

**SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**PERIOD ENDED DECEMBER 31, 2005**

---

The following management discussion and analysis, prepared April 28, 2006, of the financial condition and results of operations should be read together with Sunstone Opportunity Fund Limited Partnership ("Sunstone LP") audited Financial Statements and notes thereto for the year ended December 31, 2005. All financial information is reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles unless otherwise noted. The reader should also refer to the annual audited financial statements for the year ended December 31, 2004, and the Management Discussion and Analysis for that year.

Additional information about the Limited Partnership filed with Canadian securities commissions is available on-line at [www.sedar.com](http://www.sedar.com).

This discussion may contain forward-looking statements which are based on our expectations, estimates and forecasts. These statements are subject to risks and uncertainties that are difficult to predict or control. These risks and uncertainties could cause actual results to differ materially from those indicated. Readers should not place undue reliance on any such forward-looking statements.

## **1. BUSINESS OVERVIEW**

The Sunstone Opportunity Fund Limited Partnership was established by the General Partner, Sunstone Realty Advisors (Canada) Inc., for the purpose of owning and operating a diversified portfolio of high quality income-producing commercial real estate properties in Canada. The final prospectus was issued January 5, 2004 and each Unit consists of one Limited Partnership Unit ("LPU") having a price of \$2,500 and one Series A Debenture of the Debenture Issuer in the principal amount of \$10,000 maturing on February 28, 2009. The Debenture Issuer, SRAI Capital Corp. ("SRAI") (a subsidiary of Knightswood Financial Corp) has loaned to Sunstone LP by way of the Debenture Issuer Loan an amount equal to the net proceeds, less its pro-rata share of offering costs, received by the Debenture Issuer from subscriptions for Debentures. The prospectus was closed on April 1, 2004 and a total of 1,234 units were issued.

An investment in Sunstone LP was intended to provide Purchasers (Investors) with the opportunity to receive cash distributions originating from the ongoing operation of the Properties, and the opportunity to receive, in certain circumstances, the proceeds from a refinancing of the mortgage loans.

Limited Partnership Objectives:

- a) To provide an investment in a diversified portfolio of quality commercial revenue-producing properties with positive cash flow.
- b) To provide quarterly cash flow distributions targeted at 8-10% upon full investment of the net proceeds allocated to the purchase price of properties.
- c) To enhance the potential for long-term growth of capital through value-added enhancements to the properties and growth in rental rates.

## SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP

---

### 2. SELECTED HISTORICAL ANNUAL INFORMATION

The following is a summary of significant events and transactions that occurred during the year ended December 31, 2004:

1. On March 4, 2004, Sunstone LP, together with SRAI, announced its first closing pursuant to the prospectus dated January 5, 2004 and issued 980 LPUs at a value of \$2,500 per LPU. The total gross equity raised was \$2,450,000.
2. On March 4, 2004, SRAI issued a loan in the amount of \$8,878,000 to Sunstone LP and Sunstone LP issued a Promissory Note to that effect.
3. On April 1, 2004, Sunstone LP, together with SRAI, announced its second and final closing pursuant to the prospectus dated January 5, 2004 and issued an additional 254 LPUs at a value of \$2,500 per LPU. The total gross equity raised was \$635,000.
4. On April 1, 2004, SRAI issued a loan in the amount of \$2,254,800 to Sunstone LP and Sunstone LP issued a Promissory Note to that effect.
5. On April 23, 2004, Sunstone LP announced the acquisitions of the first and second properties, Langley Crossing and Rona at Langley Crossing for a combined purchase price of \$21.3 million. Sunstone LP secured a first mortgage in the amount of \$16,275,000 at an interest rate of 5.52%, due in 2009.
6. On August 3, 2004, Sunstone LP announced the acquisition of the third property, a 50% beneficial interest in Cascade Plaza, Banff, Alberta for a purchase price of \$19.85 million plus associated closing costs. Sunstone LP funded the acquisition with cash and a \$14.8 million new first mortgage on the property in favour of GMAC Commercial Mortgage of Canada Limited at an interest rate of 5.98%, due in 2009.
7. On September 30, 2004, Sunstone LP announced the acquisition of the fourth and final property, Westhill Centre in Nanaimo, British Columbia for a purchase price of \$3,040,000. Sunstone LP funded the acquisition with cash and a new first mortgage of \$1,500,000 on the property in favour of Industrial Alliance Pacific at an interest rate of 4.70%, maturing in 2006.
8. Sunstone LP issued its first partial distribution to the unitholders for the quarter ended September 30, 2004. The distribution was paid on October 15, 2004.
9. Sunstone LP issued its second distribution to the unitholders for the quarter ended December 31, 2004. The distribution was paid on January 15, 2005.

