

Sunstone Opportunity Fund (2006) Limited Partnership

Financial Statements

December 31, 2006

MANAGEMENT’S RESPONSIBILITY

To the Partners of
Sunstone Opportunity Fund (2006) 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 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 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.

January 31, 2007

“Darren Latoski”

President, Sunstone Realty Advisors (2006) Inc. as General Partner

AUDITORS' REPORT

To the Partners of
Sunstone Opportunity Fund (2006) Limited Partnership

We have audited the balance sheet of the Sunstone Opportunity Fund (2006) Limited Partnership as at December 31, 2006 and the statements of partners' capital, operations and cash flows for the period 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, 2006 and the results of operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Meyers Harris Penny LLP

Nanaimo, BC, Canada

Chartered Accountants

January 31, 2007

Sunstone Opportunity Fund (2006) Limited Partnership
Balance Sheet
As at December 31, 2006

ASSETS	
Income producing properties (Note 3)	\$ 6,782,275
Deferred expenses (Note 4)	3,744,172
Cash held in trust (Note 5)	1,150,000
Cash	37,525,955
Receivables	184,968
	\$ 49,387,370
LIABILITIES	
Debenture debt payable (Note 7)	\$ 40,000,000
Accounts payable and accrued liabilities	681,908
Rental deposits	47,288
	40,729,196
PARTNERS' CAPITAL	
Partners' capital (Note 8)	8,658,174
	\$ 49,387,370

Nature of business and basis of presentation (Note 1)

**Approved by the Directors of
Sunstone Realty Advisors (2006) Inc.,
as General Partner:**

“Steve Evans” _____ Director

“Darren Latoski” _____ Director

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2006) Limited Partnership
Statement of Partners' Capital
For the period from formation August 18, 2006 to December 31, 2006

	Limited Partners		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance, August 18, 2006	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Issuance of initial units	—	—	1	10	1	10	2	20
Issuance of units	40,000	10,000,000	—	—	—	—	40,000	10,000,000
Offering costs		(942,717)	—	—	—	—		(942,717)
Loss for the period	—	(399,089)	—	(20)	—	(20)	—	(399,129)
Balance, December 31, 2006	40,000	\$ 8,658,194	1	\$ (10)	1	\$ (10)	40,002	\$ 8,658,174

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2006) Limited Partnership
Statement of Operations
For the period from formation August 18, 2006 to December 31, 2006

REVENUES		
Rental income	\$	55,977
Interest income		326,886
		382,863
OPERATING EXPENSES		
Property taxes		4,097
INCOME BEFORE OTHER ITEMS		378,766
OTHER ITEMS		
Amortization of deferred expenses		125,696
Debenture debt interest		594,740
Office and general expenses		374
Professional fees		18,806
Property investigation costs		38,279
		777,895
LOSS FOR THE PERIOD		\$ (399,129)

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2006) Limited Partnership
Statement of Cash Flows
For the period from formation August 18, 2006 to December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$	(399,129)
Items not affecting cash:		
Amortization of deferred expenses		125,696
Changes in non-cash working capital items:		
Increase in receivables		(184,968)
Increase in accounts payable and accrued liabilities		681,908
Net cash provided by operating activities		223,507
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of income producing properties		(6,734,987)
Cash held in trust		(1,150,000)
Net cash used in investing activities		(7,884,987)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issuance of units		10,000,020
Unit issuance costs		(942,717)
Deferred expenses		(3,869,868)
Debenture debt proceeds received		40,000,000
Net cash provided by financing activities		45,187,435
INCREASE IN CASH DURING THE PERIOD		37,525,955
CASH, BEGINNING OF PERIOD		—
CASH, END OF PERIOD	\$	37,525,955
Cash paid for interest	\$	—
Cash received for interest	\$	181,339

Supplemental disclosure with respect to cash flows (Note 11)

Sunstone Opportunity Fund (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Sunstone Opportunity Fund (2006) Limited Partnership (the “Limited Partnership”) was formed pursuant to the Partnership Act (British Columbia) on August 18, 2006. The Limited Partnership was established for the purpose of acquiring income producing residential and/or commercial real estate properties and for limited investment in real estate development opportunities.

