LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	March 31 2008	December 31 2007 (audited)
Assets		
Income properties (Note 3)	**$374,476,366**	$375,796,299
Properties under development (Note 4)	**83,828,187**	80,228,769
Mortgage loan receivable (Note 5)	**10,000,000**	10,000,000
Cash (Note 11)	**302,263**	-
Other assets (Note 6)	**7,797,469**	6,410,441
Future income taxes (Note 10)	**5,506,394**	3,763,761
	$481,910,679	$476,199,270
Liabilities and Equity		
Mortgage loans payable (Note 7)	**$351,662,038**	$341,334,043
Convertible debentures (Note 8)	**40,121,546**	41,036,253
Accounts payable and accrued liabilities (Note 9)	**30,794,186**	31,339,325
Future income taxes (Note 10)	**2,407,338**	2,617,905
Bank indebtedness (Note 11)	**-**	1,623,651
Distribution payable	**819,940**	-
	425,805,048	417,951,177
Non-controlling interest (Note 12)	**1,656,547**	1,685,103
Equity	**54,449,084**	56,562,990
	$481,910,679	$476,199,270

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended March 31, 2008:

	Units	Income (loss)	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	(11,856)	-	-	-	(11,856)
Issue costs	(36,088)	-	-	-	(36,088)
Unit based compensation	191,891	-	-	-	191,891
Units issued on distribution reinvestment plan	198,747	-	-	-	198,747
Income	-	301	-	-	301
Distributions declared	-	-	(2,456,901)	-	(2,456,901)
Equity, March 31, 2008	$ 79,789,959	$ (8,321,998)	$ (30,123,514)	$ 13,104,637	$ 54,449,084

Three Months Ended March 31, 2007:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2006, as previously reported	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610
Change in accounting policy	-	979,385	-	-	979,385
Equity, December 31, 2006 (restated)	77,812,493	(7,037,853)	(17,898,958)	13,764,313	66,639,995
Change in accounting policy	-	116,458	-	-	116,458
Equity, January 1, 2007 (restated)	77,812,493	(6,921,395)	(17,898,958)	13,764,313	66,756,453
Conversion of debentures	101,850	-	-	(17,650)	84,200
Issue costs	(13,783)	-	-	-	(13,783)
Unit based compensation	83,671	-	-	-	83,671
Units issued on distribution reinvestment plan	100,748	-	-	-	100,748
Loss	-	(1,706,093)	-	-	(1,706,093)
Distributions declared	-	-	(2,426,823)	-	(2,426,823)
Equity, March 31, 2007	$ 78,084,979	$ (8,627,488)	$ (20,325,781)	$ 13,746,663	$ 62,878,373

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31 2008	Three Months Ended March 31 2007
Revenue		
Rentals from income properties (Note 16)	**$ 13,276,821**	$ 8,619,983
Interest and other income	**352,172**	431,782
	13,628,993	9,051,765
Expenses		
Property operating costs	**5,679,051**	4,167,035
Income before the undernoted	**7,949,942**	4,884,730
Financing expense (Note 17)	**6,814,465**	4,521,134
Trust expense	**734,907**	458,323
Amortization (Note 18)	**2,332,098**	1,715,167
	9,881,470	6,694,624
Loss before income taxes	**(1,931,528)**	(1,809,894)
Future income tax recovery	**(1,953,199)**	(79,874)
Income (loss) before non-controlling interest	**21,671**	(1,730,020)
Non-controlling interest (Note 12)	**(21,370)**	23,927
Income (loss) and comprehensive income (loss) for the period	**$ 301**	$ (1,706,093)
Income (loss) per unit (Note 20)		
Basic	**$ 0.00**	$ (0.098)
Diluted	**0.00**	(0.098)
Weighted average number of units (Note 20)		
Basic	**17,469,441**	17,407,418
Diluted	**17,469,441**	17,407,418

