

Sunstone Opportunity (2006) Realty Trust

Consolidated Financial Statements

December 31, 2006

MANAGEMENT'S RESPONSIBILITY

To the Unitholders of
Sunstone Opportunity (2006) Realty Trust

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 trustee 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 trustee fulfils these responsibilities by preparing and reviewing the financial information and discussing relevant matters with management and external auditors. The trustee is also responsible for appointing the Realty Trust's external auditors.

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

January 31, 2007

“Darren Latoski”

President, SRAI Realty Trust (2006) Inc.

AUDITORS' REPORT

To the Unitholders of
Sunstone Opportunity (2006) Realty Trust

We have audited the consolidated balance sheet of Sunstone Opportunity (2006) Realty Trust as at December 31, 2006 and the consolidated statements of Unitholders' equity, operations and cash flows for the period then ended. These financial statements are the responsibility of the Realty Trustee. 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 consolidated financial position of the Realty Trust as at December 31, 2006 and the consolidated results of operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Meyers Morris Penny LLP

Nanaimo, BC, Canada

Chartered Accountants

January 31, 2007

Sunstone Opportunity (2006) Realty Trust
Consolidated 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	37,525,965
Receivables	184,968
	\$ 49,387,380
LIABILITIES	
Debenture debt payable (Note 7)	\$ 40,000,000
Accounts payable and accrued liabilities	681,908
Rental deposits	47,288
	40,729,196
UNITHOLDERS' EQUITY	
Unitholders' equity (Note 8)	8,658,184
	\$ 49,387,380

Nature of business and basis of presentation (Note 1)

Approved on behalf of the Trustee
Of Sunstone Opportunity (2006) Realty Trust

“Robert King” _____ **Director**

“Darren Latoski” _____ **Director**

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity (2006) Realty Trust
Consolidated Statement of Unitholders' Equity
For the period from formation August 18, 2006 to December 31, 2006

	Units	Amount
Balance, August 18, 2006	—	\$ —
Initial Contribution	1	10
Issuance of trust units (number authorized: unlimited)	40,000	10,000,000
Offering costs	—	(942,717)
Loss for the period	—	(399,109)
Balance, December 31, 2006	40,001	\$ 8,658,184

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity (2006) Realty Trust
Consolidated 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
Minority interest (Note 1)		(20)
LOSS FOR THE PERIOD		\$ (399,109)
Loss per Unit:		
Basic	\$	(9.98)
Diluted	\$	(9.98)
Weighted average Units		
Basic		40,000
Diluted		40,000

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity (2006) Realty Trust
Consolidated 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	\$	(399,109)
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		223,527
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 Realty Trust units		10,000,010
Trust unit issuance costs		(942,717)
Debenture debt proceeds received		40,000,000
Deferred expenses		(3,869,868)
Net cash provided by financing activities		45,187,425
INCREASE IN CASH DURING THE PERIOD		37,525,965
CASH, BEGINNING OF PERIOD		—
CASH, END OF PERIOD		\$ 37,525,965
Cash paid for interest	\$	—
Cash received for interest	\$	181,339

Supplemental disclosure with respect to cash flows (Note 11)

Sunstone Opportunity (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Sunstone Opportunity (2006) Realty Trust (the “Realty Trust”) is an unincorporated, open-ended, limited purpose investment trust created on August 18, 2006 by a declaration of trust governed by the laws of the Province of British Columbia. The Realty Trust is authorized to issue an unlimited number of redeemable Units of beneficial interest. Each holder of a Unit participates pro rata in any distribution of the Realty Trust. The Realty Trust was initially established to acquire limited partnership units of Sunstone Opportunity Fund (2006) Limited Partnership (the “Limited Partnership”). 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.

On October 26, 2006, 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 Realty Trust 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 Realty Trust and its 99.995% owned subsidiary, Sunstone Opportunity Fund (2006) Limited Partnership. Since the Initial Limited Partner and the General Partner own 1 unit each of the Limited Partnership, they represent the minority interest of the Realty Trust.

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 (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Realty Trust is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the period, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to Trust Unitholders.

The Realty Trust intends to distribute all of its net income and net realized gains, if any, to Trust Unitholders, so that the Realty Trust will not be liable to pay income tax pursuant to the Tax Act during any period. If distributions to Trust Unitholders are in excess of the net income and net realized capital gains, if any, of the Realty Trust, it will generally result in a reduction in the adjusted cost base of the Trust Units to the Unitholders.

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 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 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

Sunstone Opportunity (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

and the Limited Partnership have not yet determined the effect of these new standards on its financial statements.

Revenue recognition

Rental revenue is recognized by the Limited Partnership 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

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 by the Limited Partnership.

Deferred expenses

Costs incurred by the Limited Partnership 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 Realty Trust, together with the Limited Partnership and the Debenture Fund, announced the Limited Partnership's acquisition of Newton Crossing, consisting of land and building, at 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. Due to the timing of the acquisition there was no amortization 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

Sunstone Opportunity (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

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

Deferred expenses incurred by the Limited Partnership include a \$99,000 financing fee (Note 9) for 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. MORTGAGES PAYABLE

The Realty Trust did not assume any mortgages in 2006, nor does it intend to assume any mortgages. 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. UNITHOLDERS' EQUITY

Unitholder equity represents the initial capital contribution \$10 to the Realty Trust made by Sunstone Realty Advisors Inc. The Realty Trust is authorized to issue an unlimited number of redeemable Realty Trust Units.

During the period ended December 31, 2006, the Realty Trust issued 40,000 Trust Units for gross proceeds of \$10,000,000 under an initial public offering. On closing, the Realty Trust bought 40,000 limited partnership units from the Limited Partnership for \$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.

Sunstone Opportunity (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

8. UNITHOLDERS' EQUITY (continued)

During the period ended December 31, 2006, there were no cash distributions paid to the Realty Trust by the Limited Partnership. The Realty Trust did not issue any cash distributions to the Trust Unitholders.

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 and the Realty Trust by virtue of having officers and directors in common with the General Partner. 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 to 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 the interest accrued was paid in January 2007.

Pursuant to the Cost Sharing and Recovery Agreement among the Limited Partnership, the Realty Trust and the Debenture Fund, the Realty Trust assumed the costs and expenses in connection with the offering of the Debenture Fund Units totaling \$3,770,868. The proceeds from these units were used to purchase debentures from the Limited Partnership and, accordingly, have been treated as costs relating to the issue of debt.

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.

Sunstone Opportunity (2006) Realty Trust
Notes to Consolidated Financial Statements
For the period from formation August 18, 2006 to December 31, 2006

10. SEGMENTED INFORMATION

The Realty Trust operates in one business segment, being the issuance of Trust Units and the acquisition and holding of limited partnership units. The Realty Trust, through the Limited Partnership, owns and operates 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 assumed rental deposit obligations of \$47,288 on the acquisition of income producing properties.

12. FINANCIAL INSTRUMENTS

The Realty Trust'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 the trustee's opinion that the Realty Trust 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.