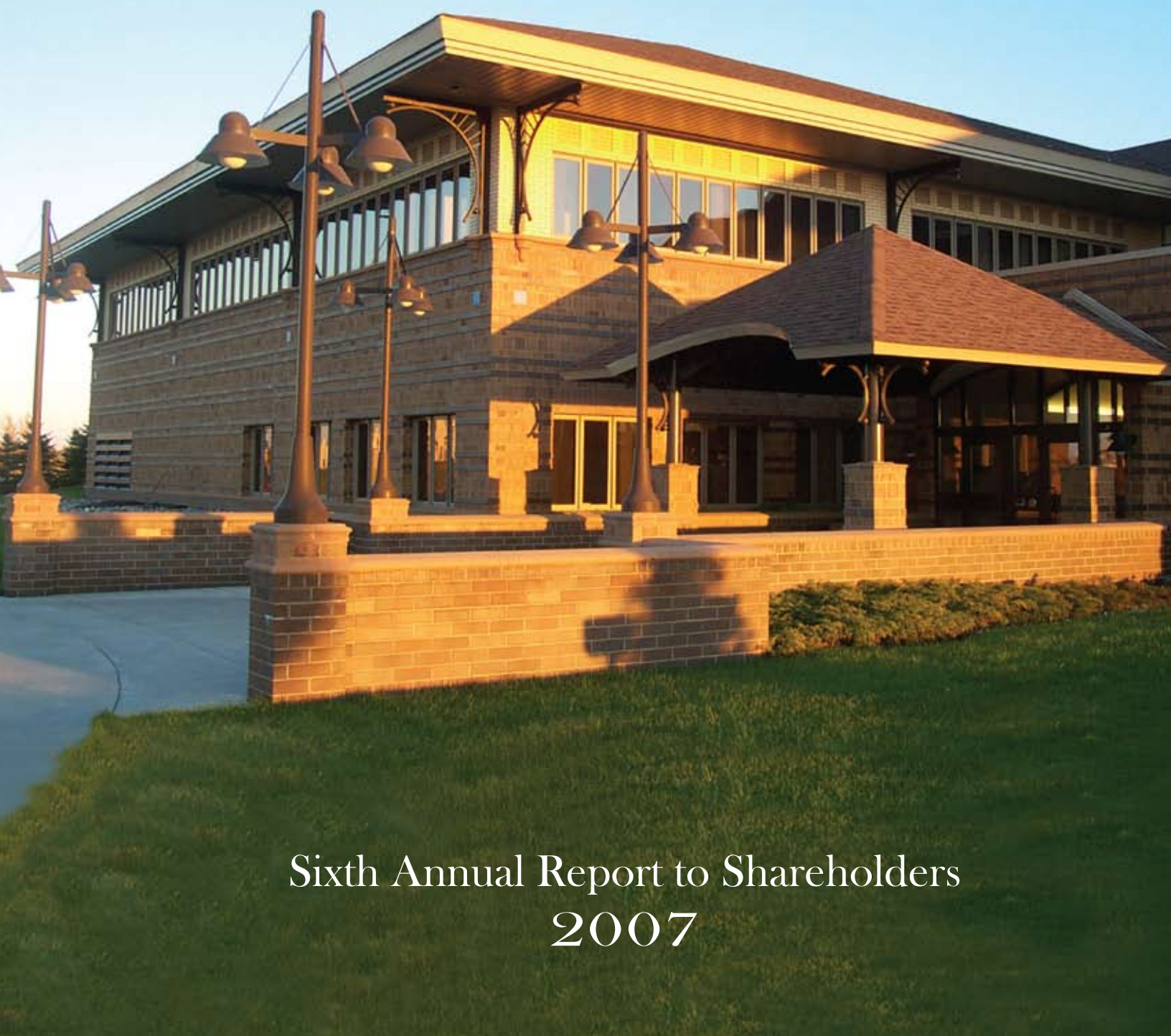


INREIT

— REAL ESTATE INVESTMENT TRUST —



Sixth Annual Report to Shareholders
2007

280%

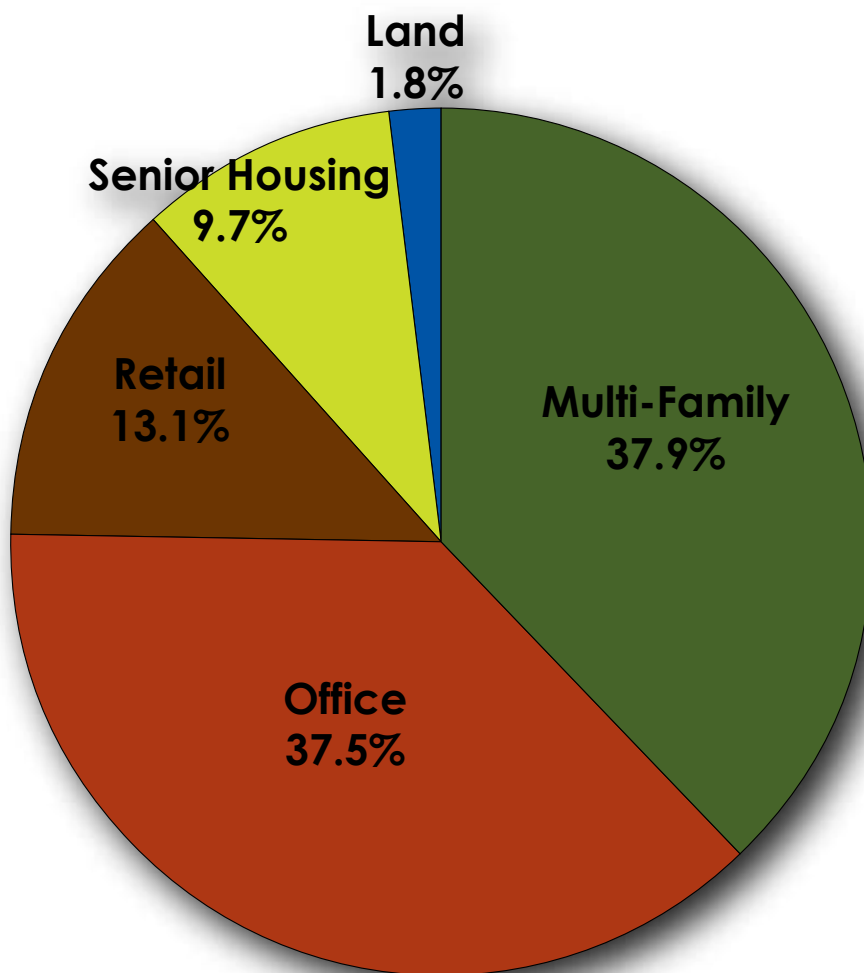
During 2007, INREIT's equity increased from \$17,972,873 to \$68,288,640.

The significant increase in equity will position us well during 2008 to take advantages of opportunities which may arise due to the current challenging economic conditions.

BALANCE

With investments in multi-family, retail, office, and assisted living segments, INREIT is uniquely diversified.

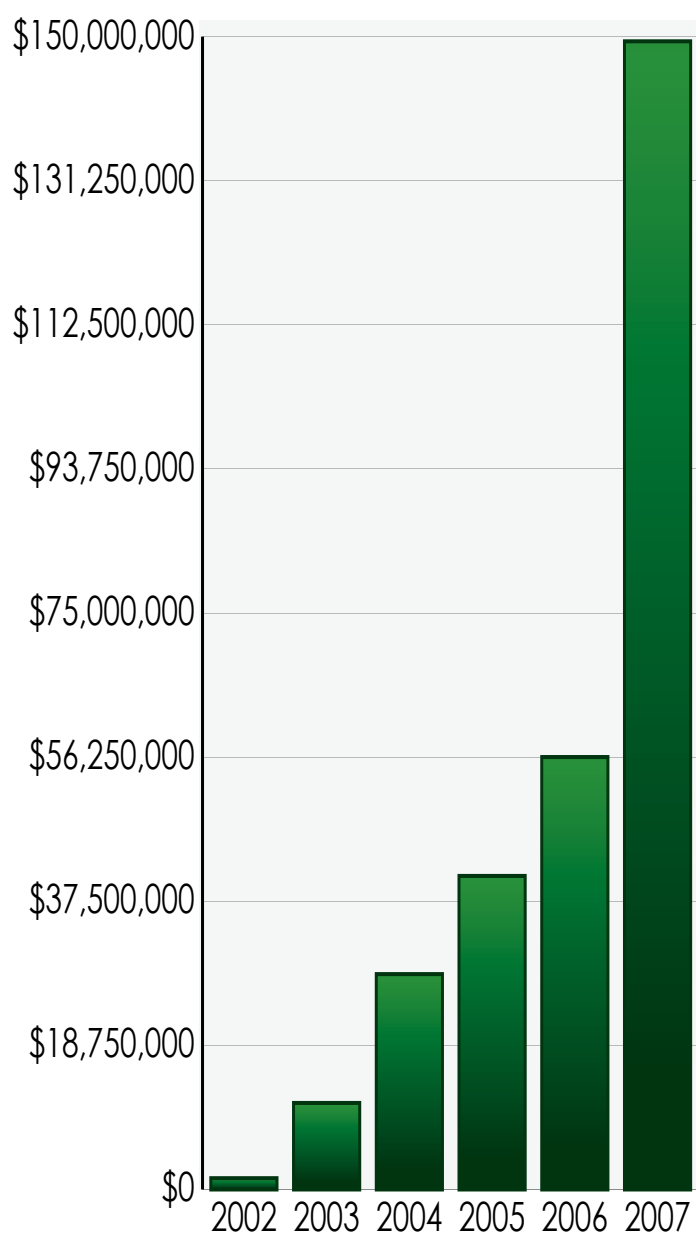
The balanced portfolio provides a buffer against market fluctuations in a specific property type.



