

**Sunstone Opportunity Fund (2004) Limited Partnership**

**Financial Statements**

**December 31, 2007**

## **AUDITORS' REPORT**

To the Partners of the  
Sunstone Opportunity Fund (2004) Limited Partnership

We have audited the balance sheets of the Sunstone Opportunity Fund (2004) Limited Partnership as at December 31, 2007 and 2006 and the statements of partners' capital, operations and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Limited Partnership as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

April 18, 2008



**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Balance Sheets**  
**As at December 31**

	2007	2006
<b>ASSETS</b>		
Income producing properties (Note 3)	\$ 8,813,084	\$ 27,222,429
Cash	3,295,729	719,897
Receivables	145,457	144,801
Prepaid expenses	10,644	58,378
Deferred expenses (Note 4)	20,340	515,865
	<b>\$ 12,285,254</b>	<b>\$ 28,661,370</b>
<b>LIABILITIES</b>		
Mortgages payable (Note 5)	\$ 6,493,780	\$ 20,224,166
Debenture debt (Note 6)	—	4,691,300
Accounts payable and accrued liabilities	185,500	779,853
Rental deposits	11,110	151,721
	<b>6,690,390</b>	<b>25,847,040</b>
<b>PARTNERS' CAPITAL</b>		
Partners' capital (Note 7)	5,594,864	2,814,330
	<b>\$ 12,285,254</b>	<b>\$ 28,661,370</b>

**Nature of business and basis of presentation** (Note 1)

**Approved by the Directors of  
Sunstone Advisors (Canada) Inc.,  
as General Partner:**

**“Steve Evans”** Director

**“Darren Latoski”** Director

**Sunstone Opportunity Fund (2004) Limited Partnership  
Statement of Partners' Capital**

	Limited Partners		Initial Limited Partner		General Partner		Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance, December 31, 2005	1,046	\$1,444,400	1	\$ (15)	1	\$ (15)	1,048	\$1,444,370
Net income for the year	—	1,918,918	—	96	—	96	—	1,919,110
Distributions	—	(549,150)	—	—	—	—	—	(549,150)
Balance, December 31, 2006	1,046	2,814,168	1	81	1	81	1,048	2,814,330
Net income for the year	—	4,353,764	—	100	—	1,260,022	—	5,613,886
Distributions	—	(2,833,352)	—	—	—	—	—	(2,833,352)
<b>Balance, December 31, 2007</b>	<b>1,046</b>	<b>\$ 4,334,580</b>	<b>1</b>	<b>\$ 181</b>	<b>1</b>	<b>\$1,260,103</b>	<b>1,048</b>	<b>\$5,594,864</b>

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

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Statements of Operations and Comprehensive Income**  
**Years ended December 31**

	2007	2006
<b>REVENUES</b>		
Rental income	\$ 3,015,457	\$ 4,207,955
Interest income	71,718	75,205
	<b>3,087,175</b>	<b>4,283,160</b>
<b>OPERATING EXPENSES</b>		
Administration and general	79,548	68,423
Cleaning	62,563	75,616
HVAC	41,992	43,425
Insurance	51,453	65,919
Landscaping and parking	99,008	135,509
Management fees	135,570	178,634
Property taxes	426,479	589,445
Repairs and maintenance	154,439	291,259
Security	29,646	47,014
Utilities	119,434	232,684
	<b>1,200,132</b>	<b>1,727,928</b>
<b>INCOME BEFORE OTHER ITEMS</b>	<b>1,887,043</b>	<b>2,555,232</b>
<b>OTHER ITEMS</b>		
Amortization of income producing properties	408,195	533,882
Amortization of deferred expenses	232,718	330,117
Annual loan fee	267,603	535,205
Asset management fee	83,555	196,125
Debenture debt fees	16,066	38,703
Debenture debt interest	319,715	770,194
Mortgage interest	1,156,289	1,180,073
Office and general	193,337	47,624
Professional fees	91,317	124,074
Property investigation costs	—	4,621
	<b>2,768,795</b>	<b>3,760,618</b>
<b>LOSS BEFORE GAIN ON DISPOSAL</b>	<b>(881,752)</b>	<b>(1,205,386)</b>
Gain on disposal of income producing properties (Note 3)	6,495,638	3,124,496
<b>NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 5,613,886</b>	<b>\$ 1,919,110</b>

