

Sunstone Opportunity Fund (2004) Limited Partnership

Financial Statements

December 31, 2006

AUDITORS' REPORT

To the Partners of the
Sunstone Opportunity Fund (2004) Limited Partnership

We have audited the balance sheets of the Sunstone Opportunity Fund (2004) Limited Partnership as at December 31, 2006 and 2005 and the statements of partners' capital, operations and cash flows for the years then ended. These financial statements are the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Limited Partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

February 28, 2007

A Member of SC INTERNATIONAL

Sunstone Opportunity Fund (2004) Limited Partnership
Balance Sheets
As at December 31

	2006	2005
ASSETS		
Income producing properties (Note 3)	\$ 27,222,429	\$ 37,692,940
Cash	719,897	1,137,965
Receivables	144,801	149,224
Prepaid expenses	58,378	103,440
Deferred expenses (Note 4)	515,865	678,731
	\$ 28,661,370	\$ 39,762,300
LIABILITIES		
Mortgages payable (Note 5)	\$ 20,224,166	\$ 27,792,354
Debenture debt (Note 6)	4,691,300	9,382,600
Accounts payable and accrued liabilities	779,853	953,970
Rental deposits	151,721	189,006
	25,847,040	38,317,930
PARTNERS' CAPITAL		
Partners' capital (Note 7)	2,814,330	1,444,370
	\$ 28,661,370	\$ 39,762,300

Nature of business and basis of presentation (Note 1)

Approved by the Directors of
Sunstone Advisors (Canada) Inc.,
as General Partner:

“Steve Evans” Director

“Darren Latoski” Director

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statement of Partners' Capital

	Limited Partners		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance, December 31, 2004	1,046	\$2,056,783	1	\$ 3	1	\$ 3	1,048	\$2,056,789
Offering costs related to units issued in 2004	—	(15,553)	—	—	—	—	—	(15,553)
Net loss for the year	—	(361,480)	—	(18)	—	(18)	—	(361,516)
Distributions	—	(235,350)	—	—	—	—	—	(235,350)
Balance, December 31, 2005	1,046	1,444,400	1	(15)	1	(15)	1,048	1,444,370
Net income for the year	—	1,918,918	—	96	—	96	—	1,919,110
Distributions	—	(549,150)	—	—	—	—	—	(549,150)
Balance, December 31, 2006	1,046	\$2,814,168	1	\$ 81	1	\$ 81	1,048	\$2,814,330

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statements of Operations
Years ended December 31

	2006	2005
REVENUES		
Rental income	\$ 4,207,955	\$ 2,735,157
Interest Income	75,205	125,772
	4,283,160	2,860,929
OPERATING EXPENSES		
Administration and general	68,423	18,699
Cleaning	75,616	30,657
HVAC	43,425	33,722
Insurance	65,919	40,514
Landscaping and parking	135,509	73,563
Management fees	178,634	100,940
Property taxes	589,445	436,601
Repairs and maintenance	291,259	91,955
Security	47,014	36,402
Utilities	232,684	63,381
	1,727,928	926,434
INCOME BEFORE OTHER ITEMS	2,555,232	1,934,495
OTHER ITEMS		
Amortization of income producing properties	533,882	467,135
Amortization of deferred expenses	330,117	203,440
Annual loan fee	535,205	214,082
Assets management fee	196,125	—
Debenture debt fees	38,703	46,913
Debenture debt interest	770,194	933,569
Mortgage interest	1,180,073	763,956
Office and general	47,624	89,219
Professional fees	124,074	98,108
Property investigation costs	4,621	74,111
	3,760,618	2,890,533
LOSS BEFORE GAIN ON DISPOSAL	(1,205,386)	(956,038)
Gain on sale of income producing property (Note 3)	3,124,496	594,522
NET INCOME (LOSS) FOR THE YEAR	\$ 1,919,110	\$ (361,516)

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statements of Cash Flows
Years ended December 31