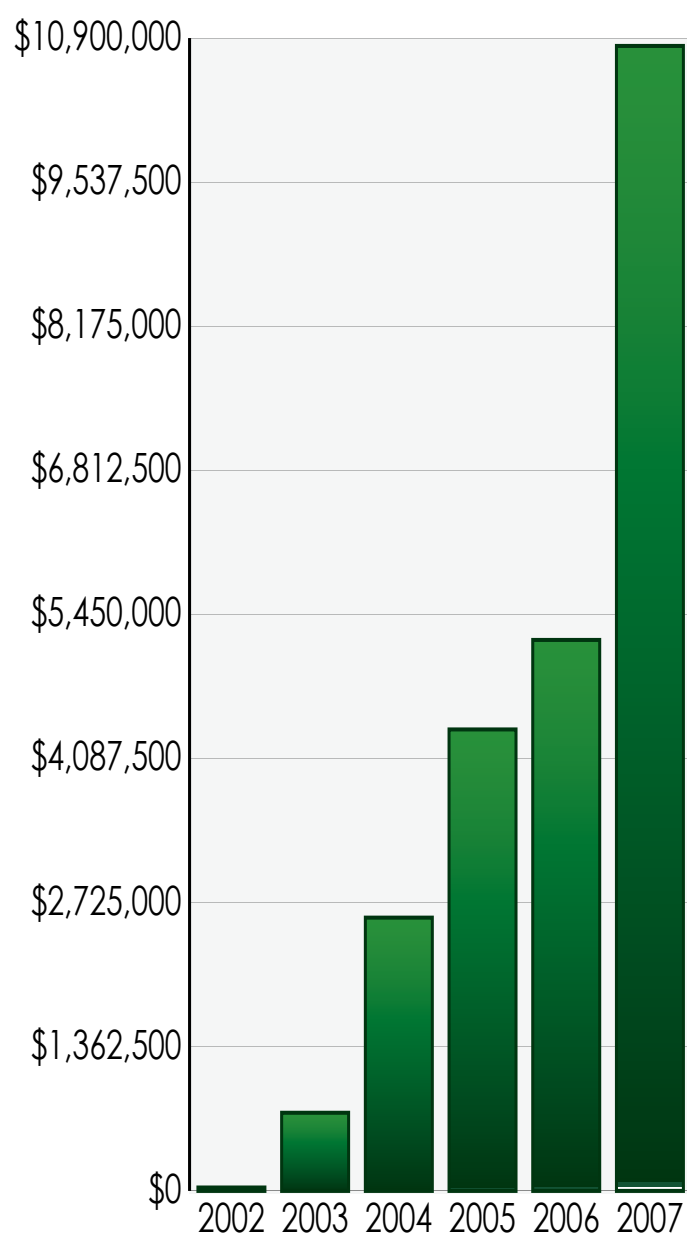
FINANCIAL HIGHLIGHTS

During 2007, INREIT achieved strong improvement in all key business measures, firmly establishing the foundation to support the next phase of the company's growth.

Total Assets



Total Revenue



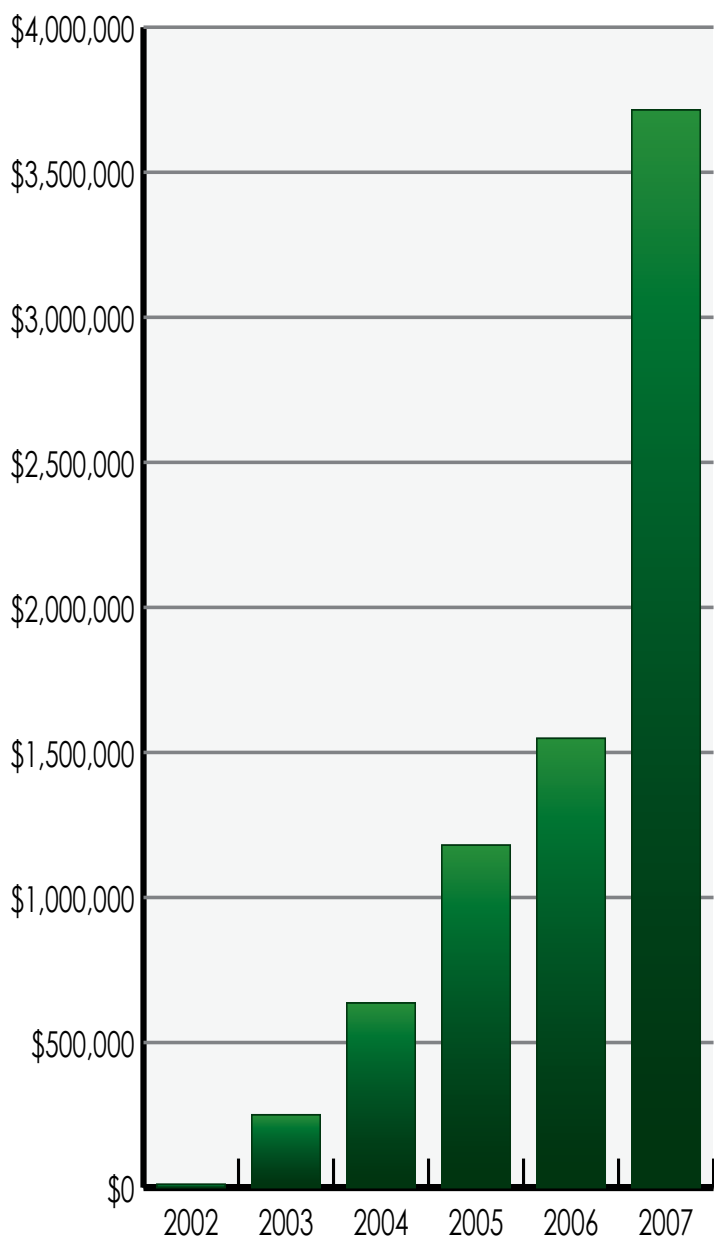
185% increase in Income before Minority Interest

166% increase in Total Assets

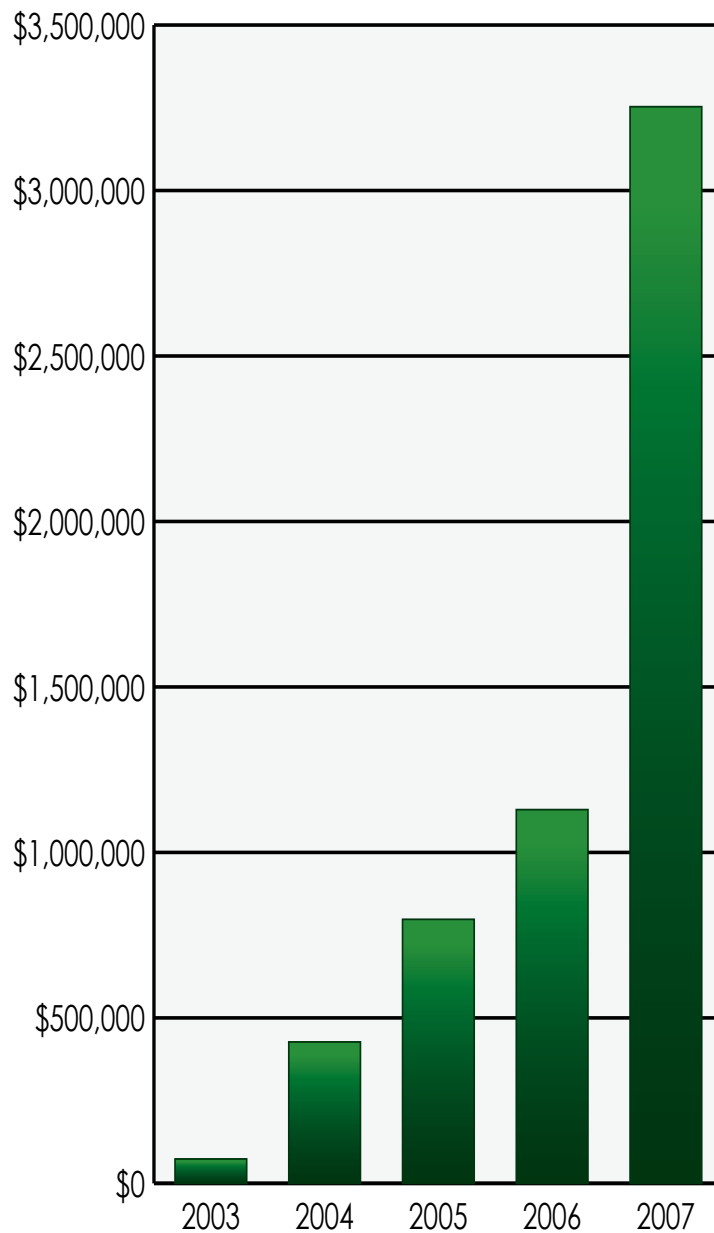
139% increase in Funds from Operations

108% increase in Gross Revenues

Funds from Operations



Total Dividends







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Left Image: Inside of Eide Bailly, Fargo, ND

Cover Image: Entrance of Eide Bailly, Fargo, ND

CONSOLIDATED FINANCIAL DATA

The following table sets forth summary financial data as of and for each of the years ending December 31, 2003 through 2007. The table illustrates the significant growth our Company has experienced in the short time of its existence.

	2007	2006	2005	2004	2003
Income Statement Data					
Revenues	\$ 10,825,582	\$ 5,209,370	\$ 4,363,128	\$ 2,583,804	\$ 738,883
Net Income	\$ 1,613,116	\$ 565,962	\$ 421,982	\$ 256,957	\$ 135,207
Funds from Operations	\$ 3,714,913	\$ 1,548,916	\$ 1,180,710	\$ 636,390	\$ 250,693
Balance Sheet Data					
Total Real Estate Investment	\$ 137,784,439	\$ 54,339,110	\$ 40,132,532	\$ 27,332,026	\$ 10,405,754
Total Assets	\$ 149,389,237	\$ 56,264,603	\$ 40,795,971	\$ 28,023,007	\$ 11,256,787
Shareholder Equity	\$ 68,288,640	\$ 17,972,873	\$ 11,854,911	\$ 9,883,302	\$ 4,015,307
Per Share Data					
Shares Outstanding*	7,072,232	2,271,667	1,333,686	990,176	448,128
Net Income	\$ 0.23	\$ 0.25	\$ 0.32	\$ 0.26	\$ 0.30
Funds from Operation (FFO)	\$.53	\$ 0.68	\$ 0.89	\$ 0.64	\$ 0.56
Weighted Shares Outstanding*					
Net Income - Weighted Share	\$ 0.39	\$ 0.35	\$ 0.36	\$ 0.36	\$ 0.38
FFO - Weighted Share	\$ 0.89	\$ 0.96	\$ 1.01	\$ 0.88	\$ 0.71
Dividends Per Share					
	\$ 0.72	\$ 0.69	\$ 0.66	\$ 0.60	\$ 0.50

*Includes Cash Shares & UPREIT OPUs



To Our Shareholders

In 2007 INREIT broke through the \$100 million total assets threshold, finishing the year just under \$150 million in assets. 18 investment properties valued at \$83,445,329 were acquired. This growth represents a 166% increase in total assets for 2007. In addition to our asset growth, INREIT a 280% increase in Equity was achieved.

Our revenues are derived primarily from the ownership of income-producing properties. As of December 31, 2007, we owned a diversified portfolio of 39 properties. These 39 properties consisted of 13 multi-family complexes and 6 senior housing properties totaling 1,390 residential rental units. In addition, the portfolio includes 10 office properties and 4 retail centers representing 774,800 net rentable square feet. Further, INREIT owns 613,930 square feet of land for development. We have a fundamental strategy of regional focus, diversification by property type and aggressive albeit conservative management.

As a result of the significant growth, INREIT's 2007 gross revenue doubled from \$5,209,376 in 2006 to \$10,825,582. Moreso, net earnings nearly tripled, increasing from \$565,962 to \$1,613,116 or 185%. Our Funds from Operations (FFO) increased from \$1,548,916 to \$3,714,913. The majority of acquisitions occurred in the second half of 2007, thus INREIT has not received a full year of income from these properties. Although total FFO dollars doubled, our FFO per share declined from \$0.68 to \$0.53 with a weighted average of \$0.96 to \$0.89. The decline is attributed to several factors, most notably the fourth quarter timing of property acquisitions. Additionally, our strong cash liquidity and low debt levels, although largely positive, did lessen our FFO slightly.

