Sunstone Opportunity Fund (2004) Limited Partnership

Financial Statements

December 31, 2005

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Partners of the
Sunstone Opportunity Fund (2004) Limited Partnership

We have audited the balance sheets of the Sunstone Opportunity Fund (2004) Limited Partnership as at December 31, 2005 and 2004 and the statements of partners' capital, operations and cash flows for the years then ended. These financial statements are the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Limited Partnership as at December 31, 2005 and 2004 and the results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

March 3, 2006

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Sunstone Opportunity Fund (2004) Limited Partnership
Balance Sheets
As at December 31

	2005	2004
ASSETS		
Income producing properties (Note 3)	**$ 37,692,940**	$ 3,848,877
Cash held in trust (Note 4)	**—**	9,745,608
Cash	**1,137,965**	836,683
Receivables	**149,224**	57,253
Deposit	**—**	50,000
Prepaid expenses	**103,440**	—
Deferred expenses (Note 5)	**678,731**	89,844
	$ 39,762,300	$ 14,628,265
LIABILITIES		
Mortgages payable (Note 6)	**$ 27,792,354**	$ 2,823,890
Debenture debt payable(Note 7)	**9,382,600**	9,382,600
Accounts payable and accrued liabilities	**953,970**	284,610
Rental deposits	**189,006**	80,376
	38,317,930	12,571,476
PARTNERS' CAPITAL		
Partners' capital (Note 8)	**1,444,370**	2,056,789
	$ 39,762,300	$ 14,628,265

Nature of business and basis of presentation (Note 1)

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

"Steve Evans" ________________ **Director** **"Darren Latoski"** ____________ **Director**

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statement of Partners' Capital

	Limited Partners'		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance, July 22, 2004	–	$ –	–	$ –	–	$ –	–	$ –
Issuance of initial units	–	–	1	10	1	10	2	20
Issuance of units, net of offering costs of $409,609	1,046	2,205,391	–	–	–	–	1,046	2,205,391
Loss for the period	–	(148,608)	–	(7)	–	(7)	–	(148,622)
Balance, December 31, 2004	1,046	2,056,783	1	3	1	3	1,048	2,056,789
Offering costs related to units issued last period	–	(15,553)	–	–	–	–	–	(15,553)
Loss for the year	–	(361,480)	–	(18)	–	(18)	–	(361,516)
Cash distributions	–	(235,350)	–	–	–	–	–	(235,350)
Balance, December 31, 2005	**1,046**	**$1,444,400**	**1**	**$ (15)**	**1**	**$ (15)**	**1,048**	**$1,444,370**

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statements of Operations

		Year ended December 31, 2005		Period from formation (July 22, 2004) to December 31, 2004
REVENUES				
Rental income	$	**2,735,157**	$	—
Interest income		**125,772**		14,828
		2,860,929		14,828
OPERATING EXPENSES				
Administration and general		**18,699**		—
Cleaning		**30,657**		—
HVAC		**33,722**		—
Insurance		**40,514**		—
Landscaping and parking		**73,563**		—
Management fees		**100,940**		—
Property taxes		**436,601**		—
Repairs and maintenance		**91,955**		—
Security		**36,402**		—
Utilities		**63,381**		—
INCOME BEFORE OTHER ITEMS		**926,434**		—
OTHER ITEMS				
Amortization of income producing properties		**467,135**		—
Amortization of deferred expenses		**203,440**		—
Annual loan fee		**214,082**		53,521
Debenture debt fees		**46,913**		3,973
Debenture debt interest		**933,569**		72,746
Mortgage interest		**763,956**		—
Office and general		**89,219**		1,273
Professional fees		**98,108**		12,500
Property investigation costs		**74,111**		19,437
		2,890,533		163,450
Loss before gain on disposal		**(956,038)**		(148,622)
Gain on disposal of income producing property (Note 3)		**594,522**		—
Loss for the period	**$**	**(361,516)**	$	(148,622)

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2004) Limited Partnership
Statements of Cash Flows

