

SUNSTONE OPPORTUNITY (2006) DEBENTURE FUND
FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
PERIOD ENDED DECEMBER 31, 2006

The following management discussion and analysis of the financial condition and results of operations prepared January 31, 2007 should be read together with the Sunstone Opportunity (2006) Debenture Fund (the "Debenture Fund") audited financial statements and notes thereto for the period 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 Opportunity (2006) Debenture Fund filed with Canadian securities commissions is available on-line at www.sedar.com.

1. DESCRIPTION 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").

The Debenture Fund's long-term objective is to earn interest income from its investment in debentures, to distribute such income to holders of the Fund Units in accordance with the terms of the Debenture Fund Declaration, and to redeem the Fund Units upon the repayment of the debentures by the Limited Partnership. An investment in Fund Units is intended to provide purchasers with the opportunity to receive the 8% per annum distribution originating from the payment of the 8.1% interest on the debentures.

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 Realty Trust received gross proceeds of \$10,000,000 from the issuance of the Realty Trust Units. The Debenture Fund received gross proceeds of \$40,000,000 from the issuance of the Debenture Fund Units. On closing, the Limited Partnership sold 40,000 limited partnership units (at a value of \$250 per unit) to the Realty Trust and issued 40,000 debentures (at a face value of \$1,000 per debenture, bearing interest at 8.1% per annum, maturing on October 31, 2011) to the Debenture Fund.

2. OVERALL PERFORMANCE

The following is a summary of significant events and transactions that occurred during the period ending December 31, 2006. However, since the Debenture Fund was established in August, the events are concentrated in the fourth quarter.

2. OVERALL PERFORMANCE (CONTINUED)

On October 26, 2006, 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 Realty Trust received gross proceeds of \$10,000,000 from the issuance of the Realty Trust Units. The Debenture Fund received gross proceeds of \$40,000,000 from the issuance of the Debenture Fund Units. On closing, the Limited Partnership sold 40,000 limited partnership units (at a value of \$250 per unit) to the Realty Trust and issued 40,000 debentures (at a face value of \$1,000 per debenture, bearing interest at 8.1% per annum, maturing on October 31, 2011) to the Debenture Fund.

Pursuant to the Cost Sharing and Recovery Agreement, all costs and expenses in respect of offering Realty Trust Units and Debenture Units will be borne by the Limited Partnership in connection with the issuance of the limited partnership units and debentures by the Limited Partnership. Offering costs relating to the issuance of limited partnership units (\$942,717) are charged against the related partners' capital. Offering costs relating to the issuance of debenture units (\$3,770,868) are recorded as deferred expenses and amortized using the straight-line method over the term of five years.

On December 15, 2006, the Debenture Fund, together with the Limited Partnership and the Realty Trust, announced that the Limited Partnership completed the acquisition of an undivided beneficial interest in Newton Crossing, Surrey, British Columbia, for a purchase price of \$6,600,000 plus standard closing costs and adjustments.

The Debenture Fund earned an income of \$584,240 for the period. Revenues consist of \$594,740 of interest from Debentures. Expenses of \$10,500 consist primarily of 2006 auditing and taxation services fees.

The Debenture Fund accrued \$587,397 distributions to its investors in 2006 and paid 50% of the amount accrued in January 2007.

3. SELECTED ANNUAL INFORMATION

Selected Annual Information

Table 1.1

	For the Period from Formation August 18, 2006 to December 31, 2006	
Total Revenue	\$	594,740
Net Income		584,240
Total Assets		40,594,750
Total Liabilities		597,897

4. RESULTS OF 2006 OPERATIONS

- The Debenture Fund earned interest revenues totaled \$594,740 for the 8.1% quarterly interest payment on the Debentures from the Limited Partnership [see Table 1.4].
- The Debenture Fund incurred auditing and taxation costs of \$10,500.
- The Debenture Fund accrued \$587,397 cash distribution to its investors.

5. FINANCIAL POSITION

Units Subscribed and Issued

On October 26, 2006, the Debenture Fund issued 40,000 Fund Units at \$1,000 each, bearing interest at 8% per annum for gross proceeds of \$40,000,000. The Debenture Fund used the gross proceeds purchasing 40,000 Debentures from the Limited Partnership. The Debentures bear interest at 8.1% per annum and mature on October 31, 2011. The net proceeds of \$36,229,132 [see Table 1.2] are to be used to purchase the Property portfolio, which is expected to generate positive cash flows for distributions to the Debenture Fund unitholders after coverage of any expenses incurred by the Debenture Fund and the Limited Partnership.

