LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

March 24, 2009

Meyers Norris Penny LLP

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2008	December 31 2007
Assets		
Income properties (Note 4)	**$554,090,286**	$375,796,299
Properties under development (Note 5)	**35,957,774**	80,228,769
Mortgage loan receivable (Note 6)	**-**	10,000,000
Cash (Note 12)	**229,892**	-
Other assets (Note 7)	**8,480,947**	6,410,441
Future income taxes (Note 11)	**3,429,431**	3,763,761
	$602,188,330	$476,199,270
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$453,927,161**	$341,334,043
Convertible debentures (Note 9)	**42,427,966**	41,036,253
Accounts payable and accrued liabilities (Note 10)	**63,312,264**	31,339,325
Bank indebtedness (Note 12)	**-**	1,623,651
Future income taxes (Note 11)	**3,518,197**	2,617,905
	563,185,588	417,951,177
Non-controlling interest (Note 13)	**1,573,258**	1,685,103
Equity	**37,429,484**	56,562,990
	$602,188,330	$476,199,270

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2008:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990
Maturity of Series D debentures	322,658	-	-	(322,658)	-
Units purchased under normal course issuer bid	(1,778,440)	-	-	-	(1,778,440)
Issue costs	(111,802)	-	-	-	(111,802)
Unit-based compensation	391,517	-	-	-	391,517
Units issued on distribution reinvestment plan	1,802,126	-	-	-	1,802,126
Loss and comprehensive loss	-	(9,607,056)	-	-	(9,607,056)
Distributions declared	-	-	(9,829,851)	-	(9,829,851)
Equity, December 31, 2008	$ 79,750,666	$ (17,929,355)	$ (37,496,464)	$ 13,104,637	$ 37,429,484

Year Ended December 31, 2007:

	Units	Cumulative Loss	Cumulative Distributions	Equity Component of Debentures	Total
Equity, December 31, 2006	$ 77,812,493	$ (6,921,395)	$ (17,898,958)	$ 13,764,313	$ 66,756,453
Conversion of debentures	250,659	-	-	(35,656)	215,003
Issue costs	(44,049)	-	-	-	(44,049)
Maturity of Series A debentures	301,362	-	-	(301,362)	-
Exercise of unit options	40,000	-	-	-	40,000
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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year Ended December 31 2008	2007
Revenue		
Rentals from income properties (Note 18)	**$ 65,847,271**	$ 45,216,274
Interest and other income	**955,023**	1,095,041
	66,802,294	46,311,315
Expenses		
Property operating costs	**24,732,149**	19,238,660
Income before the undernoted	**42,070,145**	27,072,655
Financing expense (Note 19)	**36,291,778**	23,015,545
Trust expense	**2,622,973**	2,056,789
Amortization (Note 20)	**11,408,548**	8,174,795
	50,323,299	33,247,129
Loss before income taxes	**(8,253,154)**	(6,174,474)
Future income tax expense (recovery) (Note 11)	**1,266,042**	(4,732,863)
Loss before non-controlling interest	**(9,519,196)**	(1,441,611)
Non-controlling interest (Note 13)	**(87,860)**	40,707
Loss and comprehensive loss for the year	**$ (9,607,056)**	$ (1,400,904)
Loss per unit (Note 22)		
Basic	**$ (0.549)**	$ (0.080)
Diluted	**$ (0.549)**	$ (0.080)
Weighted average number of units (Note 22)		
Basic	**17,485,603**	17,457,299
Diluted	**17,485,603**	17,457,299