	Year ended December 31, 2005	Period from formation (July 22, 2004) to December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	**$ (361,516)**	$ (148,622)
Items not affecting cash:		
Amortization of income producing properties	**467,135**	—
Amortization of deferred expenses	**203,440**	—
Gain on disposal of income producing property	**(594,522)**	—
Changes in non-cash working capital items:		
Increase in receivables	**(78,258)**	(57,253)
Decrease (increase) in deposit	**50,000**	(50,000)
Increase in prepaid expenses	**(103,440)**	—
Increase in accounts payable and accrued liabilities	**601,119**	155,271
Increase in rental deposits	**23,388**	—
Net cash provided by (used in) operating activities	**207,346**	(100,604)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of income producing properties	**(31,828,109)**	(3,695,640)
Proceeds from disposal of income producing property	**1,685,998**	—
Property disposal costs	**(182,024)**	—
Cash held in trust	**9,745,608**	(9,745,608)
Income producing properties expenditures	**680,245**	—
Net cash used in investing activities	**(21,258,772)**	(13,441,248)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issuance of units	—	2,615,020
Unit issuance costs	**(15,553)**	(409,609)
Distributions to Limited Partners	**(235,350)**	—
Deferred expenses	**(792,327)**	(33,366)
Debenture debt proceeds received	—	9,382,600
Mortgage proceeds received	**22,656,099**	2,823,890
Repayment of mortgages	**(260,161)**	—
Net cash provided by financing activities	**21,352,708**	14,378,535
Increase in cash	**301,282**	836,683
Cash, beginning of period	**836,683**	—
Cash, end of period	**$ 1,137,965**	$ 836,683
Cash paid for:		
Interest	**$ 680,830**	**$** —

Supplemental disclosure with respect to cash flows (Note 11)

The accompanying notes are an integral part of these financial statements

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Sunstone Opportunity Fund (2004) Limited Partnership (the "Limited Partnership") was formed pursuant to the Partnership Act (British Columbia) on July 22, 2004. 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 Advisors (Canada) inc. (the "General Partner").

On October 25, 2004, the Limited Partnership, along with SRAI Capital Corp. ("SRAI"), received final receipt for an initial public offering prospectus to sell a minimum of 400 Units upto a maximum of 2000 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 B Debenture from SRAI in the principal amount of $10,000 bearing interest at 9% per annum, maturing on October 31, 2009. The offering was closed on December 20, 2004 after a total of 1,046 Limited Partnership units had been issued (Note 8).

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

The Limited Partnership purchased an undivided beneficial interest in the following properties: West Willow Shopping Centre ("West Willow"), Scott Town Plaza ("Scott Town"), Halton Hills Shopping Plaza ("Halton Hills"), Drumheller Shopping Centre ("Drumheller"), Torquay Village ("Torquay"), and Northland Building ("Northland"). The Limited Partnership sold 1425 Kebet Way ("Kebet Way"), a property purchased in 2004.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 property is sold.

The financial statements of the Limited Partnership have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements reflect the financial position and results of operations and cash flows of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners.

2. SIGNIFICANT ACCOUNTING POLICIES

Allocation of net income or net loss

Net income or loss of the Limited Partnership will be allocated as follows:

- Firstly, 0.005% to the Initial Limited Partner to a maximum of $100 per annum;
- Secondly, to the Limited Partners in the amount of the Limited Partners' minimum return being 9% on the Limited Partners' net equity in the limited partnership;
- Thirdly, to the General Partner in the amount of the General Partner's right to receive the incentive management interest; and
- Fourthly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

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, 2005 and the period ended December 31, 2004.

Income producing properties are recorded at cost less accumulated amortization. Amortization of the buildings is recorded on a straight-line basis at 4% per annum. Paving is amortized on a declining-balance basis at 8% per annum.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows that are directly associated with, and that are expected to arise as a result of, its use and eventual disposition.

Revenue recognition

Rental revenue is recognized when services are provided under the terms of the various leases and ultimate collection is reasonably assured. The amount of revenue recognized is based on the total revenue for the term of the lease over a straight line basis. Rental income includes recoveries of operating expenses.

Offering costs

Offering costs relating to the issuance of Limited Partnership units are charged against the related partners' capital.

Deferred expenses

Costs incurred to obtain mortgage financing are deferred and amortized over the term of the related debt.

3. INCOME PRODUCING PROPERTIES

On December 30, 2004 the Limited Partnership acquired Kebet Way consisting of land and building with a total cost of $3,848,877. The property was sold in May 2005 resulting in a gain on disposal of $594,522 as follows:

Gross proceeds	**$ 4,570,000**
Selling commission and legal fees	**(113,474)**
Disposition fee of 1.5% of the gross proceeds	**(68,550)**
Net proceeds	**4,387,976**
Net book value of income producing property	**(3,793,454)**
Gain on disposal of income producing property	**$ 594,522**

In March 2005, the Limited Partnership acquired West Willow, consisting of land and building with a cost of $9,750,000 and the assumption of security deposits totalling $45,533. Costs associated with the acquisition were $117,337.