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 2008	2007
Cash provided by (used in) operating activities		
Income (loss) for the period	**$ 301**	$ (1,706,093)
Items not affecting cash		
Straight-line rent adjustment	**(1,019)**	(21,970)
Accretion on debt component of convertible debentures (Note 8)	**598,510**	537,464
Unit-based compensation	**191,891**	83,671
Amortization (Note 18)	**2,705,649**	2,093,293
Future income taxes	**(1,953,199)**	(79,874)
Non-controlling interest	**21,370**	(23,927)
	1,563,503	882,564
Changes in non-cash operating items (net of effects of acquisition of income properties)	**(229,110)**	318,366
Tenant inducements and leasing expenses incurred through leasing activity	**(2,178)**	(64,484)
	1,332,215	1,136,446
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**11,894,520**	49,508,978
Repayment of Series D debentures	**(1,593,000)**	-
Repayment of mortgage loans on refinancing	**-**	(2,500,000)
Repayment of principal on mortgage loans	**(1,421,203)**	(935,021)
Transaction costs	**(221,020)**	(713,894)
Normal course issuer bid	**(11,856)**	-
Distributions paid on trust units (Note 19)	**(1,447,300)**	(1,517,168)
Distributions paid on LP units of Village West LP	**(33,284)**	(33,284)
	7,166,857	43,809,611
Cash provided by (used in) investing activities		
Acquisition of income properties and properties under development	**-**	(34,578,953)
Improvements to income properties	**(131,172)**	(1,213,774)
Increase in properties under development	**(6,290,300)**	(5,253,628)
Deposits on potential acquisitions	**-**	(134,025)
Increase in restricted cash	**(151,686)**	(2,279,838)
	(6,573,158)	(43,460,218)
Cash increase	**1,925,914**	1,485,839
Cash (bank indebtedness), beginning of period	**(1,623,651)**	1,588,271
Cash, end of period	**$ 302,263**	$ 3,074,110

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 ("GAAP"). 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, 2007 audited financial statements except for the change in accounting policies 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, 2007 audited financial statements and notes thereto.

2 Change in accounting policies

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 establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855 - Financial Instruments - Recognition and Measurement and Section 3865 - Hedges. The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new standards do not have any impact on the classification or measurement of financial instruments.

Future changes to significant accounting policies

CICA Handbook Section 3064 - Goodwill and Intangibles will be effective for interim and annual financial statements of the Trust for periods beginning after January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises.

In 2008 the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). The AcSB has confirmed the effective date for reporting under IFRS will be January 1, 2011, with appropriate comparative data from the prior year.

The Trust is currently considering the effect on the financial statements of the new standard.

3 *Income properties*

March 31, 2008	Cost	Accumulated Amortization	Net Book Value
Land	$ 70,228,011	$ -	$ 70,228,011
Buildings and improvements	312,220,821	(15,155,559)	297,065,262
Furniture, equipment and appliances	7,834,739	(1,783,938)	6,050,801
Intangible assets	3,465,827	(2,333,535)	1,132,292
	$393,749,398	$ (19,273,032)	$374,476,366

December 31, 2007 (audited)	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

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

4 *Properties under development*

	March 31 2008	December 31 2007 (audited)
Laird's Landing	$ 48,722,572	$ 45,439,063
Clarington Seniors Residence	25,279,240	25,023,068
Elgin Lodge	9,826,375	9,766,638
	$ 83,828,187	$ 80,228,769

The cost of properties under development includes carrying costs of $645,853 for the three months ended March 31, 2008 (2007 - $2,111,781).

5 *Mortgage loan receivable*

	March 31 2008	December 31 2007 (audited)
Parsons Landing	$ 10,000,000	$ 10,000,000

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

6 *Other assets*

	March 31 2008	December 31 2007 (audited)
Amounts receivable	$ 1,257,464	$ 958,397
Prepaid expenses, deposits and other	2,544,785	1,606,986
Deposits on potential acquisitions	650,000	650,000
Straight-line rent receivable	292,567	291,548
Restricted cash	2,993,325	2,841,639
Above market in place leases, net of accumulated amortization of $64,398, (2007 - $61,855)	59,328	61,871
	$ 7,797,469	$ 6,410,441

Amounts receivable includes amounts due from tenants of $718,951 (2007 - $547,827) and a loan receivable from a tenant of $87,562 (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 lenders of $329,332 (2007 - $641,028).