The accompanying notes are an integral part of these financial statements

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Statements of Cash Flows**  
**December 31, 2007**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	\$ 5,613,886	\$ 1,919,110
Items not affecting cash:		
Amortization of income producing properties	408,195	533,882
Amortization of deferred expenses	232,718	330,117
Deferred financing costs included in mortgage interest expense	326,147	—
Gain on sale of income producing properties	(6,495,638)	(3,124,496)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(656)	4,423
Decrease in prepaid expenses	47,734	45,062
Decrease in accounts payable and accrued liabilities	(589,497)	(232,954)
Increase in rental deposits	19,343	4,938
Net cash used in operating activities	(437,768)	(519,918)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Income producing properties	(481,671)	(401,461)
Proceeds from disposal of income producing properties	25,863,546	14,082,777
Property disposal costs	(1,032,900)	(662,414)
Net cash provided by investing activities	24,348,975	13,018,902
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deferred expenses	(121,727)	(167,251)
Distributions to Limited Partners	(2,850,349)	(490,313)
Mortgage repayment	(13,671,999)	(7,568,188)
Debenture repayment	(4,691,300)	(4,691,300)
Net cash used in financing activities	(21,335,375)	(12,917,052)
<b>Change in cash during the year</b>	<b>2,575,832</b>	<b>(418,068)</b>
<b>Cash, beginning of the year</b>	<b>719,897</b>	<b>1,137,965</b>
<b>CASH, END OF THE YEAR</b>	<b>\$ 3,295,729</b>	<b>\$ 719,897</b>
<b>Cash paid for interest</b>	<b>\$ 1,244,393</b>	<b>\$ 2,070,521</b>
<b>Cash received for interest</b>	<b>60,837</b>	<b>73,627</b>

Supplemental disclosure with respect to cash flows (Note 9)

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

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**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Sunstone Opportunity Fund (2004) Limited Partnership (the "Limited Partnership") was formed pursuant to the Partnership Act (British Columbia) on July 22, 2004. The Limited Partnership was established for the purpose of owning and operating income producing residential and/or commercial real estate properties in Canada and for limited investment in real estate development opportunities.

The general partner of the Limited Partnership is Sunstone Advisors (Canada) Inc. (the "General Partner").

On October 25, 2004, the Limited Partnership, along with SRAI Capital Corp. ("SRAI"), received final receipt for an initial public offering prospectus to sell a minimum of 400 Units up to a maximum of 2,000 Units at a price of \$12,500 per Unit. Each Unit consisted of one unit of the Limited Partnership with a price of \$2,500 and one Series B Debenture from SRAI in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on October 31, 2009. The offering was closed on December 20, 2004 after a total of 1,046 Limited Partnership units had been issued (Note 7).

SRAI loaned to the Limited Partnership the net proceeds received from the issuance of the Series B Debentures, by way of a debenture debt (Note 6).

These financial statements include the accounts of the Limited Partnership and its interest in income producing properties from the date of acquisition to the date the properties are sold.

The financial statements of the Limited Partnership 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 Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Allocation of net income or loss**

Net income or loss of the Limited Partnership from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.005% to each of the General Partner and the Initial Limited Partner to a maximum of \$100 per annum;
- Secondly, to the Limited Partners in the amount of the Limited Partners' minimum return, being 9% on the Limited Partners' net equity in the limited partnership;
- Thirdly, to the General Partner in the amount of the General Partner's right to receive the incentive management interest; and
- Fourthly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

To the extent that net income or loss arises from matters other than the ordinary course of operations, net income or loss will be allocated as follows:

- Firstly, 0.005% to each of the General Partner and the Initial Limited Partner to a maximum of \$100 per annum;
- Secondly, to the Limited Partners in the amount up to their net equity investment in the Limited Partnership, thereafter the Limited Partners' minimum return;
- Thirdly, to the General Partner in the amount of the General Partner's right to receive the incentive management interest; plus to the extent the amount allocated to the Limited Partners exceeds the minimum return, the General Partner shall be allocated an amount equal to 20/80ths of such excess; and
- Fourthly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income taxes**

The Limited Partnership is not subject to income taxes. The income or loss of the Limited Partnership will be allocated to the individual partners for taxation purposes.