In May 2005, the Limited Partnership acquired:

a) Scott Town, consisting of land and building with a cost of $8,000,000 and the assumption of certain payables totalling $51,000and security deposits totalling $49,284. Costs associated with the acquisition were $34,369.
b) Halton Hills, consisting of land and building with a cost of $8,650,000 and the assumption of a receivable from a tenant of $13,713 and certain payables totalling $17,241and security deposits totalling $13,443. Costs associated with the acquisition were $193,886.

In June 2005, the Limited Partnership acquired Drumheller, consisting of land and building with a cost of $2,335,000 and the assumption of security deposits totalling $14,203. Costs associated with the acquisition were $19,361.

In July 2005, the Limited Partnership acquired Torquay, consisting of land and building with a cost of $3,350,000 and the assumption of security deposits totalling $10,127. Costs associated with the acquisition were $22,950.

In November 2005, the Limited Partnership acquired Northland, consisting of land and building with a cost of $4,925,000 and the assumption of security deposits totalling $33,028. Costs associated with the acquisition were $26,503.

	2005		
	Cost	**Accumulated amortization**	**Net book value**
Land	**$ 23,864,967**	**$ —**	**$ 23,864,967**
Building	**14,089,980**	**396,692**	**13,612,288**
Paving	**230,704**	**15,019**	**215,685**
Total	**$ 38,104,651**	**$ 411,711**	**$ 37,692,940**

Capital enhancements since acquisition totalling $680,245 have been capitalized in the cost of the related assets. Amortization of the income producing properties totalling $467,135 in 2005 consists of $411,712 and $55,423 for the properties acquired and sold, respectively.

	2004		
	Cost	Accumulated amortization	Net book value
Land	$ 1,077,685	$ —	$ 1,077,685
Building	2,771,192	—	2,771,192
Total	$ 3,848,877	$ —	$ 3,848,877

4. CASH HELD IN TRUST

Cash held in trust consisted of amounts held pursuant to an Escrow Agreement signed November 15, 2004. These funds were released in 2005 and used solely for the acquisition, management and sale of real estate properties.

5. DEFERRED EXPENSES

	Cost	**Accumulated amortization**	**Net book value**
Balance, July 22, 2004	$ —	$ —	$ —
Additions for the period	89,844	—	89,844
Balance, December 31, 2004	89,844	—	$ 89,844
Additions for the year	**792,327**	—	**792,327**
Amortization for the year		**(203,440)**	**(203,440)**
Balance, December 31, 2005	**$ 882,171**	**$ (203,440)**	**$ 678,731**

Certain expenses relating to the financing of the Kebet Way property were fully amortized during 2005 with the repayment of the related mortgage.

6. MORTGAGES PAYABLE

		2005		2004
Kebet Way — Mortgage with Canadian Western Bank bearing interest at 4.85%, calculated semi-annually was retired when the income producing property was sold in 2005.	$	**2,823,890**	$	2,823,890
Less: principal paid during the year		**(20,265)**		—
Less: principal retired		**(2,803,625)**		—
West Willow — Mortgage with Coast Capital Savings Credit Union bearing interest at 4.35%, calculated semi-annually maturing April 1, 2006. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $39,866. Subsequent to year end, the mortgage was refinanced with an open floating variable rate mortgage.		**7,312,500**		—
Less: principal paid during the year		**(109,561)**		—
Scott Town — Mortgage with Coast Capital Savings Credit Union bearing interest at 5.00%, calculated semi-annually maturing June 10, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $34,897.		**6,000,000**		—
Less: principal paid during the year		**(61,141)**		—
Halton Hills — Mortgage with Canada Trust Company bearing interest at 7.47%, calculated semi-annually maturing May 1, 2012. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $29,187.		**3,812,695**		—
Less: principal paid during the year		**(41,454)**		—
Halton Hills — Vendor take-back bearing interest at 1.25%, calculated semi-annually maturing May 1, 2012. The mortgage is secured by the income producing property. Interest of $3,042 is payable monthly. The principal will be repayable when the mortgage matures.		**2,937,305**		—
Less: principal paid during the year		**—**		—