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2008	2007
Cash provided by (used in) operating activities		
Loss for the year	**$ (9,607,056)**	$ (1,400,904)
Items not affecting cash		
Straight-line rent adjustment	**(10,903)**	(58,618)
Accretion on debt component of convertible debentures	**2,469,702**	2,004,220
Unit-based compensation	**391,517**	309,233
Amortization (Note 20)	**13,160,148**	9,936,080
Change in fair value - swap asset	**4,012,403**	-
Future income taxes	**1,266,042**	(4,732,863)
Non-controlling interest	**87,860**	(40,707)
	11,769,713	6,016,441
Changes in non-cash operating items (net of effects of acquisition of income properties)	**1,238,353**	1,168,265
Tenant inducements and leasing expenditures incurred through leasing activity	**(592,552)**	(105,479)
	12,415,514	7,079,227
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**132,885,288**	180,042,264
Repayment of Series A debentures	**-**	(1,677,000)
Repayment of Series D debentures	**(1,593,000)**	-
Repayment of mortgage loans on refinancing	**(38,066,146)**	(31,232,909)
Repayment of principal on mortgage loans	**(6,771,886)**	(4,795,045)
Expenditures on transaction costs	**(1,340,590)**	(1,773,800)
Units purchased and cancelled under normal course issuer bid	**(1,778,440)**	-
Distributions paid on units (Note 21)	**(8,104,253)**	(9,336,147)
Distributions paid on LP units of Village West LP	**(199,705)**	(199,705)
	75,031,268	131,027,658
Cash provided by (used in) investing activities		
Acquisition of income properties	**(46,865,000)**	(91,191,965)
Payment of acquisition cost payable	**(19,615,893)**	-
Construction of income properties	**(4,972,385)**	(3,890,777)
Improvements to income properties	**(3,565,986)**	-
Increase in properties under development	**(8,248,758)**	(34,231,084)
Mortgage loan receivable advance	**-**	(10,000,000)
Deposits on potential acquisitions	**(1,010,000)**	(600,000)
Increase in restricted cash	**(1,315,217)**	(1,404,981)
	(85,593,239)	(141,318,807)
Cash increase (decrease)	**1,853,543**	(3,211,922)
Cash (bank indebtedness), beginning of year	**(1,623,651)**	1,588,271
Cash (bank indebtedness), end of year	**$ 229,892**	$ (1,623,651)

Supplementary cash flow information (Note 21)

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

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 and on June 18, 2008.

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.

Change in accounting policy
On January 1, 2008, the Trust adopted CICA Handbook Section 1535 - Capital Disclosures, Section 3862 - Financial Instruments - Disclosures and Section 3863 - Financial Instruments - Presentation. Section 1535 requires the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital. Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks. The new standards do not have any impact on the classification or measurement of financial instruments.

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 those 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, the transfer of amounts from properties under development to income properties, the remaining useful life of the income properties, undiscounted cash flows to be generated from income properties, the calculation of future income tax assets and liabilities and the completion of the Parsons Landing acquisition.

Income properties
Income properties include land, buildings and related costs and improvements, furniture, equipment and 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.

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 also allocated to intangible assets to reflect the cost of lease origination costs, tenant relationships and above market leases.

2 *Significant accounting policies (continued)*

Income properties (continued)
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 furniture, equipment and appliances is recorded on a straight-line basis over their remaining useful lives ranging from 5 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.

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.

2 Significant accounting policies (continued)

Derivative financial instruments
Derivative financial instruments are utilized to reduce interest rate risk on the mortgage loans payable. The Trust does not enter into financial instruments for trading or speculative purposes.

Interest rate swap agreements are used as part of the Trust's program to manage the fixed and floating interest rate mix of the Trust's total mortgage loan portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. The interest rate swap agreements are classified as held-for-trading and are recorded on the balance sheet at fair value. The change in fair value is recognized as an adjustment to financing expense. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

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.

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. 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.

2 Significant accounting policies (continued)

Income Taxes (continued)
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.

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.

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.

Comprehensive income
The Trust does not have any other comprehensive income or accumulated other comprehensive income.

Per unit calculations
Basic per unit amounts are calculated using the weighted average number of units outstanding during the year, including vested deferred units. Diluted per unit amounts are calculated after considering the potential exercise of convertible debentures, exchangeable Class B Limited Partnership units of Village West LP, unvested deferred units, 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.

Financial instruments
All financial instruments are 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.

2 Significant accounting policies (continued)

Financial instruments (continued)

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 rate method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. 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.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment.

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 other comprehensive income.

The Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash	Held for trading	Fair value
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		
Interest rate swap	Held for trading	Fair value
Other accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost
Bank indebtedness	Held for trading	Fair value

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. Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized in the cost of the related asset or liability on initial recognition and are measured at amortized cost using the effective interest rate method.

The Trust assesses impairment of all financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as default of interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

2 Significant accounting policies (continued)

Future changes to significant accounting policies

(a) Goodwill and intangible assets

In February 2008, the CICA issued a new Handbook Section 3064, "Goodwill and Intangible Assets". This new section replaces Section 3062, "Goodwill and Intangible Assets", and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for the Trust's 2009 fiscal year, and will be adopted on a retroactive basis with restatement of the prior years.

The new policy will not have any impact on the consolidated financial statements.

(b) International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The International Financial Reporting Standards will replace Canada's current GAAP for public companies.

