

SUNSTONE OPPORTUNITY FUND (2005) LIMITED PARTNERSHIP
FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006

The following management discussion and analysis of the financial condition and results of operations prepared March 13, 2006 should be read together with the Sunstone Opportunity Fund (2005) Limited Partnership (“Sunstone (2005) LP”) audited financial statements and notes thereto for the year ended December 31, 2006. All financial information is reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles unless otherwise noted.

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.

Additional information about Sunstone (2005) LP filed with Canadian securities commissions is available online at www.sedar.com.

1. DESCRIPTION OF BUSINESS

Sunstone (2005) LP was established by the General Partner, Sunstone Realty Advisors (2005) Inc., for the purpose of owning and operating a diversified portfolio of high quality income producing residential and/or commercial real estate properties in Canada. The majority of Sunstone (2005) LP’s investments are made in existing, operating properties and a small minority of investments, not to exceed 15% of the portfolio, may be made in real estate development opportunities.

An investment in Sunstone (2005) LP is intended to provide purchasers (“Investors”) with the opportunity to receive cash flow from the ongoing operation of the income producing properties and the potential to realize long-term capital appreciation.

Sunstone (2005) LP and SRAI Capital Corp. (“SRAI”), a subsidiary of Knightswood Financial Corp., obtain capital from Investors by selling \$12,500 Units consisting of:

- Part 1 – the price of one Sunstone (2005) LP unit (“LPU”).....\$2,500
- Part 2 – the principal amount of one Series C debenture issued by SRAI, maturing on October 31, 2010, bearing interest at a rate of 8% per annum.....\$10,000

SRAI loaned to Sunstone (2005) LP, by way of a debenture debt, an amount equal to the net proceeds received by SRAI from subscriptions for the Series C debentures, that is, gross proceeds of \$10,000 per debenture minus SRAI’s pro rata share of offering costs.

Sunstone (2005) LP invested the loan proceeds together with LPU net proceeds (gross proceeds of \$2,500 per LPU minus a pro rata share of offering costs), in a diversified portfolio of quality residential and/or commercial properties that:

- generates positive annual cash flows from operations to cover debenture debt interest and other expenses incurred by Sunstone (2005) LP; and,
- has potential for long-term capital appreciation due to factors such as rental revenue growth, market growth and value-added capital enhancements.

Upon investment of all the proceeds, Sunstone (2005) LP provides quarterly cash flow distributions to Investors targeted at 8% of the \$2,500 LPU on an annual basis.

2. SELECTED ANNUAL INFORMATION

Units Subscribed and Issued

A revised and amended initial public offering prospectus contemplating the issue of 3,600 units was issued on October 17, 2005.

The initial public offering closed on December 14, 2005 and the gross proceeds raised were \$45,000,000. The net proceeds of \$40,988,257 [see Table 1.1] are to be used to purchase the property portfolio, which is expected to generate positive cash flows for distributions to Sunstone (2005) LP unit holders after coverage of:

- debenture debt [see Table 1.2] interest and
- any other expenses incurred by Sunstone (2005) LP.

The details regarding each of the three closings' units and equity-debenture split are provided in Table 1.1.

Proceeds of Offering – Gross and Net

Table 1.1

Date of Closing	Units	Limited Partnership Equity	SRAI Debenture Proceeds	Gross Proceeds
October 31, 2005	3,307	\$ 8,267,500	\$ 33,070,000	\$ 41,337,500
November 21, 2005	225	562,500	2,250,000	2,812,500
December 14, 2005	68	170,000	680,000	850,000
Gross proceeds	3,600	9,000,000	36,000,000	45,000,000
Issuance costs		(802,007)	(3,209,736)	(4,011,743)
Net proceeds	3,600	\$ 8,197,993	\$ 32,790,264	\$ 40,988,257

Debenture Debt

Sunstone (2005) LP received a 9% debenture debt in the amount of \$32,764,000 [see Table 1.2] from SRAI and signed a promissory note to that effect. Interest is due quarterly and the principal is due on October 31, 2010.

