

**Sunstone Opportunity (2006) Debenture Fund**

**Financial Statements**

**December 31, 2006**

## **MANAGEMENT'S RESPONSIBILITY**

To the Unitholders of  
Sunstone Opportunity (2006) Debenture Fund

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 reviewing the financial information prepared by management and discussing relevant matters with external auditors. The trustee is also responsible for appointing the Debenture Fund'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"**

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President, SRAI Debenture Fund (2006) Inc.

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## AUDITORS' REPORT

To the Unitholders of  
Sunstone Opportunity (2006) Debenture Fund

We have audited the balance sheet of Sunstone Opportunity (2006) Debenture Fund as at December 31, 2006 and the statements of operations, unitholders' equity and cash flows for the period then ended. These financial statements are the responsibility of the Debenture Fund 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 financial statements present fairly, in all material respects, the financial position of the Debenture Fund as at December 31, 2006 and the results of its operations and its 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 (2006) Debenture Fund**  
**Balance Sheet**  
**As at December 31, 2006**

<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	\$ 10
Receivables (Note 3)	594,740
	594,750
Debentures (Note 4)	\$ 40,000,000
	\$ 40,594,750
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	\$ 10,500
Distribution payable (Note 5)	587,397
	597,897
<b>UNITHOLDERS' EQUITY</b>	
Unitholders' equity	39,996,853
	\$ 40,594,750

Nature of business (Note 1)

Approved on behalf of the Trustee  
Of Sunstone Opportunity (2006) Debenture Fund

“Robert King” Director

“Darren Latoski” Director

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

**Sunstone Opportunity (2006) Debenture Fund**  
**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) (Note 6)	40,000	40,000,000
Income for the period	—	584,240
Distribution accrued (Note 5)	—	(587,397)
<b>Balance, December 31, 2006</b>	<b>40,001</b>	<b>\$ 39,996,853</b>

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

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

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**REVENUE**

Debenture interest	\$	<b>594,740</b>
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**EXPENSES**

Professional fees		<b>10,500</b>
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**INCOME FOR THE PERIOD**

	\$	<b>584,240</b>
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**Earnings per Unit:**

Basic	\$	<b>14.61</b>
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Diluted	\$	<b>14.61</b>
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**Weighted average Units**

Basic		<b>40,000</b>
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Diluted		<b>40,000</b>
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**Sunstone Opportunity (2006) Debenture Fund**  
**Statement of Cash Flows**  
**For the period from formation August 18, 2006 to December 31, 2006**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income for the period	\$	584,240
Changes in non-cash working capital items:		
Increase in receivables		(594,740)
Increase in accounts payable and accrued liabilities		10,500
Net cash provided by (used in) operating activities		—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of fund units		40,000,010
Net cash provided by financing activities		40,000,010
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of debentures		(40,000,000)
Net cash used in investing activities		(40,000,000)
<b>INCREASE IN CASH DURING THE PERIOD</b>		<b>10</b>
<b>CASH, BEGINNING OF PERIOD</b>		<b>—</b>
<b>CASH, END OF PERIOD</b>	<b>\$</b>	<b>10</b>

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

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

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**1. NATURE OF BUSINESS**

Sunstone Opportunity (2006) Debenture Fund (the “Debenture Fund”) 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 Debenture Fund 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 Debenture Fund. The Debenture Fund was initially established for the purpose of investing in debentures issued by Sunstone Opportunity Fund (2006) Limited Partnership (the “Limited Partnership”).

On October 26, 2006, Sunstone Opportunity (2006) Realty Trust (the “Realty Trust”) and the Debenture Fund issued 40,000 Units for gross proceeds of \$50,000,000, pursuant to the amended prospectus dated October 19, 2006. The Debenture Fund received gross proceeds of \$40,000,000 from the issuance of the Debenture Fund Units. On closing, Sunstone Opportunity Fund (2006) Limited Partnership 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.

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 Debenture Fund 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 Debenture Fund.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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.

**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**

Debenture interest is recognized in the period when it is earned.



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

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**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 and Debenture Fund Units will be borne by the Limited Partnership in connection with the issuance of the limited partnership units and debentures by the Limited Partnership.

**Income taxes**

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

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

**3. RELATED PARTY TRANSACTIONS**

During the period from formation August 18 2006 to December 31, 2006:

The Debenture Fund earned debenture interest of \$594,740 from Sunstone Opportunity Fund (2006) Limited Partnership, whose general partner has officers and directors in common with the trustee. Interest of \$594,740 is accrued in receivables on December 31, 2006 and 50% was received in January 2007.

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.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**4. DEBENTURES**

**Debentures due from Sunstone Opportunity Fund (2006) Limited Partnership**

Debentures bear interest at 8.1% per annum, receivable quarterly in arrears. The debentures will mature on October 31, 2011 and are secured by a general security agreement over the assets of the Limited Partnership.

**\$40,000,000**

**5. DISTRIBUTION TO UNITHOLDERS**

A distribution to Unitholders in the amount of \$587,397 was accrued at December 31, 2006. 50% was paid in January 2007.

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

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**6. UNITHOLDERS' EQUITY**

The Debenture Fund is authorized to issue an unlimited number of redeemable Units of beneficial interest. During 2006, the Debenture Fund issued 40,000 Units for gross proceeds of \$40,000,000.

**7. SEGMENTED INFORMATION**

The principal business of the Debenture Fund is to issue Fund Units and acquire and hold Debentures. The Trust operates in one business segment.

**8. FINANCIAL INSTRUMENTS**

The Debenture Fund's financial instruments consist of cash, interest and other receivables, debentures, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Debenture Fund 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 value, unless otherwise noted.

**9. INCOME TAXES**

The Debenture Fund distributed all of its net income to Fund Unitholders. Thus, the Debenture Fund is not liable to pay income tax pursuant to the Tax Act for 2006. It is the Unitholders' obligation to pay income tax on distributions.

**10. 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.

**11. ECONOMIC DEPENDENCE**

The Debenture Fund is economically dependent on the Limited Partnership which provides its only source of income.