LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	March 31 2007	December 31 2006 (restated)
Assets		
Income properties (Note 4)	**$246,114,520**	$231,564,852
Properties under development (Note 5)	**89,845,627**	20,673,140
Mortgage loans receivable (Note 6)	**12,500,000**	17,500,000
Deferred financing costs (Note 7)	**4,709,707**	4,451,849
Cash	**3,074,110**	1,588,271
Other assets (Note 8)	**7,851,180**	18,444,089
	$364,095,144	$294,222,201
Liabilities and Equity		
Mortgage loans payable (Note 9)	**$239,803,971**	$171,255,511
Convertible debentures (Note 10)	**43,282,822**	42,829,557
Accounts payable and accrued liabilities (Note 11)	**12,137,471**	8,294,598
Future income taxes (Note 12)	**3,507,133**	3,277,025
Distribution payable	**813,312**	-
	299,544,709	225,656,691
Non-controlling interest (Note 13)	**1,851,662**	1,925,515
Equity	**62,698,773**	66,639,995
	$364,095,144	$294,222,201

Approved by the Trustees

"Charles Loewen"

"Cheryl Barker"

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended March 31, 2007:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2006	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610
Change in accounting policy (Note 2)	-	979,385	-	-	979,385
Equity, December 31, 2006 (restated)	77,812,493	(7,037,853)	(17,898,958)	13,764,313	66,639,995
Issue costs	(13,783)	-	-	-	(13,783)
Conversion of debentures	101,850	-	-	(17,650)	84,200
Unit-based compensation	83,671	-	-	-	83,671
Loss	-	(1,769,235)	-	-	(1,769,235)
Distributions declared	-	-	(2,426,823)	-	(2,426,823)
Units issued on distribution reinvestment plan	100,748	-	-	-	100,748
Equity, March 31, 2007	$ 78,084,979	$ (8,807,088)	$ (20,325,781)	$ 13,746,663	$ 62,698,773

Three Months Ended March 31, 2006 (restated):

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2005, as previously reported	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758
Change in accounting policy (Note 2)	-	346,001	-	-	346,001
Equity, December 31, 2005 (restated)	75,115,429	(3,885,486)	(8,272,429)	3,935,245	66,892,759
Equity component of issued debentures	-	-	-	3,564,376	3,564,376
Issue costs	(248,314)	-	-	-	(248,314)
Conversion of debentures	295,046	-	-	(54,890)	240,156
Unit-based compensation	3,989	-	-	-	3,989
Loss	-	(971,986)	-	-	(971,986)
Distributions declared	-	-	(2,364,800)	-	(2,364,800)
Equity, March 31, 2006	$ 75,166,150	$ (4,857,472)	$ (10,637,229)	$ 7,444,731	$ 67,116,180

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31 2007	Three Months Ended March 31 2006 (restated)
Revenue		
Rentals from income properties (Note 17)	**$ 8,619,983**	$ 5,989,719
Interest and other income	**431,782**	452,316
	9,051,765	6,442,035
Expenses		
Property operating costs	**4,167,035**	3,079,648
Operating income	**4,884,730**	3,362,387
Financing expense	**4,143,407**	2,503,295
Trust expense	**458,323**	202,385
Amortization (Note 18)	**2,156,036**	1,637,369
	6,757,766	4,343,049
Loss before income taxes	**(1,873,036)**	(980,662)
Future income tax recovery (Note 12)	**(79,874)**	(8,676)
Loss before the undernoted	**(1,793,162)**	(971,986)
Non-controlling interest (Note 13)	**23,927**	-
Loss for the period	**$ (1,769,235)**	$ (971,986)
Loss per unit (Note 20)		
Basic	**$ (0.102)**	$ (0.058)
Diluted	**(0.102)**	(0.058)
Weighted average number of units (Note 20)		
Basic	**17,407,418**	16,875,991
Diluted	**17,407,418**	16,875,991