Management is currently in the process of evaluating the potential impact of the International Financial Reporting Standards to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board and the CICA. The consolidated financial performance and financial position as disclosed in our current GAAP financial statements may be significantly different when presented in accordance with International Financial Reporting Standards.

The CICA has provided public companies with the option to early adopt International Financial Reporting Standards effective January 1, 2009. The Trust does not intend to adopt these standards on January 1, 2009.

(c) Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

3 Acquisitions

During the year ended December 31, 2008, the Trust acquired three income properties.

The net assets acquired in the transaction are as follows:

Income properties	
Land	$ 9,161,705
Buildings	114,167,293
Furniture, equipment and appliances	1,259,300
Asphalt and paving	5,892,900
Intangible assets	798,600
Mortgage loans payable assumed	(20,539,500)
Vendor take-back mortgage loan payable	(4,000,000)
	$106,740,298
Consideration:	
Cash	$ 46,865,000
Deposits paid in the year	1,450,000
Deposits paid in prior year	139,300
Mortgage loan receivable, applied to purchase	10,000,000
Acquisition cost payable	45,733,000
GST payable	2,552,998
	$106,740,298

Parsons Landing

On September 1, 2008, the Trust acquired possession of Parsons Landing for a total consideration of $63,200,000 including GST . Title to the income property will pass to the Trust upon payment of the balance of the acquisition cost payable.

The balance owing of the acquisition cost payable was due on February 28, 2009, with interest of $1,077,594 from January 1, 2009 to February 28, 2009.

The mortgage financing for Parsons Landing has been delayed and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing until May 29, 2009 with interest from March 1, 2009 of $2,621,175. The vendor has also agreed to accept partial payment on account of interest of $600,000, payable in two installments of $300,000 in March and April of 2009 and to reduce the balance by $1.4 Million on payment at closing. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $45,000,000 by April 15, 2009. In the event that a financing commitment is not received by April 15, 2009 or any other act of default, the vendor shall be permitted to list the property for sale.

4 *Income properties*

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Land	$ 88,689,716	$ -	$ 88,689,716
Buildings and improvements	476,182,353	(22,480,820)	453,701,533
Furniture, equipment and appliances	13,073,030	(2,787,885)	10,285,145
Intangible assets	4,264,427	(2,850,535)	1,413,892
	$582,209,526	$ (28,119,240)	$554,090,286

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

The tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $26,873,600 to June 30, 2009 and $27,667,200 to June 30, 2010. The net book value of the townhouse portion of Lakewood Manor at December 31, 2008 is $25,301,565.

At December 31, 2008, the carrying value of the income properties was not impaired.

5 *Properties under development*

	December 31 2008	December 31 2007
Clarington Seniors Residence	$ 26,164,803	$ 25,023,068
Elgin Lodge	9,792,971	9,766,638
Laird's Landing	-	45,439,063
	$ 35,957,774	$ 80,228,769

The cost of properties under development includes carrying costs of $1,052,216 for the year ended December 31, 2008 (2007 - $2,111,781).

6 *Mortgage loan receivable*

The mortgage loan receivable at December 31, 2007 consisted of a $10,000,000, 8% second mortgage loan secured by Parsons Landing, a 163 suite multi-family apartment project in Fort McMurray, Alberta.

7 *Other assets*

	December 31 2008	December 31 2007
Amounts receivable	$ 1,442,421	$ 958,397
Prepaid expenses, deposits and other	2,317,519	1,606,986
Deposits on potential acquisitions	210,000	650,000
Straight-line rent receivable	302,451	291,548
Restricted cash	4,156,856	2,841,639
Above market in place leases, net of accumulated amortization of $72,026, (2007 - $61,855)	51,700	61,871
	$ 8,480,947	$ 6,410,441

Amounts receivable includes rent receivable of $1,027,396 (2007 - $547,827) net of an allowance for doubtful accounts of $108,816 (2007 - $91,557).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by mortgage lenders of $846,659 (2007 - $641,028).

8 *Mortgage loans payable*

	Interest Rates at December 31, 2008			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2008
Income properties				
Fixed rate mortgages	4.5% - 12.0%	6.4%	4.7 years	$351,886,563
Floating rate mortgages	5.8% - 6.3%	5.8%	Demand	80,500,000
				432,386,563
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	0.7 year	11,370,000
Floating rate mortgages	5.8% - 6.8%	6.0%	Demand	12,435,570
				23,805,570
				456,192,133
Difference between contractual and market interest rates on mortgage loans assumed				110,798
Unamortized transaction costs				(2,375,770)
				$453,927,161

8 *Mortgage loans payable (continued)*

The Trust has entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages in the amounts of $20,763,272 and $22,576,256 have been fixed at 5.74% and 5.82% for the five and ten year terms of the respective mortgages.