Our 2007 results were primarily impacted by first and second quarter acquisitions and the performance of our core portfolio. Compared to the same period in 2006, the performance of our core portfolio of properties owned for the entirety of 2007, improved. The positive results from 2007 acquisitions will be further evident in the operating results for year-end 2008.

Based upon solid 2007 operating results and strong balance sheet, we believe we are well positioned to take advantage of the attractive future opportunities that we see ahead. INREIT is committed to creating value for its shareholders.

Thank you for your continued support and investment in INREIT.

Sincerely,

Kenneth P. Regan, CEO
INREIT Management, LLC

OUR BUSINESS

INREIT Real Estate Investment Trust ("Trust") is a registered, but unincorporated business trust organized in North Dakota in November, 2002. The Trust has qualified as a real estate investment trust ("REIT") for federal income tax purposes as of this date. INREIT Management, LLC, is the advisor to the Trust ("Advisor"). On January 1, 2003, INREIT re-structured itself as an Umbrella Partnership Real Estate Investment Trust (UPREIT) and is the general partner of INREIT Properties, LLLP, a North Dakota limited liability limited partnership.

The Trust intends to invest in properties, primarily in the Midwest, that the Board of Trustees considers suitable investments. Properties can and may include commercial, retail & office properties and multi-family dwellings such as apartment buildings or senior assisted or independent living centers.

INREIT offers investors a means by which to diversify their portfolios by acquiring and owning real estate in the Midwest. By pooling their funds, investors minimize individual risk, gain liquidity, and may increase equity through potential increases in real estate values and mortgage debt retirement. The REIT may invest in any combination of residential and commercial real estate properties.



The background image shows a modern, multi-story brick apartment building with large windows and balconies. In the foreground, there is a well-maintained lawn with some shrubs and a large, ornate sign for 'Auburn Place'. The sign is mounted on a brick pillar and includes contact information for the office manager.

Our Mission

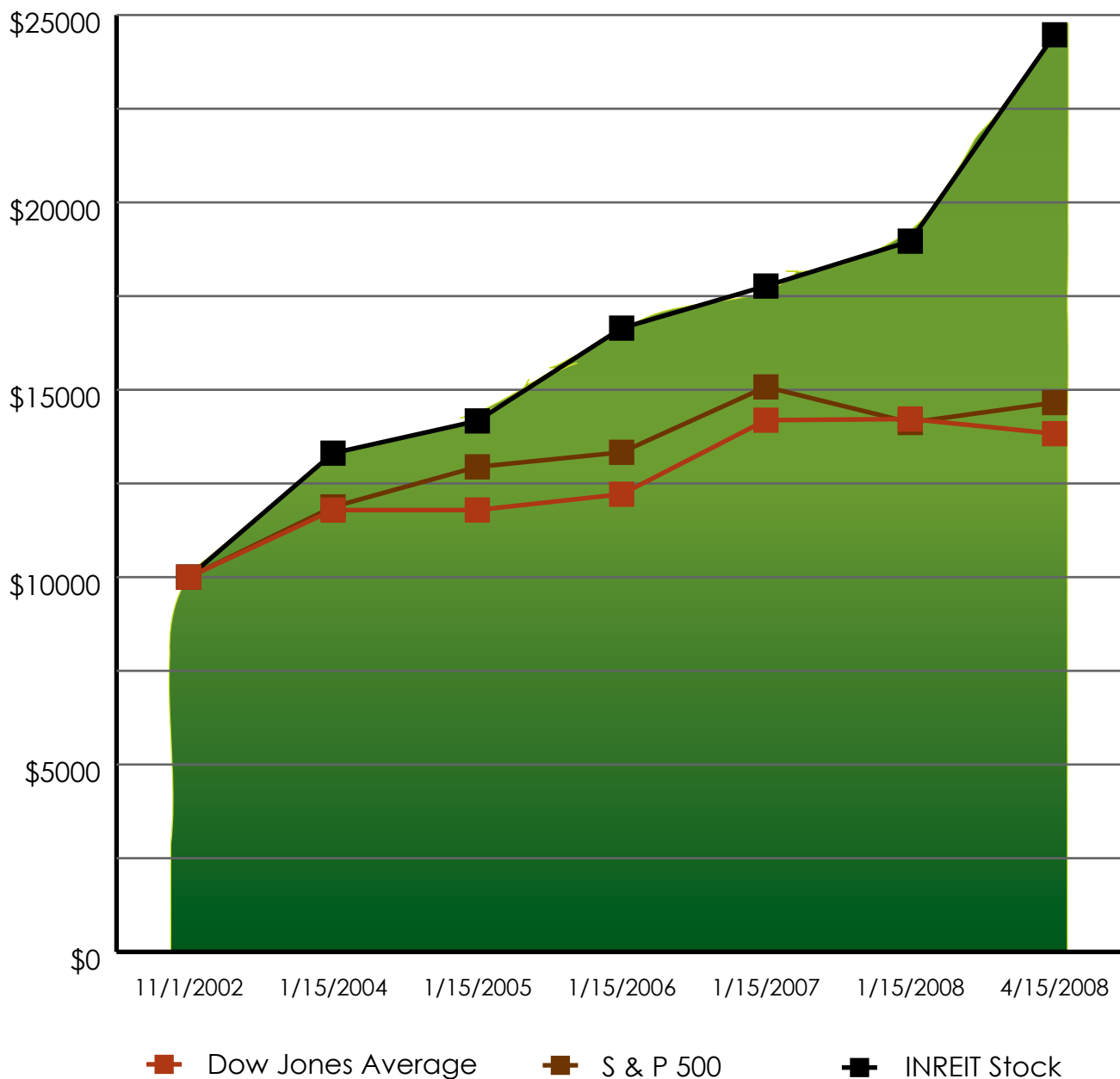
"The mission of INREIT is to consistently increase the value of our diversified investment portfolio through aggressive research and analysis of potential acquisitions.

INREIT will strive to make sound investment decisions while being committed to the pursuit of increasing shareholder value.

We will continue to focus on property in the Midwest where we currently hold the majority of our portfolio.

Our continued growth and success will be obtained through the loyal support of our directors, advisors, and shareholders."

TOTAL SHAREHOLDER RETURNS

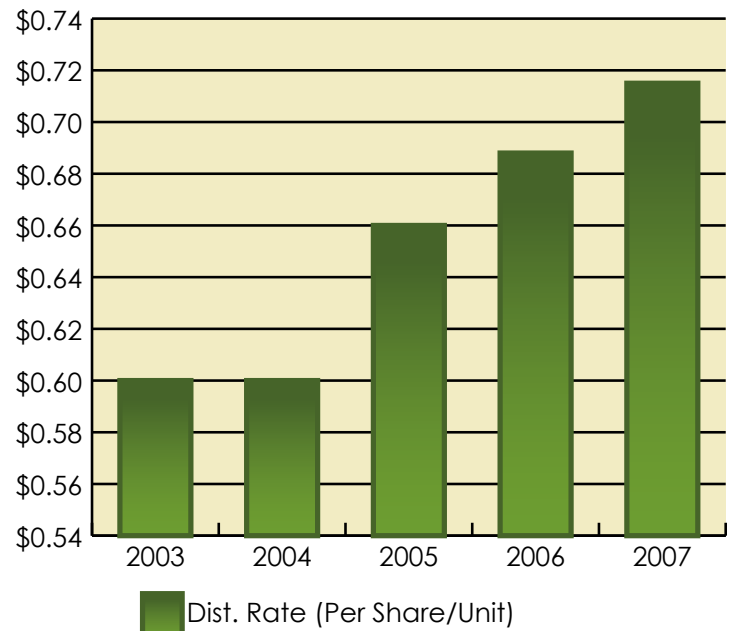


\$10,000 invested in INREIT stock on November 1, 2002, with dividends reinvested, would be worth \$24,472 as of April 15, 2008. This value excludes the effect of brokerage commissions and income taxes.

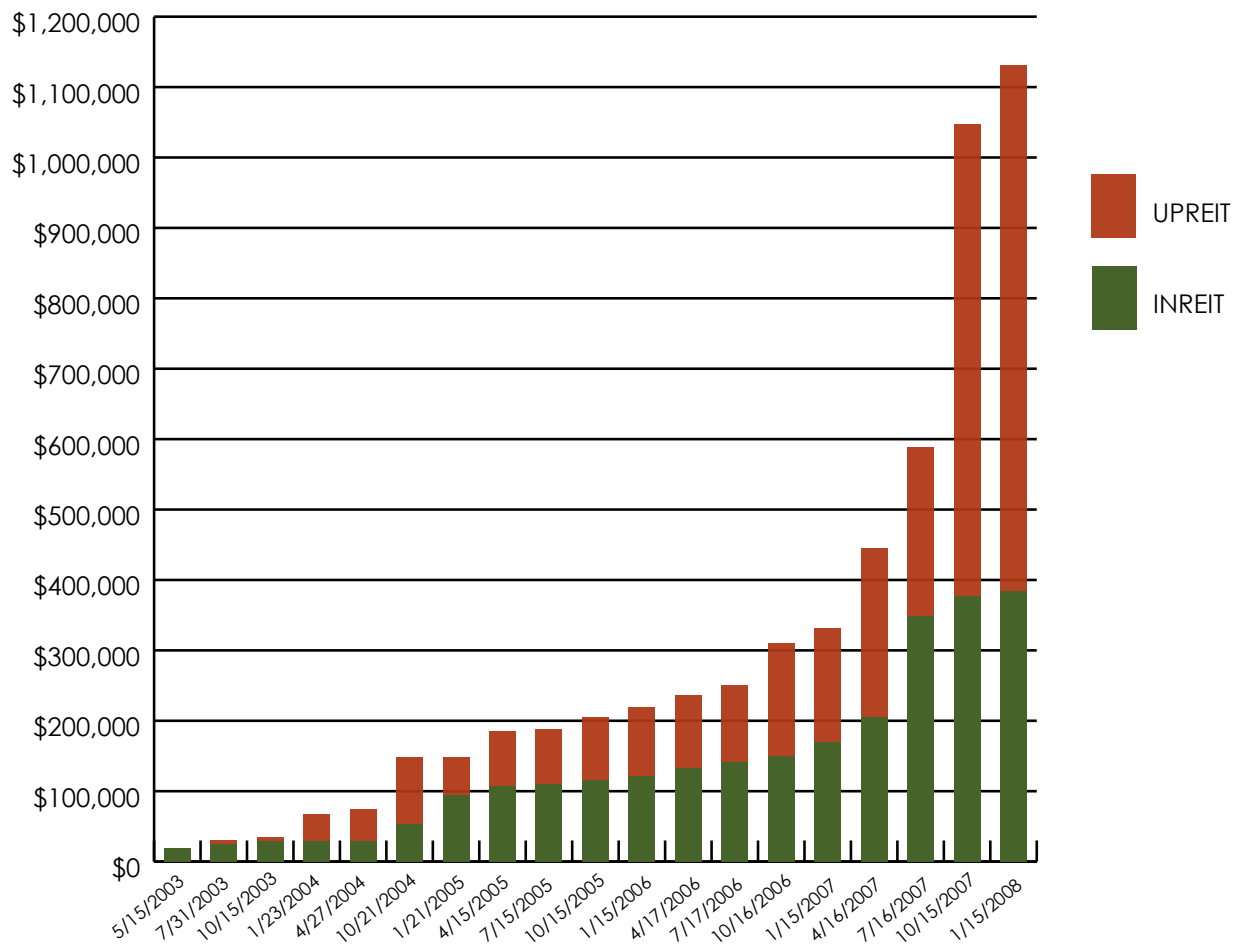
Sierra Ridge Apartments, Bismarck, ND



Distribution Rate



Quarterly Distribution History



1. Graph depicts dividends paid to shareholders of INREIT Real Estate Investment Trust, as well as distributions paid to owners of operating units of INREIT Properties, LLLP.
2. Through INREIT's dividend reinvestment plan, shareholders are able to reinvest their quarterly dividends in INREIT shares at 95% of the current asking price.
3. Owners of operating units are given the option of purchasing INREIT shares with their distributions at 95% of the current asking price.