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss) for the year	\$ 1,919,110	\$ (361,516)
Items not affecting cash:		
Amortization of income producing properties	533,882	467,135
Amortization of deferred expenses	330,117	203,440
Gain on sale of income producing property	(3,124,496)	(594,522)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	4,423	(78,258)
(Increase) decrease in prepaid expenses	45,062	(53,440)
Increase (decrease) in accounts payable and accrued liabilities	(232,954)	601,119
Increase in rental deposits	4,938	23,388
Net cash provided by (used in) operating activities	(519,918)	207,346
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of income producing properties	(401,461)	(32,508,354)
Cash held in trust	—	9,745,608
Proceeds from disposal of income producing property	14,082,777	1,685,998
Property disposal costs	(662,414)	(182,024)
Net cash provided by (used in) investing activities	13,018,902	(21,258,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Unit issuance costs	—	(15,553)
Deferred expenses	(167,251)	(792,327)
Distributions to Limited Partners	(490,313)	(235,350)
Mortgage proceeds received	—	22,656,099
Mortgage repayment	(7,568,188)	(260,161)
Debenture repayment	(4,691,300)	—
Net cash provided by (used in) financing activities	(12,917,052)	21,352,708
Change in cash during the year	(418,068)	301,282
Cash, beginning of the year	1,137,965	836,683
CASH, END OF THE YEAR	\$ 719,897	\$ 1,137,965
Cash paid for interest	\$ 2,070,521	\$ 680,830
Cash received for interest	\$ 73,627	\$ 125,772

Supplemental disclosure with respect to cash flows (Note 9)

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Sunstone Opportunity Fund (2004) Limited Partnership (the “Limited Partnership”) was formed pursuant to the Partnership Act (British Columbia) on July 22, 2004. The Limited Partnership was established for the purposes of owning and operating income producing residential and/or commercial real estate properties in Canada and for limited investment in real estate development opportunities.

The general partner of the Limited Partnership is Sunstone Advisors (Canada) Inc. (the “General Partner”).

On October 25, 2004, the Limited Partnership, along with SRAI Capital Corp. (“SRAI”), received final receipt for an initial public offering prospectus to sell a minimum of 400 Units up to a maximum of 2,000 Units at a price of \$12,500 per Unit. Each Unit consisted of one unit of the Limited Partnership with a price of \$2,500 and one Series B Debenture from SRAI in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on October 31, 2009. The offering was closed on December 20, 2004 after a total of 1,046 Limited Partnership units had been issued (Note 7).

SRAI loaned to the Limited Partnership the net proceeds received from the issuance of the Series B Debentures, by way of a debenture debt (Note 6).

These financial statements include the accounts of the Limited Partnership and its interest in income producing properties from the date of acquisition to the date the properties are sold.

The financial statements of the Limited Partnership have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements reflect the financial position and results of operations and cash flows of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners.

2. SIGNIFICANT ACCOUNTING POLICIES

Allocation of net income or net loss

Net income or loss of the Limited Partnership from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.005% to each of the General Partner and the Initial Limited Partner to a maximum of \$100 per annum;
- Secondly, to the Limited Partners in the amount of the Limited Partners’ minimum return being 9% on the Limited Partners’ net equity in the limited partnership;
- Thirdly, to the General Partner in the amount of the General Partner’s right to receive the incentive management interest; and
- Fourthly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

To the extent that net income or loss arises from matters other than the ordinary course of operations, net income or loss will be allocated as follows:

- Firstly, 0.005% to each of the General Partner and the Initial Limited Partner to a maximum of \$100 per annum;
- Secondly, to the Limited Partners in the amount up to their net equity investment in the Limited Partnership, thereafter the Limited Partners’ minimum return.
- Thirdly, to the General Partner in the amount of the General Partner’s right to receive the incentive management interest; plus to the extent the amount allocated to the Limited Partners exceeds the minimum return, the General Partner shall be allocated in an amount equal to 20/80ths of such excess; and
- Fourthly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Limited Partnership is not subject to income taxes. The income or loss of the Limited Partnership will be allocated to the individual partners for taxation purposes.

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Income producing properties

Upon acquisition of income producing properties, the Limited Partnership allocates the purchase price to the fair value of assets and liabilities acquired, including land, building and paving. A portion of the purchase price, if applicable, is also allocated to intangible amounts for the fair value of tenant in-place leases, above and below market leases and tenant relationships. The Limited Partnership has determined that no significant amounts were required to be allocated to intangible assets on the acquisition of income producing properties during the year ended December 31, 2005.