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

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2007	2006 (restated)
Cash provided by (used in) operating activities		
Loss from operations	**$ (1,769,235)**	$ (971,986)
Items not affecting cash		
Straight-line rent adjustment	**(21,970)**	(10,310)
Accretion on debt component of convertible debentures (Note 10)	**1,592,003**	813,823
Unit-based compensation	**83,671**	3,989
Amortization (Note 18)	**2,156,435**	1,637,395
Future income taxes	**(79,874)**	(8,676)
Non-controlling interest	**(23,927)**	-
Interest paid on convertible debentures	**(1,146,824)**	(721,239)
	790,279	742,996
Changes in non-cash operating items (net of effects of acquisition of income properties)	**410,651**	(165,236)
Tenant inducements and leasing expenses incurred through leasing activity	**(64,484)**	(46,622)
	1,136,446	531,138
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**49,508,978**	5,550,000
Proceeds of convertible debentures	**-**	13,680,000
Repayment of mortgage loans on refinancing	**(2,500,000)**	-
Repayment of principal on mortgage loans	**(935,021)**	(717,639)
Deferred financing costs	**(713,894)**	(711,283)
Issue costs	**-**	(248,314)
Distributions paid on trust units	**(1,517,168)**	(1,575,634)
Distributions paid on LP units of Village West LP	**(33,284)**	-
	43,809,611	15,977,130
Cash provided by (used in) investing activities		
Acquisition of income properties and properties under development	**(34,578,953)**	(8,825,555)
Improvements to income properties	**(1,213,774)**	(301,562)
Increase in properties under development	**(5,253,628)**	-
Deposits on potential acquisitions	**(134,025)**	(1,200,000)
Change in restricted cash	**(2,279,838)**	26,123
	(43,460,218)	(10,300,994)
Cash increase	**1,485,839**	6,207,274
Cash, beginning of period	**1,588,271**	22,965,597
Cash, end of period	**$ 3,074,110**	$ 29,172,871

Supplementary cash flow information (Note 19)

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.

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements reflect the operations of the Trust, wholly owned operating subsidiaries and LREIT Village West Limited Partnership (Village West LP). The interim financial statements have been prepared on a consistent basis with the December 31, 2006 audited financial statements except for the change in accounting policy disclosed in Note 2. These financial statements do not include all the information and disclosure required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the December 31, 2006 audited financial statements and notes thereto.

2 *Change in accounting policies*

Improvements to income properties

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

Property operating costs are lower by $111,062, amortization expense is higher by $10,866 and the net book value of income properties is higher by $100,196 for the three months ended March 31, 2006.

Basic and diluted loss per unit is lower than would have been reported under the previous policy by $0.006 per unit for the three months ended March 31, 2006.

Financial instruments

On January 1, 2007, the Trust adopted CICA Handbook Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments - Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation" and Section 3865 "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The Trust adopted these standards prospectively; accordingly, comparative amounts for prior periods have not been restated.

Section 3855 prescribes when a financial asset, financial liability or non-financial instrument is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities.

2 Changes in accounting policies (continued)

Financial instruments (continued)

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from derivative financial instruments in the same period as for those related to the hedged item.

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

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

All derivative instruments, including embedded derivatives, are recorded in the balance sheet and statement of operations at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in operations unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. Financial guarantees are recorded at their inception date fair value and reversed as the Trust is relieved of its guarantee obligations. There were no significant fair values in respect of these items on transition.

3 Acquisitions

During the three months ended March 31, 2007, the Trust acquired one income property comprising 106 suites and two properties under development.

The net assets acquired in the transactions are as follows:

Income properties	
Land	$ 1,460,000
Buildings	12,782,702
Furniture, equipment and appliances	669,935
Intangible assets	102,863
Mortgage loans payable assumed	(9,287,159)
	5,728,341
Properties under development	
Properties under development	61,823,998
Mortgage loans payable assumed	(6,120,000)
Vendor take-back mortgage loan payable	(6,250,000)
Difference between contractual and market interest rates on mortgage loans payable assumed	(817,343)
Future income tax liability	(309,981)
	48,326,674
	$ 54,055,015

3 Acquisitions (continued)

Consideration:	
Cash	$ 34,578,953
Deposits made in prior year	13,075,000
Mortgage loan receivable, applied to purchase	5,000,000
GST payable	1,401,062
	$ 54,055,015

Deposits of $14,275,000 were applied to the acquisitions of income properties and properties under development during the three months ended March 31, 2007.

