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

	Year Ended December 31, 2006		Year Ended December 31, 2005	
	Units	Exercise Price	Units	Exercise Price
Outstanding, beginning of year	10,000	$ 4.00	20,000	$ 4.00
Granted, January 17, 2006	30,000	5.42	-	-
Granted, July 26, 2006	960,000	5.80	-	-
Exercised	-	-	(10,000)	4.00
Outstanding, end of year	1,000,000		10,000	
Vested, end of year	392,000		10,000	
Weighted average exercise price		$ 5.77		$ 4.00

18 *Rentals from income properties*

Rental revenue contractually due from tenants include the recovery of property operating costs and property taxes from tenants of $1,645,274 (2005 - $1,777,217) and meal revenue of $1,364,535 (2005 - $330,578) for the year ended December 31, 2006.

19 *Interest and other income*

	Year Ended December 31 2006	Year Ended December 31 2005
Interest on mortgage loans receivable	$ 971,019	$ 212,358
Other interest	714,625	473,413
Alberta natural gas rebates	55,166	12,145
Equity guarantee	61,750	-
Cash flow guarantee	-	71,926
	$ 1,802,560	$ 769,842

The current year includes an equity guarantee of $61,750 from Kingsway Arms Acquisition Corporation, the vendor on the purchase of Elgin Lodge Retirement Home.

20 *Supplementary cash flow information*

	Year Ended December 31 2006	Year Ended December 31 2005
Interest paid on mortgage loans payable	$ 7,678,142	$ 5,065,355
Interest received on mortgage loans receivable	$ 882,466	$ 180,221
Other interest received	$ 714,625	$ 473,413

21 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 2006	Year Ended December 31 2005
Loss	$ (3,785,751)	$ (2,135,105)
Diluted loss	$ (3,785,751)	$ (2,135,105)
Weighted average number of units	17,161,415	9,341,400
Weighted average diluted number of units	17,161,415	9,341,400

22 Financial instruments and risk management

Fair values
As at December 31, 2006, the carrying values of 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 carrying 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 estimated fair value of mortgage loans payable is $171,868,072 (2005 - $112,264,967).

The carrying value of the convertible debentures approximate fair value as the convertible debentures bear interest at currently prevailing interest rates.

Risk management
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. The Trust manages the risks, as follows:

Interest rate risk is minimized for the mortgage loans payable on demand, which are financed at variable rates, by structuring the mortgage loans with an option to fix the interest rate. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at December 31, 2006, the total of mortgage loans payable is 61.8% (2005 - 63.8%) of the total appraised value of income properties.

22 Financial instruments and risk management (continued)

Risk management (continued)
Credit risk arises from the possibility that tenants may experience financial difficulty and not be able to fulfill 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. No single tenant accounted for 10% or more of the rentals from income properties. 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.

23 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, 2006:

	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	1,816,577	47,915	12,311,605	-	14,176,097
Operating income	2,283,103	309,264	12,370,473	1,399,911	16,362,751
Financing expense	1,008,348	125,816	6,767,066	3,604,259	11,505,489
Amortization of income properties	332,727	31,345	4,114,208	-	4,478,280
Amortization of deferred charges	408,390	1,072	168,907	437,364	1,015,733
Amortization of intangible assets	177,821	-	2,057,975	-	2,235,796
Income (loss)	$ 355,818	$ 151,031	$ 82,033	$ (4,374,633)	$ (3,785,751)
Total assets	$ 19,428,858	$ 2,796,990	$ 234,873,913	$ 36,132,945	$ 293,232,706

Year ended December 31, 2005

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	$ 4,251,326	$ 321,343	$ 12,450,418	$ -	$ 17,023,087
Interest and other income	90,711	2,665	165,274	511,192	769,842
Property operating costs	1,822,634	44,919	6,256,828	-	8,124,381
Operating income	2,519,403	279,089	6,358,864	511,192	9,668,548
Financing expense	993,111	114,332	3,656,314	2,704,761	7,468,518
Amortization of income properties	329,845	31,345	2,083,776	-	2,444,966
Amortization of deferred charges	401,823	1,072	57,923	690,125	1,150,943
Amortization of intangible assets	207,777	-	388,123	-	595,900
Income (loss)	$ 586,846	$ 132,341	$ 216,178	$ (3,070,470)	$ (2,135,105)
Total assets	$ 20,589,930	$ 2,816,442	$ 145,247,818	$ 32,359,161	$ 201,013,351

23 Segmented financial information (continued)

Year ended December 31, 2006:

	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	3,878,004	1,023,942	2,707,173	598,904	1,243,369	4,724,705	-	14,176,097
Operating income	6,249,145	283,583	2,829,148	548,696	1,455,888	3,596,380	1,399,911	16,362,751
Financing expense	3,103,598	367,706	1,491,270	280,434	889,664	1,768,558	3,604,259	11,505,489
Amortization of income properties	1,778,306	176,016	666,514	96,910	492,787	1,267,747	-	4,478,280
Amortization of deferred charges	60,247	1,005	410,791	94,234	2,038	10,054	437,364	1,015,733
Amortization of intangible assets	545,807	-	1,089,797	69,303	-	530,889	-	2,235,796
Income (loss)	761,184	(261,143)	(829,222)	104,111	71,399	742,554	(4,374,634)	(3,785,751)
Total assets	118,258,418	10,865,515	32,903,415	11,556,938	24,486,765	59,028,710	36,132,945	293,232,706