Income producing properties are recorded at cost less accumulated amortization. Amortization of the buildings is recorded on a straight-line basis at 4% per annum. Paving is amortized on a declining-balance basis at 8% per annum. Tenant improvements are deferred and amortized using the straight-line method over the term of the related leases.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows are directly associated with, and are expected to arise as a result of, the asset's use and eventual disposition.

Revenue recognition

Rental revenue is recognized when services are provided under the terms of the various leases and ultimate collection is reasonably assured. The amount of revenue recognized is based on the total revenue for the term of the lease over a straight line basis. Rental income includes recoveries of operating expenses.

Offering costs

Offering costs relating to the issuance of Limited Partnership units are charged against the related partners' capital.

Deferred expenses

Costs incurred to obtain mortgage financing are deferred and amortized over the term of the related debt. Leasing commissions are deferred and amortized over the term of the related leases.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

3. INCOME PRODUCING PROPERTIES

In December 2004, the Limited Partnership acquired Kebet Way consisting of land and building with a total cost of \$3,848,877. The property was sold in May 2005 resulting in a gain on disposal of \$594,522 as follows:

Gross proceeds	\$	4,570,000
Selling commission and legal fees		(113,474)
Disposition fee of 1.5% of the gross proceeds		(68,550)
Net proceeds		4,387,976
Net book value of income producing property		(3,793,454)
Gain on disposal of income producing property	\$	594,522

In March 2005, the Limited Partnership acquired West Willow, consisting of land and building with a cost of \$9,750,000 and the assumption of security deposits totalling \$45,533. Costs associated with the acquisition were \$117,337. The property was sold in July 2006, resulting in a gain on disposal of \$3,124,496 as follows:

Gross proceeds	\$	14,200,000
Selling commission and legal fees		(449,414)
Disposition fee of 1.5% of the gross proceeds		(213,000)
Net proceeds		13,537,586
Net book value of income producing property		(10,413,090)
Gain on disposal of income producing property	\$	3,124,496

In May 2005, the Limited Partnership acquired:

- a) Scott Town, consisting of land and building with a cost of \$8,000,000 and the assumption of certain payables totalling \$51,000 and security deposits totalling \$49,284. Costs associated with the acquisition were \$34,369.
- b) Halton Hills, consisting of land and building with a cost of \$8,650,000 and the assumption of a receivable from a tenant of \$13,713 and certain payables totalling \$17,241 and security deposits totalling \$13,443. Costs associated with the acquisition were \$193,886.

In June 2005, the Limited Partnership acquired Drumheller, consisting of land and building with a cost of \$2,335,000 and the assumption of security deposits totalling \$14,203. Costs associated with the acquisition were \$19,361.

In July 2005, the Limited Partnership acquired Torquay, consisting of land and building with a cost of \$3,350,000 and the assumption of security deposits totalling \$10,127. Costs associated with the acquisition were \$22,950.

In November 2005, the Limited Partnership acquired Northland, consisting of land and building with a cost of \$4,925,000 and the assumption of security deposits totalling \$33,028. Costs associated with the acquisition were \$26,503.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

3. INCOME PRODUCING PROPERTIES (continued)

	2006		
	Cost	Accumulated amortization	Net book value
Land	\$ 17,332,496	\$ —	\$ 17,332,496
Building	10,224,573	652,705	9,571,868
Paving	233,035	25,882	207,153
Tenant improvements	125,503	14,591	110,912
Total	\$ 27,915,607	\$ 693,178	\$ 27,222,429

	2005		
	Cost	Accumulated amortization	Net book value
Land	\$ 23,864,967	\$ —	\$ 23,864,967
Building	14,008,980	396,692	13,612,288
Paving	230,704	15,019	215,685
Total	\$ 38,104,651	\$ 411,711	\$ 37,692,940

Capital enhancements totalling \$401,461 (2005 - \$680,245) have been capitalized in the cost of the related assets. Amortization of the income producing properties totalling \$533,882 (2005 - \$467,135) consists of \$439,145 (2005 - \$411,712) and \$94,737 (2005 - \$55,423) for the properties held and sold, respectively.