Proceeds of Offering - Gross and Net

Table 1.2

Date of Closing	Units	Debenture Unit Proceeds
October 26, 2006	40,000	\$ 40,000,000
Gross proceeds	40,000	40,000,000
Issuance costs		(3,770,868)
Net proceeds	40,000	\$ 36,229,132

Cash Distributions to Fund Unitholders

The Debenture Fund accrued \$587,397 cash distribution to its investors in 2006, and paid 50% of accrued amount in January 2007.

6. INCOME PRODUCING PROPERTIES

On December 15, 2006, the Debenture Fund, together with the Limited Partnership and the Realty Trust, acquired Newton Crossing, in Surrey, British Columbia, consisting of land and building with a cost of \$6,600,000 and the assumption of security deposits totalling \$47,288. Costs associated with the acquisition were \$182,275.

7. SUMMARY OF QUARTERLY RESULTS

Summary of Quarterly Results

Table 1.3

	December 31, 2006	September 30, 2006
Total assets	\$ 40,594,750	\$ 10
Debenture	40,000,000	—
Unitholders' equity	39,996,853	10
Debenture Interest income, for quarter	594,740	—
Net income (loss), for quarter	584,240	—
Cash Distribution, for quarter	587,397	—

Significant changes in key financial data from October 1, 2006 to December 31, 2006 are attributed to the fact that the Debenture Fund was essentially inactive in previous quarter. During the current quarter, the Debenture Fund issued 40,000 Fund Units; incurred costs associated with the issuance of the units; purchased 40,000 Debentures from the Limited Partnership, and acquired its first property through the Limited Partnership.

8. LIQUIDITY

The Debenture Fund has financed its operations to date primarily through the issuance of Debenture Fund Units, the cash received and the interest received on the amount invested in the debentures of the Limited Partnership.

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

9. CAPITAL RESOURCES

On August 18, 2006, Sunstone Realty Advisors (2006) Inc. contributed the initial capital of \$10.00 to the Debenture Fund.

In October 2006, the Debenture Fund issued 40,000 Fund Units for gross proceeds of \$40,000,000 [see Table 1.2].

It is trustee's opinion that the Debenture Fund has sufficient funds to acquire the properties, and to cover anticipated costs.

9. OFF-BALANCE SHEET ARRANGEMENTS

The Debenture Fund has no off-balance sheet arrangements.

10. RELATED PARTY TRANSACTIONS

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

Transactions with Sunstone Opportunity Fund (2006) Limited Partnership

The Debenture Fund is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. As a result of the Limited Partnership issuing \$40,000,000 in debentures to the Debenture Fund, the Debenture Fund earned interest income \$594,740, which was included in receivables in the period ending December 31, 2006 [see Table 1.4].

Debenture bears interest at 8.1% per annum; receivable quarterly in arrears; is due on October 31, 2011 and is secured by a general security agreement over the assets of the Limited Partnership. 50% of interest accrued was received in January 2007.

Related Party Transactions with Sunstone Opportunity Fund (2006) Limited Partnership

Table 1.4

	Total for Period Ended December 31, 2006	December 31, 2006	September 30, 2006
Debenture interest income, for quarter	\$ 594,740	\$ 594,740	\$ —
Amount in Receivables, balance	\$ 594,740	\$ 594,740	\$ —

11. OUTSTANDING FUND UNIT

As of this filing, the types of fund units outstanding and their book values are summarized in Table 1.5.

Outstanding Fund Unit Data

Table 1.5

	Units	Amount
Initial Unit	1	\$ 10
Fund Units	40,000	40,000,000
Balance as at December 31, 2006	40,001	\$ 40,000,010

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. Even though the Debenture Fund does not itself invest directly in real estate, the Limited Partnership does and as such the success of properties will affect the success of the offering as a whole.

The Limited Partnership's primary risk is the potential for declining revenue arising from increased vacancies or declining rental rates. The Debenture Fund, together with the Limited Partnership and the Realty Trust, while searching for properties, is focusing on a diversified portfolio of properties in various regions in Canada to reduce this risk.

13. FINANCIAL INSTRUMENTS

The Debenture Fund's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and debenture. Unless otherwise noted, it is trustee'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 values, unless otherwise noted.

14. SUBSEQUENT EVENTS

In January 2007, the Debenture Fund together with the Limited Partnership and the Realty Trust announced that the Limited Partnership entered into an agreement with Retrocom Mid-Market Real Estate Investment Trust to purchase three properties for gross proceeds of \$40 million, which is conditional on financing, final due diligence and other customary closing conditions. The transaction is expected to close in late February 2007.