## **SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**

---

### **3. SELECTED ANNUAL INFORMATION**

The following is a summary of significant events and transactions that occurred during the **year ended December 31, 2005**.

A summary of the major transactions that occurred during the year are as follows:

1. On September 19, 2005, Sunstone LP announced the disposition of Langley Crossing and Rona at Langley Crossing for a gross sale price of \$29,000,000 less standard closing costs including third party real estate commission. The property was originally purchased for \$21,300,000. As part of the disposition of the property, the balance of the mortgage in the amount of \$15,852,697 was assumed by the purchaser.
2. On September 30, 2005, Sunstone LP announced the disposition of Westhill Centre for a gross sale price of \$3,550,000 less standard closing costs including third party real estate commission. The property was originally purchased for \$3,040,000. On closing, Sunstone LP repaid the outstanding mortgage balance of \$1,470,270.
3. As a result of the sale of the above-named properties, Sunstone LP was able to catch up the Limited Partnership distributions. On September 30, 2005, the Sunstone LP issued distributions of \$69,412.50 for the quarter ended June 30, 2004 and \$34,706.25 for the quarter ended September 30, 2004. In addition, the Sunstone LP issued its distribution for the quarter ended September 30, 2005 in the amount of \$69,412.50
4. On October 7, 2005, the Limited Partnership repaid the SRAI Capital Corp. Series A debenture loan in full plus interest from October 1<sup>st</sup> up to and including October 7<sup>th</sup>, 2005.
5. On October 19, 2005, the Limited Partnership announced that it had successfully completed the disposition of its 50% undivided beneficial interest in Cascade Plaza in Banff, Alberta for a gross sale price of \$25.5 million less standard closing costs and adjustments, including third party real estate commission. The property was originally purchased for \$19,850,000. As part of the disposition of the property, the balance of the mortgage in the amount of \$14,509,891 was assumed by the purchaser.
6. On October 21, 2005, the Limited Partnership returned the balance of the initial equity invested as well as a distribution from the proceeds from the sale of the investment properties. The total distribution per Unit was \$7,150.

### **4. RESULTS OF ANNUAL OPERATIONS**

For the year ended December 31, 2005 the Limited Partnership's current assets totaled \$1,467,282 compared to \$46,864,100 for the year ended December 31, 2004. The decrease in assets is due to the sale of the three income producing properties. During the same period, current liabilities fell to \$164,631, compared to \$45,172,327 in the previous year. The reasons for the decline are that the Limited Partnership repaid the debenture loan to SRAI Capital Corp in the amount of \$11,132,800 and that it no longer had mortgage obligations or security deposit obligations as a result of the sale of the properties.

## SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP

---

The total revenues for the year ended December 31, 2005 were \$4,767,657, which is higher than the previous year (December 31, 2004 - \$3,517,259). The main reason for the increase is the fact that the Limited Partnership received revenues from all three properties for 9 months in 2005, whereas in 2004, the Limited Partnership received revenue from Langley Crossing for 9 months, Cascade Plaza for 4 months and Westhill Centre for 3 months.

As at December 31, 2005, the Limited Partnership has net income of \$10,597,334. The increase in income (as at December 31, 2004 the Limited Partnership had a loss of \$980,926) is due to the proceeds from the sale of the income producing properties. There were some expenses that were significantly higher in 2005 than in 2004. Sunstone LP accelerated the annual loan fee to SRAI Capital Corp. upon repayment of the debenture loan and paid \$967,066 (December 31, 2004 - \$224,553). In addition, as a result of the sale of the properties, Sunstone LP amortized the balance of the deferred expenses which resulted in an amortization expense of \$823,061 (December 31, 2004 - \$93,319).

The following table provides a brief summary of the Limited Partnership's financial operations. For more detailed information, please refer to the audited financial statements for the year ended December 31, 2005.