The general partner of the Limited Partnership is Sunstone Realty Advisors (2006) Inc. (the “General Partner”).

On October 26, 2006, Sunstone Opportunity (2006) Realty Trust (the “Realty Trust”) and Sunstone Opportunity (2006) Debenture Fund (the “Debenture Fund”) issued 40,000 Units for gross proceeds of \$50,000,000, pursuant to the amended prospectus dated October 19, 2006. The Realty Trust received gross proceeds of \$10,000,000 from the issuance of the Realty Trust Units. The Debenture Fund received gross proceeds of \$40,000,000 from the issuance of the Debenture Fund Units. On closing, the Limited Partnership sold 40,000 limited partnership units (at a value of \$250 per unit) to the Realty Trust and issued 40,000 debentures (at a face value of \$1,000 per debenture, bearing interest at 8.1% per annum, maturing on October 31, 2011) to the Debenture Fund.

On December 15, 2006, the Limited Partnership completed the acquisition of an undivided beneficial interest in Newton Crossing, Surrey, British Columbia, for a purchase price of \$6,600,000 plus standard closing costs and adjustments. These financial statements include the accounts of the Limited Partnership and its interest in the property from the date of acquisition.

95% of the aggregate net proceeds received from the Limited Partnership are expected to be invested in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by February 28, 2008. Otherwise, 20% of the portion not invested will be returned to holders of limited partnership units and 80% of the portion not invested will be returned to holders of the debentures, with interest.

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, to each of the General Partner and the Initial Limited Partner 0.005% of the net income or net loss of the Limited 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 (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to 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. Amortization is based on the estimated useful life of the income producing properties. 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 period ended December 31, 2006.

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.

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.

Recent Accounting Pronouncement

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 Debenture Fund, Realty Trust and Limited Partnership expect to apply these new standards for their financial statements for the three month period ending March 31, 2007. Transition provisions are complex and as a result the Debenture Fund, Realty Trust and Limited Partnership have not yet determined the effect of these new standards on its financial statements.

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.

Sunstone Opportunity Fund (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Offering costs

Pursuant to the Cost Sharing and Recovery Agreement, all costs and expenses in respect of offering Realty Trust Units will be borne by the Limited Partnership in connection with the issuance of the limited partnership units and debentures by the Limited Partnership. 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, including legal and brokerage fees and the 1.5% financing fee paid to the General Partner, are deferred and amortized using the straight-line method over the term of the related debt.

Pursuant to the Cost Sharing and Recovery Agreement, all costs and expenses in respect of offering Debenture Fund Units will be borne by the Limited Partnership in connection with the issuance of the debentures by the Limited Partnership. Offering costs relating to the issuance of debenture units are recorded as deferred expenses and amortized using the straight-line method over the term of five years.

3. INCOME PRODUCING PROPERTIES

On December 15, 2006, the Limited Partnership acquired Newton Crossing, consisting of land and building, for a cost of \$6,600,000 and the assumption of security deposits totalling \$47,288 for a net cash outlay of \$6,552,712. Costs associated with the acquisition were \$182,275. No amortization was taken in 2006.

	Cost	Accumulated amortization	Net book value
Land	\$ 2,564,733	\$ —	\$ 2,564,733
Building	4,217,542	—	4,217,542
Total	\$ 6,782,275	\$ —	\$ 6,782,275

4. DEFERRED EXPENSES

	Cost	Accumulated amortization	Net book value
Balance, August 18, 2006	\$ —	\$ —	\$ —
Additions for the period			
Deferred Offering Costs	3,770,868	(125,696)	3,645,172
Deferred Financing Fee	99,000	—	99,000
Balance, December 31, 2006	\$ 3,869,868	\$ (125,696)	\$ 3,744,172

Sunstone Opportunity Fund (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

4. DEFERRED EXPENSES (continued)

Deferred expenses include a \$99,000 financing fee (Note 9) for the purchasing of Newton Crossing without amortization and \$3,770,868 in offering costs related to the issuance of debentures with \$125,696 amortization.

