

Sunstone Opportunity Fund (2005) Limited Partnership

Consolidated Financial Statements

December 31, 2006

MANAGEMENT'S RESPONSIBILITY

To the Partners of
Sunstone Opportunity Fund (2005) Limited Partnership

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The General Partner is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The General Partner fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The General Partner is responsible for appointing the Limited Partnership's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the General Partner to audit the consolidated financial statements and report directly to the Partners; their report follows. The external auditors have full and free access to both the General Partner and management to discuss their audit findings.

March 9, 2007

“Darren Latoski”

President, Sunstone Realty Advisors (2005) Inc. as General Partner

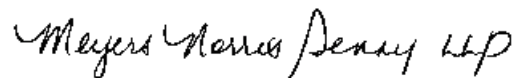
AUDITORS' REPORT

To the Partners of
Sunstone Opportunity Fund (2005) Limited Partnership

We have audited the consolidated balance sheets of the Sunstone Opportunity Fund (2005) Limited Partnership as at December 31, 2006 and 2005 and the consolidated 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 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 consolidated 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 operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Nanaimo, BC, Canada

Chartered Accountants

March 1, 2007

Sunstone Opportunity Fund (2005) Limited Partnership
Consolidated Balance Sheets
As at December 31

	2006	2005
ASSETS		
Income producing properties (note 3)	\$ 120,156,129	\$ 3,313,907
Cash held in trust (note 4)	752,556	700,000
Cash	3,249,233	37,136,829
Receivables	381,195	34,357
Prepaid expenses	573,729	—
Deferred expenses (note 5)	2,448,809	49,500
	\$ 127,561,651	\$ 41,234,593
LIABILITIES		
Mortgages payable (note 6)	\$ 87,186,279	\$ —
Debenture debt (note 7)	32,764,000	32,764,000
Accounts payable and accrued liabilities	3,079,926	820,922
Rental deposits	302,506	30,898
	123,332,711	33,615,820
PARTNERS' CAPITAL		
Partners' capital (note 8)	4,228,940	7,618,773
	\$ 127,561,651	\$ 41,234,593

Nature of business and basis of presentation (Note 1)

**Approved by the Directors of
Sunstone Realty Advisors (2005) Inc.,
as General Partner:**

“Steve Evans” Director

“Darren Latoski” Director

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

Sunstone Opportunity Fund (2005) Limited Partnership
Consolidated Statements of Partners' Capital
Years ended December 31

	Limited Partners		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance, December 31, 2004	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Issuance of initial units	—	—	1	10	1	10	2	20
Issuance of units	3,600	9,000,000	—	—	—	—	3,600	9,000,000
Issuance costs	—	(797,349)	—	—	—	—	—	(797,349)
Net loss for the year	—	(583,840)	—	(29)	—	(29)	—	(583,898)
Balance, December 31, 2005	3,600	7,618,811	1	(19)	1	(19)	3,602	7,618,773
Offering costs related to units issued in 2005	—	(4,658)	—	—	—	—	—	(4,658)
Net loss for the year	—	(3,024,975)	—	(100)	—	(100)	—	(3,025,175)
Cash Distribution	—	(360,000)	—	—	—	—	—	(360,000)
Balance, December 31, 2006	3,600	\$4,229,178	1	\$ (119)	1	\$ (119)	3,602	\$4,228,940

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

Sunstone Opportunity Fund (2005) Limited Partnership
Consolidated Statements of Operations
Years ended December 31

