

**Sunstone Opportunity Fund (2005)**  
**Limited Partnership**  
**Financial Statements**  
*December 31, 2005*

**Sunstone Opportunity Fund (2005) Limited Partnership**  
**Contents**

*For the year ended December 31, 2005*

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

Management is responsible for the preparation and presentation of the accompanying 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 judgment 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 also responsible for recommending the appointment of 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 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 6, 2006

“Darren Latoski”

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President, Sunstone Realty Advisors (2005) Inc.

To the Partners of:

Sunstone Opportunity Fund (2005) Limited Partnership:

We have audited the balance sheet of Sunstone Opportunity Fund (2005) Limited Partnership as at December 31, 2005 and the statements of loss, partners' capital and cash flows for the year 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 financial statements present fairly, in all material respects, the financial position of the Limited Partnership as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Nanaimo, British Columbia

March 6, 2006

*Mayers Morris Penny LLP*

Chartered Accountants

# Sunstone Opportunity Fund (2005) Limited Partnership

## Balance Sheet

For the year ended December 31, 2005

### Assets

|                                    |              |
|------------------------------------|--------------|
| Income producing property (Note 3) | \$ 3,313,907 |
| Cash and cash equivalents          | 37,136,829   |
| Receivables                        | 34,357       |
| Deposits                           | 700,000      |
| Deferred financing costs           | 49,500       |

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\$ 41,234,593

### Liabilities

|  |            |
|--|------------|
| Accounts payable and accrued liabilities | \$ 820,922 |
| Rental deposits                          | 30,898     |
| Debenture loan (Note 4)                  | 32,764,000 |

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33,615,820

### Partners' Capital

|                            |           |
|----------------------------|-----------|
| Partners' capital (Note 5) | 7,618,773 |
|----------------------------|-----------|

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\$ 41,234,593

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

\_\_\_\_\_  
"Steve Evans"

Director

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"Darren Latoski"

Director

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The accompanying notes are an integral part of these financial statements

**Sunstone Opportunity Fund (2005) Limited Partnership**  
**Statement of Partners' Capital**  
For the year ended December 31, 2005

|   | 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, net of issuance costs of \$797,349 | 3,600            | 8,202,651           | -                       | -              | -               | -              | 3,600        | 8,202,651           |
| Net loss for the year                                 | -                | (583,840)           | -                       | (29)           | -               | (29)           | -            | (583,898)           |
| <b>Balance, December 31, 2005</b>                     | <b>3,600</b>     | <b>\$ 7,618,811</b> | <b>1</b>                | <b>\$ (19)</b> | <b>1</b>        | <b>\$ (19)</b> | <b>3,602</b> | <b>\$ 7,618,773</b> |

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

# Sunstone Opportunity Fund (2005) Limited Partnership

## Statement of Loss

For the year ended December 31, 2005

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|                              |                     |
|------------------------------|---------------------|
| <b>Interest revenue</b>      | <b>\$ 169,434</b>   |
| <hr/>                        |                     |
| <b>Expenses</b>              |                     |
| Annual loan fee              | 160,487             |
| Debenture loan fees          | 26,862              |
| Debenture loan interest      | 483,517             |
| Office and general           | 4,293               |
| Professional fees            | 7,770               |
| Property investigation costs | 70,403              |
|                              | <hr/>               |
|                              | 753,332             |
|                              | <hr/>               |
| <b>Net loss</b>              | <b>\$ (583,898)</b> |

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

**Sunstone Opportunity Fund (2005) Limited Partnership**  
**Statement of Cash Flows**  
*For the year ended December 31, 2005*

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**Cash provided by (used for) the following:**

**Operating activities**

|   |            |
|---|------------|
| Cash received on assumption of liabilities from property purchase | \$ 115,558 |
| Cash paid to suppliers  | (100,927)  |
| Interest received   | 169,434    |
|   | <hr/>      |
|   | 184,065    |

**Financing activities**

|                              |            |
|------------------------------|------------|
| Proceeds from debenture loan | 32,764,000 |
| Issuance of units            | 9,000,020  |
| Payment of issuance costs    | (797,349)  |
|                              | <hr/>      |
|                              | 40,966,671 |