9% Debenture Debt Issued by SRAI

Table 1.2

SRAI Series C debenture proceeds	\$ 36,000,000
Pro rata share of issuance costs [Table 1.1]	(3,209,736)
Other costs	(26,264)
SRAI's costs	(3,236,000)
9% debenture debt issued to Sunstone (2005) LP	\$ 32,764,000

2. SELECTED ANNUAL INFORMATION (CONTINUED)

Income Producing Properties Owned

Westview Building

On December 31, 2005, the first portfolio property, Westview Building in Calgary, Alberta, was acquired for cash totaling \$3,300,000 plus standard closing costs and adjustments. The 34,453 square foot facility is well situated ten minutes from downtown and in close proximity to the Calgary International Airport. Early in 2006, Sunstone (2005) LP secured a five-year term first mortgage in the amount of \$2,475,000. Citizens Bank of Canada initially advanced \$1,825,000 bearing interest at 5.48% per annum, maturing 2011, with the balance, bearing interest at prime less 1% per annum, to be advanced as required.

Camco

In January 2006, the second portfolio property, Camco at 1505 Dickson Street in Montreal, Quebec, was acquired for a total purchase price of \$11,900,000 plus standard closing costs and adjustments. The 164,308 square foot industrial distribution facility is newly constructed and is fully occupied by a single tenant on a long term lease with a national covenant. The acquisition was financed with an RBC ten-year term first mortgage of \$8,550,000 bearing interest at 5.677% per annum, maturing 2016.

Pickering Annex

On March 29, 2006, Sunstone (2005) LP completed the acquisition of a fifty percent joint venture interest in Pickering Annex for a purchase price of \$17,675,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a floating rate mortgage in the amount of \$13,256,250 on the property in favour of GE Commercial Finance.

Pickering Annex is a 237,000 square foot retail shopping centre anchored by Staples Business Depot, Dollarama and other national and local retailers specializing in home décor such as Coast/Interhome Furniture, Amish Furniture and Kitchen Stuff, as well as Pennington's and Extreme Fitness. The facility is shadow anchored by the adjacent regional power centre, with tenants including Wal-Mart, Sam's Club, and Canadian Tire. Pickering Annex is located in a strong retail district in Pickering, Ontario and benefits from excellent exposure and convenient access to Highway 401 and Brock Road.

Team Tube/Encore Metals Industrial Portfolio

On March 31, 2006, Sunstone (2005) LP completed the acquisition of the Team Tube/Encore Metals Industrial Portfolio for a purchase price of \$21,350,000 plus standard closing costs and adjustments. The Industrial Portfolio is comprised of ten industrial assets and the entire Team Tube/Encore Metals Industrial Portfolio has a total rentable area of 303,742 square feet, including 264,721 square feet of warehouse space and the balance as office space. Sunstone (2005) LP funded the acquisition with cash and a \$14,300,000 mortgage on the portfolio in favour of Citizens Bank of Canada, bearing interest at 5.48% per annum and maturing in 2011. On August 30, 2006, the Limited Partnership sold the Quebec portion of Team Tube for \$2,500,000 less standard closing costs and adjustments.

River City Centre

On March 31, 2006, Sunstone (2005) LP completed the acquisition of River City Centre, 810 Circle Drive, Saskatoon, Saskatchewan, for a purchase price of \$22,900,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a \$17,175,000 mortgage on the property in favour of Sun Life Assurance Company of Canada, bearing interest at 5.35% per annum and maturing in 2011.

2. SELECTED ANNUAL INFORMATION (CONTINUED)**River City Centre**

The 160,389 square foot big box retail centre is located in Saskatoon's north end and has major tenants including Sears Home Centre (43,813 sq. ft.), Staples (25,018 sq. ft.) and Sport Mart (9,985 sq. ft.). Other excellent national tenants include ICI Paints, Scott's Parable, Dollarama, Grainfields Restaurant and PartSource. River City Centre has excellent exposure from Circle Drive and easy access from Millar Avenue.