	2006	2005
REVENUES		
Rental income	\$ 8,494,404	\$ —
Interest and other income	580,556	169,434
	9,074,960	169,434
OPERATING EXPENSES		
Administration and general	33,659	—
Cleaning	147,659	—
HVAC	33,537	—
Insurance	65,637	—
Landscaping and parking	75,943	—
Management fees	234,771	—
Property taxes	1,449,876	—
Repairs and maintenance	244,951	—
Security	41,791	—
Utilities	283,065	—
	2,610,889	—
INCOME BEFORE OTHER ITEMS	6,464,071	169,434
OTHER ITEMS		
Amortization of deferred expenses	422,727	—
Amortization of income producing properties	1,897,966	—
Annual loan fee	644,847	160,487
Asset management fees	17,097	—
Debenture loan fees	163,820	26,862
Debenture loan interest	2,948,760	483,517
Marketing expenses	52,389	—
Mortgage interest	3,135,123	—
Office and general	34,066	4,293
Professional fees	159,490	7,770
Property investigation costs	186,069	70,403
	9,662,354	753,332
LOSS BEFORE GAIN ON DISPOSAL	(3,198,283)	(583,898)
DISPOSAL OF PROPERTY		
Gain on disposal of property (note 3)	173,108	—
Loss for the year	\$ (3,025,175)	\$ (583,898)

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

Sunstone Opportunity Fund (2005) Limited Partnership
Consolidated Statements of Cash Flows
Years ended December 31

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (3,025,175)	\$ (583,898)
Items not affecting cash:		
Amortization of income producing properties	1,897,966	—
Amortization of deferred expenses	422,727	—
Gain on sale of income producing property	(173,108)	—
Changes in non-cash working capital items:		
Increase in receivables	(346,838)	(34,357)
Increase in prepaid expenses	(324,479)	—
Increase in accounts payable and accrued liabilities	1,942,784	771,422
Increase in rental deposits	56,001	—
Net cash provided by operating activities	449,878	153,167
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of income producing properties	(79,704,196)	(3,283,009)
Cash held in trust	(52,556)	(700,000)
Proceeds from disposal of income producing property	2,500,000	—
Property disposal costs	(124,963)	—
Net cash used in investing activities	(77,381,715)	(3,983,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of units	—	9,000,020
Unit issuance costs	(4,658)	(797,349)
Proceeds from debenture loan	—	32,764,000
Deferred expenses	(2,749,380)	—
Mortgage proceeds received	46,550,000	—
Repayment of mortgages	(571,721)	—
Distributions to Limited Partners	(180,000)	—
Net cash provided by financing activities	43,044,241	40,966,671
Change in cash during the year	(33,887,596)	37,136,829
Cash, beginning of the year	37,136,829	—
CASH, END OF THE YEAR	\$ 3,249,233	\$ 37,136,829
Cash paid for interest	\$ 5,006,393	\$ —
Cash received for interest	\$ 494,206	\$ 169,434

Supplemental disclosure with respect to cash flows (Note 10)

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

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Sunstone Opportunity Fund (2005) Limited Partnership (the “Limited Partnership”) was formed pursuant to the Partnership Act (British Columbia) on December 30, 2004 as SRAI Project (No. 3) Limited Partnership and the name was changed on July 25, 2005. 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 Realty Advisors (2005) Inc. (“General Partner”).

On September 20, 2005, the Limited Partnership, along with SRAI Capital Corp. (“SRAI”), received final receipt for an initial public offering prospectus, which was subsequently amended on October 17, 2005, to sell a minimum of 400 Units up to a maximum of 3,600 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 C Debenture from SRAI in the principal amount of \$10,000 bearing interest at 8% per annum, maturing on October 31, 2010. The offering was closed on December 14, 2005 after a total of 3,600 Limited Partnership units had been issued (Note 8).

SRAI loaned to the Limited Partnership the net proceeds received from the issuance of the Series C Debentures, by way of a debenture debt (Note 7).