	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

Approximate principal repayments are as follows:

Year ending December 31	
2009	$164,656,923
2010	43,594,683
2011	13,886,333
2012	37,618,302
2013	24,963,804
Thereafter	171,472,088
	$456,192,133

The difference between contractual and market interest rates on mortgage loans assumed is amortized over the term of the respective mortgages. The balance of $110,798 (2007 - $301,060) is net of accumulated amortization of $747,875 at December 31, 2008 (2007 - $557,613). The difference relates to mortgage loans assumed on acquisition of properties under development. The amortization of $190,262 (2007 - $557,613) for the year ended December 31, 2008 is recorded as a reduction of the carrying value of properties under development.

8 Mortgage loans payable (continued)

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, 2008.

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

9 Convertible debentures

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

	December 31 2008	December 31 2007
Series D	$ -	$ 1,593,000
Series E	11,950,000	11,950,000
Series F	13,680,000	13,680,000
Series G	25,732,000	25,732,000
	$ 51,362,000	$ 52,955,000

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.

The Series E debentures bear interest at 8% and mature on February 17, 2010. The Series E debentures are convertible at the request of the holder at any time during the year ending February 17, 2009 at a conversion price per unit of $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 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 unsecured Series G debentures bear interest at 7.5%, mature on December 31, 2011 and are subordinate to the 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.

9 *Convertible debentures (continued)*

During the year ended December 31, 2008 there were not any conversions of convertible debentures. During the year ended December 31, 2007, the 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

December 31, 2008	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 11,081,742	$ 2,835,690	$ 13,917,432
Series F - 7.5%, due March 11, 2011	11,791,848	3,564,376	15,356,224
Series G - 7.5%, due December 31, 2011	21,216,807	6,704,571	27,921,378
	44,090,397	13,104,637	57,195,034
Unamortized transaction costs	(1,662,431)	-	(1,662,431)
	$ 42,427,966	$ 13,104,637	$ 55,532,603

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

The Series E and F convertible debentures of the Trust are secured by a security interest on all the property and assets of the Trust. The security interest ranks senior to the trust units and subordinate to mortgage loans payable and related collateral security.

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

The accretion of the debt component for year ended December 31, 2008 of $2,469,702 (2007 - $2,004,220), which increases the debt component from the initial carrying amount, is included in financing expense.

The series E and F debentures provide for the outstanding amount of the debentures to become payable on demand upon default, under certain terms and conditions, of a mortgage loan or a convertible debenture. The Trust is in compliance with all covenants in regard to mortgage loans and convertible debentures as at December 31, 2008.

10 Accounts payable and accrued liabilities

	December 31 2008	December 31 2007
Accounts payable and accrued liabilities	$ 4,298,537	$ 2,191,916
Payable on acquisition of Parsons Landing	48,220,000	-
Payable on acquisition of Millennium Village	-	19,615,893
Construction costs payable	254,432	4,710,619
Mortgage and debenture interest payable	2,830,930	2,276,599
Tenant security deposits	3,695,263	2,535,202
Interest rate swap	4,012,403	-
Below market in-place leases, net of accumulated amortization of $74,895 (2007 - $66,498)	699	9,096
	$ 63,312,264	$ 31,339,325

The amount payable on the acquisition of Parsons Landing includes the acquisition cost payable in the amount of $45,733,000 and is expected to be paid during the second quarter of 2009. The amount payable on the acquisition of Millennium Village was paid during 2008.

Included in accounts payable and accrued liabilities are $31,420 (2007 - nil) of current income taxes payable relating to taxes payable by a wholly owned operating subsidiary.

Interest Rate Swap
The Trust entered into interest rate swap arrangements whereby the interest rate on the floating rate mortgages have been fixed for the five and ten year terms of the mortgages. The interest rate swap is a derivative financial instrument classified as held-for-trading and is recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. Included in financing expense is a charge of $4,012,403 for the year ended December 31, 2008.