**Investing activities**

|                                       |             |
|---------------------------------------|-------------|
| Purchase of income producing property | (3,313,907) |
| Payment of deposits                   | (700,000)   |
|                                       | <hr/>       |
|                                       | (4,013,907) |

**Increase in cash and cash equivalents**

37,136,829

**Cash and cash equivalents end of year**

\$ 37,136,829

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

**Sunstone Opportunity Fund (2005) Limited Partnership**  
**Notes to the Financial Statements**  
*For the year ended December 31, 2005*

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**1. Nature of business**

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 consists 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 7).

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

The Limited Partnership purchased an undivided beneficial interest in the Westview Building in Calgary, Alberta in 2005. These financial statements include the accounts of the Limited Partnership and its interest in the property from the date of acquisition.

97% of the aggregate net proceeds received from the Limited Partners are expected to be invested in the purchase of income producing properties, the creation of renovation and working capital reserves, or the development of real estate properties by December 31, 2006. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series C Debentures.

**2. Significant accounting policies**

The financial statements reflect the financial position of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

***Revenue recognition***

Interest income is recognized in the period when it is earned. Rental revenue from properties is recognized when earned from the tenant over the term of the lease and when it can be measured and collection is reasonably assured. Recovery of operating expenses is recognized when the related expenses are incurred and when it can be measured and collection is reasonably assured.

# Sunstone Opportunity Fund (2005) Limited Partnership

## Notes to the Financial Statements

For the year ended December 31, 2005

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### 2. Significant accounting policies *Continued from previous page*

#### ***Cash and cash equivalents***

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. They are carried at cost, which approximates market values.

#### ***Income producing property***

The income producing property is initially recorded at cost. Amortization is provided at 4% per annum using the straight-line method which is intended to amortize the building over its estimated useful life.

The Limited Partnership performs impairment testing on its income producing properties whenever events or changes in circumstances indicate that the carrying value of the asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's 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 year.

Prices for similar items and discounted cash flows are used to measure fair value of income producing properties.

#### ***Deferred financing costs***

Costs incurred to obtain mortgage financing, including legal and brokerage fees, and the 1.5% financing fee paid to the General Partner are deferred and are amortized using the straight-line method over the term of the related debt or 5 years if no debt is incurred.

#### ***Issuance costs***

Issuance costs relating to the issuance of partnership units have been charged to partners' capital.

#### ***Allocation of net income or net loss***

Net income or loss of the Limited Partnership will be allocated 0.005% to the General Partner to a maximum of \$100 per annum plus its incentive management interest, 0.005% to the Initial Limited Partner to a maximum of \$100 per annum and the balance to the limited partners. The General Partner is also entitled to an incentive management interest of 20/80ths of the aggregate of total payments made in respect of the Limited Partners' minimum return and the interest paid on debentures issued by SRAI Capital Corp.

#### ***Income taxes***

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

#### ***Measurement uncertainty (use of estimates)***

The preparation of financial statements in conformity 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. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful life of the income producing property.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

# Sunstone Opportunity Fund (2005) Limited Partnership

## Notes to the Financial Statements

For the year ended December 31, 2005

### 2. Significant accounting policies (Continued from previous page)

#### Financial instruments

The Limited Partnership, as part of its operations, carries a number of financial instruments. It is management's opinion that the Limited Partnership is not exposed to significant interest, currency or credit risks arising from these financial instruments, except as otherwise disclosed.

The fair values of cash and cash equivalents, receivables and accounts payable, accrued liabilities and rental deposits closely approximates book value because of the short term nature of the instruments. The fair value of the debenture loan cannot be estimated as it is not traded on an open market.