THE BOARD OF TRUSTEES

The Trustees are accountable to the Trust as fiduciaries and must exercise good faith and integrity in handling Trust affairs. The Trustees have the authority to approve or disapprove all investments recommended to the Trust by the Advisor. The Trustees will have ultimate control over the management of the Trust and the conduct of Trust affairs, including the acquisition and disposition of the Trust's assets.



KENNETH REGAN

Chief Executive Officer, INREIT
Goldmark Schlossman Real
Estate Services, Inc.
Goldmark Development Corp.



RANDY I. WESTBY

Chief Operating Officer, INREIT
Vice Chairman of the Board



EARL STRINDEN

Chairman of INREIT's Board.



JAMES WIELAND

Goldmark Property Management
Goldmark Development
Corporation



REX CARLSON

Business Advisor
R.D. Offutt Company



PHILIP GISI

CFO - Edgewood Vista
Senior Living, Inc.



**LAWRENCE R. (LARRY)
O'CALLAGHAN**

O'Callaghan & Associates, Inc.



TIM HUNT

CEO - Alexandria Clinic



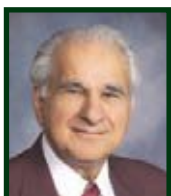
DR. THOMAS I. STRINDEN

Meritcare Medical Group



CLIFFORD P. FEARING

Retired CFO - University
of Minnesota Hospitals



VERNON OWAN

Developer



PEGGY J. BECKER

Armstrong Sanitation Plus
Dakota Sanitation Plus
Roll-Off, Inc.





ADVISORS

The Advisor of the Trust is INREIT Management, LLC, which has been specifically formed for such purpose. The Advisor will manage the affairs of the Trust, subject to the review and overall control of its Board of Trustees, who may remove the Advisor without cause. The success of the Trust will depend, to a large extent, on the services and performance of the Advisor.



KENNETH REGAN
Chief Executive Officer, INREIT



ROGER W. DOMRES
Director of Marketing
Advisor



JAMES WIELAND
Advisor



RANDY I. WESTBY
Chief Operating Officer, INREIT
Vice Chairman of the Board



JAMES D. ECHTENKAMP
Advisor



DALE LIAN
Advisor



BRAD WILLIAMS
Advisor
Added in 2008



REX CARLSON
Advisor
Added in 2008

Officers



JACQUELINE K. DUKE
Director, Acquisition and Finance



PETE J. WINGER
Chief Financial Officer



BRENT A. GROSCHE
Asset Manager



DARLA J. IVERSON
Corporate Secretary and
Shareholder Services

PROPERTY LOCATIONS



Belgrade, MT

- Edgewood Vista Alzheimer's

Columbus, NE

- Edgewood Vista Alzheimer's

Grand Island, NE

- Edgewood Vista Alzheimer's

Norfolk, NE

- Edgewood Vista Alzheimer's
- Colonial Plaza



Above Image: West Pointe Center, Fargo, ND



Left Image: Echelon Building, Fargo, ND

Below Image: Inside Eide Bailly, Fargo, ND



Marquette, MI

- Biolife Plasma Services

Mankato, MN

- Biolife Plasma Services

Eau Claire, WI

- Biolife Plasma Services

Janesville, WI

- Biolife Plasma Services

Onalaska, WI

- Biolife Plasma Services

Oshkosh, WI

- Biolife Plasma Services

Sheboygan, WI

- Biolife Plasma Services

Stevens Point, WI

- Biolife Plasma Services

Duluth, MN

- Wells Fargo Center

St. Cloud, MN

- Social Security Building

Waite Park, MN

- Becker Furniture Building

Williston, ND

- Golden Estates

Minot, ND

- Edgewood Vista
- INREIT Plaza Building

Bismarck, ND

- Sierra Ridge Apartments
- Aetna
- Biolife Plasma Services

Carrington, ND

- Ellingson Apartments

Grand Forks, ND

- Grand Forks Marketplace
- Autumn Ridge Apartments
- Chandler Apartments
- Richfield/Harrison Manor Apartments
- Biolife Plasma Services

Fargo, ND

- Bank of the West
- Great American Insurance Center
- West Pointe Center
- Eide Bailly
- Maylor Manor Apartments
- Prairiewood I Apartments
- Echelon Building
- Southgate Apartments
- Sunwood Estates Apartments
- Goldmark Office Park
- Prairiewood Court II Apartments

- INREIT Property

- Aquired in 2008

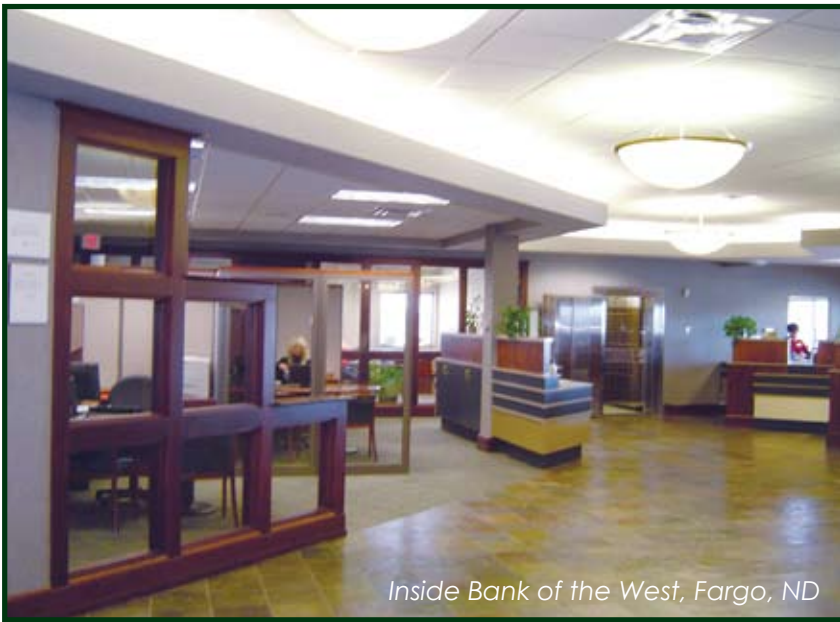
INVESTMENT PORTFOLIO

MultiFamily Residential Property

City	Units	Investment	Fiscal 2007 Occupancy
Belgrade	10	1,115,000	100.0%
Bismarck	136	3,372,591	99.8%
Carrington	20	590,000	98.0%
Columbus	10	1,115,000	100.0%
Fargo	646	28,518,231	96.2%
Grand Forks	353	20,875,000	96.5%
Grand Island	10	1,115,000	100.0%
Minot	174	7,830,595	100.0%
Norfolk	12	1,125,000	100.0%
Williston	16	1,397,350	98.0%
Total Multifamily Residential Property	1,390	\$67,053,767	98.9%



Aerial View of Goldmark Office Park, Fargo, ND



Commercial Office Property

City	Sq. Ft.	Investment	Fiscal 2007 Occupancy
Bismarck	75,000	8,603,000	100.0%
Duluth	100,810	7,926,000	85.0%
Fargo	281,110	32,150,000	96.7%
Minot	20,000	1,209,000	98.7%
St. Cloud	10,680	2,893,000	100.0%
Total Commercial Office Property	487,600	\$52,781,000	96.1%

Commercial Retail Property

City	Sq. Ft.	Investment	Fiscal 2007 Occupancy
Fargo	29,000	3,490,000	80.0%
Grand Forks	183,000	9,747,000	100.0%
Norfolk	45,000	2,960,000	100.0%
Waite Park	30,200	2,215,000	100.0%
Total Commercial Retail Property	287,200	\$18,412,000	95.0%



Undeveloped Land

City	Sq. Ft.	Investment
Bismarck	465,704	1,553,000
Fargo	147,226	936,173
Total Commercial Retail Property	612,930	\$2,489,173



C ONSTRUCTION & DEVELOPMENT

INREIT has focused its development efforts in key area renovations with Aetna Life Insurance Company in Bismarck, ND, Eide Bailly in Fargo, ND and the Wells Fargo Building in Duluth, MN. Realizing the importance of renovation and revitalization of currently owned properties brings great value to INREIT's portfolio.

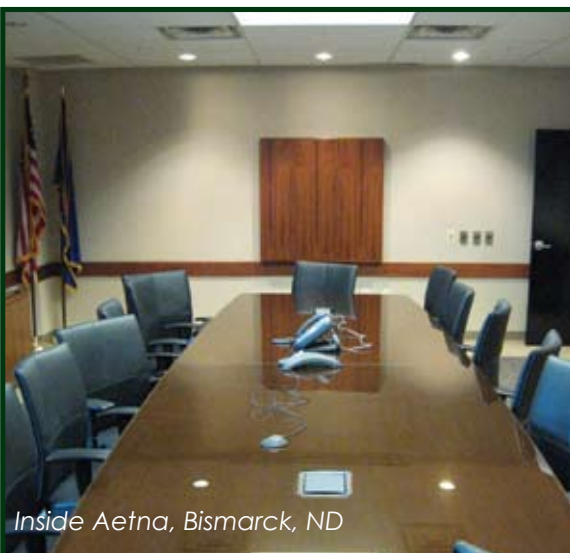
Specifically, the Aetna renovation project included a unique match investment structure from INREIT and Aetna Life Insurance. Joint investment dollars were invested, creating a proactive partnership with this tenant. In an energy conscientious environment, lighting was updated to provide better quality and efficiency within the leased space. Lounge areas were professionally redesigned with the employees' aesthetics in mind. The modular office furniture, paint, flooring and technology infrastructure were all replaced. These renovations have resulted in a Class A office complex to aid in tenant retention.