In 2005, the Limited Partnership purchased an undivided beneficial interest in Westview Building (“Westview”), and in 2006 it purchased the following properties: Camco Distribution Facility/1505 Dickson Street (“Camco”), the Team Tube/Encore Metals Industrial Portfolio (“Team Tube”), River City Centre (“River City”), Midpark Court (“Midpark”), Sherwood Forrest Village (“Sherwood”), 333 DeBaets Street in Winnipeg, Manitoba (“DeBaets” – part of Team Tube) and 4243 Glanford Ave in Victoria, British Columbia (“Glanford”). Also in 2006, the Limited Partnership acquired a fifty percent joint venture interest in Pickering Annex Shopping Centre (“Pickering”), Northumberland Mall (“Northumberland”) and Pickering vacant land (“Pickering Ridge”). In August 2006, the Limited Partnership sold the Quebec portion of Team Tube, which is located at 1960 and 1970 Rue le Chatelier, Laval. These financial statements include the accounts of the Limited Partnership and its interest in the 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 Limited Partnership has consolidated the assets, liabilities, revenues and expenses of all joint venture interests, after the eliminations of inter-entity transactions and balances. The consolidated financial statements reflect the financial position and results of operations and cash flows of the Limited Partnership and its 50% interests in the Pickering Brock Joint Venture, the Northumberland Joint Venture and the Pickering Ridge Joint Venture, but 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 and 0.005% to the General Partner to a maximum of \$100 per annum;
- Secondly, to the Limited Partners in the amount of the Limited Partners’ minimum return, being 8% 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 (2005) Limited Partnership
Notes to Consolidated 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, 2006 and 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 straight-line basis at 8% per annum. Tenant improvements are deferred and amortized using the straight-line method over the term of the related leases. Computers are amortized on a straight-line basis over 3 years.

Impairment of long-lived assets

The Limited Partnership performs impairment testing on its income producing properties whenever events or changes in circumstances indicate that the carrying value of the assets, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from an asset's use and disposal are less than its carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the period.

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. Interest income is recognized in the period when it is earned.

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 (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Joint Ventures

Investments in joint ventures subject to joint control are accounted for using the proportionate consolidation method. The Limited Partnership's pro-rata share of the assets, liabilities, revenues and expenses of the joint ventures have been combined on a line-by-line basis with similar items of the Limited Partnership.

3. INCOME PRODUCING PROPERTIES

In January 2006, the Limited Partnership acquired Camco, consisting of land and building, at a cost of \$11,900,000 plus acquisition costs of \$54,697.

On March 29, 2006, the Limited Partnership acquired a fifty percent joint venture interest in Pickering Annex, consisting of land, building and paving, at a cost of \$17,675,000 and the assumption of security deposits totalling \$64,249. Costs associated with the acquisition were \$499,784.

On March 31, 2006, the Limited Partnership acquired the Team Tube/Encore Metals Industrial Portfolio, consisting of land and building, at a cost of \$21,350,000 and the assumption of certain payables of \$89,208. Costs associated with the acquisition were \$175,257.

On March 31, 2006, the Limited Partnership acquired River City Centre, consisting of land and building, at a cost of \$22,900,000. Costs associated with the acquisition were \$140,544.

On July 4, 2006, the Limited Partnership acquired Sherwood Forrest Village, consisting of land and building, at a cost of \$9,450,000 and the assumption of security deposits totalling \$52,843. Costs associated with the acquisition were \$174,629.

On July 20, 2006, the Limited Partnership acquired Midpark Court, consisting of land and building, at a cost of \$3,710,000 and the assumption of security deposits totalling \$10,512 and property tax and insurance payables totalling \$23,722. Costs associated with the acquisition were \$43,968.

On July 28, 2006, the Limited Partnership acquired DeBaets, a part of the Team Tube/Encore Metals Industrial Portfolio, consisting of land and building, at a cost of \$2,600,000 and the assumption of security deposits totalling \$43,528. Costs associated with the acquisition were \$119,427.

On August 4, 2006, the Limited Partnership acquired a fifty percent joint venture interest in Northumberland, consisting of land, building and paving, at a cost of \$19,075,000 and the assumption of security deposits totalling \$44,475. Costs associated with the acquisition were \$531,672.