11 Future income taxes

Future income taxes consists of the following components:

	December 31 2008	December 31 2007
Future income tax asset relating to the assets of Trust:		
Future income tax asset relating to the temporary difference between the accounting and tax basis held in the Trust expected to reverse after 2010 for:		
Income properties	$ 3,518,985	$ 3,917,283
Transaction costs	(89,554)	(153,522)
	$ 3,429,431	$ 3,763,761

11 Future income taxes (continued)

	Year ended December 31 2008	2007
Future income tax liability relating to the wholly owned subsidiaries:		
Future income tax liability relating to the temporary differences between the accounting and tax basis of income properties held in wholly owned subsidiaries	$ 3,518,197	$ 3,507,101
Future income tax asset relating to operating losses of wholly owned subsidiaries	(1,569,604)	(889,196)
	1,948,593	2,617,905
Valuation allowance	1,569,604	-
	$ 3,518,197	$ 2,617,905
Future income tax expense (recovery):		
Decrease (increase) in future income tax asset resulting from a change in temporary differences relating to:		
Income properties	$ 211,762	$ (3,917,283)
Transaction costs	(56,658)	153,522
Decrease (increase) in future income tax asset resulting from a change in tax rate for:		
Income properties	186,537	-
Transaction costs	(7,311)	-
	334,330	(3,763,761)
Wholly owned subsidiaries		
Increase in future income tax liability resulting from a change in temporary differences relating to income properties	73,769	216,742
Decrease in future income tax liability resulting from changes in tax rates	(62,673)	(409,208)
Increase in future income tax asset resulting from operating losses	(705,116)	(788,759)
Decrease in future income tax asset resulting from changes in tax rates	24,708	12,123
Valuation allowance	1,569,604	-
	900,292	(969,102)
Current income taxes at statutory tax rates	31,420	-
	931,712	(969,102)
	$ 1,266,042	$ (4,732,863)

11 Future income taxes (continued)

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

Operating losses carried forward expiring in:

2026	$ 113,256
2027	2,349,986
2028	2,437,741
	$ 4,900,983

12 Cash and bank indebtedness

Cash and (bank indebtedness) consists of cash in bank less a revolving line of credit. The Trust obtained a revolving chartered bank line of credit in 2007 in the maximum amount of $5,000,000, bearing interest at prime and repayable on demand. The line of credit is secured by a second mortgage on an income property. The amount available on the line of credit is reduced by $125,000 relating to the issue of a letter of credit. As at December 31, 2008, $1,555,000 (2007 - $1,960,000) is available to the Trust under the terms of the line of credit.

Cash and (bank indebtedness) consist of the following:

	December 31 2008	December 31 2007
Cash in bank	$ 3,549,892	$ 1,416,349
Less: Line of credit	(3,320,000)	(3,040,000)
	$ 229,892	$ (1,623,651)

13 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, 2008, there were 356,617 (2007 - 356,617) LP Units of Village West LP outstanding.

The change in non-controlling interest is summarized as follows:

	December 31 2008	December 31 2007
Balance, beginning of year	$ 1,685,103	$ 1,925,515
Share of income (loss) of Village West Townhouses	87,860	(40,707)
Distributions on LP Units of Village West LP	(199,705)	(199,705)
Balance, end of year	$ 1,573,258	$ 1,685,103

14 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management and services agreements with the Trust.

Management agreement
On August 7, 2007 the Trust renewed the property management agreement with Shelter Canadian Properties Limited with the same terms and conditions, for a 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 $2,456,258 for the year ended December 31, 2008 (2007 - $1,605,530). 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.

The Trust incurred leasing commissions on commercial properties to Shelter Canadian Properties Limited of $40,938 for the year ended December 31, 2008 (2007 - $32,876). The amounts are capitalized to income properties.

Included in accounts payable and accrued liabilities at December 31, 2008 is a balance of $125,691 (2007 - $98,802), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited. 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. The services agreement was renewed with the same terms and conditions until June 30, 2009.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $1,661,308 for the year ended December 31, 2008 (2007 - $1,176,967). Service fees are included in trust expense.

Included in accounts payable and accrued liabilities at December 31, 2008 is a balance of nil (2007 - $265,902), payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

14 *Related party transactions (continued)*

Acquisition

The Trust has entered into a development agreement with Shelter Canadian Properties Limited to develop Laird's Landing, a residential property located in Fort McMurray, Alberta. During the year ended December 31, 2008, the development and construction supervision services provided by Shelter Canadian Properties Limited were completed and $234,179 (2007 - $431,421) was recorded to properties under development.

Included in construction costs payable on properties under development is a balance of nil (2007 - $553,826) 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. There were not any fees charged in regard to the guarantees.