Aetna, Bismarck, ND



Aetna's Entrance, Bismarck, ND



Inside Aetna, Bismarck, ND



Inside Aetna, Bismarck, ND



Eide Bailly's Breakroom, Fargo, ND



Eide Bailly, Fargo, ND



Eide Bailly's Teleconferencing Rooms, Fargo, ND



Wells Fargo Center, Duluth, MN



Wells Fargo Center's Board Room, Duluth, MN

Acquiring the former Banner Health building in Fargo and renovating it to accommodate the wants and needs of Eide Bailly, has proven to be a great fit for both. The interior space was professionally redesigned to create a warm, casual feel for the employees and clients. Incorporated in the design was a state of the art training room, video conferencing centers and new lounge and common area flooring and furnishings. The completion of these renovations has given Eide Bailly a landmark facility to call their corporate headquarters.

INREIT values sustaining professional and quality properties that provide continual enrichment to the community. The Wells Fargo Building is currently being upgraded and modernized. The building houses two communal areas within its first and second floors. The Greater Downtown Skywalk runs through the building giving us great exposure to new tenants. The addition of television media capabilities for promotion and support of advertising of lease space, community events and sponsored activities, further contribute to downtown Duluth.

Development initiatives have been targeted on communities in North Dakota with our Multi-Family units in Bismarck and Grand Forks. INREIT has added 72 units to the existing Autumn Ridge Apartment complex, diversifying the unit mix and accommodating a variety of tenant needs. Construction of Autumn Ridge III and IV was completed in December of 2007.



Autumn Ridge, Grand Forks, ND



Inside Autumn Ridge Apartment, Grand Forks, ND



Autumn Ridge, Grand Forks, ND

INREIT's objective is to place property in thriving communities, which it has done with its Sunset Ridge development in Bismarck, ND. Sunset Ridge is located in a brand new development in north Bismarck. The area consists of multi-family and single family dwelling units. Sunset Ridge is currently being built to provide 108 units within three buildings. These three buildings have been designed to fit well within the development.

In 2008 we are planning another busy year. We currently are looking at developing two new office buildings along with the development of two more 36 unit multifamily apartment complexes, all of which are located in North Dakota.



Sunset Ridge, Bismarck, ND



ACQUISITION AND FINANCE STRATEGY

In 2007, INREIT acquired 18 properties, increasing our real estate investments by \$83,445,329. The majority of these properties were multi-family residential units.

Our disciplined acquisition strategy is an integral component of our success and has resulted in increased dividends per share and increases in funds from operations since origination. Focusing on the Midwest region, we've developed a knowledge of our market and a keen sense of its investment climate, which gives us a distinct competitive advantage to facilitate our growth.

As a diversified REIT, we will continue to acquire properties that fit into our property segments while continuing to maintain a balance in the portfolio. We expect to invest in properties which we believe will increase in income and provide stability for long-term investors, and fulfill our investment return. Our properties compete for tenants with other properties throughout the respective areas in which they are located, on the basis of location, quality, and rental rates.

Remaining true to specific real estate fundamentals and control, the rest will take care of itself.

Our financing policy is aimed at maintaining a flexible capital structure in order to facilitate consistent growth and performance in the face of differing market conditions, in the most cost-effective way possible. As part of this policy, we monitor:

1. The level of debt relative to our overall capital structure;
2. The relationship of certain measures of earnings to certain financing cost requirements (coverage ratios)
3. The relationship of our total variable rate debt to total debt;
4. The timing of our maturities to ensure that the maximum maturities of debt in any one year do not exceed a defined percentage of total assets.

We also pursue opportunities, when we believe market conditions to be favorable, to reduce financing costs by refinancing existing debt.





L IQUIDITY AND CAPITAL RESOURCES

INREIT manages our capital structure to reflect a long-term investment approach, generally seeking to match the cash flow of our assets with a mix of equity and debt. We expect that our capital structure will allow us to obtain additional capital from diverse sources that could include additional equity through stock sales, secured and unsecured debt financing, tax deferred 1031 exchanges, and possible asset disposition. Our ability to raise liquidity/cash is dependent upon other things, general economic conditions, general market conditions for REITs, our operating performance, and the price of our stock in relationship to the return to the investor.

We currently expect our principal sources of liquidity for acquisitions, development, expansion and renovations of properties will include:

- Excess cash flow from operations
- 1031 Tax Deferred Exchangers
- Borrowings under long-term secured debt financing
- Dividend Reinvestment Program
- Investments in tenant in common or joint ventures
- Net proceeds from assets sales

We believe that we generate sufficient cash flow from operations and have access to the capital markets necessary to fund our requirements along with continuing to distribute to our shareholders a good investment return.



INREIT Plaza, Minot, ND

DIVIDEND REINVESTMENT PLAN

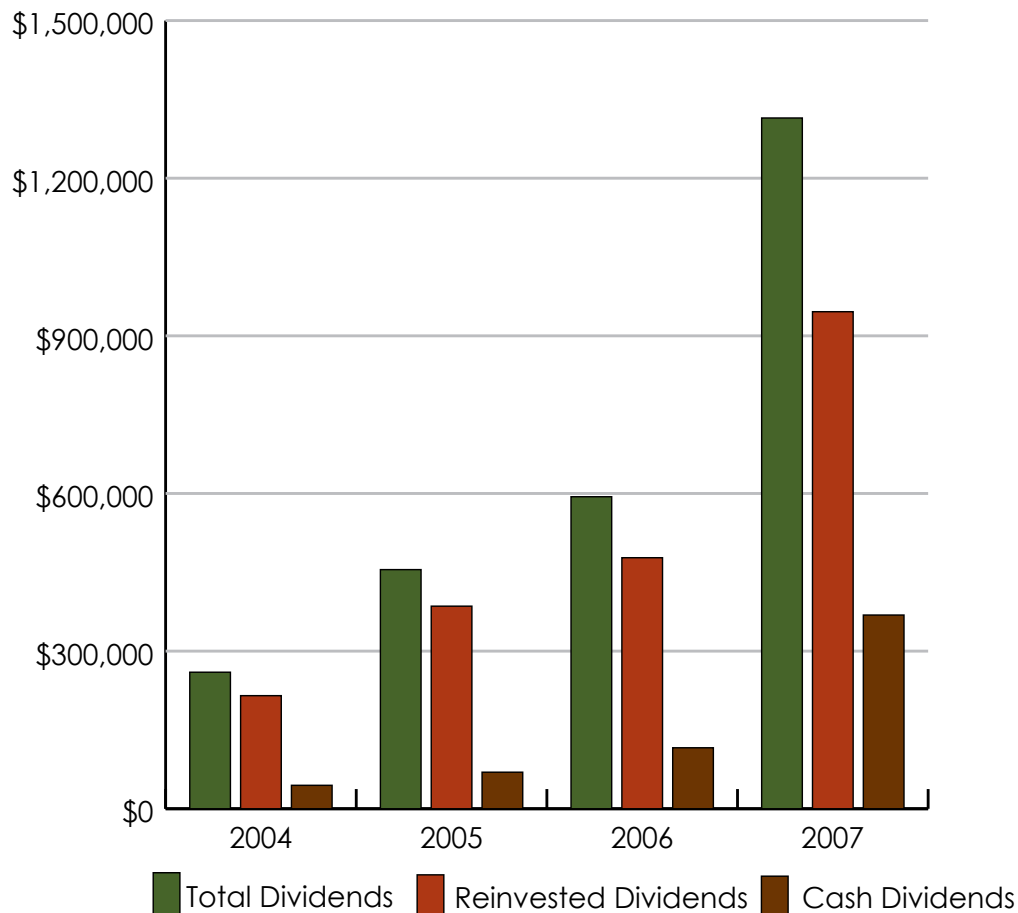
Through INREIT's Dividend Reinvestment Plan, shareholders have the opportunity to reinvest their cash dividends in additional shares at a 5% discount from the current asking price.

The initial subscription agreement allows the subscriber to indicate whether they want dividends paid in cash or reinvested in additional INREIT shares. However, a shareholder may opt out of the Plan, or choose to participate in the Plan at any time. Authorization forms are available from INREIT's corporate office, either by mail to: INREIT, 216 South Broadway, Suite 202, Minot, ND 58701, or calling 701-837-1031.

Dividends are paid quarterly in the months of April, July, October and January. The Board of Trustees decides the distribution rate, payable date and record date to determine recipients of that quarter's distribution. Reinvestment of dividends will be made on the payable date.

Each shareholder will receive quarterly statements indicating the dividend amount paid (whether in cash or reinvested), number of shares received through reinvestment, and the price per share. Forms 1099-DIV will be provided to shareholders annually showing reportable income for tax purposes.

There are no broker fees, and INREIT administers the Dividend Reinvestment Plan at no charge to its shareholders.



2008 AND BEYOND

Matching the growth reported in 2007 will be challenging. However, in 2008, we will receive a full year of rent from properties that we acquired during 2007.

During the first quarter of 2008, INREIT has acquired over \$30,000,000 of income producing property and during the second quarter an additional \$21,000,000 of property is scheduled to be acquired. This growth in assets during the first few months of this year indicates that INREIT is on track to experience substantial growth once again in 2008.

The North Dakota Securities Commission approved the new stock offering for \$14.00 per share. Outside investor's interest in INREIT's stock and 1031 Exchange program continues to be strong in 2008.

We have seen that the tightening of credit is causing a decline in speculative development by private developers. This will provide stronger, better capitalized companies, such as INREIT, with additional development and acquisition opportunities.

We will continue to maintain a diversified portfolio of multi-family, office, retail, and development property.

We believe we are well positioned to accomplish our mission of building value for our shareholders by growing FFO per shareholder. This growth will allow us to continue our history of increasing our dividends.