On August 30, 2006, the Limited Partnership sold a portion of Team Tube located at 1960 and 1970 Rue le Chatelier, Laval, Quebec for \$2,500,000. Costs associated with the disposition were \$124,963, resulting in a gain on disposal of \$173,108 as follows:

Gross proceeds	\$	2,500,000
Disposition fee of 1.5% of the gross proceeds		(37,500)
Selling commission and legal fees		(87,463)
Net proceeds		2,375,037
Net book value of income producing property		(2,201,929)
Gain on disposal of income producing property	\$	173,108

On September 12, 2006, the Limited Partnership acquired a fifty percent joint venture interest in DeBoers, an additional part of Pickering Annex, consisting of land, building and paving, at a cost of \$2,150,000 plus standard closing costs and expenses of \$74,100.

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

3. INCOME PRODUCING PROPERTIES (continued)

On November 30, 2006, the Limited Partnership acquired Glanford, consisting of land and building, at a cost of \$5,500,000 plus standard closing costs and expenses of \$70,347.

In December 2006, the Limited Partnership acquired a fifty percent joint venture interest in Pickering Ridge, consisting of land, at a cost of \$2,400,000 plus standard closing costs and expenses \$106,446.

2006			
	Cost	Accumulated amortization	Net book value
Land	\$ 49,116,808	\$ —	\$ 49,116,808
Building	70,009,762	(1,757,326)	68,252,436
Paving	2,785,131	(115,106)	2,670,025
Tenant improvement	125,819	(12,038)	113,781
Computer equipment	3,463	(384)	3,079
Total	\$ 122,040,983	\$ (1,884,854)	\$ 120,156,129

In December 2005, the Limited Partnership acquired Westview, consisting of land and building, at a cost of \$3,300,000 plus standard closing costs and expenses of \$13,907. In 2006, the cost of Westview was decreased by \$84,660 due to the reversal of tenant allowance accrued on acquisition.

2005			
	Cost	Accumulated amortization	Net book value
Land	\$ 1,988,344	\$ —	\$ 1,988,344
Building	1,325,563	—	1,325,563
Total	\$ 3,313,907	\$ —	\$ 3,313,907

Capital enhancements after acquisition totalling \$466,057 (2005 - \$Nil) have been capitalized in the cost of the related assets.

Amortization of the income producing properties totalling \$1,897,966 (2005 - \$Nil) consists of \$1,884,854 (2005 - \$Nil) and \$13,112 (2005 - \$Nil) for the properties held and sold, respectively.

\$768,782 was held in trust and is related to the River City property purchase made during the year. The terms are set out by an escrow agreement and concern the levels of future rent revenue from the purchased property. The Limited Partnership can draw on the funds monthly based on a calculation of vacant space multiplied by a rent factor. Any balance not claimed by the Limited Partnership at March 31, 2008 will be repaid to the vendor. \$192,196 was drawn during 2006 and reduced the original cost of the property.

4. CASH HELD IN TRUST

Cash held in trust consists of refundable deposits held pursuant to agreements of purchase and sale and are to be used solely for the acquisition of real estate properties; and refundable amounts held by financial institutions for mortgage reserves.

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

5. DEFERRED EXPENSES

	2006		
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ 2,835,608	\$ (420,523)	\$ 2,415,085
Deferred leasing commissions	35,928	(2,204)	33,724
Total	\$ 2,871,536	\$ (422,727)	\$ 2,448,809

	2005		
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ 49,500	\$ —	\$ 49,500
Deferred leasing commissions	—	—	—
Total	\$ 49,500	\$ —	\$ 49,500