**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. Significant areas requiring the use of management estimates relate to the purchase price allocation and estimated useful lives for income producing properties and financing instruments. Actual results could differ from those estimates.

**Income producing properties**

Upon acquisition of income producing properties, the Limited Partnership allocates the purchase price to the fair value of assets and liabilities acquired, including land, building and paving. A portion of the purchase price, if applicable, is also allocated to intangible amounts for the fair value of tenant in-place leases, above and below market leases and tenant relationships.

Income producing properties are recorded at cost less accumulated amortization. Amortization of the buildings is recorded on a straight-line basis at 4% per annum. Paving is amortized on a declining-balance basis at 8% per annum. Tenant improvements are deferred and amortized using the straight-line method over the term of the related leases.

**Impairment of long-lived assets**

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows are directly associated with, and are expected to arise as a result of, the asset's use and eventual disposition.

**Revenue recognition**

Rental revenue is recognized when services are provided under the terms of the various leases and ultimate collection is reasonably assured. The amount of revenue recognized is based on the total revenue for the term of the lease over a straight line basis. Rental income includes recoveries of operating expenses.

**Offering costs**

Offering costs relating to the issuance of Limited Partnership units are charged against the related partners' capital.

**Deferred expenses**

Prior to January 1, 2007, costs incurred to obtain mortgage financing were deferred and amortized over the term of the related debt. As a result of adopting the new Financial Instruments accounting policy, the Company reclassified unamortized deferred financing costs against the related mortgage financing and amortized using the straight-line method.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred expenses (continued)**

Leasing commissions are deferred and amortized over the term of the related leases or until the related income producing property is sold, whichever is earlier.

**Changes to accounting policies**

On January 1, 2007, the Limited Partnership adopted CICA Handbook Section 1530 “Comprehensive Income”, Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. The new standards were adopted prospectively and accordingly, prior periods have not been restated.

Comprehensive income

Section 1530 introduces Comprehensive Income, which consists of Net Income and Other Comprehensive Income (“OCI”). OCI represents changes in shareholders’ equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as “available for sale”, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

Hedges

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged items. The Limited Partnership does not have any hedge positions.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Balance Sheet upon entering into a financial instrument or a financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held for trading”, “available for sale”, “held to maturity”, “loans and receivables” or “other financial liabilities”.

Financial assets and financial liabilities classified as “held for trading”, if any, are measured at fair value with changes in those fair values recognized in the determination of Net Income. Financial instruments classified as “held to maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost. “Available for sale” assets are measured at fair value with unrealized gains and losses recognized in OCI.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Limited Partnership has designated its receivables as “loans and receivables”; accounts payable and accrued liabilities, mortgages payable and debenture debt as “other financial liabilities”, all of which are measured at amortized cost using the effective interest method of measurement. Cash is classified as “held for trading” and is reflected on the Balance Sheet at fair value.

As a result of adopting the above standards effective January 1, 2007, the Limited Partnership reclassified unamortized deferred financing costs against the related mortgages payable and amortized using the effective interest method. For fiscal 2007 onwards, the amortization of deferred financing costs will be recorded as additional non-cash mortgage interest expense. There was no material effect at January 1, 2007 of adopting the above standards and no adjustment to opening partners’ capital was required.

*Future changes of accounting policies*

On December 1, 2006, CICA issued new accounting standards: Section 1400 – Assessing Going Concern; Section 1535 - Capital Disclosure; Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation, which will be effective for the Limited Partnership on January 1, 2008.

Section 1400 was amended to include requirements for management to assess and disclose an entity’s ability to continue as a going concern.

Section 1535 requires the disclosure of an entity’s objective, policies and processes for managing capital; quantitative data about capital; whether the entity has complied with any capital requirements; and the consequences of non-compliance.

Sections 3862 and 3863 replace Section 3861 – Financial Instruments - Disclosure and Presentation, and emphasize more disclosures about the nature and extent of risks arising from financial instruments and how the entity manages risks.

The new requirements are for disclosure only and will not impact the financial results of the Limited Partnership.

