

**Sunstone Opportunity Fund Limited Partnership**

**Financial Statements**

**December 31, 2005**

## AUDITORS' REPORT

To the Partners of the  
Sunstone Opportunity Fund Limited Partnership

We have audited the balance sheets of the Sunstone Opportunity Fund Limited Partnership as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY"**

Vancouver, Canada

Chartered Accountants

March 3, 2006

A Member of SC INTERNATIONAL

**Sunstone Opportunity Fund Limited Partnership**  
**Balance Sheets**  
**As at December 31**

	2005	2004
<b>ASSETS</b>		
Income producing properties (Note 3)	\$ -	\$ 43,763,683
Cash held in trust (Note 4)	-	788,863
Cash	<b>1,297,117</b>	1,063,914
Receivables	<b>170,165</b>	148,582
Prepaid expenses	-	240,615
Loan receivable (Note 5)	-	35,382
Deferred expenses (Note 6)	-	823,061
	<b>\$ 1,467,282</b>	<b>\$ 46,864,100</b>
<b>LIABILITIES</b>		
Mortgages payable (Note 7)	\$ -	\$ 32,323,584
Debenture debt (Note 8)	-	11,132,800
Accounts payable and accrued liabilities	<b>164,631</b>	1,127,608
Rental deposits	-	588,335
	<b>164,631</b>	<b>45,172,327</b>
<b>Partners' capital</b>		
Partners' capital (Note 9)	<b>1,302,651</b>	1,691,773
	<b>\$ 1,467,282</b>	<b>\$ 46,864,100</b>

**Nature of business and basis of presentation** (Note 1)

**Approved by the Directors of  
Sunstone Realty 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 Limited Partnership**  
**Statement of Partners' Capital**

	Limited Partners'		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Total
Balance, December 31, 2003	-	\$ -	1	\$ 10	1	\$ 10	2	\$ 20
Issuance of units, net of offering costs of \$308,202	1,234	2,776,798	-	-	-	-	1,234	2,776,798
Loss for the year	-	(980,828)	-	(49)	-	(49)	-	(980,926)
Cash distributions	-	(104,119)	-	-	-	-	-	(104,119)
Balance, December 31, 2004	1,234	1,691,851	1	(39)	1	(39)	1,236	1,691,773
Net income for the year	-	8,325,667	-	100	-	2,271,567	-	10,597,334
Cash distributions	-	(9,135,456)	-	-	-	(1,851,000)	-	(10,986,456)
<b>Balance, December 31, 2005</b>	<b>1,234</b>	<b>\$ 882,062</b>	<b>1</b>	<b>\$ 61</b>	<b>1</b>	<b>\$ 420,528</b>	<b>1,236</b>	<b>\$ 1,302,651</b>

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

**Sunstone Opportunity Fund Limited Partnership**  
**Statements of Operations**  
**Years ended December 31**

	2005	2004
<b>REVENUES</b>		
Rental income	\$ 4,708,787	\$ 3,433,218
Interest income	58,870	84,041
	<b>4,767,657</b>	<b>3,517,259</b>
<b>OPERATING EXPENSES</b>		
Administration and general	205,515	59,501
Cleaning	73,869	50,349
HVAC	25,457	25,486
Insurance	45,852	38,799
Landscaping and parking	42,516	35,843
Management fees	119,883	142,392
Property taxes	652,404	649,380
Repairs and maintenance	154,571	118,178
Security	36,676	21,234
Utilities	144,482	132,508
	<b>1,501,255</b>	<b>1,273,670</b>
<b>INCOME BEFORE OTHER ITEMS</b>	<b>3,266,432</b>	<b>2,243,589</b>
<b>OTHER ITEMS</b>		
Amortization of income producing properties	888,134	699,210
Amortization of deferred expenses	823,061	93,319
Annual loan fee	967,066	224,553
Asset management fees	231,375	115,688
Debenture loan fees	41,556	45,378
Debenture loan interest	847,910	894,019
Mortgage interest	1,297,323	1,007,606
Office and general	190,704	57,584
Professional fees	114,810	87,158
	<b>5,401,939</b>	<b>3,224,515</b>
<b>Loss before gain on disposal</b>	<b>(2,135,507)</b>	<b>(980,926)</b>
<b>Gain on disposal of income producing properties (Note 3)</b>	<b>12,732,841</b>	<b>-</b>
<b>Net income (loss) for the year</b>	<b>\$ 10,597,334</b>	<b>\$ (980,926)</b>

