Financial Statements of

PSS INVESTMENTS I INC.

Year ended December 31, 2006

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AUDITORS' REPORT

To the Shareholder of PSS Investments I Inc.

We have audited the balance sheet of PSS Investments I Inc. as at December 31, 2006 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

February 23, 2007

PSS INVESTMENTS I INC.

Balance Sheet

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Income-producing properties (note 3)	$ 74,390,127	$ 67,631,121
Intangible assets (note 4)	11,928,464	13,604,900
Other assets (note 5)	790,551	657,374
Prepaid expenses	254,194	223,815
Accounts and other receivables	1,076,367	888,853
Cash	1,833,604	1,392,486
	$ 90,273,307	$ 84,398,549
Liabilities and Shareholder's Equity		
Mortgages payable (note 6)	$ 33,107,111	$ 23,545,914
Promissory note payable (note 7)	–	7,502,057
Intangible liabilities (note 8)	2,640,018	3,010,655
Security deposits and prepaid rent	260,419	211,791
Accounts payable and accrued liabilities	1,686,830	894,830
Shareholder's equity:		
Share capital (note 9)	58,391,599	52,729,000
Deficit	(5,812,670)	(3,495,698)
	52,578,929	49,233,302
	$ 90,273,307	$ 84,398,549

See accompanying notes to financial statements.

On behalf of the Board:

________________________________ Director

________________________________ Director

PSS INVESTMENTS I INC.

Statement of Operations and Deficit

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Property revenue	$ 10,063,360	$ 6,347,345
Property operating expenses	4,138,126	2,394,687
	5,925,234	3,952,658
Amortization	5,137,513	5,182,381
Interest	1,488,154	917,262
Loss from properties	(700,433)	(2,146,985)
Other expenses (income):		
Investment income	(30,162)	(11,759)
Administrative costs	63,164	48,054
Asset management fees (note 11)	402,642	259,380
Performance fees (note 11)	305,895	28,781
Loss for the year	(1,441,972)	(2,471,441)
Deficit, beginning of year	(3,495,698)	(604,257)
Dividends paid	(875,000)	(420,000)
Deficit, end of year	$ (5,812,670)	$ (3,495,698)

See accompanying notes to financial statements.

PSS INVESTMENTS I INC.

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Operating activities:		
Loss for the year	$ (1,441,972)	$ (2,471,441)
Adjustments for:		
Amortization:		
Income-producing properties	1,786,723	1,084,358
Acquired in-place leases	3,350,790	4,098,023
Above and below market in-place leases, net	(406,197)	(246,137)
Deferred financing fees	9,655	1,854
Mortgage premium	(241,304)	(150,487)
Straight-line rent	(103,293)	(105,315)
	2,954,402	2,210,855
Change in the following:		
Deferred recoverable costs	(29,800)	36,993
Prepaid expenses	(30,379)	(135,593)
Accounts and other receivables	(84,221)	(679,346)
Security deposits and prepaid rent	48,628	175,032
Accounts payable and accrued liabilities	792,000	594,140
Cash flows from operating activities	3,650,630	2,202,081
Financing activities:		
Issuance of common shares	5,662,599	34,815,844
Dividends paid	(875,000)	(420,000)
Repayment of mortgages payable	(555,542)	(340,634)
Repayment of promissory note payable	(7,502,057)	–
Proceeds from mortgage financing	6,525,000	–
Proceeds from promissory note payable	–	99,557
Deferred financing fees	(113,033)	(20,222)
Cash flows from financing activities	3,141,967	34,134,545
Investing activities:		
Additions to income-producing properties	(1,672,146)	(269,972)
Purchase of income-producing properties net of related debt (note 3)	(4,679,333)	(35,056,981)
Cash flows used in investing activities	(6,351,479)	(35,326,953)
Increase in cash	441,118	1,009,673
Cash, beginning of year	1,392,486	382,813
Cash, end of year	$ 1,833,604	$ 1,392,486
Supplementary cash flow information:		
Interest paid	$ 1,834,210	$ 951,488

See accompanying notes to financial statements.