6. MORTGAGES PAYABLE

		2005		2004
Drumheller — Mortgage with Canadian Western Bank bearing interest at 4.79%, calculated semi-annually maturing July 1, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $9,976.		**1,751,000**		—
Less: principal paid during the year		**(12,214)**		—
Torquay — Mortgage with Standard Life bearing interest at 5.75%, calculated semi-annually maturing February 10, 2008. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $13,798.		**2,100,000**		—
Less: principal paid during the year		**(15,526)**		—
Torquay — Vendor take-back mortgage bearing interest at 4.5%, calculated semi-annually maturing February 10, 2008. The mortgage is secured by the income producing property. Interest of $1,594 is payable monthly. The principal will be repayable on February 10, 2008		**425,000**		—
Less: principal paid during the year		—		—
Northland — Mortgage with Citizens Bank of Canada bearing interest at 5.09%, calculated semi-annually maturing December 10, 2010. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of $21,673 commencing January 2006.		**3,693,750**		—
Less: principal paid during the year		—		—
	$	**27,792,354**	$	2,823,890

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

2006	**$**	**531,437**
2007		**555,980**
2008		**2,941,629**
2009		**560,625**
2010 and beyond		**23,202,683**
	$	**27,792,354**

7. DEBENTURE DEBT PAYABLE

	2005	2004
Debenture debt payable to SRAI Capital Corp.		
Debenture debt bears interest at 9.95% per annum, payable quarterly in arrears. The debt is due October 31, 2009 and is secured by a general security agreement over the assets of the Limited Partnership. Included in accounts payable at December 31, 2005 is accrued interest of $233,392 (December 31, 2004 - $72,746).	**$ 9,382,600**	$ 9,382,600

8. PARTNERS' CAPITAL

The Limited Partnership's authorized partners' capital consists of up to 5,000 Limited Partners' units, one Initial Limited Partner unit and one General Partner's unit.

During the period ended December 31, 2004, 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, 2004, the Limited Partnership issued under an initial public offering, 1,046 Limited Partners' units for gross proceeds of $2,615,000. 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 $15,553 and $409,609 in 2005 and 2004, respectively.

During the year ended December 31, 2005, total cash distributions of $235,350 were paid to 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

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 debt received from SRAI in 2004 totaling $9,382,600 (Note 6), the Limited Partnership incurred the following expenses to SRAI in the year ending December 31, 2005:

- annual loan fees of $214,082 (December 31, 2004 – $53,521);
- debenture debt interest of $933,569 (December 31, 2004 – $72,746); and,
- ongoing quarterly debenture debt fees of $46,913 (December 31, 2004 – $3,973);

Included in accounts payable and accrued liabilities at December 31, 2005 is $512,723 (December 31, 2004 – $130,240) due to SRAI.

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

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

- a financing fee of $555,150 (December 31, 2004 – $56,478) included in deferred expenses;
- a disposition fee of $68,550 (December 31, 2004 – $Nil), which is included in the gain on disposal of income producing property; and
- 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 year ended December 31, 2005 and period ended December 31, 2004.

Included in accounts payable and accrued liabilities at December 31, 2005 is $79,009 (December 31, 2004 – $56,478) due 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 year ended December 31, 2005 consisted of:

a) Mortgage payable of $2,803,625 being assumed by the purchaser as part of the sales price on disposal of an income producing property.
b) Rental deposit obligations of $80,376 being assumed by the purchaser as part of the sales price on disposal of an income producing property.
c) The Limited Partnership assuming mortgages payable of $5,376,151 on the acquisition of income producing properties.
d) The Limited partnership assuming certain payables of $68,241 and rental deposit obligations of $165,618 on the acquisition of income producing properties.
e) The Limited Partnership assuming a receivable of $13,713 on the acquisition of income producing properties.

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

a) The Limited Partnership assuming accounts payable of $72,861 and rental deposit obligations of $80,376 on the acquisition of income producing properties.
b) The Limited Partnership incurring deferred expenses of $56,478 through accounts payable.

12. FINANCIAL INSTRUMENTS

The Limited Partnership's financial instruments consist of cash, cash held in trust, receivables, deposit, accounts payable and accrued liabilities, rental deposits, mortgage payable 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 statements approximates their carrying values, unless otherwise noted.