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

**Sunstone Opportunity Fund Limited Partnership**  
**Statements of Cash Flows**  
**Years ended December 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ 10,597,334	\$ (980,926)
Items not affecting cash:		
Amortization of income-producing properties	888,134	699,210
Amortization of deferred expenses	823,061	93,319
Gain on disposal of income-producing properties	(12,732,841)	-
Changes in non-cash working capital items:		
Increase in receivables	(21,583)	(148,582)
Decrease (increase) in prepaid expenses	240,615	(240,615)
Increase (decrease) in accounts payable	(962,977)	1,127,608
Decrease in rental deposits	(245,881)	(2,185)
Net cash provided by (used in) operating activities	(1,414,138)	547,829
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of income producing properties	(162,238)	(43,912,626)
Cash held in trust	788,863	(788,863)
Loan receivable	35,382	4,871
Proceeds on disposal of income producing properties	27,371,421	-
Property disposal costs	(2,305,835)	-
Net cash provided by (used in) investing activities	25,727,593	(44,696,618)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on issuance of units	-	3,085,000
Unit issuance costs	-	(308,202)
Distributions to Limited Partners	(9,135,456)	(104,119)
Distributions to the General Partner	(1,851,000)	-
Deferred expenses	-	(916,380)
Debenture debt proceeds (repaid) received	(11,132,800)	11,132,800
Mortgage proceeds received	-	32,575,000
Mortgage proceeds repaid	(1,470,270)	-
Principal repayments on mortgage	(490,726)	(251,416)
Net cash provided by (used in) financing activities	(24,080,252)	45,212,683
<b>Increase in cash</b>	<b>233,203</b>	<b>1,063,894</b>
<b>Cash, beginning of year</b>	<b>1,063,914</b>	<b>20</b>
<b>Cash, end of year</b>	<b>\$ 1,297,117</b>	<b>\$ 1,063,914</b>
<b>Cash paid for interest</b>	<b>\$ 2,266,772</b>	<b>\$ 1,463,955</b>

Supplemental disclosure with respect to cash flows (Note 12).

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

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
**December 31, 2005**

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**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Sunstone Opportunity Fund Limited Partnership (the “Limited Partnership”) was formed pursuant to the Partnership Act (British Columbia) on December 21, 2001 under the name CIPC Project (No. 3) Limited Partnership and was renamed on November 20, 2003. The Limited Partnership was established for the purposes of owning and operating income-producing commercial real estate properties in Canada.

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

On January 5, 2004, the Limited Partnership, along with SRAI Capital Corp. (“SRAI”), received final receipt for an initial public offering prospectus to sell a minimum of 200 Units up to a maximum of 1,600 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 A Debenture from SRAI in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on February 28, 2009. The offering was closed on April 1, 2004 after a total of 1,234 Limited Partnership units had been issued (Note 9).

SRAI loaned to the Limited Partnership the net proceeds received from the issuance of the Series A Debentures, by way of a debenture loan (Note 8).

During the year ended December 31, 2004, the Limited Partnership purchased an undivided beneficial interest in Langley Crossing Shopping Centre, a 50% beneficial interest in Cascade Plaza, and an undivided beneficial interest in Westhill Centre (Note 3). During the year ended December 31, 2005, the Limited Partnership sold its interest in all three of its income producing properties. After 2005, there will be no further operations. The Limited Partnership will be wound up in 2006 when the remaining assets are realized and used to settle the remaining liabilities. These financial statements include the accounts of the Limited Partnership and its interest in the properties from the date of acquisition to the date of disposal.

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 will be allocated as follows:

- Firstly, 0.005% to 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.

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
**December 31, 2005**

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont...)**

**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**

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. Equipment is amortized on a declining-balance basis at 20% per annum.

**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 that are directly associated with, and that are expected to arise as a result of, its 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.

**Sunstone Opportunity Fund Limited Partnership**  
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**3. INCOME PRODUCING PROPERTIES**

In April 2004, the Limited Partnership acquired an undivided beneficial interest in Langley Crossing in Langley, BC for a cost of \$18,000,000 which included the assumption of a loan receivable to a tenant of \$40,253 and certain rental deposit obligations of \$130,525. The Limited Partnership also acquired Rona at Langley Crossing for a cost of \$3,300,000. In September 2005, the Limited Partnership sold its undivided beneficial interest in Langley Crossing for gross proceeds \$29,000,000 less associated disposition costs.