1. Operations/Organization:

PSS Investments I Inc. (the Company) was incorporated and registered June 6, 2003 under the *Nova Scotia Companies Act* by the Minister of Finance for the Province of Nova Scotia, as trustee of The Nova Scotia Public Service Superannuation Fund.

The Company shall limit its activities to:

(i) acquiring, holding, maintaining, improving, leasing or managing capital property (as construed for the purposes of the *Income Tax Act*, R.S.C. 1985, c.1 (5th Supplement), as amended from time to time in the *Income Tax Act*) that is real property or an interest in real property owned by the Company, another corporation, described by subparagraphs 149(1)(o.2)(ii) and 149(1)(o.2)(iv) of the *Income Tax Act*, or a pension plan registered with the Minister of National Revenue pursuant to the *Income Tax Act*; and

(ii) investing its funds in a partnership that limits its activities to acquiring, holding, maintaining, improving, leasing and/or managing capital property as construed for the purposes of the *Income Tax Act* that is real property or an interest in real property owned by the partnership.

The Company cannot make investments other than in real property, interest therein or investments that a pension plan is permitted to make under the *Pension Benefits Standards Act*, 1985 or a similar law of a province.

The Company cannot borrow money other than for the sole purpose of earning income from real property or an interest therein.

The Company is under the management of GWL Realty Advisors Inc. (GWLRA), a wholly-owned subsidiary of The Great-West Life Assurance Company, by way of management agreements between GWLRA and the Company.

2. Significant accounting policies:

(a) Income-producing properties:

Income-producing properties are carried at cost less accumulated amortization. Amortization on buildings is provided on a straight-line basis over the expected life of the property not to exceed a 40 year period. Building improvement costs are deferred and amortized on a straight-line basis over a 10 year period. Tenant inducements include leasing commissions, tenant improvements, and legal costs incurred to negotiate and execute lease agreements and are deferred and amortized on a straight-line basis over the term of the related tenant lease.

2. Significant accounting policies (continued):

The Company capitalizes all direct costs relating to the acquisition of properties. For properties under development, initial acquisition costs, other direct costs, property taxes, initial leasing costs, incidental operating revenues and expenses and certain indirect costs and property taxes are capitalized during development.

(b) Acquisition of income-producing properties:

The purchase price of income-producing properties is allocated based on estimated fair values to land, building, tenant improvements and intangible assets including the value of above and below market leases, the in-place leases and tenant relationships, if any.

The values of tenant improvements, above and below market leases, in-place leases and tenant relationships are amortized over the term of the lease agreements and non-cancelable renewal periods, where applicable. In the event a tenant vacates its leased space prior to the contractual termination of the lease and rental payments are not being made, any unamortized balance of the intangible asset or liability will be written-off.

(c) Intangible assets:

Intangible assets consist of acquired in-place leases [note 2(b)], and the above market in-place leases [note 2(b)].

(d) Other assets:

Deferred recoverable costs consist of capital expenditures which are recoverable from tenants, are recorded at cost and amortized on a straight-line basis ranging up to a ten year period.

Deferred financing fees represent costs such as CMHC premiums, legal fees, and application fees incurred to obtain mortgage financing and are amortized over the life of the applicable mortgage.

2. Significant accounting policies (continued):

(e) Long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the expected future net undiscounted cash flows from its use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

(f) Asset retirement obligation:

The fair value of a future asset retirement obligation is recognized as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation, if any, is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate.

(g) Revenue recognition:

Property revenue includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent free periods are recognized on a straight-line basis over the term of the lease. The difference between the rental income recognized and the amounts contractually due under the lease agreements are recorded as deferred rent receivable and are included in accounts receivable. Recoverable operating expenses are recognized in revenue in the period in which applicable expenses are incurred.

(h) Co-ownership interest:

The Company records its proportionate share of assets, liabilities, income and expenses of co-ownerships in which it participates. In general, the Company has recourse against a co-participant's share of co-ownership assets to secure repayment of any co-ownership liabilities paid in excess of its proportionate share and of advances made to or on behalf of a co-participant.

2. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Income-producing properties:

The carrying value of the income-producing properties is comprised of:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 14,048,855	$ –	$ 14,048,855	$ 12,018,475
Building and building improvements	59,405,530	2,658,682	56,746,848	53,549,054
Tenant improvements	3,004,627	589,535	2,415,092	1,996,985
Tenant inducements	1,212,060	32,728	1,179,332	66,607
	$ 77,671,072	$ 3,280,945	$ 74,390,127	$ 67,631,121

The income-producing properties balance represents co-ownership interests acquired by the Company as disclosed in note 13.

During fiscal 2006, as disclosed in note 13, the Company acquired two 45 percent co-ownership interests in income-producing properties. Acquisition of co-ownership interests in income-producing properties in fiscal 2005, are as disclosed in note 13. These acquisitions have been accounted for by the purchase method with the results of operations included in the Company's accounts from the date of acquisitions.

3. Income-producing properties (continued):

The net assets acquired during the year were as follows:

	2006	2005
Land	$ 1,800,000	$ 8,917,272
Buildings	4,322,827	38,010,687
Tenant improvements	750,755	1,786,920
Acquired in-place leases	1,804,261	14,520,759
Above market in-place leases	1,147	387,286
Below market in-place leases	(166,614)	(3,235,503)
	8,512,376	60,387,421
Deferred recoverable costs acquired on acquisitions	–	667,258
	8,512,376	61,054,679
Less:		
New or assumed mortgages	(3,642,466)	(17,340,887)
Premium on mortgages assumed	(190,577)	(1,254,311)
Promissory note payable	–	(7,402,500)
	(3,833,043)	(25,997,698)
Net assets acquired, satisfied by cash consideration	$ 4,679,333	$ 35,056,981

4. Intangible assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Acquired in-place leases	$ 19,820,005	$ 8,209,276	$ 11,610,729	$ 13,157,259
Above market in-place leases	593,471	275,736	317,735	447,641
	$ 20,413,476	$ 8,485,012	$ 11,928,464	$ 13,604,900

5. Other assets:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Deferred recoverable costs	$ 905,700	$ 236,894	$ 668,806	$ 639,006
Deferred financing fees	133,254	11,509	121,745	18,368
	$ 1,038,954	$ 248,403	$ 790,551	$ 657,374

6. Mortgages payable:

Mortgages payable are comprised of:

	2006	2005
Principal	$ 31,673,812	$ 22,061,889
Unamortized premium	1,433,299	1,484,025
	$ 33,107,111	$ 23,545,914

Mortgages payable bear interest at a weighted average rate of 6.26 percent (2005 - 6.45 percent) and are due at various dates to 2018.

Mortgages on income-producing properties assumed on acquisitions are adjusted to fair value using the market interest rate at the time of acquisition. The resulting premium or discount is amortized to interest expense over the remaining life of the mortgage. For the acquisitions to December 31, 2006, a premium aggregating $1,853,835 (2005 - $1,711,101) was recorded on acquisition with the unamortized premium at December 31, 2006 aggregating $1,433,299 (2005 - $1,484,025).

Principal payments are due as follows:

2007	$ 3,347,612
2008	633,523
2009	5,300,970
2010	334,823
2011	9,594,892
Thereafter	12,461,992
	$ 31,673,812

7. Promissory note payable:

During fiscal 2005, the Company entered into a 4.93 percent promissory note payable on demand with its shareholder as bridge financing on a certain commercial property. The promissory note was repaid on April 11, 2006 through proceeds obtained from mortgage financing on the commercial property. Interest of $101,412 (2005 - $99,557) was incurred by the Company during the year ended December 31, 2006 on the promissory note.

8. Intangible liabilities:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Below market in-place leases	$ 3,577,570	$ 937,552	$ 2,640,018	$ 3,010,655

9. Share capital:

The authorized capital of the Company is 100,000 common shares without nominal or par value, with power to divide the shares into several classes and/or to attach thereto respectively any preferential, common deferred, or qualified rights, privileges or conditions, including restrictions on voting and including redemption or purchase of such shares, subject, however, to the provisions of the *Companies Act* and amendments thereto. Shares may be issued only to registered Canadian pension funds or other investors permitted under Section 149(1)(o.2) of the *Income Tax Act*. The sale, transfer or disposition of shares is restricted.