*International Financial Reporting Standards*

In addition to the above accounting pronouncements the Canadian Accounting Standards Board (“AcSB”) in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Limited Partnership for the year ended December 31, 2010. While the Limited Partnership has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**3. INCOME PRODUCING PROPERTIES**

In August 2007, the Limited Partnership sold Northland Buildings for \$8,533,500 and Torquay Village for \$4,850,000 less standard closing costs and adjustments. In September 2007, the Limited Partnership sold Drumheller for \$2,930,000 less standard closing costs and adjustments. In November 2007, the Limited Partnership sold Scott Town Plaza for \$9,710,000 less standard closing costs and adjustments.

The gain on disposal of income producing properties during 2007 is as follows:

Gross proceeds	\$	26,023,500
Selling commission and legal fees		(654,688)
Disposition fee of 1.5% of the gross proceeds		(390,353)
Net proceeds		24,978,459
Net book value of income producing properties		(18,482,821)
<b>Gain on disposal of income producing properties</b>	<b>\$</b>	<b>6,495,638</b>

In July 2006, the Limited Partnership sold WestWillow for \$14,200,000 less standard closing costs and adjustments, resulting in a gain on disposal of \$3,124,496 as follows:

Gross proceeds	\$	14,200,000
Selling commission and legal fees		(449,414)
Disposition fee of 1.5% of the gross proceeds		(213,000)
Net proceeds		13,537,586
Net book value of income producing property		(10,413,090)
<b>Gain on disposal of income producing property</b>	<b>\$</b>	<b>3,124,496</b>

**December 31, 2007**

	Cost	Accumulated amortization	Net book value
Land	\$ 5,801,589	\$ —	\$ 5,801,589
Building	3,042,297	333,977	2,708,320
Paving	338,389	46,668	291,721
Tenant improvement	25,772	14,318	11,454
<b>Total</b>	<b>\$ 9,208,047</b>	<b>\$ 394,963</b>	<b>\$ 8,813,084</b>

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**3. INCOME PRODUCING PROPERTIES (continued)**

December 31, 2006			
	Cost	Accumulated amortization	Net book value
Land	\$ 17,332,496	\$ —	\$ 17,332,496
Building	10,224,573	652,705	9,571,868
Paving	233,035	25,882	207,153
Tenant improvement	125,503	14,591	110,912
<b>Total</b>	<b>\$ 27,915,607</b>	<b>\$ 693,178</b>	<b>\$ 27,222,429</b>

Capital enhancements totalling \$481,671 (2006 - \$401,461) have been capitalized in the cost of the related assets. Amortization of the income producing properties totalling \$408,195 (2006 - \$533,882) consists of \$151,070 (2006 - \$439,145) for the properties held and \$257,125 (2006 - \$94,737) for the properties sold.

**4. DEFERRED EXPENSES**

December 31, 2007			
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ —	\$ —	\$ —
Deferred leasing commissions	270,509	(250,169)	20,340
<b>Total</b>	<b>\$ 270,509</b>	<b>\$ (250,169)</b>	<b>\$ 20,340</b>

December 31, 2006			
	Cost	Accumulated amortization	Net book value
Deferred financing costs	\$ 900,639	\$ (516,105)	\$ 384,534
Deferred leasing commissions	148,782	(17,451)	131,331
<b>Total</b>	<b>\$ 1,049,421</b>	<b>\$ (533,556)</b>	<b>\$ 515,865</b>

The unamortized deferred financing costs were reclassified against the related mortgages payable effective January 1, 2007 (Note 2).