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
<b>Total revenue</b>	\$ 4,767,657	\$ 3,517,259	\$ -
<b>Net income (loss)</b>	10,597,334	(980,926)	-
<b>Total assets</b>	1,467,282	46,864,100	20
<b>Total liabilities</b>	164,631	45,172,327	-
<b>Partners' equity</b>	1,302,651	1,691,773	20

### 5. PERFORMANCE SUMMARY

Up until the dates of the sales of the investment properties, Sunstone LP received cash distributions from its investment properties which were acquired during 2004. These distributions provided the necessary funds for the Limited Partnership to issue quarterly distributions to its unitholders, to pay the interest on the debenture loan and to cover any other expenses incurred by Sunstone LP including the General Partner's quarterly asset management fee. As at December 31, 2005, the Limited Partnership had sold its beneficial interest in all three of the previously acquired income producing properties at a tremendous profit to the unitholders. The sale of the properties enabled the Limited Partnership to repay the Debenture Loan in full, plus interest to date, as well as return all outstanding capital to the Limited Partners and deliver a profit.

The gain on disposal of these income producing properties is determined as follows:

---

<b>Gross Proceeds</b>	<b>\$ 58,050,000</b>
Net book value of income-producing properties	(43,011,324)
Selling commission and legal fees	(1,167,702)
Disposition fee of 1.5% of gross proceeds	(870,750)
Other costs	(267,383)

---

<b>Gain on disposal of income producing properties</b>	<b>\$ 12,732,841</b>
--------------------------------------------------------	----------------------

---

## SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP

Please note that the total capital gain for income tax purposes was \$11,151,851 and was allocated to the General Partner, the Limited Partners and the Initial Limited Partner, \$2,386,496, \$8,765,194 and \$161 respectively. For each \$2,500 Limited Partnership Unit, the capital gain was \$7,103.

### 6. RESULTS OF QUARTERLY OPERATIONS

The following table provides a brief summary of the Limited Partnership's financial operations. For more detailed information, please refer to the audited financial statements for the year ended December 31, 2005.

	<b>December 31, 2005</b>	September 30, 2005	June 30, 2005	March 31, 2005
Total Assets	<b>1,467,282</b>	35,339,373	45,969,178	46,665,172
Debenture debt	-	11,132,800	11,132,800	11,132,800
Mortgage debt	-	14,532,870	32,009,321	32,170,144
Revenues	<b>(84,010)</b>	1,535,670	1,675,985	1,640,012
Net Income (loss)	<b>4,114,850</b>	6,578,829	(86,593)	(9,752)

	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Total Assets	46,864,100	47,040,532	30,639,856	11,313,492	20
Debenture debt	11,132,800	11,132,800	11,132,800	8,876,000	-
Mortgage debt	32,323,584	32,472,382	16,249,495	-	-
Revenues	1,554,477	1,271,075	691,528	180	-
Net Income (loss)	(221,339)	(502,494)	(178,361)	(78,733)	-

The most significant changes in the current quarter from the previous quarter are a result of the disposition of Cascade Plaza. The mortgage debt of \$14,509,891 on Cascade was assumed by the purchaser, and the total assets of the Limited Partnership were also reduced as a result of the sale of the remaining income producing property. The proceeds from the sale of Cascade Plaza resulted in net income for the quarter of \$4,114,850 (September 30, 2005 - \$6,578,829).

#### **Some of the significant revenues and expenses of the Limited Partnership for the current quarter are as follows:**

As a result of the sale of Cascade Plaza, there is an additional gain on the sale of income producing properties. The total audited gain from the sale of all three properties is \$12,732,841. Some of the major expenses associated with the sale of Cascade Plaza are third-party real estate commission in the amount of \$510,000 and a disposition fee to the General Partner in the amount of \$382,500. The Limited Partnership earned some interest from short-term investments. A small cash reserve was (and continues to be) maintained by the Limited Partnership as at December 31, 2005 in the event of post closing adjustments that relate to Langley Crossing and

## SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP

---

Cascade Plaza, and to cover any administrative expenses (primarily professional fees, including legal and accounting).

During the current quarter, there was essentially no revenue from the properties as the Limited Partnership was no longer receiving any rent for Langley Crossing, Cascade Plaza or Westhill Centre.