Sherwood Forrest Village

On July 4, 2006, Sunstone (2005) LP successfully completed the acquisition of an undivided beneficial interest in Sherwood Forrest Village, 1900 Dundas Street West, Mississauga, Ontario, for a purchase price of \$9,450,000 plus standard closing costs and adjustments. Sherwood Forrest Village is a 43,274 square foot community retail centre supplying upscale boutique shopping in an affluent neighborhood. The acquisition was funded with cash and a \$7,000,000 mortgage on the property in favour of bcIMC, bearing interest at 5.76% per annum and maturing in 2012.

Midpark Court

On July 20, 2006, Sunstone (2005) LP successfully completed the acquisition of an undivided beneficial interest in the seventh portfolio property, Midpark Court, for a purchase price of \$3,850,000 plus standard closing costs and adjustments. Midpark Court is a 23,334 square foot multi-tenant office building located in the south office district of Calgary, Alberta, along the Macleod Trail Corridor. The acquisition was funded with cash and a \$2,885,000 mortgage on the property in favour of Citizens Bank of Canada, bearing interest at 5.97% per annum and maturing in 2011.

DeBaets

On July 28, 2006, Sunstone (2005) LP successfully completed the acquisition of an undivided beneficial interest in DeBaets for a purchase price of \$2,600,000 plus standard closing costs and adjustments. DeBaets is located on 333 DeBaets Street, Winnipeg, Manitoba and is an additional part of the Team Tube. The acquisition was funded with cash and a \$1,742,000 mortgage on the property in favour of bcIMC, bearing interest at 5.50% per annum and maturing in 2011.

Northumberland Mall

On August 4, 2006, Sunstone (2005) LP successfully completed the acquisition of a fifty percent joint venture interest in Northumberland Mall for a purchase price of \$19,075,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new first variable rate mortgage on the property in favour of Merrill Lynch Capital Canada Inc. in the amount of \$14,306,250, maturing in 2007.

Northumberland Mall is a 349,287 square foot community shopping centre situated on 31.15 acres and anchored by Zellers, Sears and A&P's Save-A-Centre. The remainder of the centre is comprised of national, regional and local tenants including Mark's Work Warehouse, Bootlegger, Boston Pizza and Scotia Bank. The centre is shadow anchored by Wal-Mart, Canadian Tire and Staples Business Depot.

DeBoers

On September 12, 2006, Sunstone (2005) LP completed the acquisition of a fifty percent joint venture interest in DeBoers, additional part of Pickering Annex, for a purchase price of \$2,150,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a floating rate mortgage in the amount of \$1,612,500 on the property in favour of GE Commercial Finance.

2. SELECTED ANNUAL INFORMATION (CONTINUED)

Glanford

On November 30, 2006, Sunstone (2005) LP successfully completed the acquisition of an undivided beneficial interest in Glanford for a purchase price of \$5,500,000 plus standard closing costs and adjustments. Glanford is located on 4243 Glanford Ave, Victoria, British Columbia. The acquisition was funded with cash and a variable rate mortgage in the amount of \$3,546,000 on the property in favour of Canadian Western Bank, and maturing in 2007.

Glanford is a 38,332 square feet three-storey office building located in the Royal Oak Industrial Park, one of the most recognizable business parks in Greater Victoria. The building was constructed in 1991 with a blue curtain glass facade and is strategically located next to Pat Bay Highway, which gives tenants convenient access to downtown Victoria, the airport and Swartz Bay Ferry Terminal.

Pickering vacant land

In December 2006, Sunstone (2005) LP completed the acquisition of a fifty percent joint venture interest in Pickering vacant land, adjacent to Pickering Annex, for a purchase price of \$2,400,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a vendor take-back mortgage in the amount of \$1,560,000 on the property, bearing interest at 7% per annum, interest only and maturing in 2008.