7 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	Interest Rates at March 31, 2008			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	March 31 2008
Income properties				
Fixed rate mortgages	4.1% - 12.0%	6.1%	4.9 years	$267,493,556
Floating rate mortgages	6.3% - 6.5%	6.4%	Demand	25,614,057
Non interest bearing vendor take-back second mortgage			Demand	236,475
				293,344,088
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	1 year	11,370,000
Floating rate mortgages	6.3% - 7.3%	6.3%	Demand	49,028,391
				60,398,391
				353,742,479
Difference between contractual and market interest rates on mortgage loans assumed				142,816
Unamortized transaction costs				(2,223,257)
				$351,662,038

7 Mortgage loans payable (continued)

	Interest Rates at December 31, 2007			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2007 (audited)
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	
2008 - Remainder of year	$106,985,386
2009	32,344,736
2010	7,375,861
2011	12,398,450
2012	5,088,871
Thereafter	189,549,175
	$353,742,479

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 loan agreements.

The difference between contractual and market interest rates on mortgage loans assumed is amortized over the term of the respective mortgages. The balance of $142,816 is net of accumulated amortization of $715,857 at March 31, 2008 (2007 - $557,613). The difference relates to mortgage loans assumed on acquisition of properties under development. The amortization of $158,244 for the three months ended March 31, 2008 (2007 - $41,331) is recorded as a reduction of the carrying value of properties under development.

7 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 March 31, 2008.

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

8 Convertible debentures

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

The holders of convertible debentures exercised their right to convert to units, as follows:

		Units Issued Three Months Ended March 31	
Debentures	Price	2008	2007
Series A	$ 6.00	-	2,166
Series D	5.00	-	15,200

March 31, 2008	Debt	Equity	Total
Convertible debentures			
Series E - 8%, due February 17, 2010	$ 10,603,837	$ 2,835,690	$ 13,439,527
Series F - 7.5%, due March 11, 2011	11,273,277	3,564,376	14,837,653
Series G - 7.5%, due December 31, 2011	20,342,091	6,704,571	27,046,662
	42,219,205	13,104,637	55,323,842
Unamortized transaction costs	(2,097,659)	-	(2,097,659)
	$ 40,121,546	$ 13,104,637	$ 53,226,183

December 31, 2007 (audited)	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

8 Convertible debentures (continued)

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 the three months ended March 31, 2008 of $598,510 (2007 - $537,464), which increases the debt component from the initial carrying amount, is included in financing expense.

9 Accounts payable and accrued liabilities

	March 31 2008	December 31 2007 (audited)
Accounts payable and accrued liabilities	$ 4,142,909	$ 2,191,916
Acquisition payable	19,366,915	19,615,893
Construction costs payable on properties under development	2,019,737	4,710,619
Mortgage and debenture interest payable	2,270,462	2,276,599
Tenant security deposits	2,987,167	2,535,202
Below market in-place leases, net of accumulated amortization of $68,598 (2007 - $66,498)	6,996	9,096
	$ 30,794,186	$ 31,339,325

The acquisition payable relates to the acquisition of Millennium Village. The acquisition payable bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007, and at prime plus 3% thereafter. Included in acquisition payable at March 31, 2008 is accrued interest of $146,915 (2007 - $395,894). The acquisition payable is expected to be paid in May 2008.

10 Future income taxes

Future income taxes consists of the following components:

	March 31 2008	December 31 2007 (audited)
Future income tax assets:		
Future income taxes related to difference in tax and book value of the Trust	$ 5,506,394	$ 3,763,761
Future income tax liabilities:		
Future income taxes related to difference in tax and book value of wholly owned operating subsidiaries	$ 3,546,361	$ 3,507,101
Future income taxes related to operating losses of wholly owned operating subsidiaries	(1,139,023)	(889,196)
	$ 2,407,338	$ 2,617,905

10 Future income taxes (continued)

Future income tax recoveries:

	Three Months Ended March 31 2008	2007
Current income tax recovery at Canadian statutory tax rates	$ 178,401	$ 155,342
Increase in future income tax recoveries resulting from the change in tax status with the enactment of Bill C-52 in 2007	1,742,633	-
Lease-up period operations capitalized to Properties Under Development, included in taxable income	29,692	54,043
Differences between net income per the financial statements and taxable income per wholly-owned operating subsidiaries	35,627	45,260
Adjustment to future tax assets and liabilities for changes to the differences between Tax and GAAP carrying values	(33,154)	(174,771)
	$ 1,953,199	$ 79,874

11 Cash and bank indebtedness

Cash and (bank indebtedness) consists of cash in bank less a revolving line of credit. The Trust obtained a revolving line of credit on November 16, 2007 in the maximum amount of $5,000,000, bearing interest at prime and repayable on demand. The line of credit is secured by a second mortgage on an income property. As at March 31, 2008, $2,890,000 is available to the Trust under the terms of the line of credit.