In August 2004, the Limited Partnership acquired a 50% beneficial interest in Cascade Plaza in Banff, Alberta for a cost of \$19,850,000 which included the assumption of certain rental deposit obligations of \$439,731. In October 2005, the Limited Partnership sold its 50% beneficial interest in Cascade Plaza for gross proceeds of \$25,500,000 less associated disposition costs.

In September 2004, the Limited Partnership acquired an undivided beneficial interest in Westhill Centre in Nanaimo, BC for a cost of \$3,040,000 which included the assumption of rental deposit obligations of \$20,264. In September 2005, the Limited Partnership sold its undivided beneficial interest in Westhill Centre for gross proceeds \$3,550,000 less associated disposition costs.

Costs associated with these acquisitions in 2004 totaled \$272,893 which have been added to the costs of the assets acquired.

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ -	\$ -	\$ -	\$ 15,799,322	\$ -	\$ 15,799,322
Building	-	-	-	27,850,913	651,494	27,199,419
Paving	-	-	-	808,649	47,517	761,132
Equipment	-	-	-	4,009	199	3,810
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,462,893</b>	<b>\$ 699,210</b>	<b>\$ 43,763,683</b>

The gain on disposal of these income producing properties is determined as follows:

<b>Gross Proceeds</b>	<b>\$ 58,050,000</b>
Net book value of income-producing properties	(43,011,324)
Selling commission and legal fees	(1,167,702)
Disposition fee of 1.5% of the gross proceeds	(870,750)
Other costs	(267,383)
<b>Gain on disposal of income producing properties</b>	<b>\$ 12,732,841</b>

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
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**Cascade Plaza**

The following amounts are included in these financial statements and represent the Limited Partnership's 50% share of the income, cash flows and net assets of Cascade Plaza.

	2005	2004
<b>SHARE OF OPERATING RESULTS</b>		
Rental revenues	\$ 2,201,774	\$ 1,179,643
Operating and other expenses	<u>1,394,041</u>	<u>840,280</u>
Net income	<u>807,733</u>	<u>339,363</u>
<b>SHARE OF NET ASSETS</b>		
Assets		
Income-producing property	-	20,008,876
Cash held in trust	-	488,863
Cash and equivalents	13,545	135,976
Receivables and prepaid expenses	<u>28,953</u>	<u>148,108</u>
	<u>42,498</u>	<u>20,781,823</u>
Liabilities		
Mortgage payable	-	14,734,686
Accounts payable and accrued liabilities	21,621	290,404
Rental deposits	<u>-</u>	<u>434,046</u>
	<u>21,621</u>	<u>15,459,136</u>
Net assets	<u>20,877</u>	<u>5,322,687</u>
<b>CASH FLOWS</b>		
Operating activities	661,592	494,378
Investing activities	9,627,902	(20,114,851)
Financing activities	<u>(224,795)</u>	<u>19,644,011</u>

**4. CASH HELD IN TRUST**

Cash held in trust consisted of amounts held by mortgage lenders (Note 7) for lease reserves to pay for certain costs (including but not limited to tenant improvements and allowances, landlord's work, leasing commissions and marketing expenses) associated with the leasing of Rona at Langley Crossing and Cascade Plaza (Note 3). The lease reserves were returned to the Limited Partnership as appropriate as a result of the disposal of the related properties.

**5. LOAN RECEIVABLE**

The loan to a tenant of Langley Crossing (Note 3) bore interest at 10% per annum. In fiscal 2005, the loan was repaid.

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
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**6. DEFERRED EXPENSES**

Deferred expenses consisted of financing services and costs incurred to obtain mortgage financing for the property purchases (Note 7).

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Finance costs	\$ 916,380	\$ 916,380	\$ -	\$ 916,380	\$ 93,319	\$ 823,061

These costs were fully amortized during the current year with the repayment of the mortgages.