**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

**INREIT REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARIES**

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	7



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
INREIT Real Estate Investment Trust and subsidiaries
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2007 and 2006, and the related consolidated statements of operations, beneficial interest, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Fargo, North Dakota
April 2, 2008

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	\$ 137,784,439	\$ 54,339,110
CASH	5,525,922	847,217
RESTRICTED DEPOSITS AND FUNDED RESERVES	2,360,102	601,947
DUE FROM MANAGEMENT COMPANY	684,712	134,895
RECEIVABLES	246,148	-
PREPAID EXPENSES	114,246	32,523
FINANCING COSTS, less accumulated amortization of \$75,702 in 2007 and \$24,405 in 2006	661,495	210,578
SECURITIES, HELD TO MATURITY	1,785,173	-
OTHER ASSETS	227,000	98,333
	<u>\$ 149,389,237</u>	<u>\$ 56,264,603</u>
LIABILITIES		
MORTGAGE NOTES PAYABLE	\$ 76,815,184	\$ 33,353,039
SPECIAL ASSESSMENTS PAYABLE	849,581	414,290
NOTES PAYABLE	200,309	3,154,530
DIVIDENDS PAYABLE	1,131,396	-
DUE TO RELATED PARTY	549,141	-
TENANT SECURITY DEPOSITS PAYABLE	333,899	81,085
INVESTMENT CERTIFICATES	230,427	369,453
ACCOUNTS PAYABLE	12,406	211,863
ACCRUED EXPENSES	978,254	707,470
Total liabilities	81,100,597	38,291,730
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	52,226,981	10,214,897
BENEFICIAL INTEREST	16,061,659	7,757,976
	<u>\$ 149,389,237</u>	<u>\$ 56,264,603</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
INCOME		
Income from rental operations	\$ 10,540,558	\$ 5,123,069
Interest income	163,312	7,353
Gain on disposal of property and equipment	-	12,474
Other income	121,712	66,480
	<u>10,825,582</u>	<u>5,209,376</u>
EXPENSES		
Expenses from rental operations		
Interest	3,316,086	1,928,807
Depreciation and amortization	2,153,117	1,009,996
Real estate taxes	780,501	283,147
Property management fees	528,160	205,378
Utilities	677,157	343,105
Repairs and maintenance	995,144	461,320
Insurance	149,020	116,223
Salary and wages	27,272	27,691
Food costs for residents	20,460	18,370
Administrative	54,386	26,054
	<u>8,701,303</u>	<u>4,420,091</u>
Administration of REIT		
Administrative expenses	31,946	16,185
Advisory fees	395,345	156,331
Director fees	19,000	19,500
Rent	19,719	-
Legal and accounting	45,153	31,307
	<u>511,163</u>	<u>223,323</u>
Total expenses	<u>9,212,466</u>	<u>4,643,414</u>
INCOME BEFORE MINORITY INTEREST	1,613,116	565,962
MINORITY INTEREST	<u>912,217</u>	<u>258,566</u>
NET INCOME	<u>\$ 700,899</u>	<u>\$ 307,396</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF BENEFICIAL INTEREST
YEARS ENDED DECEMBER 31, 2007 AND 2006

	Common Shares	Common Shares Amount	Accumulated Earnings (Deficit)	Syndication Costs	Total
BALANCE, DECEMBER 31, 2005	738,294	\$ 7,031,716	\$ (315,598)	\$ (838,262)	\$ 5,877,856
Issuance of common shares	235,975	2,643,767			2,643,767
Repurchase of shares	(43,016)	(433,637)			(433,637)
Dividends			(544,975)		(544,975)
Dividends reinvested	44,095	445,361			445,361
UPREIT units converted to REIT common shares	13,903	145,043			145,043
Syndication costs				(682,835)	(682,835)
Net income			307,396		307,396
BALANCE, DECEMBER 31, 2006	989,251	9,832,250	(553,177)	(1,521,097)	7,757,976
Issuance of common shares	1,077,594	11,854,801			11,854,801
Repurchase of shares	(68,248)	(699,299)			(699,299)
Dividends			(1,101,052)		(1,101,052)
Dividends declared			(383,761)		(383,761)
Dividends reinvested	90,520	808,084			808,084
UPREIT units converted to REIT common shares	57,799	577,830			577,830
Syndication costs				(3,453,819)	(3,453,819)
Net income			700,899		700,899
BALANCE, DECEMBER 31, 2007	<u>2,146,916</u>	<u>\$ 22,373,666</u>	<u>\$ (1,337,091)</u>	<u>\$ (4,974,916)</u>	<u>\$16,061,659</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net income	\$ 700,899	\$ 307,396
Adjustments to reconcile net income to net cash from operating activities		
Gain on sale of property and equipment	-	(12,474)
Depreciation	2,101,797	982,954
Amortization	51,320	27,042
Minority interest	912,217	258,566
Effects on operating cash flows due to changes in		
Tenant security deposits	(605)	26,205
Due from management company	(549,817)	(134,895)
Receivables	(246,148)	-
Prepaid expenses	(81,723)	(2,754)
Other assets	(128,667)	(98,333)
Tenant security deposits payable	252,814	31,624
Accounts payable	(199,456)	101,522
Accrued expenses	270,784	355,226
NET CASH FROM OPERATING ACTIVITIES	<u>3,083,415</u>	<u>1,842,079</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(7,188,850)	(12,155,845)
Cash received during purchase of property	2,225,563	-
Proceeds from sale of property and equipment	-	2,341,352
Real estate tax and insurance escrows	(1,492,708)	(236,848)
Purchase of securities	(2,203,366)	-
Proceeds from sale of securities	435,000	-
Net deposits to replacement reserve	(264,842)	(29,306)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(8,489,203)</u>	<u>(10,080,647)</u>
FINANCING ACTIVITIES		
Payments for financing costs	(502,237)	(119,318)
Proceeds from investment certificates issued	69,338	375,440
Payments on investment certificates	(208,364)	(239,550)
Principal payments on special assessments payable	(96,451)	(36,631)
Proceeds from issuance of mortgage notes payable	10,628,444	13,405,691
Principal payments on mortgage notes payable	(3,463,054)	(7,149,100)
Net change in notes payable	(2,954,221)	1,823,987
Due to related party	549,141	(85,081)
Proceeds from issuance of shares	11,854,801	2,643,767
Repurchase of shares	(699,299)	(433,637)
Distributions paid to shareholders	(292,968)	(99,614)
Distributions paid to minority partners	(1,346,818)	(470,703)
Payment of syndication costs	(3,453,819)	(682,835)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>10,084,493</u>	<u>8,932,416</u>

(continued on next page)

CONSOLIDATED STATEMENTS OF CASH FLOWS – page 2

	<u>2007</u>	<u>2006</u>
NET CHANGE IN CASH	4,678,705	693,848
CASH AT BEGINNING OF YEAR	<u>847,217</u>	<u>153,369</u>
CASH AT END OF YEAR	<u>\$ 5,525,922</u>	<u>\$ 847,217</u>
SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of capitalized interest of \$70,315 and \$191,097 in 2007 and 2006	<u>\$ 3,192,566</u>	<u>\$ 2,027,361</u>
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Distributions reinvested	<u>\$ 808,084</u>	<u>\$ 445,361</u>
Distributions declared and not paid	<u>\$ 383,761</u>	<u>\$ -</u>
UPREIT distributions declared and not paid	<u>\$ 747,635</u>	<u>\$ -</u>
UPREIT units converted to REIT common shares	<u>\$ 577,830</u>	<u>\$ 145,043</u>
Acquisition of assets in exchange for the issuance of minority interest shares in UPREIT	<u>\$ 43,772,150</u>	<u>\$ 4,595,022</u>
Acquisition of assets through assumption of debt and property purchased with financing	<u>\$ 36,296,754</u>	<u>\$ 668,904</u>
Increase in land improvements due to increase in special assessments payable	<u>\$ 531,742</u>	<u>\$ 141,057</u>
Decrease in land improvements and special assessments payable through sale of property	<u>\$ -</u>	<u>\$ 42,418</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 - ORGANIZATION

The INREIT Real Estate Investment Trust ("INREIT") is a registered, but unincorporated business trust organized in North Dakota in November 2002. INREIT has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code, which requires that 75 percent of the assets of a REIT must consist of real estate assets and that 75 percent of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

INREIT previously established an operating partnership (INREIT Properties, LLLP) and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. The general partner has management responsibility for all activities of the operating partnership. As of December 31, 2007 and 2006, INREIT had an ownership percentage of approximately 70 and 54 percent, respectively. INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, Minot Vista Properties, LLC, Autumn Ridge Inreit, LLC, Bismarck Interstate INREIT, LLC, and 32nd Avenue Inreit, LLC, and a 50% owner of Marketplace Investors, LLC.

NOTE 2 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of INREIT; INREIT Properties, LLLP; Grand Forks Inreit, LLC; Minot Vista Properties, LLC; Autumn Ridge Inreit, LLC; Bismarck Interstate INREIT, LLC; 32nd Avenue Inreit, LLC; and Marketplace Investors, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Principal Business Activity

INREIT has a general partner interest in INREIT Properties, LLLP, which owns and operates the following property:

Residential Property

- 16 unit assisted living facility in Williston, North Dakota.
- Two 4-plex and one 12-plex apartment buildings in Carrington, North Dakota.
- 144 unit apartment building located in Grand Forks, North Dakota.
- 12-plex apartment building in Grand Forks, North Dakota.
- 18 unit apartment building in Fargo, North Dakota.
- 24 unit apartment building in Fargo, North Dakota.
- 24 unit apartment building in Fargo, North Dakota.
- 12 unit apartment building in Fargo, North Dakota.
- 18 unit apartment building in Fargo, North Dakota.
- 140 unit apartment building in Grand Forks, North Dakota.
- 162 unit apartment building in Fargo, North Dakota.
- 81 unit apartment complex in Fargo, North Dakota.
- 100 unit apartment complex in Fargo, North Dakota.
- 135 unit apartment complex in Fargo, North Dakota.
- 60 unit apartment complex in Grand Forks, North Dakota.
- 72 unit apartment complex in Fargo, North Dakota.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commercial Property

- 31,000 square foot office building in Fargo, North Dakota.
- 20,000 square foot office building in Minot, North Dakota.
- 45,000 square foot retail complex in Norfolk, Nebraska.
- 15,000 square foot office and retail complex in Fargo, North Dakota.
- 29,000 square foot office and retail complex in Fargo, North Dakota.
- 30,200 square foot retail facility in Waite Park, Minnesota.
- 17,000 square foot office building in Fargo, North Dakota.
- 128,385 square foot office complex in Fargo, North Dakota.
- 10,680 square foot office building in St. Cloud, Minnesota.
- 100,810 square foot office building in Duluth, MN.
- 11,973 square foot office building in Fargo North Dakota.

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota.

INREIT Properties, LLLP owns a 1/3 interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota.

INREIT Properties, LLLP is the owner of Minot Vista Properties, LLC, which owns and leases property to a 168 unit assisted living facility in Minot, North Dakota.

INREIT Properties, LLLP is the owner of four 12 unit facilities for Alzheimer's care located in Grand Island, Nebraska; Columbus, Nebraska; Norfolk, Nebraska; and Belgrade, Montana.

INREIT Properties, LLLP is the owner of Bismarck Interstate INREIT, LLC, which owns and leases two commercial buildings with approximately 75,000 square feet of rental space in Bismarck, North Dakota.

Concentration of Credit Risk

INREIT's cash balances are maintained in various bank deposit accounts. The bank deposit accounts may exceed federally insured limits at various times throughout the year.

Use of Estimates

The preparation of financial statements in conformity with 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

Property and equipment is stated at cost. All costs associated with the development and construction of real estate investments, including acquisition fees and interest, are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	9 years

Annually, INREIT evaluates its real estate investments for significant changes in the operations to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2007, management considered all receivables collectible.

Securities

INREIT's securities are all classified and accounted for as held to maturity. Securities classified as held to maturity are those securities that INREIT has the ability and intend to hold to maturity. Securities held to maturity are recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minority Interest

Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnerships' income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to minority interests in accordance with the terms of the operating partnership agreement.

