

SUNSTONE OPPORTUNITY FUND (2006) LIMITED PARTNERSHIP
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 Fund (2006) Limited Partnership (the "Limited Partnership") 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 Fund (2006) Limited Partnership filed with Canadian securities commissions is available on-line at www.sedar.com.

1. DESCRIPTION OF BUSINESS

Sunstone Opportunity Fund (2006) Limited Partnership (the "Limited Partnership") was established by the General Partner, Sunstone Realty Advisors (2006) Inc., for the purpose of acquiring income producing residential and /or commercial real estate properties and for limited investment in real estate development opportunities.

An investment in the Limited Partnership is intended to provide Purchasers (Investors) with the opportunity to receive cash distributions originating from the ongoing operation of the properties; the opportunity to receive, in certain circumstances, the proceeds from a refinancing of the Mortgage Loan; and the potential to realize capital gains upon the sale of any of the properties.

On October 26, 2006, Sunstone Opportunity (2006) Realty Trust (the "Realty Trust") and Sunstone Opportunity (2006) Debenture Fund (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.

The Limited Partnership's objectives are:

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

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 Limited Partnership was established in August, the events are concentrated in the fourth quarter.

2. OVERALL PERFORMANCE (CONTINUED)

On October 26, 2006, Sunstone Opportunity (2006) Realty Trust (the "Realty Trust") and Sunstone Opportunity (2006) Debenture Fund (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 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.

Costs associated with securing financing for the Property totaled \$99,000 were recorded as deferred expenses. These deferred expenses are amortized over the term of five years. There was no amortization taken in 2006.

The Limited Partnership incurred a loss of \$399,129 for the period. Revenues consist of \$55,977 of rental revenue and \$326,886 of interest revenue. Expenses of \$777,895 consist primarily of the Limited Partnership's debenture obligations and some property investigation costs.

The Limited Partnership did not make any quarterly cash distributions to its investors in 2006 as it did not have sufficient property related income yet.

The Limited Partnership was actively pursuing potential property acquisitions at year end as it had posted \$1,150,000 in refundable deposits in connection with ongoing property acquisition negotiations.

3. SELECTED ANNUAL INFORMATION

Selected Annual Information

Table 1.1

	For the Period from Formation August 18, 2006 to December 31, 2006	
Total Revenue	\$	382,863
Net Loss		(399,129)
Total Assets		49,387,370
Total Liabilities		40,729,196

4. RESULTS OF 2006 OPERATIONS

- Rental revenues totaled \$55,977 due to the acquisition of Newton Crossing at the end of the year and producing operating profits of \$51,880.
- The Limited Partnership earned \$326,886 in interest from bank deposit.
- The Limited Partnership incurred administrative expenses that produced a net loss of \$399,129. The expenses consist of:
 - amortization of the properties totaling \$Nil;
 - amortization of deferred expenses totaling \$125,696;
 - auditing, accounting and legal fees totaling \$18,806; and
 - travel and due diligence expenditures totaling \$38,279 in connection with the investigation of potential property acquisitions that eventually were not acquired.
- The Limited Partnership incurred expenses with the Debenture Fund as follows [see Table 1.4]:
 - debenture debt interest of \$594,740 for the 8.1% quarterly interest payment on the debenture debt.

5. FINANCIAL POSITION

Debenture Debt

The Limited Partnership issued 40,000 debentures to the Debenture Fund for gross proceeds of \$40,000,000, which bear interest at 8.1% 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.

Units Subscribed and Issued

October 26, 2006, the Limited Partnership issued 40,000 limited partnership units to the Realty Trust for gross proceeds of \$10,000,000. The net proceeds of \$9,057,283 [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 Limited Partnership unitholders after coverage of:

- debenture debt interest; and
- any other expenses incurred by the Limited Partnership.

Proceeds of Offering - Gross and Net

Table 1.2

Date of Closing	Units	Limited Partnership Equity	Debenture Proceeds	Gross Proceeds
October 26, 2006	40,000	\$ 10,000,000	\$ 40,000,000	\$ 50,000,000
Gross proceeds	40,000	10,000,000	40,000,000	50,000,000
Issuance costs		(942,717)	(3,770,868)	(4,713,585)
Net proceeds	40,000	\$ 9,057,283	\$ 36,229,132	\$ 45,286,415

Cash Distributions to Limited Partners

The Limited Partnership did not issue any cash distributions to its Limited Partners as it had not completed its placement of available funds as of December 31, 2006. The Limited Partnership anticipates making cash distributions to its Limited Partners in 2007 after it completes its acquisition of properties for the portfolio.

6. INCOME PRODUCING PROPERTIES

On December 15, 2006, the Limited Partnership 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. There was no amortization taken in 2006.