	2006		2005	
Issued	Number of shares	Amount	Number of shares	Amount
Share capital, beginning of year	700	$ 52,729,000	300	$ 17,913,156
Cash contributed as capital during the year	300	5,662,599	400	34,815,844
Share capital, end of year	1,000	$ 58,391,599	700	$ 52,729,000

10. Financial instruments:

Financial risk is the risk to earnings arising from fluctuations in interest rates, the degree of volatility in these rates and the credit quality of tenants. The Company manages its financial risks as follows:

(a) Interest rate risk:

Interest rate risk is minimized as mortgages are substantially financed at fixed rates, thereby mitigating exposure to interest rate fluctuations.

(b) Credit risk:

Credit risk arises with the uncertainties of predicting the financial difficulties tenants may experience which could cause them to be unable to fulfill their lease commitments. The company mitigates this risk by having a diversified mix of tenants thereby limiting the exposure to a single tenant. Furthermore, credit assessments are conducted in respect to new leasing.

(c) Fair value:

The Company has the following financial instruments: accounts and other receivables, cash, mortgages payable, promissory note payable and accounts payable and accrued liabilities. The carrying values of the accounts and other receivables, cash, promissory note payable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of the mortgages payable was approximately $33,305,000 (2005 - $23,778,000) at December 31, 2006 compared to a carrying value of $33,107,111 (2005 - $23,545,914). Fair value has been calculated using the future cash flows of the mortgages payable, discounted at current market rates available to the Company for the same or similar instruments.

11. Advisor and property managers:

The Company has management agreements with GWLRA, under which GWLRA is responsible for the acquisition, development, disposal and management of real estate properties and performance of all administrative and clerical functions on behalf of the Company. GWLRA has also engaged third parties to manage and operate all of the multi-residential properties. Fees are charged to the property on the balance sheet or to property operating expenses, asset management or performance fees in the statement of operations as applicable.

11. Advisor and property managers (continued):

The following fees were incurred for the above services:

	2006	2005
Asset management fees	$ 402,642	$ 259,380
Performance fees	305,895	28,781
Property management fees	206,124	128,034
Acquisition fees	42,548	293,175
Leasing fees	88,541	13,519
Financing fees	16,313	14,063
Project fees	16,371	5,469
GWLRA fees	1,078,434	742,421
Property management fees - third party	94,236	70,672
Leasing fees – third party	151,802	28,717
	$ 1,324,472	$ 841,810

12. Income taxes:

The Company conducts its affairs so as to qualify as a tax exempt corporation under Section 149(1)(o.2) of the *Income Tax Act* (Canada). Accordingly, no provision for income taxes has been made in these financial statements.

13. Other information:

Property name	% Share	Cost	Acquisition date	Appraisal date	Value
7070 Mississauga Road	22.5	$ 7,655,782	01-Aug-03	01-Jul-06	$ 8,775,000
1730 St. Laurent Blvd.	45.0	8,162,308	01-Jun-04	01-Jun-06	7,785,000
Garrison Watch	45.0	5,480,219	30-Jun-04	01-Jun-06	6,084,000
Harbour Ridge	45.0	2,476,456	30-Jun-04	01-Jun-06	2,529,000
525 Richmond Street West	45.0	9,634,212	24-Feb-05	01-Feb-06	9,855,000
Le Demetrius (1445 Stanley St)	45.0	9,630,170	28-Jun-05	01-Jun-06	10,170,000
Purdy's Wharf	15.0	19,789,129	28-Jul-05	01-Jul-06	20,925,000
First Canadian Centre	11.2	21,113,446	23-Sept-05	01-Sep-06	23,568,750

During fiscal 2006, the Company acquired two 45 percent co-ownership interests on December 28, 2006 in income-producing properties. The aggregate purchase price for the Company's interest in the income-producing properties was $8,512,376.

A 22.5 percent interest in a parcel of land adjacent to 7070 Mississauga Road was acquired on September 22, 2006 for $230,379 and is included in additions to income-producing properties.