The use of reasonable estimates is an essential component to the allocation of assets upon acquisition. Estimates are subject to revision if changes in the circumstances on which the estimate was based differ as a result of new information or experience.

4 Income properties

March 31, 2007	Cost	Accumulated Amortization	Net Book Value
Land	$ 33,421,341	$ -	$ 33,421,341
Buildings and improvements	214,597,993	(8,387,270)	206,210,723
Furniture, equipment and appliances	5,514,907	(967,574)	4,547,333
Intangible assets	4,158,043	(2,222,920)	1,935,123
	$257,692,284	$ (11,577,764)	$246,114,520

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

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

The cost of the major renovation at Highland Tower for the three months ended March 31, 2007, consists of construction costs of $995,590 (2006 - $152,552) and carrying costs of $44,597 (2006 - $37,948) and is included in the cost of buildings.

5 Properties under development

	March 31 2007	December 31 2006 (audited)
Woodland Park	$ 38,750,622	$ -
Park View Apartments	24,168,522	19,434,308
Clarington Seniors Residence	24,160,024	-
Elgin Lodge	2,766,459	1,238,832
	$ 89,845,627	$ 20,673,140

The cost of properties under development for the three months ended March 31, 2007, includes carrying costs of $1,101,143 (2006 - nil).

6 Mortgage loans receivable

	March 31 2007	December 31 2006 (audited)
Lakewood Manor	$ 8,500,000	$ 8,500,000
Millennium Village	4,000,000	4,000,000
Nova Court	-	5,000,000
	$ 12,500,000	$ 17,500,000

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 July 1, 2007, in the amount of $59,835,825.

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 $4,000,000 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.

During the three months ended March 31, 2007, $1,000,000 of the $5,000,000 mortgage loan receivable at December 31, 2006 has been reclassified as a deposit and is included in other assets.

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

7 *Deferred financing costs*

Deferred financing costs are net of accumulated amortization of $1,555,043 (December 31, 2006 - $1,208,527).

Effective January 1, 2007, financing costs previously presented as deferred charges are presented as deferred financing costs. The period of amortization of the costs remain unchanged.

8 *Other assets*

	March 31 2007	December 31 2006 (audited)
Amounts receivable	$ 1,246,927	$ 1,158,445
Property tax deposits and other	1,263,219	1,302,853
Deposits on potential acquisitions	1,300,000	14,240,975
Straight-line rent receivable	254,900	232,930
Restricted cash	3,716,496	1,436,658
Above market in place leases, net of accumulated amortization of $54,088, (2006 - $51,498)	69,638	72,228
	$ 7,851,180	$ 18,444,089

Amounts receivable includes amounts due from tenants of $320,233 (2006 - $340,016) and a loan receivable from a tenant of $203,088 (2006 - $210,091).

Restricted cash consists of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by lenders.

9 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	Interest Rates at March 31, 2007			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	March 31 2007
Income properties				
Fixed rate mortgages	4.1% - 11.0%	6.0%	6.0 years	$182,946,099
Floating rate mortgages	6.5% - 7.0%	6.9%	Demand	8,034,054
Non interest bearing vendor take-back second mortgage			Demand	236,475
				191,216,628
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	7.8%	1.3 years	17,620,000
Floating rate mortgages	7.0% - 8.0%	7.5%	Demand	30,150,000
Difference between contractual and market interest rates on mortgage loans assumed				817,343
				48,587,343
				$239,803,971

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

9 Mortgage loans payable (continued)

Approximate principal repayments are as follows:

Year ending December 31	
2007 - remainder of year	$ 62,445,218
2008	18,238,973
2009	30,679,780
2010	3,764,560
2011	10,550,386
Thereafter	113,307,711
	$238,986,628

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

The difference between contractual and market interest rates on mortgage loans assumed is net of accumulated amortization at March 31, 2007 of $41,331 (2006 - nil). The difference between contractual and market interest rates on mortgage loans assumed is amortized over the term of the respective mortgages and is recorded as a reduction of financing expense.