4. DEFERRED EXPENSES

	2006		
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ 900,639	\$ (516,105)	\$ 384,534
Deferred leasing commissions	148,782	(17,451)	131,331
Total	\$ 1,049,421	\$ (533,556)	\$ 515,865

	2005		
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ 882,171	\$ (203,440)	\$ 678,731
Deferred leasing commissions	—	—	—
Total	\$ 882,171	\$ (203,440)	\$ 678,731

Certain expenses relating to the financing of the West Willow property and Kebet Way property were fully amortized during 2006 and 2005, respectively, with the repayment of the related mortgages.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

5. MORTGAGES PAYABLE

	2006		2005
<u>Kebet Way</u> — Mortgage bearing interest at 4.85%, calculated semi-annually, was retired when the income producing property was sold in 2005.	\$ —	\$	2,823,890
Less: principal paid during the period	—		(20,265)
Less: principal retired	—		(2,803,625)
<u>West Willow</u> — Mortgage bearing interest at 4.35%, calculated semi-annually. During fiscal 2006, the mortgage was refinanced with an open floating variable rate mortgage, and was then retired when the income producing property was sold.	7,202,939		7,312,500
Less: principal paid during the period	(99,763)		(109,561)
Less: principal retired	(7,103,176)		—
<u>Scott Town</u> — Mortgage bearing interest at 5.00%, calculated semi-annually, maturing June 10, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$34,897.	5,938,859		6,000,000
Less: principal paid during the period	(127,724)		(61,141)
<u>Halton Hills</u> — Mortgage bearing interest at 7.47%, calculated semi-annually, maturing May 1, 2012. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$29,187.	3,771,241		3,812,695
Less: principal paid during the period	(75,323)		(41,454)
<u>Halton Hills</u> — Vendor take-back mortgage bearing interest at 1.25%, calculated semi-annually, maturing May 1, 2012. The mortgage is secured by the income producing property. Interest of \$3,042 is payable monthly. The principal will be repayable when the mortgage matures.	2,937,305		2,937,305
Less: principal paid during the period	—		—
<u>Drumheller</u> — Mortgage bearing interest at 4.79%, calculated semi-annually, maturing July 1, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$9,976.	1,738,786		1,751,000
Less: principal paid during the period	(38,060)		(12,214)

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

5. MORTGAGES PAYABLE (continued)

	2006	2005
<u>Torquay</u> — Mortgage bearing interest at 5.75%, calculated semi-annually, maturing February 10, 2008. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$13,798.	2,084,474	2,100,000
Less: principal paid during the period	(48,377)	(15,526)
<u>Torquay</u> — Vendor take-back mortgage bearing interest at 4.5%, calculated semi-annually, maturing February 10, 2008. The mortgage is secured by the income producing property. Interest of \$1,594 is payable monthly. The principal will be repayable when the mortgage matures.	425,000	425,000
Less: principal paid during the period	—	—
<u>Northland</u> — Mortgage bearing interest at 5.09%, calculated semi-annually, maturing December 10, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$21,673.	3,693,750	3,693,750
Less: principal paid during the period	(75,765)	—
Total outstanding balance	\$ 20,224,166	\$ 27,792,354

Payments to be made on the mortgages over the next five years are as follows:

2007	\$	386,032
2008		2,762,664
2009		373,948
2010		10,431,439
2011		156,381
	\$	14,110,464

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

6. DEBENTURE DEBT

Debenture debt payable to SRAI	2006	2005
Debenture debt bears interest at 9.95% per annum, payable quarterly in arrears. The debt is due October 31, 2009 and is secured by a general security agreement over the assets of the Limited Partnership. Included in accounts payable at December 31, 2006 is accrued interest of \$116,696. (2005 - \$233,392).	\$ 9,382,600	\$ 9,382,600
Less: repayment during the year	(4,691,300)	—
Total outstanding Debenture Debt	\$ 4,691,300	\$ 9,382,600

7. PARTNERS' CAPITAL

The Limited Partnership's authorized partners' capital consists of up to 5,000 Limited Partners' units, one Initial Limited Partner's unit and one General Partner's unit.

During the period ended December 31, 2004, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each.