Syndication Costs

Syndication costs consist of costs paid to attorneys, accountants, and selling agents, related to the raising of capital. Included in syndication costs are acquisition fees and commissions. These fees are paid based on management's discretion. Syndication costs are recorded as a reduction to equity.

Federal Income Taxes

INREIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue. A REIT calculates taxable income similar to other domestic corporations, with the major difference being that a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90 percent of its taxable income. If it chooses to retain the remaining 10 percent of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

INREIT intends to continue to qualify as a real estate investment trust as defined by the Internal Revenue Code and, as such, will not be taxed on the portion of the income that is distributed to the shareholders. In addition, INREIT intends to distribute all of its taxable income, therefore, no provision or liability for income taxes have been recorded in the financial statements.

INREIT Properties, LLLP is organized as a limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 701(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for partnership interest. The conversion of partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

Revenue Recognition

Housing units are rented under short-term lease agreements. Commercial space is rented under long-term lease agreements. Rent income from tenants is recognized in the month in which it is earned rather than received.

Reimbursements from commercial tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable expenditures are incurred. INREIT receives payments for these reimbursements from substantially all its multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which are immaterial, are recognized in the subsequent year.

Advertising and Marketing

Costs incurred for advertising and marketing are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2007 and 2006 was \$12,840 and \$5,319, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Land and land improvements	\$ 7,119,309	\$ 9,722,612	\$ 16,841,921
Building and improvements	59,401,426	61,425,485	120,826,911
Furniture and fixtures	2,816,407	1,465,270	4,281,677
	<u>69,337,142</u>	<u>72,613,367</u>	<u>141,950,509</u>
Less accumulated depreciation	<u>(2,049,697)</u>	<u>(2,116,373)</u>	<u>(4,166,070)</u>
	<u><u>\$ 67,287,445</u></u>	<u><u>\$ 70,496,994</u></u>	<u><u>\$ 137,784,439</u></u>

Property and equipment as of December 31, 2006 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Land and land improvements	\$ 1,754,957	\$ 5,554,192	\$ 7,309,149
Building and improvements	10,318,168	32,953,688	43,271,856
Furniture and fixtures	591,357	-	591,357
Construction in progress	-	5,231,021	5,231,021
	<u>12,664,482</u>	<u>43,738,901</u>	<u>56,403,383</u>
Less accumulated depreciation	<u>(1,106,691)</u>	<u>(957,582)</u>	<u>(2,064,273)</u>
	<u><u>\$ 11,557,791</u></u>	<u><u>\$ 42,781,319</u></u>	<u><u>\$ 54,339,110</u></u>

Property additions in 2007 and 2006 include \$70,315 and \$191,097 of interest capitalized during the years during construction.

NOTE 4 - RESTRICTED DEPOSITS

	<u>2007</u>	<u>2006</u>
Tenant security deposits	\$ 23,861	\$ 23,256
Real estate tax and insurance escrows	1,972,779	480,071
Replacement reserves	<u>363,462</u>	<u>98,620</u>
	<u><u>\$ 2,360,102</u></u>	<u><u>\$ 601,947</u></u>

Tenant Security Deposits

Pursuant to management policy, INREIT has set aside funds to repay tenant security deposits upon tenant move-out.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Real Estate Tax and Insurance Escrows

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains real estate tax escrows and insurance escrows to pay real estate taxes and insurance. INREIT is to contribute to the account monthly an amount equal to 1/12 of the estimated real estate taxes and insurance premiums.

Replacement Reserves

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains several replacement reserve accounts. INREIT makes monthly deposits into the replacement reserve accounts to be used for repairs and replacements on the property. Certain replacement reserve accounts require authorization from the mortgage company for withdrawals.

NOTE 5 – SECURITIES

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost and fair value of securities are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities held to maturity:				
December 31, 2007				
U.S. Government and and federal agency	\$ 1,310,173	\$ -	\$ -	\$ 1,310,173
State and municipal bonds	<u>475,000</u>	<u>-</u>	<u>-</u>	<u>475,000</u>
	<u>\$ 1,785,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,785,173</u>

The scheduled maturities of the above securities as of December 31, 2007 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 918,635	\$ 918,635
Due after one year through five years	<u>866,538</u>	<u>866,538</u>
	<u>\$ 1,785,173</u>	<u>\$ 1,785,173</u>

Proceeds from the sales of securities during the year ended December 31, 2007 were approximately \$437,000 resulting in no gross realized or unrealized gains or losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - MORTGAGE NOTES PAYABLE

Mortgage notes payable consists of:

	<u>2007</u>	<u>2006</u>
5.26% mortgage note payable, due in monthly installments of \$25,522, including interest until July 2013, secured by a mortgage on property, security agreement, and an assignment of rents (Note 15)	\$ 6,479,821	\$ 6,590,438
Variable rate mortgage note payable, (7.75% at December 31, 2007) due in monthly installments of \$3,290, adjusted annually, unpaid principal and interest due February 2014, secured by a mortgage on property and equipment	351,068	372,527
8.3% mortgage note payable, due in monthly installments of \$19,058, unpaid principal and interest due November 2010, secured by a mortgage on property and equipment	2,368,933	2,396,996
7.15% mortgage note payable, due in monthly installments of \$5,439, including interest, unpaid principal and interest due March 2011, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	765,350	777,714
Variable rate mortgage note payable, (7.25% at December 31, 2007) due in varying monthly installments of approximately \$9,500, including interest, unpaid principal and interest due April 2020, secured by a mortgage on property and a security interest in cash or investment accounts held with the lender	1,239,712	1,261,208
6.35% mortgage note payable, due in monthly installments of \$7,586, including interest, unpaid principal and interest due June 2010, secured by a mortgage on property and a security interest in cash or investment accounts with the lender	986,734	1,013,304
Variable rate mortgage note payable, interest fixed at 6.25% through June 2010, thereafter adjusted every 5 years, due in monthly installments of \$15,356 until July 2025, secured by a mortgage on property and an assignment of rents	1,966,209	2,025,898
5.74% mortgage note payable, due in monthly installments of \$18,945, including interest, until January 2016, secured by a mortgage on property, security agreement, and an assignment of rents	3,172,377	3,213,790
6.66% mortgage note payable, due in monthly installments of \$41,114, including interest, until December 2021, secured by a mortgage on property	5,908,975	6,000,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>2007</u>	<u>2006</u>
5.92% mortgage note payable, due in monthly installments of \$22,291, including interest, until November 2019, secured by a mortgage on property and guaranty of owners (Note 15)	1,235,753	1,249,988
5.46% mortgage note payable, due in monthly installments of \$5,842, including interest, until August 2019, secured by a mortgage on property (Note 15)	999,386	1,014,454
6.125% mortgage note payable, due in monthly installments of \$3,432, including interest, until May 2020, secured by a mortgage on property	357,463	376,124
6.125% mortgage note payable, due in monthly installments of \$2,574, including interest, until May 2020, secured by a mortgage on property	268,097	282,093
7% mortgage note payable, due in monthly installments of \$35,628, including interest, until May 2022, secured by a mortgage on property (Note 15)	5,302,433	-
5.93% mortgage note payable, due in monthly installments of \$45,224, including interest, until August 2017, secured by a mortgage on property and assignment of rents and leases	7,571,627	-
6.65% mortgage note payable, due in monthly installments of \$9,798, including interest, until May 2014, remainder due at that time, secured by a mortgage on property	1,405,513	-
5.33% mortgage note payable, due in monthly installments of \$68,688, including interest, until September 2020, secured by a mortgage on property	7,614,735	-
5.96% mortgage note payable, due in monthly installments of \$20,297, including interest, until July 2020, secured by a mortgage on property, security agreement, and an assignment of rents	3,339,656	-
6.67% mortgage note payable, due in monthly installments of \$21,872, including interest, until December 2013, secured by a mortgage on property, security agreement, and an assignment of rents	2,961,523	-
7.18% mortgage note payable, due in monthly installments of \$16,258, including interest, until January 2013, secured by a mortgage on property, security agreement, and an assignment of rents	2,071,995	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>2007</u>	<u>2006</u>
6.3% mortgage note payable, due in monthly installments of \$4,224, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	680,373	-
6.3% mortgage note payable, due in monthly installments of \$2,032, including interest, until October 2017, remainder due at that time, secured by a mortgage on property and business assets	327,227	-
6.125% mortgage note payable, interest fixed through May 2009, thereafter adjusted every year, due in monthly installments of \$2,563, until April 2020, secured by a mortgage on property	266,943	-
6.1% mortgage note payable, due in monthly installments of \$13,862, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,287,500	-
6.1% mortgage note payable, due in monthly installments of \$12,680, including interest, until December 2017, remainder due at that time, secured by a mortgage on property and business assets	2,092,500	-
6.59% mortgage note payable, due in monthly installments of \$2,574, including interest, until December 2012, remainder due at that time, secured by a mortgage on property	975,000	-
6.23% mortgage note payable, due in monthly installments of \$13,642, including interest, until January 2013, remainder due at that time, secured by mortgage on property	2,051,500	-
6.73% mortgage note payable, due in monthly installments of \$17,314, including interest, until December 2013, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	2,333,047	-
5.03% mortgage note payable, due in monthly installments of \$19,122, including interest, until September 2019, remainder due at that time, secured by mortgage on property, security agreement, and an assignment of rents	3,433,734	-
Variable rate mortgage note payable, (7.09% at December 31, 2007) due in monthly principal installments of \$8,716, interest paid monthly, until January 2009, remainder due at that time, secured by mortgage on property and assignment of leases	6,000,000	-
Notes paid in full during 2007	<u>-</u>	<u>6,778,505</u>
	<u>\$ 76,815,184</u>	<u>\$ 33,353,039</u>

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The mortgage notes agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2007, INREIT was in compliance with the covenants.

Long-term debt maturities are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2008	\$ 1,642,370
2009	7,508,736
2010	2,605,828
2011	1,781,604
2012	2,600,309
Thereafter	60,676,337
	<u>\$ 76,815,184</u>

NOTE 7 - NOTES PAYABLE

INREIT has a \$2,960,000 variable rate (7.50% at December 31, 2007) line of credit agreement with Bremer Bank, which expires on June 15, 2012. At December 31, 2007, \$23,909 was outstanding on the line of credit.

INREIT has a \$4,000,000 variable rate (7.0% at December 31, 2007) line of credit agreement with Bremer Bank, which expires on September 15, 2008. At December 31, 2007, \$176,400 was outstanding on the line of credit.

INREIT has a \$2,500,000 variable rate (7.25% at December 31, 2007) line of credit agreement with Wells Fargo Bank, which expires on June 15, 2008. At December 31, 2007, there was no outstanding balance on the line of credit.

NOTE 8 - INVESTMENT CERTIFICATES

INREIT periodically issues investment certificates bearing various interest rates in exchange for cash. The interest rate depends upon the maturity of the investment certificate. During 2007, INREIT issued investment certificates ranging from 6 to 7 percent totaling \$69,338. During 2006, INREIT issued investment certificates ranging from 5.5 to 7 percent totaling \$375,440. At December 31, 2007 and 2006, INREIT had outstanding investment certificates totaling \$230,427 and \$369,453, respectively.