3. RESULTS OF ANNUAL OPERATION

Although Sunstone (2005) LP was formed pursuant to the Partnership Act (British Columbia) on December 30, 2004, the Limited Partnership was essentially inactive until October 31, 2005, at which time, the Limited Partnership began issuing its units of capital. The Limited Partnership closed the issue on December 14, 2005 and purchased its first property on December 31, 2005. During 2006, Sunstone (2005) LP acquired another nine properties. As such, assets and revenues grew in 2006 because the Property portfolio was completed and the Properties began generating operating income for the Limited Partnership. The first full month of operation commenced after the Pickering vacant land acquisition in December 2006.

In August 2006, Sunstone (2005) LP successfully sold Quebec portion of Team Tube for a total sale price of \$2,500,000 less third party commission and other related closing costs, resulting in a gain on disposal of \$173,108.

Sunstone (2005) LP earned operating income from the ten properties of \$8,494,404 in 2006 (December 31, 2005 – \$Nil) and interest income \$580,556 in 2006 (December 31, 2005 – \$169,434). The Limited Partnership incurred net loss of \$3,025,175 after amortization, interest and administrative expenses and the gain from the sale of Quebec portion of Team Tube in 2006 (December 31, 2005 – net loss of \$583,898).

The Limited Partnership paid and /or accrued cash distribution to its Limited Partners totaling \$360,000 (December 31, 2005 – \$Nil). The accrued distribution \$180,000 was subsequently paid in January 2007.

For the year ended December 31, 2006, the Limited Partnership's assets totaled \$127,561,651 compared to \$41,234,593 for the year ended December 31, 2005. The increase was due to the acquisitions of income producing properties and related deferred expenses. During the same period, liabilities increased to \$123,332,711, compared to \$33,615,820 in the previous year due to the mortgages on income producing properties.

The following table provides a brief summary of the Company's financial operations. For more detailed information, please refer to the audited financial statements for the year ended December 31, 2006.

3. RESULTS OF ANNUAL OPERATION (CONTINEUD)

Selected Annual Information

Table 1.3

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Total revenue	\$ 9,074,960	\$ 169,434	\$ —
Net loss	(3,025,175)	(583,898)	—
Total assets	127,561,651	41,234,593	—
Total liabilities	123,332,711	33,615,820	—

4. RESULTS OF QUARTERLY OPERATIONS

- Rental revenues totaled \$2,995,754 and operating expenses \$1,194,776 produced operating profits of \$1,800,978 (December 31, 2005 – \$Nil, \$Nil and \$Nil respectively).
- The Limited Partnership earned \$150,839 in interest from short term investment (December 31, 2005 – \$169,434).
- The Limited Partnership accrued cash distribution to the limited partners for \$180,000 in the fourth quarter of 2006 (December 31, 2005 – \$Nil).
- The Limited Partnership incurred administrative expenses that produced a net loss of \$1,768,996 (December 31, 2005 – \$583,898). The expenses consist of:
 - amortization of the Properties totaling \$708,079 (December 31, 2005 – \$Nil);
 - amortization of deferred expenses totaling \$193,925 (December 31, 2005 – \$Nil);
 - mortgage interest totaling \$1,192,778 (December 31, 2005 – \$Nil);
 - expenses totaling \$1,422,992 with SRAI in connection with the debenture debt proceeds received from SRAI [per Related Party Transactions and Table 1.7] (December 31, 2005 – \$670,866). The amount for the current quarter is much higher than the comparative quarter due to the annual loan fee accrued at the end of 2006; and
 - an asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership with the General Partner [see Related Party Transactions and Table 1.8]. The General Partner postponed asset management fee for the year ended 2006 and waived the fee for the year ended 2005.

There are significant changes in key financial data from September 30, 2006 to December 31, 2006 due to the fact that the Limited Partnership acquired one additional income producing property totaling \$5,500,000 plus costs and one piece of vacant land during the quarter ended December 31, 2006. Income producing properties, mortgages payable and related deferred expenses increased, while cash decreased.

Prepaid expenses rose in connection with the development of Pickering vacant land and Northumberland Mall.