During the period ended December 31, 2004, the Limited Partnership issued under an initial public offering, 1,046 Limited Partners' units for gross proceeds of \$2,615,000. Offering costs representing the Limited Partnership's pro-rata share of costs incurred to issue the units, which consist of agents' fees and commissions plus professional fees and other related costs, totalled \$15,553 and \$409,609 in 2005 and 2004, respectively. The Limited Partnership did not issue any additional units, nor incur any additional offering costs in 2006.

During the year ended December 31, 2006, total cash distributions of \$549,150 (2005 – \$235,350) were paid to the Limited Partners.

8. RELATED PARTY TRANSACTIONS

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

Transactions with the Debenture Issuer—SRAI

SRAI is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. In connection with a debenture debt received from SRAI (Note 6), the Limited Partnership incurred the following expenses to SRAI in the year ending December 31, 2006:

- annual loan fees of \$535,205 (2005 – \$214,082);
- debenture debt interest of \$770,194 (2005 – \$933,569); and,
- ongoing quarterly debenture debt fees of \$38,703 (2005 – \$46,913);

Included in accounts payable and accrued liabilities at December 31, 2006 is \$390,162 (2005 – \$512,723) due to SRAI.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

8. RELATED PARTY TRANSACTIONS (continued)

Transactions with the General Partner—Sunstone Advisors (Canada) Inc.

The Limited Partnership, pursuant to the General Partner Services Agreement, paid to the General Partner:

- a financing fee of \$Nil (2005 – \$555,150) included in deferred expenses;
- a disposition fee of \$213,000 (2005 – \$68,550), which is included in the gain on disposal of the income producing property; and
- an annual asset management fee \$196,125 equal to 1.5% of the Net Asset Value of the Limited Partnership. The General Partner waived the asset management fee for the year ended December 31, 2005.

Included in accounts payable and accrued liabilities at December 31, 2006 is \$5,134 (2005 – \$79,009) due to the General Partner.

Transactions with Sunstone Opportunity Fund (2005) Limited Partnership

Sunstone Opportunity Fund (2005) Limited Partnership is related to the Limited Partnership by having the same General Partner. Included in receivables at December 31, 2006 is \$15,000 (2005 – \$Nil) due from Sunstone Opportunity Fund (2005) Limited Partnership.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2006 consisted of:

- Rental deposit obligations of \$42,223 being assumed by the purchaser as part of the sales price on disposal of West Willow income producing property.
- Tenant improvement obligations of \$75,000 being assumed by the purchaser as part of the sales price on disposal of West Willow Shopping Centre.
- \$58,837 distribution to the Limited Partners accrued in accounts payable.

Significant non-cash transactions for the year ended December 31, 2005 consisted of:

- Mortgage payable of \$2,803,625 being assumed by the purchaser as part of the sales price on disposal of an income producing property.
- Rental deposit obligations of \$80,376 being assumed by the purchaser as part of the sales price on disposal of an income producing property.
- The Limited Partnership assuming mortgages payable of \$5,376,151 on the acquisition of income producing properties.
- The Limited partnership assuming certain payables of \$68,241 and rental deposit obligations of \$165,618 on the acquisition of income producing properties.
- The Limited Partnership assuming a receivable of \$13,713 on the acquisition of income producing properties.

10. SEGMENTED INFORMATION

The Limited Partnership operates in one business segment, being the owning and operation of income producing and other real estate properties, in Canada.

Sunstone Opportunity Fund (2004) Limited Partnership
Notes to Financial Statements
December 31, 2006

11. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Limited Partnership's financial instruments:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable	\$ 20,224,166	\$ 19,614,855	\$ 27,792,354	\$ 27,792,354
Debenture debt	4,691,300	4,921,177	9,382,600	9,382,600

For certain of the Limited Partnership's financial instruments, including cash, receivables, accounts payable and accrued liabilities, and rental deposits, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of amounts due for mortgages payable and debenture debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates which represent borrowing rates presently available to the Limited Partnership for loans with similar terms and maturity.

Credit risk

The Limited Partnership is exposed to some credit risk with respect to the collection of rental revenue, but minimizes the risk by checking tenants' credit history and requesting security deposits.

Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Limited Partnership is exposed to financial risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The Limited Partnership manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimize interest expense.