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**5. MORTGAGES PAYABLE**

	December 31, 2007	December 31, 2006
<b><u>West Willow</u></b> — Mortgage bearing interest at 4.35%, calculated semi-annually. During fiscal 2006, the mortgage was refinanced with an open floating variable rate mortgage, and was then retired when the income producing property was sold.	\$ —	\$ 7,202,939
Less: principal paid during the year	—	(99,763)
Less: principal retired during the year	—	(7,103,176)
<b><u>Scott Town</u></b> — Mortgage bearing interest at 5.00%, calculated semi-annually. The mortgage was secured by the income producing property and was repayable in blended monthly payments of principal and interest of \$34,897. The mortgage was retired when the property was sold in November 2007.	<b>5,811,135</b>	5,938,859
Less: principal paid during the year	<b>(111,546)</b>	(127,724)
Less: principal retired during the year	<b>(5,699,589)</b>	—
<b><u>Halton Hills</u></b> — Mortgage bearing interest at 7.47%, calculated semi-annually, maturing May 28, 2008. During 2007, the mortgagor changed the repayment date from May 1, 2012 to May 28, 2008. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$29,187.	<b>3,695,918</b>	3,771,241
Less: principal paid during the year	<b>(81,055)</b>	(75,323)
<b><u>Halton Hills</u></b> — Vendor take-back mortgage bearing interest at 1.25%, calculated semi-annually, maturing May 28, 2008. During 2007, the mortgagor changed the repayment date from May 1, 2012 to May 28, 2008. The mortgage is secured by the income producing property. Interest of \$3,042 is payable monthly. The principal will be repayable when the mortgage matures.	<b>2,937,305</b>	2,937,305

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**5. MORTGAGES PAYABLE (continued)**

	December 31, 2007	December 31, 2006
<b><u>Drumheller</u></b> — Mortgage bearing interest at 4.79%, calculated semi-annually. The mortgage was secured by the income producing property and was repayable in blended monthly payments of principal and interest of \$9,976. The mortgage was retired when the property was sold in September 2007.	\$ 1,700,726	\$ 1,738,786
Less: principal paid during the year	(29,699)	(38,060)
Less: principal retired during the year	(1,671,027)	—
<b><u>Torquay</u></b> — Mortgage bearing interest at 5.75%, calculated semi-annually. The mortgage was secured by the income producing property and was repayable in blended monthly payments of principal and interest of \$13,798. The mortgage was retired when the property was sold in August 2007.	2,036,097	2,084,474
Less: principal paid during the year	(33,779)	(48,377)
Less: principal retired during the year	(2,002,318)	—
<b><u>Torquay</u></b> — Vendor take-back mortgage, bearing interest at 4.5%, calculated semi-annually. The mortgage was secured by the income producing property. Interest of \$1,594 was payable monthly. The mortgage was retired when the property was sold in August 2007.	425,000	425,000
Less: principal retired during the year	(425,000)	—
<b><u>Northland</u></b> — Mortgage bearing interest at 5.09%, calculated semi-annually. The mortgage was secured by the income producing property and was repayable in blended monthly payments of principal and interest of \$21,673. The mortgage was retired when the property was sold in August 2007.	3,617,985	3,693,750
Less: principal paid during the year	(52,837)	(75,765)
Less: principal retired during the year	(3,565,148)	—
<b>Total outstanding balance</b>	<b>\$ 6,552,168</b>	<b>\$ 20,224,166</b>

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**5. MORTGAGES PAYABLE (continued)**

The effective weighted average interest rate on mortgages payable is 5.6% per annum as at December 31, 2007.

	December 31, 2007	December 31, 2006
Total outstanding balance	\$ 6,552,168	\$ 20,224,166
Unamortized deferred financing fees	(58,388)	—
<b>Carrying value of mortgages payable</b>	<b>\$ 6,493,780</b>	<b>\$ 20,224,166</b>

The outstanding balance of mortgage principal of \$6,552,168 will mature during 2008.

**6. DEBENTURE DEBT**

Debenture debt payable to SRAI	2007	2006
Debenture debt bore interest at 9.95% per annum, payable quarterly in arrears and was secured by a general security agreement over the assets of the Limited Partnership. Included in accounts payable at December 31, 2007 is accrued interest of \$Nil. (2006 - \$116,696).	\$ 4,691,300	\$ 9,382,600
Less: repayment during the year	(4,691,300)	(4,691,300)
<b>Total outstanding debenture debt</b>	<b>\$ —</b>	<b>\$ 4,691,300</b>

**7. PARTNERS' CAPITAL**

The Limited Partnership's authorized partners' capital consists of up to 5,000 Limited Partners' units, one Initial Limited Partner's unit and one General Partner's unit.

During the period ended December 31, 2004, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each.