10 Convertible debentures

During the three months ended March 31, 2007, holders of convertible debentures exercised their right to convert to units, as follows:

		Units Issued	
Convertible Debentures	Conversion Price	Three Months Ended March 31 2007	Three Months Ended March 31 2006
Series A	$ 6.00	2,166	-
Series D	5.00	15,200	54,200

March 31, 2007	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,644,307	$ 291,300	$ 1,935,607
Series D - 8%, due March 16, 2008	1,568,697	338,861	1,907,558
Series E - 8%, due February 17, 2010	10,085,163	2,847,555	12,932,718
Series F - 7.5%, due March 11, 2011	10,666,243	3,564,376	14,230,619
Series G - 7.5%, due December 31, 2011	19,318,412	6,704,571	26,022,983
	$ 43,282,822	$ 13,746,663	$ 57,029,485

10 Convertible debentures (continued)

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

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

The accretion of the debt component for the three months ended March 31, 2007 of $1,592,003 (2005 - $813,823), which increases the debt component from the initial carrying amount, is included in financing expense.

11 Accounts payable and accrued liabilities

	March 31 2007	December 31 2006 (audited)
Accounts payable and accrued liabilities	$ 3,614,523	$ 2,207,600
Construction costs payable on properties under development	4,637,888	2,730,762
Mortgage and debenture interest payable	1,894,074	1,732,235
Tenant security deposits	1,975,323	1,606,147
Below market in-place leases, net of accumulated amortization of $59,930 (2006 - $57,740)	15,663	17,854
	$ 12,137,471	$ 8,294,598

12 Future income taxes

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

	March 31 2007	December 31 2006 (audited)
Tax liabilities related to difference in tax and book value	$ 3,873,282	$ 3,509,275
Tax assets related to difference in tax and book value	(171,147)	(119,689)
Tax assets related to operating losses	(195,002)	(112,561)
	$ 3,507,133	$ 3,277,025

12 Future income taxes (continued)

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

	Three Months Ended March 31 2007	2006 (audited)
Tax recovery relating to operating losses based on the effective rate	$ (138,800)	$ (13,246)
Adjustment to future tax assets and liabilities relating to timing differences	58,926	4,570
	$ (79,874)	$ (8,676)

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 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 transferable and 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:

	March 31 2007	December 31 2006 (restated)
Opening balance	$ 1,925,515	$ -
LP Units of Village West LP issued	-	2,739,704
Share of loss of Village West Townhouses	(23,927)	(74,361)
Distributions on LP Units of Village West LP	(49,926)	(139,828)
Exchange of 100,000 LP Units for Units of the Trust	-	(600,000)
	$ 1,851,662	$ 1,925,515

14 Related party transactions

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of $306,793 for the three months ended March 31, 2007 (2006 - $214,525). Property management fees are included in property operating costs and properties under development.

Included in accounts payable and accrued liabilities at March 31, 2007 is a balance of $33,920 (2006 - $69,323), payable to Shelter Canadian Properties Limited.

14 Related party transactions (continued)

Services agreement
The Trust incurred service fees to Shelter Canadian Properties Limited of $226,102 for the three months ended March 31, 2007 (2006 - $129,159). Service fees are included in Trust expense.

Unit-based compensation expense for the period ended March 31, 2007 of $2,847 (2006 - $2,847), 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
The Trust has entered into a development agreement with Shelter Canadian Properties Limited to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. During the three months ended March 31, 2007, $74,821 (2006 - nil) 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 March 31, 2007 is a balance of $197,226 (2006 - nil) payable to Shelter Canadian Properties Limited in regard to the development and construction services.