6. MORTGAGES PAYABLE

	2006	2005
Westview — Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing May 2011. The mortgage is secured by the income producing property with a net book value of \$3,208,422 and is repayable in blended monthly payments of principal and interest of \$11,119 commencing June 2006.	\$ 1,825,000	\$ —
Less: principal paid during the period	(20,124)	—
Camco — Mortgage with RBC CMBS Group bearing interest at 5.677%, calculated semi-annually, maturing March 2016. The mortgage is secured by the income producing property with a net book value of \$11,821,976 and is repayable in blended monthly payments of principal and interest of \$49,143 commencing April 2006.	8,550,000	—
Less: principal paid during the period	(84,042)	—
Pickering — Mortgage with GE Commercial Finance is an open variable rate mortgage calculated semi-annually, maturing March 2009. The mortgage is secured by the income producing property with a net book value of \$19,997,408 and is payable monthly, interest only commencing April 2006. The principal will be repayable when the mortgage matures.	14,868,750	—
Less: principal paid during the period	—	—

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

6. MORTGAGES PAYABLE (continued)

	2006	2005
<u>Team Tube</u> — Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing property with a net book value of \$19,152,333 and is repayable in blended monthly payments of principal and interest of \$87,120 commencing May 2006.	\$ 14,300,000	\$ —
Less: principal paid during the period	(181,844)	—
<u>River City</u> — Mortgage with Sun Life Financial bearing interest at 5.35%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing property with a net book value of \$22,519,623 and is repayable in blended monthly payments of principal and interest of \$103,340 commencing May 2006.	17,175,000	—
Less: principal paid during the period	(224,302)	—
<u>Midpark</u> — Mortgage with Citizens Bank of Canada bearing interest at 5.97%, calculated semi-annually, maturing August 1, 2011. The mortgage is secured by the income producing property with a net book value of \$3,710,553 and is repayable in blended monthly payments of principal and interest of \$18,408 commencing August 2006.	2,885,000	—
Less: principal paid during the period	(16,881)	—
<u>Sherwood</u> — Mortgage with bcIMC bearing interest at 5.76%, calculated semi-annually, maturing July 2012. The mortgage is secured by the income producing property with a net book value of \$9,566,250 and is repayable in blended monthly payments of principal and interest of \$40,593 commencing August 2006.	7,000,000	—
Less: principal paid during the period	(36,274)	—
<u>DeBaets</u> — Mortgage with bcIMC bearing interest at 5.50%, calculated semi-annually, maturing September 2011. The mortgage is secured by the income producing property with a net book value of \$2,693,808 and is repayable in blended monthly payments of principal and interest of \$10,633 commencing October 2006.	1,742,000	—
Less: principal paid during the period	(8,254)	—
<u>Northumberland</u> — Mortgage with Merrill Lynch is an open variable rate mortgage calculated semi-annually, maturing August 2007. The mortgage is secured by the income producing property with a net book value of \$19,306,957 and is payable monthly, interest only commencing September 2006. The principal will be repayable when the mortgage matures.	14,306,250	—
Less: principal paid during the period	—	—

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

6. MORTGAGES PAYABLE (continued)

	2006	2005
Glanford — Mortgage with Canadian Western Bank bearing interest at prime plus 0.75%, calculated semi-annually, maturing December 29, 2007. The mortgage is secured by the income producing property with a net book value of \$5,555,493 and is repayable monthly, interest only commencing December 2006. The principal will be repayable when the mortgage matures.	\$ 3,546,000	\$ —
Less: principal paid during the period	—	—
Pickering Ridge — Mortgage with 761750 Ontario Inc. is a vendor take-back mortgage, bearing interest at 7%, calculated semi-annually, maturing December 2008. The mortgage is secured by the income producing property with a net book value of \$2,506,446 and is payable quarterly at \$27,300, interest only commencing March 2007. The principal will be repayable when the mortgage matures.	1,560,000	—
Less: principal paid during the period	—	—
	\$ 87,186,279	\$ —

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

2007	18,826,142
2008	2,586,876
2009	15,954,669
2010	1,146,356
2011	34,424,924
	\$ 72,938,967

7. DEBENTURE DEBT

Debenture debt payable to SRAI	2006	2005
Debenture debt bears interest at 9.0% per annum, payable quarterly in arrears. The debt is due October 31, 2010 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 \$984,561 (2005 - \$483,517).	\$ 32,764,000	\$ 32,764,000

8. PARTNERS' CAPITAL

The Limited Partnership's authorized partners' capital consists of up to 3,600 Limited Partners' units, one Initial Limited Partner's unit and one General Partner's unit.