5. 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.

6. MORTGAGE PAYABLE

The Limited Partnership did not assume any mortgages in 2006. However, the Limited Partnership intends to finance the acquisition of the properties by way of mortgage loans from third party lenders. The mortgage loans will not be more than 75% of the purchase price of the properties as a whole.

7. DEBENTURE DEBT PAYABLE

Debenture debt payable to Sunstone Opportunity (2006) Debenture Fund

Debenture debt bears interest at 8.1% per annum, payable quarterly in arrears.

The debt is due October 31, 2011 and is secured by a general security agreement over the assets of the Limited Partnership.

\$ 40,000,000

8. PARTNERS' CAPITAL

The Limited Partnership's authorized partners' capital consists of up to 60,000 Limited Partners' units, one Initial Limited Partner's unit and one General Partner's unit.

During the period ended December 31, 2006, 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, 2006, the Limited Partnership issued, under an initial public offering, 40,000 limited partnership units to the Realty Trust for gross proceeds of \$10,000,000. Pursuant to the Cost Sharing and Recovery Agreement, all costs and expenses in respect of offering Realty Trust Units and limited partnership units are borne by the Limited Partnership and consist of agents' fees, commissions, professional fees and other related costs, and totalled \$942,717 in 2006.

During the period ended December 31, 2006, there were no cash distributions paid to the Limited Partners.

Sunstone Opportunity Fund (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

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 Sunstone Opportunity (2006) Debenture Fund

Sunstone Opportunity (2006) Debenture Fund is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. Pursuant to the Cost Sharing and Recovery Agreement among the Limited Partnership, the Realty Trust and the Debenture Fund, the Limited Partnership assumed the costs and expenses in connection with the offering of the Realty Trust and Debenture Fund Units totaling \$3,770,868. As a result of the Limited Partnership issuing \$40,000,000 in debentures to the Debenture Fund (Note 7), the Limited Partnership incurred the following expenses with the Debenture Fund in the period ending December 31, 2006:

- Debenture debt interest of \$594,740, which was included in accounts payable and accrued liabilities. Debenture debt bears interest at 8.1% per annum, payable quarterly in arrears. The debt is due October 31, 2011 and is secured by a general security agreement over the assets of the Limited Partnership. 50% of interest accrued was paid in January 2007.

Transactions with the General Partner — Sunstone Realty Advisors (2006) Inc.

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

- A financing fee in the amount equal to 1.5% of the gross purchase price of a property, plus GST if applicable. A financing fee of \$99,000 was included in deferred expenses.
- A disposition fee in the amount equal to 1.5% of the gross sales price of a property, plus GST if applicable. There was no disposition fee paid to the General Partner in 2006.
- An annual asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership. The General Partner waived the asset management fee for the period ended December 31, 2006.
- 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.

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.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

- The Limited Partnership assuming rental deposit obligations of \$47,288 on the acquisition of income producing properties.

Sunstone Opportunity Fund (2006) Limited Partnership
Notes to Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

12. FINANCIAL INSTRUMENTS

The Limited Partnership's financial instruments consist of cash, cash held in trust, receivables, accounts payable and accrued liabilities, rental deposits and debenture debt. 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.

13. SUBSEQUENT EVENTS

In January 2007, the Debenture Fund, the Realty Trust and the Limited Partnership announced that the Limited Partnership entered into an agreement with Retrocom Mid-Market Real Estate Investment Trust to purchase seven properties for a gross purchase price of \$73.3 million, which is conditional on financing, final due diligence and other customary closing conditions. The transaction is expected to close in late February 2007.