### 3. Income producing property

On December 31, 2005, the Limited Partnership acquired the Westview Building in Calgary, Alberta at a cost of \$3,300,000 plus acquisition costs of \$13,907. No amortization was recorded in 2005 as the property was purchased December 31, 2005.

|          | <i>Cost</i>         | <i>Accumulated<br/>amortization</i> | <i>2005<br/>Net book<br/>value</i> |
|----------|---------------------|-------------------------------------|------------------------------------|
| Land     | \$ 1,988,344        | \$ -                                | \$ 1,988,344                       |
| Building | 1,325,563           | -                                   | 1,325,563                          |
|          | <u>\$ 3,313,907</u> | <u>\$ -</u>                         | <u>\$ 3,313,907</u>                |

\$72,934 is held in trust and is related to the 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 December 31, 2006 will be repaid to the vendor.

### 4. Debenture loan

The debenture loan is payable to SRAI Capital Corp (the "Debenture Issuer"), a related company owned 49% by the same shareholders who own the General Partner of this Limited Partnership.

This is a promissory note, due October 31, 2010, at 9% interest. Interest-only payments are due quarterly. The loan is secured by a general security agreement over the Limited Partnership's assets.

The Limited Partnership will pay the Debenture Issuer an annual loan fee to be determined over the term of the Debenture Issuer Loan which, in aggregate, is expected to equal the total commissions, fees and offering expenses of approximately \$3,236,000 incurred by the Debenture Issuer in respect of the debenture offering, plus an ongoing debenture loan fee equal to 0.5% of the Series C Debenture principal outstanding.

# Sunstone Opportunity Fund (2005) Limited Partnership

## Notes to the Financial Statements

For the year ended December 31, 2005

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### 5. Partners' capital

The Limited Partnership's authorized partners' capital consists of up to 3,600 Limited Partner units, 1 Initial Limited Partner unit, and 1 General Partner unit.

During the year, the Limited Partnership issued 3,600 Limited Partner units for cash consideration of \$9,000,000 less \$797,349 of issuance costs, and 1 Initial Limited Partner unit and 1 General Partner unit for \$10 cash each. The issuance costs represent the Limited Partnership's pro-rata share of costs incurred to issue the units and consist of agents' fees and commissions, professional fees and other related costs.

### 6. Related party transactions

Included in expenses are an annual loan fee of \$160,487, debenture loan fees of \$26,862 and debenture loan interest of \$483,517, all to SRAI Capital Corp, a company owned 49% by the same shareholders who own the General Partner of this Limited Partnership. Included in accounts payable and accrued liabilities is \$670,866 payable to this company.

Included in deferred financing costs are \$49,500 charged by the general partner. Included in accounts payable and accrued liabilities is \$49,500 payable to the General Partner.

### 7. General Partner Services Agreement

Pursuant to a General Partner Services Agreement, the Limited Partnership will pay the General Partner a financing fee equal to 1.5% of the gross purchase price of each real estate property acquired, a disposition fee equal to 1.5% of the gross sales price of each real estate property disposed of and an annual asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership.

The annual asset management fee for 2005 was waived by the General Partner.

### 8. Subsequent events

Subsequent to the date of the financial statements, the Limited Partnership purchased a second income producing property located in Montreal, for a total acquisition cost of \$11,900,000 cash plus acquisition costs. Related to this, the Limited Partnership also subsequently paid a financing fee of \$178,500 to the General Partner.

In addition, the Limited Partnership negotiated a first mortgage on the Westview Building in Calgary for \$2,475,000. \$1,825,000, bearing interest at 5.48% per annum will be advanced initially and the balance, bearing interest at prime less 1% per annum may be advanced as the existing vacancies become leased. The loan term is five years and its repayable in blended principal and interest payments of \$11,119 per month on the initial instalment and repayment terms of any additional advances have not been determined. This loan has not been finalized and no funds have been advanced by the lender.

The Limited Partnership also negotiated a first mortgage on the Montreal property for \$8,550,000, bearing interest at 150 basis points over the yield on the Government of Canada mortgage benchmark bond. The loan term is ten years and it is repayable in blended principal and interest payments based on a 30 year amortization period. This loan has not been finalized and no funds have been advanced by the lender.

**Sunstone Opportunity Fund (2005) Limited Partnership**  
**Notes to the Financial Statements**  
*For the year ended December 31, 2005*

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**9. Segmented information**

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