The Limited Partnership did not assume any mortgages on Newton Crossing in 2006. However, the Limited Partnership intends to finance the acquisition of the properties by way of mortgage loans from third party lenders. The mortgage loans will not be more than 75% of the purchase price of the properties as a whole.

7. SUMMARY OF QUARTERLY RESULTS

Summary of Quarterly Results

Table 1.3

	December 31, 2006	September 30, 2006
Total assets	\$ 49,387,370	\$ 20
Deferred expenses	3,744,172	—
Income producing property	6,782,275	—
Debenture debt	40,000,000	—
Mortgages payable	—	—
Partners' equity	8,658,174	20
Rental income, for quarter	55,977	—
Interest income, for quarter	326,886	—
Net income (loss), for quarter	(399,129)	—

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

Deferred expense of \$99,000 is cost associated with acquisition of Newton Crossing.

Partners' equity includes net proceeds of \$9,057,283 consisting of \$10,000,000 gross proceeds minus issuance costs of \$942,717 [see Table 1.2].

8. LIQUIDITY

The Limited Partnership has financed its operations to date primarily through the issuance of limited partnership units and receipt of the proceeds from the issuance of debentures.

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 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

On August 18, 2006, the Limited Partnership issued one General Partner's unit and one Initial Partner's unit for gross proceeds of \$20.

In October 2006, the Limited Partnership issued 40,000 limited partnership units for gross proceeds of \$10,000,000 and 40,000 Debentures for gross proceeds of \$40,000,000 [see Table 1.2].

After issuance costs, the Limited Partnership had over \$45 million to invest in the portfolio of properties. It is management's opinion that the Limited Partnership has sufficient funds to acquire properties, and to cover anticipated costs associated with acquisition and securing financing.

9. OFF-BALANCE SHEET ARRANGEMENTS

The Limited Partnership 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 (2006) Debenture Fund

Sunstone Opportunity (2006) Debenture Fund (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 Limited Partnership incurred the following expenses to the Debenture Fund in the year ending December 31, 2006 [see Table 1.4]:

- Debenture debt interest of \$594,740, which was included in accounts payable and accrued liabilities. Debenture debt bears interest at 8.1% per annum, payable quarterly in arrears. The debt is due October 31, 2011 and is secured by a general security agreement over the assets of the Limited Partnership. 50% of interest accrued was paid in January 2007.

Related Party Transactions with Sunstone Opportunity (2006) Debenture Fund

Table 1.4

	Total for Period Ended December 31, 2006	December 31, 2006	September 30, 2006
Debenture debt interest expense, for quarter	\$ 594,740	\$ 594,740	\$ —
Amount in Accounts payable and accrued liabilities, balance	\$ 594,740	\$ 594,740	\$ —

Transactions with the General Partner — Sunstone Realty Advisors (2006) Inc.

The Limited Partnership, pursuant to the General Partner Services Agreement, paid to the General Partner [see Table 1.5]:

- Financing fee in the amount equals to 1.5% of the gross purchase price of a property, plus GST if applicable. A financing fee of \$99,000 was included in deferred expenses.
- Disposition fee in the amount equals to 1.5% of the gross sales price of a property, plus GST if applicable. There was no disposition fee paid to the General Partner in 2006.
- Annual asset management fee equals 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, 2006.

Transactions with the General Partner — Sunstone Realty Advisors (2006) Inc. (continued)

Related Party Transactions with Sunstone Realty Advisors (2006) Inc.

Table 1.5

	Total for Period Ended December 31, 2006	December 31, 2006	September 30, 2006
One-time financing fee per Property, in Deferred expenses, for quarter	\$ 99,000	\$ 99,000	\$ —
One-time disposition fee per Property sold, for quarter	—	—	—
Annual asset management fee, for quarter	—	—	—
Total	99,000	99,000	—
Amount in Accounts payable and accrued liabilities, balance	\$ —	\$ —	\$ —

11. OUTSTANDING PARTNERSHIP UNIT

As of this filing, the types of partnership units outstanding and their book values are summarized in Table 1.6.

Outstanding Partnership Unit Data

Table 1.6

	Units	Amount
Initial Limited Partner	1	\$ 10
General Partner	1	10
Limited Partners (net of offering costs of \$942,717)	40,000	9,057,283
Balance as at December 31, 2006	40,002	\$ 9,057,303

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 is the potential for declining revenue arising from vacancies or rental rate declines. The Limited Partnership, 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 Limited Partnership's financial instruments consist of cash, cash held in trust, receivables, accounts payable and accrued liabilities, rental deposits, 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 instruments approximates their carrying values, unless otherwise noted.

14. SUBSEQUENT EVENTS

In January 2007, 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.