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

8. PARTNERS' CAPITAL (continued)

During the year ended 2005, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each, and 3,600 Limited Partners' units for gross proceeds of \$9,000,000. The Limited Partnership did not issue any additional units in 2006.

Offering costs representing the Limited Partnership's pro-rata share of costs incurred to issue the units consist of agents' fees and commissions plus professional fees and other related costs, and totalled \$4,658 and \$797,349 in 2006 and 2005 respectively.

During the year ended December 31, 2006, total cash distributions of \$360,000 (2005 - \$Nil) were paid to or accrued for the Limited Partners.

9. 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 Debenture Issuer – SRAI Capital Corp. ("SRAP")

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 loan received from SRAI in 2005 totaling \$32,764,000 (Note 7), the Limited Partnership incurred the following expenses to SRAI during the year:

- Debenture annual loan fee of \$644,847 (2005 – \$160,487);
- Debenture debt interest of \$2,948,760 (2005 – \$483,517); and,
- Ongoing quarterly debenture loan fees of \$163,820 (2005 – 26,862).

Included in accounts payable and accrued liabilities at December 31, 2006 is \$1,830,850 (2005 – \$670,866) due to SRAI.

Transactions with the General Partner – Sunstone Realty Advisors (2005) Inc.

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

- A financing fee of \$1,784,250 (2005 – \$49,500) equal to 1.5% of the gross purchase price of properties included in deferred expenses.
- An annual asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership. The General Partner waived the fees for the year ended December 31, 2006 and December 31, 2005.
- A disposition fee of \$37,500 equal to 1.5% of the sales price for sales of 1960 and 1970 Rue le Chatelier in Quebec.
- Incentive management interest is an allocation and distribution to be made, subject to the payment of the Limited Partners' minimum return, to the General Partner in an amount equal to 20/80ths of the total to the date of such allocation and distribution of (a) the total payments made to Limited Partners in respect of the Limited Partners' minimum return, and (b) the interest paid on the Debentures. Since the Limited Partners have not received the minimum return, there is no incentive management interest paid to the General Partner.

Included in accounts payable and accrued liabilities at December 31, 2006 is \$Nil (2005 – \$49,500) due to the General Partner.

Transactions with Sunstone Opportunity Fund (2004) Limited Partnership

Sunstone Opportunity Fund (2004) Limited Partnership is related to the Limited Partnership by having the general partners under common control. Included in accounts payable and accrued liabilities at December 31, 2006 is \$15,000 (2005 – \$Nil) due to Sunstone Opportunity Fund (2004) Limited Partnership, for reimbursement of expenses.

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
December 31, 2006

9. RELATED PARTY TRANSACTIONS (continued)

Transactions with the Partner of Joint Ventures – Bayfield Realty Advisors Inc.

Bayfield Realty Advisors Inc. is the founding limited partner of Bayfield Pickering Limited Partnership and Bayfield Northumberland Limited Partnership, which own 50% of Pickering Brock Joint Venture, Northumberland Joint Venture and Pickering Ridge Joint Venture. The Joint Venture, pursuant to the Joint Venture Agreements, paid to Bayfield Realty Advisors Inc. for the purchase of Pickering Annex Shopping Centre, Northumberland Mall and Pickering Ridge properties:

- Origination fee of \$449,750 equal to 1% or 1.5% of the gross purchase price of properties, included in the costs of income producing properties;
- Financing fee of \$77,344 equal to 0.25% of the mortgages on acquired properties, included in deferred expenses;
- Asset management fee of \$17,097 equal to either 0.5% or 0.75% of gross rental revenue from joint ventures, included in other expenses; and,
- Included in receivables is \$30,668 due from Bayfield Realty Advisors Inc. The receivable represents the difference between the actual costs payable by the joint ventures with respect to the acquisition of Pickering Annex Shopping Centre and Northumberland Mall and the estimated costs advanced to pay such costs. The amount of any excess or deficiency is to be adjusted upon all such costs being identified.