Cash and (bank indebtedness) consist of the following:

	March 31 2008	December 31 2007 (audited)
Cash in bank	$ 2,412,263	1,416,349
Less: Line of credit	2,110,000	$ 3,040,000
	$ 302,263	$ (1,623,651)

12 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 March 31, 2008, there were 356,617 (2007 - 356,617) LP Units of Village West LP outstanding.

Non-controlling interest consists of the following:

	March 31 2008	December 31 2007 (audited)
Opening balance	$ 1,685,103	$ 1,925,515
Share of income (loss) of Village West Townhouses	21,370	(40,707)
Distributions on LP Units of Village West LP	(49,926)	(199,705)
	$ 1,656,547	$ 1,685,103

13 Related party transactions

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

Management agreement
The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $489,560 for the three months ended March 31, 2008 (2007 - $306,793). Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development.

Included in accounts payable and accrued liabilities at March 31, 2008 is a balance of $98,373 (2007 - $65,926), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

Services agreement
The Trust incurred service fees payable to Shelter Canadian Properties Limited of $387,242 for the three months ended March 31, 2008 (2007 - $226,102). Service fees are included in trust expense.

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 three months ended March 31, 2008, $64,725 (2007 - $431,421) 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, 2008 is a balance of $18,551 (2007 - $553,826) payable to Shelter Canadian Properties Limited in regard to the development and construction services.

13 Related party transactions (continued)

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 during the period.

14 Units

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

	Three Months Ended March 31 2008	Year Ended December 31 2007 (audited)
Outstanding, beginning of period	17,529,894	17,392,235
Units issued on conversion of debentures	-	41,058
Units issued on distribution reinvestment plan	41,411	86,601
Units issued on exercise of unit option	-	10,000
Units purchased and cancelled	(2,400)	-
Outstanding, end of period	17,568,905	17,529,894

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 will be cancelled. As at March 31, 2008 the Trust has purchased 2,400 units under its normal course issuer bid at an average price of $4.94 per unit.

15 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 32.59%, risk-free interest rate of 3.68% and life of options of five years. The total fair value of the unit options granted is $241,892.

15 Unit option plan (continued)

Unit-based compensation expense of $191,891 for the three months ended March 31, 2008 (2007 - $83,671), relating to options issued was recorded to expense the fair value unit-based compensation, including $149,863 for the three months ended March 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:

	Three Months Ended March 31, 2008		Three Ended December 31, 2007	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	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	-	-
Outstanding, end of period	1,480,000	$ 5.57	1,110,000	$ 5.72
Vested, end of period	824,000		654,000	

At March 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	960,000	504,000	July 26, 2011
$ 5.30	120,000	120,000	June 8, 2012
$ 5.10	370,000	170,000	January 7, 2013
	1,480,000	824,000	

16 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $698,814 (2007 - $398,120) for the three months ended March 31, 2008.

17 Financing expense

	Three Months Ended March 31 2008	2007
Mortgage loan interest	$ 4,833,013	$ 2,551,404
Convertible debenture interest	1,009,835	1,054,539
Accretion of the debt component of convertible debentures	598,510	537,464
Amortization of transaction costs	373,107	377,727
	$ 6,814,465	$ 4,521,134

18 Amortization

	Three Months Ended March 31 2008	2007
Building	$ 1,902,906	$ 1,306,475
Furniture, equipment and appliances	216,040	116,944
Intangible assets, except for in-place leases	213,152	291,748
	2,332,098	1,715,167
Transaction costs	373,107	377,727
Above market in-place leases	2,543	2,589
Below market in-place leases	(2,099)	(2,190)
	2,705,649	2,093,293
Difference between contractual and market interest rates on mortgage loans assumed	(158,244)	(41,331)
	$ 2,547,405	$ 2,051,962