The increase in revenues during the current quarter over the previous quarter is a result of the Limited Partnership's acquisition of Glanford and the collection of full quarter rental revenue from Sherwood, Midpark, DeBaets, Northumberland and DeBoers in the current quarter.

For the same period, expenses increased significantly due to year-end accruals for annual loan fee \$644,847 to the General Partner, auditing fee \$60,500 to two accounting companies and marketing expenses \$52,389 to advertise and promote income producing properties.

5. SUMMARY OF QUARTERLY RESULTS

Summary of Quarterly Results				
Table 1.4				
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Total assets	\$ 127,561,651	\$ 121,922,876	\$ 96,965,330	\$ 96,983,882
Deferred expenses	2,448,809	2,423,173	1,541,967	1,709,674
Income producing properties	120,156,129	110,475,899	77,906,207	78,016,268
Debenture debt	32,764,000	32,764,000	32,764,000	32,764,000
Partners' equity	4,228,940	6,362,645	6,844,089	7,023,974
Rental income	2,995,754	2,919,027	2,331,856	247,767
Interest income	150,839	56,974	116,631	256,112
Net loss	(1,768,996)	(486,155)	(179,885)	(590,139)

Summary of Quarterly Results				
Table 1.4				
	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Total assets	\$ 41,234,593	\$ 20	\$ 20	\$ 20
Deferred expenses	49,500	—	—	—
Income producing properties	3,313,907	—	—	—
Debenture debt	32,764,000	—	—	—
Partners' equity	7,618,773	20	20	20
Rental income	—	—	—	—
Interest income	169,434	—	—	—
Net loss	(583,898)	—	—	—

6. INCOME PRODUCING PROPERTIES

Property Highlights

Westview Building

There are no significant developments to report, as the building is continuing to perform according to management's expectations.

Camco Distribution Facility (1505 Dixon Street)

There are no significant developments to report, as the facility is continuing to perform according to management's expectations.

6. INCOME PRODUCING PROPERTIES (CONTINUED)**Pickering Annex**

The Limited Partnership bought DeBoers - an additional building in September 2006. The centre is continuing to perform according to management's expectations.

Team Tube/Encore Metals Industrial Portfolio

Commencing December 1, 2006, Blackfood Pressure Systems Ltd. replaced Team Tube as tenant at Edmonton location. The portfolio is continuing to perform according to management's expectations.

River City Centre

There are no significant developments to report, as the centre is continuing to perform according to management's expectations.

Sherwood Forrest Village

There are no significant developments to report, as the village is continuing to perform according to management's expectations. The fourth quarter represents the first full quarter that the Limited Partnership has owned the property.

Midpark Court

There are no significant developments to report, as the property is continuing to perform according to management's expectations. The fourth quarter represents the first full quarter that the Limited Partnership has owned the property.

Northumberland Mall

The mall is operating normally and generates rental revenue as expected by the Joint Venture. The fourth quarter represents the first full quarter that the Limited Partnership has owned the property.

Glanford

The Limited Partnership bought Glanford in November 2006. The upcoming period represents the first full quarter that the Limited Partnership has owned the property.

Pickering vacant land

The Limited Partnership acquired a fifty percent joint venture interest in Pickering vacant land in December 2006 and will develop the land in 2007.