The Limited Partnership issued a cash distribution to its Limited Partners in October 2005. The cash distribution was \$7,150 per unit, for a total distribution of \$8,823,100 (September 30, 2005 - \$312,356). The distribution is a result of the proceeds from the sale of the income producing properties. There were no distributions accrued at the end of the period. The total distribution to the Limited Partners for 2005 was \$9,135,456 (2004 - \$104,119).

Sunstone LP paid SRAI \$19,216 in interest (September 30, 2005 - \$275,537) from October 1<sup>st</sup> up to and including October 7<sup>th</sup>, 2005. This amount represents the 9.9% interest, payable quarterly, on the total debenture loan of \$11,132,800 which was repaid in full on October 7, 2005. As a result of the early repayment of the debenture loan, Sunstone LP did not pay the ongoing debenture loan fee for the quarter ended December 31, 2005. However, Sunstone LP did pay the balance of the ongoing debenture loan fee to SRAI for the previous quarter in the amount of \$2,113 (September 30, 2005 - \$11,641).

Significant changes in key financial data from 2003 to 2004 are attributed to the fact that the Limited Partnership was essentially inactive in 2003.

### 7. INVESTMENT PROPERTIES

During the quarter ended December 31, 2005, Sunstone LP sold its remaining investment property for \$25,500,000 and as a result, Sunstone LP no longer had any rental deposit obligations (September 30, 2005 - \$112,709 which relates to Cascade Plaza), or mortgage debt obligations. The significant decrease in both security deposits and mortgage debt from the previous quarter is a result of the sale of Cascade Plaza as the deposits and mortgage related to the property were delivered to the purchaser.

A summary of the mortgages is as follows:

	Three months ended December 31, 2005	Three months ended September 30, 2005	Three months ended June 30, 2005	Three months ended March 31, 2005
<b><u>Langley Crossing</u></b> - Mortgage bearing interest at 5.52%, calculated semi-annually, maturing May 1, 2009. The mortgage was assumed by the purchaser of Langley Crossing in September 2005.	\$ -	\$ 15,934,432	\$ 16,014,865	\$ 16,094,210
Less: principal paid during the year	-	(81,536)	(80,433)	(79,345)
Less: balance assumed by purchaser	-	(15,852,896)	-	-
<b><u>Cascade Plaza</u></b> - Mortgage bearing interest at 5.98%, calculated semi-annually, maturing October 1, 2009. The mortgage was assumed by the purchaser of Cascade Plaza in October 2005.	14,532,870	14,601,135	14,668,402	14,734,686
Less: principal paid during the year	(22,979)	(68,265)	(67,267)	(66,284)
Less: balance assumed by purchaser	(14,509,891)	-	-	-

## SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP

**Westhill Centre** - Mortgage bearing interest at 4.70%, calculated semi-annually, maturing October 10, 2006. The balance of the mortgage was repaid by the Limited Partnership upon sale of the property.

	-	1,473,754	1,486,877	1,494,688
Less: principal paid during the year	-	(2,499)	(13,123)	(7,811)
Less: balance repaid	-	(1,471,255)	-	-
<b>Total mortgage payable</b>	<b>\$ -</b>	<b>\$ 14,532,870</b>	<b>\$ 32,009,321</b>	<b>\$ 32,170,144</b>

	Three months ended December 31, 2004	Three months ended September 30, 2004		Three months ended June 30, 2004
<b>Langlev Crossing</b> - Mortgage bearing interest at 5.52%, calculated semi-annually, maturing May 1, 2009. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$99,550.	\$ 16,172,382	\$ 16,249,495		\$ 16,275,000
Less: principal paid during the period	(78,172)	(77,113)		(25,505)

<b>Cascade Plaza</b> - Mortgage bearing interest at 5.98%, calculated semi-annually, maturing October 1, 2009. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$94,516.	14,800,000	14,800,000		-
Less: principal paid during the period	(65,314)	-		-

<b>Westhill Centre</b> - Mortgage bearing interest at 4.70%, calculated semi-annually, maturing October 10, 2006. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$8,471.	1,500,000	1,500,000		-
Less: principal paid during the period	(5,312)	-		-
<b>Total mortgage payable</b>	<b>\$ 32,323,584</b>	<b>\$ 32,472,382</b>		<b>\$ 16,249,495</b>

*Please note that comparatives are not shown for the quarter ended March 31, 2004 or for 2003 as the Limited Partnership did not hold any mortgages during these periods.*

### 8. LIQUIDITY

The Limited Partnership has financed its operations to date primarily through the issuance of Limited Partnership Units, and revenues received from the income producing properties.