19 Supplementary cash flow information

	Three Months Ended March 31 2008	2007
Interest paid and received		
Interest paid on mortgage loans	$ 5,203,267	$ 2,230,882
Interest paid on convertible debentures	$ 1,029,926	$ 1,146,824
Interest received on mortgage loans receivable	$ 152,926	$ 292,329
Other interest received	$ 164,974	$ 142,664
Cash distributions		
Distributions declared	$ 2,456,901	$ 2,426,823
Distributions payable end of period	(819,940)	(813,312)
Distributions to participants in the DRIP	(189,661)	(96,343)
Distributions paid on trust units	$ 1,447,300	$ 1,517,168

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:

	Year Ended March 31 2008	Year Ended March 31 2007 (audited)
Income (loss)	$ 301	$ (1,706,093)
Diluted income (loss)	$ 301	$ (1,706,093)
Weighted average number of units	17,469,441	17,407,418
Weighted average diluted number of units	17,469,441	17,407,418

21 Financial instruments and risk management

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk
Liquidity risk is the risk that the Trust cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity is net operating income, which is primarily used to finance working capital and capital expenditure requirements, is adequate to meet the Trust's financial obligations associated with financial liabilities.

A second source of liquidity is debt financing which is used to fund acquisitions and retire debt obligations at their maturity.

Interest rate risk
Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Obtaining long-term mortgages with fixed interest rates minimizes interest rate cash flow risk.

The Trust does not trade in financial instruments and is not exposed to interest rate price risk.

21 Financial instruments and risk management (continued)

Market risk
Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, currency risk and other price risk.

Credit risk
Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses.

The Trust controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. The Trust has credit policies to address credit risk which may include the analysis of financial position and credit history of a prospective tenant. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

The Trust has a tenant that accounts for greater than ten percent of rentals from income properties. Credit risk, in this regard, has been managed by the Trust leasing to a credit worthy tenant.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The following is an aging of amounts receivable past due but not impaired:

	March 31 2008	December 31 2007
Amounts receivable:		
0 to 30 days overdue	$ 157,684	$ 24,567
30 to 60 days overdue	181,477	85,866
60 to 90 days overdue	25,068	19,659
90 to 120 days overdue	25,025	19,500
More than 120 days overdue	136,516	132,745
	$ 525,770	$ 282,337

A reconciliation of allowance for doubtful accounts is as follows:

	March 31 2008	December 31 2007
Balance, beginning of period	$ 42,185	$ 55,256
Amounts charged to income	19,956	74,508
Change in allowance	(28,720)	(87,579)
Balance, end of period	$ 33,421	$ 42,185

21 Financial instruments and risk management (continued)

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, 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 financial 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 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 March 31, 2008 is $365,860,297 (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 carrying value of the debt component of convertible debentures payable for the period March 31, 2008 and December 31, 2007 approximates fair value.

22 Management of capital

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

	March 31 2008	December 31 2007
Mortgage loans payable	$353,742,479	$343,269,160
Convertible debentures		
Debt component	42,219,205	43,207,912
Equity component	13,104,637	13,427,295
	55,323,842	56,635,207
Trust units	79,890,836	79,124,607
	$488,957,157	$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 prohibits total mortgage indebtedness of the Trust from exceeding 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.

As of March 31, 2008, total mortgage indebtedness was equal to 68% of the appraised value of properties.

The Trust monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically 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.

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, 2008:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	925,467	92,643	12,258,711	-	13,276,821
Interest and other income	4,752	193	131,410	215,817	352,172
Property operating costs	438,986	22,193	5,217,872	-	5,679,051
Financing expense	247,471	37,864	4,023,755	2,505,375	6,814,465
Amortization	187,061	7,836	2,137,201	-	2,332,098
Income (loss)	56,701	24,944	1,200,488	(1,281,832)	301
Total assets	18,542,970	2,714,830	445,747,542	14,905,337	481,910,679

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
Financing expense	253,728	31,515	2,204,056	2,031,835	4,521,134
Amortization	224,873	7,836	1,482,458	-	1,715,167
Income (loss)	95,056	33,297	341,019	(2,175,465)	(1,706,093)
Total assets	19,154,505	2,757,825	320,892,876	16,648,928	359,454,134