6. INCOME PRODUCING PROPERTIES (CONTINUED)

Original Property Portfolio						
Table 1.5						
Property Description	Location	Purchase Date	Equity	Mortgage	Interest Rate	Purchase Price
Westview Building	Calgary, AB	December, 2005	\$ 1,475,000	\$ 1,825,000	5.48%	\$ 3,300,000
Camco Distribution Facility	Montreal, QC	January, 2006	3,350,000	8,550,000	5.68%	11,900,000
Pickering Annex	Pickering, ON	March, 2006	4,418,750	13,256,250	Floating	17,675,000
Team Tube/Encore Metals	Multiple locations	March, 2006	7,050,000	14,300,000	5.48%	21,350,000
River City	Saskatoon, SK	March, 2006	5,725,000	17,175,000	5.35%	22,900,000
Midpark Court	Calgary, AB	July, 2006	965,000	2,885,000	5.97%	3,850,000
Sherwood Forrest Village	Mississauga, ON	July, 2006	2,450,000	7,000,000	5.76%	9,450,000
Debaets (Team Tube)	Winnipeg, MB	July, 2006	858,000	1,742,000	5.50%	2,600,000
Northumberland	Cobourg, ON	August, 2006	4,768,750	14,306,250	Floating	19,075,000
DeBoers (Pickering Annex)	Pickering, ON	September, 2006	537,500	1,612,500	Floating	2,150,000
Glanford	Victoria, BC	November, 2006	1,954,000	3,546,000	Floating	5,500,000
Pickering vacant land	Pickering, ON	December, 2006	840,000	1,560,000	7.00%	2,400,000
Total			\$34,392,000	\$ 87,758,000	5.94%	\$122,150,000

Mortgage Indebtedness

The Limited Partnership's original mortgage indebtedness was no more than 75% of the original purchase price of the property portfolio, at gross book value [see Table 1.5].

The mortgages payable bear interest at the weighted average interest rate of 5.94% and mature between 2007 and 2016 [see Table 1.6].

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

2007	2008	2009	2010	2011 and Beyond	Total
\$18,826,142	\$2,586,876	\$15,954,669	\$1,146,356	\$ 48,672,236	\$87,186,279

6. INCOME PRODUCING PROPERTIES (CONTINUED)

Summary of Mortgages Payable					
Table 1.6					
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Westview — Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing May 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$11,119 commencing June 2006.	\$ 1,813,771	\$ 1,822,280	\$ 1,825,000	\$ 1,825,000	\$ —
Less: principal paid during the period	(8,895)	(8,509)	(2,720)	—	—
Camco — Mortgage with RBC CMBS Group bearing interest at 5.677%, calculated semi-annually maturing March 2016. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$49,143 commencing April 2006.	8,494,365	8,522,377	8,550,000	8,550,000	—
Less: principal paid during the period	(28,407)	(28,012)	(27,623)	—	—
Pickering — Mortgage with GE Commercial Finance is an open variable rate mortgage calculated semi-annually, maturing March 2009. The mortgage is secured by the income producing property and is payable monthly, interest only. The principal will be repayable when the mortgage matures.	14,868,750	13,256,250	13,256,250	13,256,250	—
Less: principal paid during the period	—	—	—	—	—
Team Tube — Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$87,120 commencing May 2006.	14,188,163	14,255,147	14,300,000	14,300,000	—
Less: principal paid during the period	(70,007)	(66,984)	(44,853)	—	—
River City — Mortgage with Sun Life Financial bearing interest at 5.35%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$103,340 commencing May 2006.	17,035,738	17,119,663	17,175,000	17,175,000	—
Less: principal paid during the period	(85,040)	(83,925)	(55,337)	—	—

6. INCOME PRODUCING PROPERTIES (CONTINUED)

Summary of Mortgages Payable					
Table 1.6					
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Midpark — Mortgage with Citizens Bank of Canada bearing interest at 5.97%, calculated semi-annually, maturing August 1, 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$18,408 commencing August 2006.	\$ 2,881,048	\$ 2,885,000	\$ —	\$ —	\$ —
Less: principal paid during the period	(12,929)	(3,952)	—	—	—
Sherwood — Mortgage with bcIMC bearing interest at 5.76%, calculated semi-annually, maturing July 2012. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$40,593 commencing August 2006.	6,986,466	7,000,000	—	—	—
Less: principal paid during the period	(22,740)	(13,534)	—	—	—
Debaets — Mortgage with bcIMC bearing interest at 5.50%, calculated semi-annually, maturing September 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$10,633 commencing October 2006.	1,742,000	1,742,000	—	—	—
Less: principal paid during the period	(8,254)	—	—	—	—
Northumberland — Mortgage with Merrill Lynch is an open variable rate mortgage calculated semi-annually, maturing August 2007. The mortgage is secured by the income producing property and is payable monthly, interest only. The principal will be repayable when the mortgage matures.	14,306,250	14,306,250	—	—	—
Less: principal paid during the period	—	—	—	—	—
Glanford — Mortgage with Canadian Western Bank bearing interest at prime plus 0.75%, calculated semi-annually, maturing December 29, 2007. The mortgage is secured by the income producing property and is repayable monthly, interest only. The principal will be repayable when the mortgage matures.	3,546,000	—	—	—	—
Less: principal paid during the period	—	—	—	—	—