15 Units

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

	Three Months Ended March 31 2007	Year Ended December 31 2006 (audited)
Outstanding, beginning of period	17,392,235	16,855,286
Units issued on conversion of debentures	17,366	434,510
Units issued on distribution reinvestment plan	17,273	2,439
Units issued on exchange of LP units of Village West LP	-	100,000
Outstanding, end of period	17,426,874	17,392,235

16 Unit option plan

Unit based compensation expense of $80,824 for the three months ended March 31, 2007 (2006 - $nil), relating to the options issued was recorded to expense the fair value unit-based compensation and is included in Trust expense.

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

	Three Months Ended March 31, 2007		Year Ended December 31, 2006	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	1,000,000	$ 5.77	10,000	$ 4.00
Granted, January 17, 2006	-	-	30,000	5.42
Granted, July 26, 2006	-	-	960,000	5.80
Outstanding, end of period	1,000,000	$ 5.77	1,000,000	$ 5.77
Vested, end of period	392,000		392,000	

At March 31, 2007 the following unit options granted were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 4.00	10,000	10,000	October 29, 2007
$ 5.42	30,000	30,000	January 17, 2011
$ 5.80	960,000	352,000	July 26, 2011
	1,000,000	392,000	

17 Rentals from income properties

Rental revenue contractually due from tenants include the recovery of property operating costs and property taxes from tenants of $398,120 (2006 - $452,215) and meal revenue of $252,978 (2006 - $120,633) for the three months ended March 31, 2007.

18 Amortization

	Three Months Ended March 31 2007	2006 (restated)
Building	$ 1,306,475	$ 941,670
Furniture, equipment and appliances	116,944	97,474
Intangible assets, except for in-place leases	291,748	494,328
Deferred financing costs	440,869	103,897
	2,156,036	1,637,369
Above market in-place leases	2,589	3,209
Below market in-place leases	(2,190)	(3,183)
	$ 2,156,435	$ 1,637,395

19 *Supplementary cash flow information*

	Three Months Ended March 31 2007	2006
Interest paid on mortgage loans payable	$ 2,230,882	$ 1,656,062
Interest received on mortgage loans receivable	$ 292,329	$ -
Other interest received	$ 142,664	$ 259,494
Cash distributions		
Distributions declared	$ 2,426,823	$ 2,364,800
Distributions payable end of period	(813,312)	(789,166)
Distributions to Participants in the DRIP	(96,343)	-
Distributions paid on trust units	$ 1,517,168	$ 1,575,634

20 *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:

	Three Months Ended March 31 2007	2006 (restated)
Loss	$ (1,769,235)	$ (971,986)
Diluted loss	$ (1,769,235)	$ (971,986)
Weighted average number of units	17,407,418	16,875,991
Weighted average diluted number of units	17,407,418	16,875,991

21 Distribution of income

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to the aggregate of taxable income from operations and realized capital gains, net of any realized allowable capital losses.

22 Financial instruments and risk management

Fair values

As at March 31, 2007, the carrying values of cash, restricted cash, amounts receivable, mortgage loans receivable, accounts payable and accrued liabilities and distribution payable 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 fair value of mortgage loans payable has been determined by discounting the cash flows of these obligations using March 31, 2007 market rates for debts of similar terms. The estimated fair value of mortgage loans payable is $240,000,000 (December 31, 2006 - $172,000,000).

The carrying value of the debt component of 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.

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.

Three months ended March 31, 2007:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	1,018,233	93,225	7,508,525	-	8,619,983
Interest and other income	8,245	352	108,492	314,693	431,782
Property operating costs	452,820	20,929	3,693,286	-	4,167,035
Operating income	573,658	72,648	3,923,731	314,693	4,884,730
Financing expense	248,964	31,279	2,028,332	1,834,832	4,143,407
Amortization	229,137	8,104	1,657,943	260,852	2,156,036
Income (loss)	95,558	33,265	341,256	(2,239,314)	(1,769,235)
Total assets	19,285,279	2,793,122	322,137,635	19,879,108	364,095,144

Three months ended March 31, 2006 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	1,055,371	97,533	4,836,815	-	5,989,719
Interest and other income	13,045	3,449	83,980	351,842	452,316
Property operating costs	483,791	12,453	2,583,404	-	3,079,648
Operating income	584,625	88,529	2,337,391	351,842	3,362,387
Financing expense	253,924	29,783	1,405,765	813,823	2,503,295
Amortization	231,420	8,104	1,315,749	82,096	1,637,369
Income (loss)	99,281	50,642	(375,447)	(746,462)	(971,986)
Total assets	20,057,553	2,800,192	159,760,525	40,873,438	223,491,708