Maturities of investment certificates are as follows: 2008 - \$49,338; 2009 - \$60,577; 2010 - \$33,000; 2011 - \$67,512; 2012 - \$20,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - SPECIAL ASSEMENTS PAYABLE

At December 31, 2007 and 2006, special assessments payable totaled \$849,581 and \$414,290. Future principal payments related to special assessments payable over the next five years are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2008	\$ 101,654
2009	101,654
2010	87,064
2011	83,843
2012	78,699

NOTE 10 - ACCRUED EXPENSES

	<u>2007</u>	<u>2006</u>
Real estate taxes	\$ 667,825	\$ 552,301
Interest	308,621	153,531
Other	1,808	1,638
	<u>\$ 978,254</u>	<u>\$ 707,470</u>

NOTE 11 - MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIPS

As of December 31, 2007 and 2006, minority shareholders common shares totaled 4,925,316 and 935,142, respectively. During 2007 and 2006, the INREIT paid dividends of \$1,346,818 and \$470,706. As of December 31, 2007, INREIT had declared dividends of \$747,635 to minority shareholders to be paid in 2008.

During 2007 and 2006, minority shareholders converted 57,799 and 13,903 shares to INREIT shares, totaling \$577,830 and \$145,043, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

Property Management Fees

During 2007 and 2006, INREIT incurred property management fees of 5 percent of rents to INREIT Management, LLC. The management team of INREIT Management, LLC consists of Board of Trustee members Randy I. Westby, Kenneth Regan and James Wieland. For the years ended December 31, 2007 and 2006, INREIT paid management fees of \$17,681 and \$17,374, respectively.

During 2007 and 2006, INREIT incurred property management fees of 5 percent of rents to Goldmark Property Management. The management team of Goldmark Property Management consists of Board of Trustee members Kenneth Regan and James Wieland. For the years ended December 31, 2007 and 2006, INREIT paid management fees of \$421,019 and \$59,470, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Advisory Management Fees

During 2007 and 2006, INREIT paid \$293,235 and \$156,331 to INREIT Management, LLC for advisory management fees. As of December 31, 2007, the Company had accrued advisory fees to INREIT Management, LLC of \$102,113. These fees cover the office facilities, equipment, supplies, and staff required to manage the day-to-day operations of INREIT, and is paid based on 1% (through September 2007) and .75% (after September 2007) of net invested asset from these facilities.

Acquisition Fees

During 2007 and 2006, INREIT incurred \$1,660,050 and \$431,871, respectively, to INREIT Management, LLC for acquisition fees. These fees are for performing due diligence on properties acquired from unrelated parties, and are paid on 3% of the purchase price up to a maximum of \$150,000 per individual property.

Commissions

During 2007 and 2006, INREIT paid brokerage fees of \$781,640 and \$309,418, respectively, to Roger Domres, or entities owned by Roger Domres, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. During 2007 and 2006, INREIT paid marketing fees of \$626,622 and \$124,972, respectively, to Huntington Securities Corporation, an entity owned by Roger Domres. As of December 31, 2007 and 2006, a commission payable of \$245,056 and \$211,863, respectively, was owed to Roger Domres.

During 2007, INREIT paid brokerage fees of \$1,257,343 to Dale Lian, or entities owned by Dale Lian, stockholder of INREIT and a shareholder of INREIT Management, LLC. Brokerage fees are paid based on 4% of UPREIT units and 8% of INREIT units sold. As of December 31, 2007, a commission payable of \$201,972 was owed to Dale Lian.

Director Fees

INREIT paid director fees of \$19,000 and \$19,500 in 2007 and 2006, respectively.

Rental Income

During 2007 and 2006, INREIT received rental income of \$1,102,749 and \$1,030,639 under various lease agreements with Edgewood Vista Senior Living, Inc., an entity affiliated with Philip Gisi, a member of the Board of Trustees.

Purchases

During 2007, INREIT purchased land for future construction in Bismarck, North Dakota, for a purchase price of approximately \$1,500,000 from an entity affiliated with Philip Gisi.

During 2007, INREIT purchased a 128,385 square foot commercial office building in Fargo, North Dakota, for a purchase price of \$17,400,000, from an entity affiliated with Kenneth Regan, James Wieland and Dale Lian.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2007, INREIT purchased eight apartment complexes in various locations for a total purchase price of approximately \$34,700,000 from entities affiliated with Kenneth Regan, James Wieland and Dale Lian, in varying ownership interests.

During 2007, INREIT purchased a 72 unit apartment complex in Grand Forks, North Dakota, for a purchase price of approximately \$4,800,000 from Goldmark Development Corporation, a related party through Kenneth Regan, James Wieland and Dale Lian.

During 2006, INREIT purchased a 12-unit facility for Alzheimer's care for a purchase price of \$1,100,000 and a tract of land located in Grand Forks, North Dakota for a purchase price of \$540,000 from an entity affiliated with Philip Gisi.

Subsequent Events

See Note 16 for related party subsequent events.

NOTE 13 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Commercial space is rented under long-term lease agreements. Minimum future rentals on noncancelable operating leases as of December 31 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2008	\$ 7,521,600
2009	7,400,337
2010	6,480,588
2011	5,651,431
2012	4,533,826
Thereafter	<u>16,852,466</u>
	<u>\$ 48,440,248</u>

Residential apartment units are rented to individual tenants with lease terms up to one year. Gross revenues from residential rentals totaled \$3,405,135 and \$1,559,466 for the years ended December 31, 2007 and 2006, respectively.

For the years ended December 31, 2007 and 2006, gross revenues from commercial property rentals, including CAM (common area maintenance) income of \$813,930 and \$576,640, respectively, totaled \$7,135,423 and \$3,564,912. Commercial properties are leased to tenants under terms expiring at various dates through 2027. Lease terms often include renewal options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - PROPERTY MANAGEMENT FEES

INREIT has entered into various management agreements with unrelated management companies. The agreements provide for INREIT to pay management fees based on a percentage of rental income (4 to 5%), a set fee per month (\$1,000 - \$2,500 per month). During 2007 and 2006, INREIT incurred property management fees of \$510,478 and \$188,004, respectively, to unrelated management companies.

During 2007 and 2006, INREIT incurred management fees of 5% of rents to INREIT Management, LLC; and Goldmark Property Management, a related party (Note 12).

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Environmental Matters

Federal law (and the laws of some states in which INREIT may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by INREIT, INREIT could incur liability for the removal of the substances and the cleanup of the property. There can be no assurance that INREIT would have effective remedies against prior owners of the property. In addition, INREIT may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

Risk of Uninsured Property Losses

INREIT maintains property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature), which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) the INREIT might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) the trust may suffer a loss of profits which might be anticipated from one or more properties.

Construction in Progress

As of December 31, 2006, construction was in progress on WestPointe Center, a retail complex in Fargo, North Dakota. As of December 31, 2006, costs of \$2,211,000 had been completed. Construction was completed in 2007 at a total cost of construction of approximately \$2,800,000.

Tenant in Common Ownership

As a tenant in common, INREIT owns their respective share of the assets of the properties as well as being liable for their respective share of the debts. INREIT owned the following properties as a tenant in common.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. INREIT Properties, LLLP is also the 50% owner of Marketplace Investors, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota. The property is encumbered by a non-recourse first mortgage with Key Bank Real Estate Capital with a balance at December 31, 2007 of \$12,959,642. As of December 31, 2007, INREIT owed \$6,479,821 for their respective share of the balance.

INREIT Properties, LLLP owns a 2/3 interest as a tenant in common of a commercial building with approximately 75,000 square feet of rental space in Fargo, North Dakota. The property is encumbered by a first mortgage with GE Commercial Finance Business Property Corporation with a balance at December 31, 2007 in the amount of \$7,953,650. As of December 31, 2007, INREIT owed \$5,302,433 for its respective share of the balance. INREIT along with the other tenant in common is jointly liable for the entire balance.

INREIT Properties, LLLP owns a 1/3 interest as a tenant in common of a 136 unit apartment complex located in Bismarck, North Dakota. The property is encumbered by Phase I and Phase II first mortgages with NorthMarq Capital with a balance at December 31, 2007 in the amount of \$6,705,417. As of December 31, 2007, INREIT owed \$2,235,139 for its respective share of the balance. INREIT along with the other tenant in common is jointly liable for the entire balance.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent to year-end, INREIT Properties, LLLP, which is the 100% owner of INREIT BL Mankato, LLC, INREIT BL Janesville, LLC, INREIT BL Eau Claire, LLC, INREIT BL Stevens Point, LLC, INREIT BL Sheboygan, LLC, INREIT BL Oshkosh, LLC, INREIT BL Onalaska, LLC, INREIT BL Grand Forks, LLC, INREIT BL Marquette, LLC, and INREIT BL Bismarck, LLC, purchased ten commercial properties totaling approximately \$22,660,000.

Subsequent to year-end, INREIT sold a 12 unit assisted living facility in Grand Island, Nebraska, to an entity affiliated with Philip Gisi, a related party. The sales price of the facility totaled approximately \$1,150,000.

Subsequent to year-end, INREIT sold a 12 unit assisted living facility in Belgrade, Montana, to an entity affiliated with Philip Gisi, a related party. The sales price of the facility totaled approximately \$1,150,000.

Subsequent to year-end, INREIT sold a 12 unit assisted living facility in Norfolk, Nebraska, to an entity affiliated with Philip Gisi, a related party. The sales price of the facility totaled approximately \$1,160,000.

Subsequent to year-end, INREIT sold a 12 unit assisted living facility in Columbus, Nebraska, to an entity affiliated with Philip Gisi, a related party. The sales price of the facility totaled approximately \$1,150,000.

Subsequent to year-end, INREIT purchased an apartment complex in Bismarck, North Dakota, to an entity affiliated with Kenneth Reagan, James Wieland and Dale Lian. The purchase price of the complex was approximately \$4,150,000.

Subsequent to year-end, INREIT declared a dividend of \$0.18375 per share to shareholders of record as of March 31, 2008, to be payable in April 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to year-end, INREIT obtained approval from the North Dakota Securities Commission to offer an additional 2,000,000 shares at \$14 per share.

Subsequent to year-end, INREIT purchased a 21,500 square foot commercial office building in Grand Forks, North Dakota, from an entity affiliated with Philip Gisi, a related party. The approximate purchase price of the building was \$1,250,000.

Subsequent to year-end, INREIT purchased an 18 unit apartment building in Grand Forks, North Dakota, from an entity affiliated with Kenneth Regan, James Wieland and Dale Lian. The approximate purchase price of the complex was \$740,000.

Subsequent to year-end, INREIT purchased two 12 unit apartments in Fargo, North Dakota, from entities affiliated with Kenneth Regan, James Wieland and Dale Lian. The approximate purchase price of the complexes was \$1,370,000.

WELLS FARGO





INREIT

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