6. INCOME PRODUCING PROPERTIES (CONTINUED)

Summary of Mortgages Payable					
Table 1.6					
	December 31, 2006	September 30, 2006	June 30,2006	March 31, 2006	December 31, 2005
Pickering vacant land — Vendor take-back mortgage, bearing interest at 7%, calculated semi-annually, maturing December 2008. The mortgage is secured by the income producing property and is payable quarterly at \$54,600, interest only. The principal will be repayable when the mortgage matures.	\$ 1,560,000	\$ —	\$ —	\$ —	\$ —
Less: principal paid during the period	—	—	—	—	—
Outstanding Balance	\$87,186,279	\$80,704,051	\$54,975,717	\$55,106,250	\$ —

7. LIQUIDITY

Sunstone (2005) LP has financed its operations to date primarily through the issuance of LPUs. Each property acquired in the portfolio is purchased with the expectation that it generates sufficient cash flows to finance its own operating costs.

These statements have been prepared on a going concern basis which assumes that Sunstone (2005) LP will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

8. CAPITAL RESOURCES

In 2005, Sunstone (2005) LP issued 3,600 LPUs for gross proceeds of \$9,000,000.

The Limited Partnership and the debenture issuer, SRAI, raised a gross total of \$45,000,000 with the issuance of 3,600 units.

After issuance costs, Sunstone (2005) LP had over \$40,000,000 (LP equity and debenture debt) to invest in the portfolio of properties.

It is management's opinion that the Limited Partnership has sufficient funds to acquire the properties and to cover anticipated costs associated with acquisition and securing financing.

9. OFF-BALANCE SHEET ARRANGEMENTS

Sunstone (2005) LP has no off-balance sheet arrangements.

10. RELATED PARTY TRANSACTIONS

The following transactions occurred 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.

10. RELATED PARTY TRANSACTIONS (CONTINUED)**Transactions with the Debenture Debt Issuer – SRAI**

SRAI is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. Transactions between Sunstone (2005) LP and SRAI are as follows:

The Limited Partnership incurred expenses totaling \$1,422,992 with SRAI for current period [see Table 1.7].

Related Party Transactions with SRAI					
Table 1.7					
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Debenture debt interest expense, for period	\$ 737,190	\$ 737,190	\$ 737,190	\$ 737,190	\$ 483,517
Annual loan fee expense, for period	644,847	—	—	—	160,487
Ongoing 0.5% debenture loan fee expense, for period	40,955	40,955	40,955	40,955	26,862
Total	1,422,992	778,145	778,145	778,145	670,866
Amount in Accounts payable and accrued liabilities, balance	\$ 1,830,850	\$ 1,186,003	\$ 1,186,003	\$ 1,186,003	\$ 670,866

Transactions with Sunstone Opportunity Fund (2004) Limited Partnership

Sunstone Opportunity Fund (2004) Limited Partnership is related to the Limited Partnership by having general partners under the common control. Included in accounts payable and accrued liabilities at December 31, 2006 is \$15,000 (2005 – \$Nil) due to Sunstone Opportunity Fund (2004) Limited Partnership, for reimbursement of expenses.

Transactions with the General Partner – Sunstone Realty Advisors (2005) Inc.