Year ended December 31, 2005

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	5,928,714	1,094,565	4,742,743	123,180	1,840,406	3,293,479	-	17,023,087
Interest and other income	115,742	6,699	106,563	882	12,022	16,742	511,192	769,842
Property operating costs	2,168,821	966,069	2,274,927	5,452	788,053	1,921,059	-	8,124,381
Operating income	3,875,635	135,195	2,574,379	118,610	1,064,375	1,389,162	511,192	9,668,548
Financing expense	1,975,647	383,470	1,093,269	58,094	524,824	728,453	2,704,761	7,468,518
Amortization of income properties	1,060,324	176,016	407,608	12,719	296,635	491,664	-	2,444,966
Amortization of deferred charges	53,728	1,005	401,823	1,072	-	3,190	690,125	1,150,943
Amortization of intangible assets	72,914	2,058	393,719	-	282	126,927	-	595,900
Income (loss)	713,022	(427,354)	277,963	46,725	242,633	82,376	(3,070,470)	(2,135,105)
Total assets	61,257,806	11,052,887	29,589,912	1,239,063	25,087,176	40,427,346	32,359,161	201,013,351

24 Commitments

Acquisitions

Millennium Village

The Trust has agreed to acquire Millennium Village, a residential property currently under construction, located in Fort McMurray, Alberta for a cost of $25,150,000. The acquisition will be funded with a new first mortgage loan of $16,954,000, with the balance in cash. The Trust has provided a $5,000,000 second mortgage, bearing interest at 8%, to be credited towards the purchase price upon the closing of Phase One of the project in August 2007. The remaining two phases are expected to close October 2007 and November 2007 respectively.

24 Commitments (continued)

Acquisitions (continued)

Park View Apartments
The Trust has acquired and agreed to develop 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 expected to be completed no later than November 30, 2007.

Lakewood Manor
The Trust has agreed to acquire Lakewood Manor, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of $58,735,825. The acquisition will be funded with new first mortgage loans in the minimum amount of $48,000,000, with the balance in cash. The Trust has provided an $8,500,000 second mortgage loan, bearing interest at 8.0%, to be credited towards the purchase price upon closing. The purchase is expected to close on May 1, 2007.

Nova Court
The Trust has agreed to acquire Nova Court, a residential property located in Yellowknife, Northwest Territories for $15,000,000. The acquisition will be funded with the assumption of a first mortgage loan of $9,285,000, with the balance in cash. The mortgage loan receivable of $5,000,000 shall be credited to the purchase price, on closing.

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

Guarantees
For a period of five years from June 1, 2006, Kingsway Arms Acquisition Corporation, the vendor on the purchase of Elgin Lodge, has guaranteed the Trust a return of 12% on its equity in the property. As at December 31, 2006, $61,750 is included in interest and other income as a result of a shortfall on the guaranteed return.

25 Contingent consideration on acquisition

In conjunction with the acquisition of Elgin Lodge, the Trust has contracted with Kingsway Arms Management Services Inc., the management company of the property, to manage the expansion of the property at a rate of $12,000 per month beginning June 1, 2006 for a period of twelve months. The estimated cost of the expansion is $9,500,000 to be financed with an additional mortgage loan of $6,850,000 from the existing lender with the balance in cash.

For a period of five years from June 1, 2006, the Trust is required to make an additional payment to Kingsway Arms Management Services Inc. of 50% of the amount, if any, that the appraised value of the expanded Elgin Lodge property exceeds the total costs to the Trust, including the expansion costs.

26 Subsequent events

Acquisitions

Clarington Seniors Residence
On February 15, 2007, the Trust acquired the Clarington Seniors Residence, an independent living retirement home located in Bowmanville, Ontario for $22,400,000. The acquisition was funded with a mortgage loan of $15,100,000 with the balance in cash. The Trust has retained Kingsway Arms Management Service Inc. to manage the property for a 10 year term. Kingsway Management Services Inc. will guarantee a return of 8% on the equity component of the Trust's investment until such at time as the lease-up is achieved. For a period of five years after lease-up, the Trust is required to make an additional payment to Kingsway Arms Management Services Inc. of 50% of the amount, if any, that the appraised value of the property exceeds the total original acquisition cost to the Trust.

Woodland Park
On March 12, 2007, the Trust acquired Woodland Park, a residential property located in Fort McMurray, Alberta for a total cost of $37,865,000. The acquisition was funded with an interim mortgage loan payable of $18,000,000, a vendor take-back mortgage of $6,250,000, bearing interest at 12.5% and due on June 30, 2007, with the balance in cash. The non refundable deposit of $13,000,000 was credited to the purchase price on closing. A new mortgage loan in the amount of $27,300,000 has also been arranged. The Trust was entitled to all rental revenue and was responsible for all leasing, operating and financing expenses in regard to the property from November 30, 2006. The total of leasing, operating and financing expenses, net of rental revenue, in the amount of $342,250 is including in other assets.

Distributions
Distributions of $749,604 and $746,845 were paid on February 15, 2007 and March 15, 2007, respectively, to unitholders of the Trust. Units of 8,227 and 9,046 were issued on February 15, 2007 and March 15, 2007, respectively, to unitholders of the Trust in regard to participation in the DRIP. Distributions of $15,941 and $15,941 were paid on February 15, 2007 and March 15, 2007, respectively, to the holder of the LP units of Village West LP.

Upward refinancing
On January 1, 2007, a 4.91% $4,258,978 first mortgage loan payable, ranking pari passu to the existing first mortgage loan, was obtained on Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor and Whimbrel Terrace. The mortgage loan payable is due September 1, 2016.

On February 9, 2007, a 12.5% $12,500,000 second mortgage loan was obtained on Nelson Ridge Estates and Riverside Terrace. The mortgage loan payable is due on August 1, 2007.

27 Comparative figures

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