15 *Units*

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

	Year Ended December 31 2008	2007
Outstanding, beginning of year	17,529,894	17,392,235
Issued on conversion of debentures	-	41,058
Issued on distribution reinvestment plan	514,387	86,601
Issued on exercise of unit option	-	10,000
Purchased and cancelled under normal course issuer bid	(456,200)	-
Outstanding, end of year	17,588,081	17,529,894

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 December 31, 2008, 514,387 (2007 - 86,601) units have been issued pursuant to the DRIP.

Units purchased and cancelled under 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. Units purchased by the Trust under its normal course issuer bid are cancelled. During the year ended December 31, 2008 the Trust has purchased and cancelled 456,200 units under its normal course issuer bid at a weighted average price of $3.90 per unit.

On January 21, 2009, the Trust announced its intention to make a normal course issuer bid to acquire up to 877,404 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ending January 22, 2010.

16 Unit option plan

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.

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 7, 2008 are dividend yield of 10.32%, expected volatility of 35.59%, risk-free interest rate of 3.68% and life of options of five years. The total fair value of the unit options granted on January 7, 2008 is $241,892.

Unit-based compensation expense of $391,517 for the year ended December 31, 2008 (2007 - $301,727), relating to options issued was recorded to expense the fair value unit-based compensation, including $177,930 for the year ended December 31, 2008 relating to the options issued on January 7, 2008. 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, 2008		Year Ended December 31, 2007	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	1,110,000	$ 5.72	1,000,000	$ 5.77
Granted, June 8, 2007	-	-	120,000	5.30
Exercised, October 26, 2007	-	-	(10,000)	4.00
Granted, January 7, 2008	370,000	5.10	-	-
Expired, August 11, 2008	(28,000)	5.73	-	-
Outstanding, end of year	1,452,000	$ 5.56	1,110,000	$ 5.72
Vested, end of year	960,400		654,000	

At December 31, 2008 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	935,000	641,000	July 26, 2011
5.30	120,000	120,000	June 8, 2012
5.10	367,000	169,400	January 7, 2013
	1,452,000	960,400	

17 *Deferred unit plan*

On June 18, 2008, the Trust adopted a deferred unit plan, under which, any trustee, officer, employee, or consultant employee of the Trust may elect to have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

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

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

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 23,528 for the year ended December 31, 2008 and 23,528 aggregate deferred units were outstanding at December 31, 2008.

Unit-based compensation expense of $78,787 for the year ended December 31, 2008, relating to deferred units granted was recorded to expense the fair value unit-based compensation. Unit-based compensation is included in trust expense.

18 *Rentals from income properties*

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $2,918,646 (2007 - $2,244,485) for the year ended December 31, 2008.

19 Financing expense

	Year Ended December 31 2008	Year Ended December 31 2007
Mortgage loan interest	$ 24,116,087	$ 15,092,084
Convertible debenture interest	3,943,760	4,159,555
Accretion of the debt component of convertible debentures	2,469,702	2,004,220
Amortization of transaction costs	1,749,826	1,759,686
Change in fair value of interest rate swap	4,012,403	-
	$ 36,291,778	$ 23,015,545

20 Amortization

	Year Ended December 31 2008	Year Ended December 31 2007
Building	$ 9,448,404	$ 6,551,383
Furniture, equipment and appliances	1,229,992	637,624
Intangible assets, except for in-place leases	730,152	985,788
	11,408,548	8,174,795
Transaction costs	1,749,826	1,759,686
Above market in-place leases	10,171	10,357
Below market in-place leases	(8,397)	(8,758)
	13,160,148	9,936,080
Difference between contractual and market interest rates on mortgage loans assumed on properties under development	(190,262)	(557,613)
	$ 12,969,886	$ 9,378,467

21 Supplementary cash flow information

	Year Ended December 31 2008	Year Ended December 31 2007
Interest paid and received		
Interest paid on mortgage loans	$ 23,565,791	$ 14,215,038
Interest paid on convertible debentures	$ 3,982,686	$ 4,484,041
Interest received on mortgage loans receivable	$ 313,865	$ 717,356
Other interest received	$ 669,583	$ 470,430
Cash distributions		
Distributions declared	$ 9,829,851	$ 9,767,655
Distributions to participants in the DRIP	(1,725,598)	(431,508)
Distributions paid on units	$ 8,104,253	$ 9,336,147

22 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the year, including vested deferred units. Diluted per unit information is calculated based on the weighted average diluted number of units for the year, considering the dilutive effect of unvested deferred units, the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures 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 2008	Year Ended December 31 2007
Income (loss)	$ (9,607,056)	$ (1,400,904)
Diluted income (loss)	$ (9,607,056)	$ (1,400,904)
Units	17,483,454	17,457,299
Vested deferred units	2,149	-
Weighted average basic number of units	17,485,603	17,457,299
Weighted average diluted number of units	17,485,603	17,457,299

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 (2007 - nil) for the year ended December 31, 2008.