The Financial Statements have been prepared on a going concern basis which assumes that the Limited Partnership will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

### 9. CAPITAL RESOURCES

Sunstone LP issued a total of 1,234 Units for total gross proceeds of \$3,085,000. Together with the debenture issuer, the Limited Partnership has raised a gross total of \$15,425,000. From this amount the debenture issuer loaned a total of \$11,132,800 to the Sunstone LP for the purpose of acquiring properties and to cover any costs associated with the acquisitions.

## **SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**

---

As of December 31, 2005, the Limited Partnership has finalized the disposition of the investment properties, and has sufficient cash flow from sale of the properties to cover anticipated expenses associated with the wind down of the Limited Partnership and to make its final distributions next year.

### **Distributions to the Limited Partners**

During the period ended December 31, 2005, total cash distributions of \$8,823,100 (\$7,150 per Unit) were paid to the Limited Partners (September 30, 2005 - total cash distributions of \$69,414 were paid to the Limited Partners, as well as the catch up distributions of \$69,412 and \$34,706).

During the year ended December 31, 2005, cash distributions of \$9,135,456 were paid to the Limited Partners and \$1,851,000 was paid to the General Partner.

During the year ended December 31, 2004, cash distributions of \$104,119 were paid to the Limited Partners.

There were no distributions made during the year ended December 31, 2003 as the Limited Partnership was essentially inactive.

### **10. OFF-BALANCE SHEET ARRANGEMENTS**

The Limited Partnership has no off-balance sheet arrangements.

### **11. RELATED PARTY TRANSACTIONS**

Included in accounts receivable at December 31, 2005 is \$15,582 owing from SRAI Capital Corp which represents an overpayment of the annual loan fee (December 31, 2004 - \$Nil) and was paid subsequent to quarter end.

Included in accounts payable at December 31, 2005 is \$19,281 (December 31, 2004 - \$559,445) which represents a partial payment of the third quarter asset management fee that was not paid during the third quarter, and was paid subsequent to quarter end.

On October 7, 2005, the Limited Partnership repaid the debenture loan of \$11,132,800 (in 2004 the Limited Partnership received debenture loan proceeds of \$11,132,800). For the year ended December 31, 2005 Sunstone LP paid total debenture loan interest of \$847,910 (December 31, 2004 - \$894,019), a total debenture loan fee of \$41,556 (December 31, 2004 - \$45,378), and an annual loan fee of \$967,066 (December 31, 2004 - \$224,553).

The Limited Partnership, pursuant to the General Partner Services Agreement, paid the General Partner an asset management fee of \$231,375 (December 31, 2004 - \$115,688).

The Limited Partnership, pursuant to the General Partner Services Agreement, paid the General Partner disposition fees for the sale of the income producing properties in the amount of \$870,750 (December 31, 2004 - \$Nil). This amount represents the 1.5% disposition fee based on the sale price of the property.

## **SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**

---

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.

### **12. RISKS AND UNCERTAINTIES**

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments.

The Limited Partnership's primary risk was the potential for declining revenue arising from increased vacancies or declining rental rates. The Limited Partnership, while searching for properties, focused on a diversified portfolio of properties in various regions in Canada to reduce this risk. As a result of the successful disposition of all three investment properties for a significant profit, the risk from declining revenues and rental rates is no longer applicable.

### **13. FINANCIAL INSTRUMENTS**

The Limited Partnership's financial instruments consist of cash and equivalents, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is in 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.

### **14. OUTSTANDING PARTNERSHIP UNIT DATA**

As of this filing, there are 1,234 outstanding Limited Partnership units with a book value of \$2,500 per unit. In addition to the Limited Partnership units, there is one Initial Limited Partner's unit outstanding with a book value of \$10 and a General Partner's unit outstanding with a book value of \$10. This remains unchanged from the previous quarter.

### **15. SUBSEQUENT EVENTS**

While there were no actual subsequent events, the General Partner of the Sunstone LP anticipates being able to distribute the balance of the cash owed to the Limited Partners and commence the legal wind down of the Limited Partnership in the 2006 fiscal year.