Three months ended March 31, 2008:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	6,926,203	364,869	1,406,509	230,770	1,507,022	2,841,448	-	13,276,821
Interest and other income	99,137	3,229	6,935	103	10,291	16,660	215,817	352,172
Property operating costs	2,379,389	217,246	681,190	132,405	614,220	1,654,601	-	5,679,051
Financing expense	2,787,414	86,082	394,923	161,125	323,678	555,868	2,505,375	6,814,465
Amortization	1,138,452	48,280	321,742	69,255	219,080	535,289	-	2,332,098
Income (loss)	720,092	16,490	15,586	44,607	360,335	125,023	(1,281,832)	301
Total assets	275,138,708	10,846,245	33,824,879	45,397,886	39,193,737	62,603,887	14,905,337	481,910,679

23 Segmented financial information (continued)

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
Financing expense	1,124,042	90,006	377,191	175,216	217,987	504,857	2,031,835	4,521,134
Amortization	613,199	47,319	311,984	68,962	134,362	539,341	-	1,715,167
Income (loss)	397,997	(3,066)	56,302	(24,676)	61,076	(18,261)	(2,175,465)	(1,706,093)
Total assets	161,427,497	10,981,318	33,611,411	38,549,290	39,608,141	58,627,549	16,648,928	359,454,134

24 Commitments

Acquisitions

Millennium Village

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

The balance owing on the acquisition bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007 and prime plus 3% thereafter. The balance owing is expected to be paid in May 2008, on receipt of the first mortgage loan proceeds. As at March 31, 2008, the amount owing on acquisition totaled $19,366,915, including accrued interest of $146,915, is included in accounts payable and accrued liabilities.

Laird's Landing

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

24 Commitments (continued)

Parsons Landing Apartments

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

Colony Square

On March 15, 2008, the Trust agreed to acquire a 90% beneficial interest in Colony Square, a residential and commercial property located in Winnipeg, Manitoba for $34,200,000. The Trust currently owns a 1.5% beneficial interest and is permitting certain existing owners, who own an aggregate of 8.5% beneficial interest, to remain as part of the ownership syndicate. The closing of the acquisition on October 1, 2008 will be funded with the pro-rata assumption of a first mortgage loan of $21,000,000, a new second mortgage loan of $2,500,000 with the balance in cash.

Mortgage Guarantee Fees

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

Amounts due under the commitments are as follows:

Year ending December 31	
2008 - remainder of year	$ 130,121
2009	170,329
2010	166,615
2011	162,668
2012	158,473
Thereafter	327,953
	$ 1,116,159

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
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 for the three months ended March 31, 2008 of $53,705 (2007 - $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 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 for the three months ended March 31, 2008 of $43,269 (2007 - $24,382), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

26 Subsequent events

Acquisitions
On April 21, 2008 the Trust agreed to acquire a 66-suite luxury apartment property, located in Fort McMurray, Alberta for a total cost of $30,000,000. The acquisition will be financed with a new first mortgage loan of $21,000,000, a vendor take-back mortgage loan of $4,000,000, with the balance in cash.

Distributions
Distributions of $819,940 were paid on April 15, 2008 to unitholders of the Trust. Units of 22,049 were issued on April 15, 2008 to unitholders of the Trust in regard to participation in the DRIP. Distributions of $16,642 were paid on April 15, 2008 to the holder of the LP units of Village West LP.

Normal course issuer bid
On April 17, 2008, the Trust purchased 10,000 units at an average price of $4.70, pursuant to terms of the normal course issuer bid.

27 Comparative figures

The March 31, 2007 financial statements include the restatement for the transition adjustment relating to the accounting policy for transaction costs with an effective date of January 1, 2007, which were recorded by the Trust subsequent to March 31, 2007. Deferred financing costs of $4,709,709 at March 31, 2007, have been reclassified as transaction costs, and reduce the carrying value of mortgage loans payable and convertible debentures by $2,303,181 and $2,586,128 respectively. Financing expense has increased by $377,727 and amortization of deferred financing costs has decreased by $440,869 for the three months ended March 31, 2007, as a result of the adoption of the policy and $116,458 was recorded as a transition adjustment opening equity at January 1, 2007.

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