During the period ended December 31, 2004, the Limited Partnership issued, under an initial public offering, 1,046 Limited Partners' units for gross proceeds of \$2,615,000. Offering costs representing the Limited Partnership's pro-rata share of costs incurred to issue the units, which consist of agents' fees and commissions plus professional fees and other related costs, totalled \$15,553 and \$409,609 in 2005 and 2004, respectively.

During the year ended December 31, 2007, total distributions of \$2,833,352 (2006 – \$549,150) were paid to the Limited Partners.

**8. 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.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

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**8. RELATED PARTY TRANSACTIONS (continued)**

**Transactions with the Debenture Issuer – SRAI**

SRAI is related to the Limited Partnership by virtue of having officers and directors in common with the General Partner. In connection with a debenture debt received from SRAI (Note 6), the Limited Partnership incurred the following expenses to SRAI in the year ended December 31, 2007:

- annual loan fees of \$267,603 (2006 – \$535,205);
- debenture debt interest of \$319,715 (2006 – \$770,194); and,
- ongoing quarterly debenture debt fees of \$16,066 (2006 – \$38,703).

Included in accounts payable and accrued liabilities at December 31, 2007 is \$Nil (December 31, 2006 – \$390,162) due to SRAI.

**Transactions with the General Partner**

The Limited Partnership, pursuant to the General Partner Services Agreement, paid to the General Partner:

- a disposition fee of \$390,353 (2006 – \$213,000), which is included in the gain on disposal of the income producing properties; and
- an annual asset management fee of \$83,555 equal to 1.5% of the Net Asset Value of the Limited Partnership (2006 – \$196,125).

Included in accounts payable and accrued liabilities at December 31, 2007 is \$Nil (2006 – \$5,134) due to the General Partner.

**Transactions with Sunstone Opportunity Fund (2005) Limited Partnership**

Sunstone Opportunity Fund (2005) Limited Partnership is related to the Limited Partnership by virtue of its general partner having officers and directors in common with the General Partner. Included in receivables at December 31, 2007 is \$Nil (December 31, 2006 – \$15,000) due from Sunstone Opportunity Fund (2005) Limited Partnership.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the year ended December 31, 2007 consisted of:

- Rental deposit obligations of \$159,954 being assumed by the purchasers as part of the sale prices on disposal of Northland Buildings, Torquay Village, Drumheller and Scott Town.
- Tenant improvement obligation of \$80,104 being assumed by the purchaser as part of the sale price on disposal of Northland Buildings.
- A \$41,840 distribution to the Limited Partners accrued in accounts payable.
- A \$12,141 disposition costs accrued in accounts payable.

Significant non-cash transactions for the year ended December 31, 2006 consisted of:

- Rental deposit obligations of \$42,223 being assumed by the purchaser as part of the sale price on disposal of WestWillow Shopping Centre.
- Tenant improvement obligations of \$75,000 being assumed by the purchaser as part of the sale price on disposal of WestWillow Shopping Centre.
- A \$58,837 distribution to the Limited Partners accrued in accounts payable.

**Sunstone Opportunity Fund (2004) Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2007**

**10. SEGMENTED INFORMATION**

The Limited Partnership operates in one business segment, being the owning and operating of income producing and other real estate properties, in Canada.

**11. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The following table presents the carrying amounts and fair values of the Limited Partnership's financial instruments:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable	\$ 6,493,780	\$ 6,493,184	\$ 20,224,166	\$ 19,614,855
Debenture debt	—	—	4,691,300	4,921,177

For certain of the Limited Partnership's financial instruments, including cash, receivables, accounts payable and accrued liabilities and rental deposits, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of amounts due for mortgages payable and debenture debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates which represent borrowing rates presently available to the Limited Partnership for loans with similar terms and maturity.

**12. RISK MANAGEMENT**

In the normal course of business, the Limited Partnership is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

**Credit risk**

The Limited Partnership is exposed to some credit risk with respect to the collection of rental revenue, but minimizes the risk by checking tenants' credit history and requesting security deposits.

**Interest rate risk**

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Limited Partnership is exposed to financial risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The Limited Partnership manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimizing interest expense. The interest rate on debenture debt was fixed. Whenever possible, the Limited Partnership tried to get fixed interest rate mortgages.

**Currency risk**

The Limited Partnership is not exposed to currency risk since all transactions are in Canadian dollars.