10. SUPPLEMENTAL DISCLOSURE WITH RESEPECT TO CASH FLOWS

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

- The Limited Partnership on acquisition of Team Tube paid partly with an assumption of new mortgage in the amount of \$14,300,000.
- The Limited Partnership on acquisition of River City paid partly with an assumption of new mortgage in the amount of \$17,175,000.
- The Limited Partnership on acquisition of 50% of Pickering Brock Shopping Centre assumed rental deposit obligations of \$64,249 and a tenant improvement allowance of \$30,013.
- The Limited Partnership on acquisition of Midpark Court paid partly with an assumption of new mortgage in the amount of \$2,885,000 and assumed rental deposit obligations of \$10,512.
- The Limited Partnership on acquisition of DeBaets (part of Team Tube) paid partly with an assumption of new mortgage in the amount of \$1,742,000 and assumed rental deposit obligations of \$43,528.
- The Limited Partnership on acquisition of Sherwood Forrest Village assumed rental deposit obligations of \$52,843.
- The Limited Partnership on acquisition of 50% of Northumberland Mall assumed rental deposit obligations of \$44,475 and a tenant improvement allowance of \$33,551.
- The Limited Partnership on acquisition of Glanford paid partly with an assumption of new mortgage in the amount of \$3,546,000.
- The Limited Partnership on acquisition of 50% of Pickering Ridge assumed a mortgage in the amount of \$1,560,000 from vendor.
- The Limited Partnership on the acquisition of Pickering vacant land assumed prepaid expenses of \$249,250.
- A deferred financing cost of \$72,656 was accrued in accounts payable and accrued liabilities.
- \$180,000 distribution to the Limited Partners was accrued in accounts payable and accrued liabilities.

Sunstone Opportunity Fund (2005) Limited Partnership
Notes to Consolidated Financial Statements
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10. SUPPLEMENTAL DISCLOSURE WITH RESEPECT TO CASH FLOWS (continued)

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

- Rental deposit obligations of \$30,898 being assumed by the Limited partnership on the acquisition of Westview.
- A deferred financing fee of \$49,500 being accrued and included in accounts payable and accrued liabilities.

11. JOINT VENTURES

The following represents the Limited Partnership's proportionate (50%) interests relating to the three joint ventures described in note 2.

Assets	\$	43,608,522
Liabilities		31,429,096
Revenue		2,818,682
Expenses		3,026,030
Net loss		(155,537)
Cash provided by (used in):		
Operative activities		303,032
Investing activities		(40,964,411)
Financing activities		40,366,078

12. 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.

13. FINANCIAL INSTRUMENTS

The Limited Partnership's financial instruments consist of cash, receivables, cash held in trust, accounts payable and accrued liabilities, rental deposits, mortgages payable and debenture debt. The Limited Partnership is exposed to interest rate risk primarily through its variable rate mortgages payable. In seeking to minimize the risks from interest rate fluctuations, the Limited Partnership manages exposure through its normal operating and financing activities. 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 instruments approximates their carrying values, unless otherwise noted.

In January 2005, new recommendations for the recognition and measurement of financial instruments and amendments to the existing presentation and disclosure standards were issued. These new standards are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006. The Limited Partnership expects to apply these new standards for its interim financial statements for the quarter ended March 31, 2007. Transition provisions are complex and as a result, the Limited Partnership has not yet determined the effect of these new standards on its financial statements.