**7. MORTGAGES PAYABLE**

	2005	2004
<b>Langley Crossing</b> - Mortgage bearing interest at 5.52%, calculated semi-annually. The balance of the mortgage was assumed by the purchaser of Langley Crossing in September 2005.	<b>\$ 16,094,210</b>	<b>\$ 16,275,000</b>
Less: principal paid during the year	(241,513)	(180,790)
Less: balance of mortgage assumed	(15,852,697)	
<b>Cascade Plaza</b> - Mortgage bearing interest at 5.98%, calculated semi-annually. The balance of the mortgage was assumed by the purchaser of Cascade Plaza in September 2005.	<b>14,734,686</b>	14,800,000
Less: principal paid during the year	(224,795)	(65,314)
Less: balance of mortgage assumed	(14,509,891)	
<b>Westhill Centre</b> - Mortgage bearing interest at 4.70%, calculated semi-annually. The balance of the mortgage was repaid by the Limited Partnership upon sale of the property	<b>1,494,688</b>	1,500,000
Less: principal paid during the year	(24,418)	(5,312)
Less: balance of mortgage paid	(1,470,270)	
<b>Total mortgages payable</b>	<b>\$ -</b>	<b>\$ 32,323,584</b>

**8. DEBENTURE DEBT**

	2005	2004
<b>Debenture loan payable to SRAI Capital Corp.</b>		
The debenture loan bore interest at 9.9% per annum, payable quarterly, in arrears. The loan was paid in full in October 2005.	\$ -	\$ 11,132,800

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
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**9. 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, 2001, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each.

During the year ended December 31, 2004, the Limited Partnership issued under an initial public offering 1,234 Limited Partners' units for gross proceeds of \$3,085,000. Offering costs totaling \$308,202 represent the Limited Partnership's pro-rata share of costs incurred to issue the units and consist of agents' fees and commissions plus professional fees and other related costs.

During the year ended December 31, 2004, cash distributions of \$104,119 were paid to the Limited Partners.

During the year ended December 31, 2005, cash distributions of \$9,135,456 were paid to the Limited Partners and \$1,851,000 was paid to the General Partner.

**10. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, the Limited Partnership repaid the debenture loan of \$11,132,800 to SRAI (Note 8). SRAI is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. The Limited Partnership has incurred debenture loan interest of \$847,910 (2004 - \$894,019), and an ongoing quarterly loan fee of \$41,556 (2004 - \$45,378) to SRAI. The annual loan fee payable to SRAI is an amount equal to the offering costs incurred by SRAI to complete the initial public offering (Note 1) and was aggregated over the term of the loan. As a result of the early repayment of the debenture loan in 2005, the annual loan fee was increased to the amount not previously recorded. Accordingly, the Limited Partnership paid SRAI an accelerated annual loan fee of \$967,066 (2004 - \$224,553).

The Limited Partnership, pursuant to the General Partner Services Agreement, paid the General Partner a disposition fee of \$870,750, which is included in the gain on the disposal of income-producing properties, and an asset management fee of \$231,375 (2004 - \$115,688). In 2004, the Limited Partnership paid the General Partner a financing fee of \$662,250 which was included in deferred expenses.

Included in accounts receivable at December 31, 2005 is \$15,582 (2004 - \$Nil) owing from SRAI which is the result of an overpayment of the annual loan fee.

Included in accounts payable and accrued liabilities at December 31, 2005 is \$19,281 (2004 - \$559,445) due to the General Partner and \$Nil (2004 - \$44,230) owing to the Sunstone Opportunity Fund (2004) Limited Partnership.

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.

**Sunstone Opportunity Fund Limited Partnership**  
**Notes to the Financial Statements**  
**December 31, 2005**

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**11. SEGEMENTED INFORMATION**

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

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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

- a. Mortgages payable of \$30,362,588 being assumed by the purchasers as part of the sale price on disposal of income producing properties.
- b. Rental deposit obligations of \$342,454 being assumed by the purchasers as part of the sale price on disposal of income producing properties.

Significant non-cash transactions for the year ended December 31, 2004 consisted of:

- a. The Limited Partnership assuming a loan receivable of \$40,243 on the acquisition of income producing properties.
- b. The Limited Partnership assuming rental deposit obligations of \$590,520 on the acquisition of income producing properties.

**13. FINANCIAL INSTRUMENTS**

The Limited Partnership's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Limited Partnership is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial statements approximates their carrying values, unless otherwise noted.