24 Financial instruments and risk management

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

24 Financial instruments and risk management (continued)

Liquidity risk
In addition to the liquidity risk relating to the mortgage financing for Parsons Landing, liquidity risk arises from the possibility of the Trust not having sufficient debt and equity capital available to fund its growth and refinance its debt as it matures.

The economic uncertainty which currently exists throughout the global marketplace has resulted in a more conservative and restrictive lending market.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years and, except for properties under development, by limiting the use of floating interest rate debt.

As at December 31, 2008, the weighted average term to maturity of the fixed rate mortgages on income properties, excluding properties under development, is 4.7 years (2007 - 5.3 years).

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

Year ending December 31	Mortgage Loans Payable	Convertible Debentures	Total
2009	$164,656,923	$ -	$164,656,923
2010	43,594,683	11,950,000	55,544,683
2011	13,886,333	39,412,000	53,298,333
2012	37,618,302	-	37,618,302
2013	24,963,804	-	24,963,804
Thereafter	171,472,088	-	171,472,088
	$456,192,133	$ 51,362,000	$507,554,133

Interest rate risk
Interest risk arises from debt financing including the risk that the Trust will not be able to refinance the mortgages with terms as favourable as those of existing mortgages. The risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year. At December 31, 2008 the percentage of fixed rate mortgage loans to total mortgage loans was 80% (2007 - 80%).

As at December 31, 2008, the Trust has total contractual mortgage principal maturities on income properties to December 31, 2011 of $109,589,068, representing 24% of the mortgage loans principal balance. Should the amounts be refinanced upon maturity at an interest rate differential of 100 basis points, financing expense would increase by $1,095,891 per year.

24 Financial instruments and risk management (continued)

Interest rate risk (continued)

The Trust has floating rate mortgages on income properties (excluding floating rate mortgages in the amount of $20,763,272 and $22,576,256, with interest rates fixed at 5.74 and 5.82 respectively by use of interest rate swap arrangements) totaling $80,500,000.00, or 18.0% of the total mortgage loans principal balance as at December 31, 2008 (2007 - 8.8%).

Floating rate mortgages on properties under development comprise construction loans and loans on properties during the period of lease-up.

As at December 31, 2008, the Trust had total floating rate mortgages of $92,935,570. Should interest rates increase by 100 basis points, financing expense would increase by $929,356 per year.

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

Credit risk

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

Thirteen properties, representing 51% of rentals from income properties, are located in Fort McMurray, Alberta. The credit risk associated with the tenants in Fort McMurray is mitigated due to the long-term nature of the oil sands industry and the credit worthiness of the commercial tenants which comprise a significant portion of the rent receivable. The Trust has a corporate tenant that accounts for 16% of rentals from income properties for the year ended December 31, 2008. Credit risk, in this regard, has been managed by the Trust leasing to a credit worthy tenant.

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

	December 31 2008	December 31 2007
Rent receivable overdue:		
0 to 30 days	$ 372,485	$ 24,567
31 to 60 days	123,340	85,866
More than 60 days	271,116	171,904
	$ 766,941	$ 282,337

24 Financial instruments and risk management (continued)

Credit risk (continued)

A reconciliation of allowance for doubtful accounts is as follows:

	December 31 2008	December 31 2007
Balance, beginning of year	$ 42,185	$ 55,256
Amount charged to bad debt expense relating to impairment of rent receivable	344,711	74,508
Amounts written off as uncollectible	(278,080)	(87,579)
Balance, end of year	$ 108,816	$ 42,185
Amount charged to bad debts as a percent of rentals from income properties	0.52%	0.16%

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

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

Fair values
Financial instruments include cash, mortgage loans receivable, amounts receivable, interest rate swap, restricted cash, mortgage loans payable, accounts payable and accrued liabilities, the debt component of convertible debentures, bank indebtedness and distributions payable. Except for the mortgage loans payable and the debt component of convertible debentures, the carrying values of these financial instruments approximate fair value due to the short term nature of the financial instruments.

The fair 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 with similar terms and conditions. The estimated fair value of mortgage loans payable for the period ended December 31, 2008 is $476,000,000 (December 31, 2007 - $343,000,000).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable for the period ended December 31, 2008 is $33,290,680 (December 31, 2007 - $43,207,912).