Three months ended March 31, 2007:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	3,255,070	363,067	1,396,115	425,535	728,178	2,452,018	-	8,619,983
Interest and other income	80,035	3,071	11,913	146	2,734	19,190	314,693	431,782
Property operating costs	1,199,867	231,880	662,603	269,272	317,485	1,485,928	-	4,167,035
Operating income	2,135,238	134,258	745,425	156,409	413,427	985,280	314,693	4,884,730
Financing expense	1,000,127	89,753	371,802	128,827	217,569	500,497	1,834,832	4,143,407
Amortization	736,243	47,570	317,047	115,811	134,872	543,641	260,852	2,156,036
Income (loss)	398,871	(3,065)	56,577	(25,136)	60,985	(18,153)	(2,239,314)	(1,769,235)
Total assets	162,100,928	11,009,300	33,788,964	39,046,721	39,660,542	58,609,581	19,879,108	364,095,144

23 Segmented financial information (continued)

Three months ended March 31, 2006 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	1,987,022	263,425	1,408,976	30,795	641,738	1,657,763	-	5,989,719
Interest and other income	72,275	3,134	16,699	119	3,194	5,053	351,842	452,316
Property operating costs	844,538	258,744	690,376	1,279	329,146	955,565	-	3,079,648
Operating income	1,214,759	7,815	735,299	29,635	315,786	707,251	351,842	3,362,387
Financing expense	624,709	93,530	365,122	14,351	231,403	360,357	813,823	2,503,295
Amortization	461,239	46,026	591,719	3,448	124,499	328,342	82,096	1,637,369
Income (loss)	131,425	(131,741)	(223,428)	11,837	(40,117)	26,500	(746,462)	(971,986)
Total assets	67,621,665	11,128,782	33,411,624	1,230,984	24,931,539	44,293,676	40,873,438	223,491,708

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 $4,000,000 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.

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 $59,835,825. 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 July 1, 2007.

24 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

25 Contingent consideration on acquisition

Elgin Lodge
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.

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, if any, by which the appraised value of the expanded Elgin Lodge property exceeds the total costs to the Trust, including the expansion costs. The one-time payment is net of a 12% return on equity. Consideration for the three months ended March 31, 2007 of $53,889, 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, if any, by which the appraised value of the property exceeds the total acquisition cost to the Trust. The one-time payment is net of an 8% return on equity. Consideration for the three months ended March 31, 2007 of $24,382, which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

26 Subsequent events

Acquisitions
On May 1, 2007 the Trust acquired a residential property located in Saskatoon, Saskatchewan for a total cost of $5,600,000. The acquisition was funded with a new first mortgage loan of $4,200,000, with the balance in cash.

Distributions
Distributions of $761,321 were paid on April 15, 2007 to unitholders of the Trust. Units of 10,031 were issued on April 15, 2007 to unitholders of the Trust in regard to participation in the DRIP. Distributions of $16,642 were paid on April 15, 2007 to the holder of the LP units of Village West LP.

26 Subsequent events (continued)

Properties under development
Effective April 1, 2007, Woodland Park achieved a satisfactory level of occupancy. As a result, amounts previously presented as properties under development will be recorded as income properties.

Upward refinancing
On April 12, 2007, a 5.505% $27,300,000 first mortgage loan payable was funded on Woodland Park. The mortgage loan payable is due on April 5, 2012. The proceeds of the first mortgage loan payable were used to repay the vendor take-back mortgage of $6,250,000 and the interim first mortgage loan payable of $18,000,000 with the balance to cash.

On April 20, 2007, the first advance of $1,750,000 on a 6% first mortgage loan payable on Highland Towers was funded. The final advance of $1,350,000 will be funded on completion of the major renovations which are expected to be completed by June 30, 2007.

27 Comparative figures

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