Pursuant to the General Partner Services Agreement, Sunstone (2005) LP is required to pay to the General Partner:

- One-time financing fees equal to 1.5% of the gross purchase price of each property acquired. During the period ended December 31, 2006, the Limited Partnership paid \$118,500 in financing fees. Financing fees are included in deferred expenses [see Table 1.8].
- An annual asset management fee equal to 1.5% of the Net Asset Value of Sunstone (2005) LP. The General Partner has delayed the collection of these fees for the periods ended December 31, September 30, June 30 and March 31, 2006 until such time there is sufficient cash flow from properties and waived the fee for the year ended December 31, 2005.
- One-time disposition fees equal to 1.5% of the gross sale price of each property sold. During the period ended December 31, 2006, the Limited Partnership paid \$Nil in disposition fees.
- 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. RELATED PARTY TRANSACTIONS (CONTINUED)

Related Party Transactions with General Partner					
Table 1.8					
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
One-time financing fee per Property, in deferred expenses, for period	\$ 118,500	\$ 558,375	\$ —	\$1,107,375	\$ 49,500
Annual asset management fee, for period	—	—	—	—	—
One-time disposition fee per Property, for period	—	37,500	—	—	—
Total	\$ 118,500	\$ 595,875	\$ —	\$1,107,375	\$ 49,500
Amount in Accounts payable and accrued liabilities, balance	\$ —	\$ —	\$ —	\$ —	\$ 49,500

Transactions with the Limited Partner of Joint Ventures – Bayfield Realty Advisors Inc.

Bayfield Realty Advisors Inc. is one of the founding limited partners of Pickering Brock Joint Venture, Northumberland Joint Venture and Pickering Ridge Joint Venture. The Limited Partnership, pursuant to the Joint Venture Agreements, paid to Bayfield Realty Advisors Inc. for the purchase of Pickering Annex Shopping Centre, Northumberland Mall and Pickering vacant land properties:

- Origination fees equal to 1% or 1.5% of the gross purchase price of properties;
- Financing fees equal to 0.25% of the mortgages on acquired properties;
- Asset management fees equal to either 0.5% or 0.75% of gross rental revenue from joint ventures; and,
- Included in receivable is \$30,668 due from Bayfield Realty Advisors Inc. The receivable represents the difference between the actual costs payable by the joint ventures with respect to the acquisition of Pickering Annex Shopping Centre and Northumberland Mall and the estimated costs advanced to pay such costs.

Related Party Transactions with Bayfield Realty Advisors Inc.					
Table 1.9					
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Origination fee per property, for period	\$ 50,000	\$ 223,000	\$ —	\$ 176,750	\$ —
One-time financing fee per property, in deferred expenses, for period	—	40,453	—	36,891	—
Annual asset management fee, for period	17,097	—	—	—	—
Total	\$ 67,097	\$ 263,453	\$ —	\$ 213,641	\$ —
Amount in accounts payable and accrued liabilities, balance	\$ —	\$ —	\$ —	\$ —	\$ —

11. OUTSTANDING PARTNERSHIP UNIT DATA

As of this filing, the types of partnership units outstanding and their book values are summarized in Table 2.0.

Outstanding Partnership Unit Data		
Table 2.0		
Types of Outstanding Partnership Units	Units	Book Value Per Unit
Limited Partnership Units	3,600	\$2,500
Initial Limited Partner's Unit	1	\$10
General Partner's Unit	1	\$10
	3,602	

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.

Sunstone (2005) LP's primary risk is the potential for declining revenue arising from vacancies or rental rate declines. Sunstone (2005) LP, while searching for properties, is focusing on a diversified portfolio of properties in various regions in Canada to reduce this risk.

13. FINANCIAL INSTRUMENTS

Sunstone (2005) LP's financial instruments consist of cash, cash held in trust, receivables, accounts payable and accrued liabilities, rental deposits, mortgages payable and debenture debt. The Limited Partnership is exposed to interest rate risk primarily through its variable rate mortgages payable. In seeking to minimize the risks from interest rate fluctuations, the Limited Partnership manages exposure through its normal operating and financing activities. Unless otherwise noted, it is management's opinion that Sunstone (2005) LP is not exposed to significant interest, currency or credit risks arising from these financial instruments.

14. SUBSEQUENT EVENTS

There are no subsequent events at the time this analysis is prepared.