25 Management of capital

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

	December 31 2008	December 31 2007
Mortgage loans payable	$456,192,133	$343,269,160
Convertible debentures		
Debt component	44,090,397	43,207,912
Equity component	13,104,637	13,427,295
	57,195,034	56,635,207
Trust units	79,750,666	79,124,607
	$593,137,833	$479,028,974

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

The overall capital management strategy addresses the following considerations:

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

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to unitholders; return capital to unitholders; purchase units; or reduce debt.

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

26 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, 2008:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,170,064	296,242	61,380,965	-	65,847,271
Interest and other income	34,508	1,371	469,375	449,769	955,023
Property operating costs	2,123,633	107,217	22,501,299	-	24,732,149
Financing expense	981,953	150,206	24,014,693	11,144,926	36,291,778
Amortization	898,021	31,345	10,479,182	-	11,408,548
Income (loss)	200,965	8,845	3,835,594	(13,652,460)	(9,607,056)
Total assets	26,727,508	2,761,923	571,755,474	943,425	602,188,330

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, 2008:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	38,059,684	1,468,901	7,030,747	1,598,621	6,004,036	11,685,282	-	65,847,271
Interest and other income	334,484	10,755	54,577	368	35,101	69,969	449,769	955,023
Property operating costs	10,619,589	875,505	3,330,600	1,028,862	2,459,794	6,417,799	-	24,732,149
Financing expense	18,688,558	338,398	1,897,763	728,342	1,287,642	2,206,149	11,144,926	36,291,778
Amortization	6,334,064	194,441	1,713,579	276,949	881,010	2,008,505	-	11,408,548
Income (loss)	2,751,955	71,313	143,383	(1,461,441)	1,410,692	1,129,502	(13,652,460)	(9,607,056)
Total assets	372,102,375	10,710,891	72,410,792	46,110,221	38,537,426	61,373,200	943,425	602,188,330

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

27 Commitments

Acquisitions

Parsons Landing Apartments
On September 1, 2008, the Trust acquired possession of Parsons Landing, a residential property located in Fort McMurray, Alberta, for a total cost of $63,200,000, including GST. On November 1, 2007, the Trust provided a $10,000,000 second mortgage loan, which bore interest at 8%. On possession of Phase I of the property on May 14, 2008, a purchase installment payment of $2,500,000 was made and $5,250,000 of the second mortgage loan was applied to the purchase price. On possession of Phase II of the property on September 1, 2008, the balance of the second mortgage loan of $4,750,000 was applied to the purchase price. After accounting for the payment of an additional deposit of $2.5 Million on October 1, 2008, the balance owing on Parsons Landing was $48.2 Million as of December 31, 2008, including GST.

The balance owing was due on February 28, 2009, with interest of $1,077,594 from January 1, 2009 to February 28, 2009.

The mortgage financing for Parsons Landing has been delayed and, as a result, the vendor has agreed to extend the deadline for payment of the balance owing until May 29, 2009 with interest of $2,621,175. The vendor has also agreed to accept partial payment on account of interest of $600,000, payable in two installments of $300,000 in March and April of 2009 and to reduce the balance by $1.4 Million on payment at closing. The payment extension is conditional upon the Trust obtaining a commitment for mortgage financing of $45,000,000 by April 15, 2009. In the event that a financing commitment is not received by April 15, 2009 or any other act of default, the vendor shall be permitted to list the property for sale.

In the event of the sale of Parsons Landing, the Trust will be liable to the vendor for any shortfall between the net proceeds of the sale and the acquisition cost payable of $45,733,000 plus interest.

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	
2009	$ 170,329
2010	166,615
2011	162,668
2012	158,473
2013	124,013
Thereafter	203,940
	$ 986,038

27 Commitments (continued)

Management Contracts

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

Property	Manager	Term Expiring
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2010
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

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

28 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, 2008 of $314,869 (2007 - $194,756), which increases the cost of the building, is included in accounts payable and accrued liabilities.

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, 2008 of $313,951 (2007 - $150,001), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

29 Subsequent events

Distributions

Distributions of $752,162 and $778,583 were paid on February 15, 2009 and March 15, 2009 to unitholders of the Trust. Units of 23,439 and 25,137 were issued on February 15, 2009 and March 15, 2009 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, 2009 and March 15, 2009 respectively, to the holder of the LP units of Village West LP.

Units cancelled

Subsequent to December 31, 2008, the Trust purchased and cancelled 99,507 units at a weighted average price of $2.77, pursuant to terms of the normal course issuer bid.

30 Comparative figures

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