

**SUNSTONE OPPORTUNITY FUND (2004) LIMITED PARTNERSHIP**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2007**

The following management discussion and analysis of the financial condition and results of operations prepared April 24, 2007 should be read together with the Sunstone Opportunity Fund (2004) Limited Partnership (“Sunstone (2004) LP”) unaudited financial statements and notes thereto for the period ended December 31, 2007. 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 (2004) LP filed with Canadian securities commissions is available online at [www.sedar.com](http://www.sedar.com).

**1. DESCRIPTION OF BUSINESS**

Sunstone (2004) LP was established by the General Partner, Sunstone Advisors (Canada) 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 (2004) LP’s investments were made in existing, operating properties and a small minority of investments, not to exceed 15% of the portfolio, could be made in real estate development opportunities.

An investment in Sunstone (2004) 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 (2004) LP and SRAI Capital Corp. (“SRAI”), a subsidiary of Knightswood Financial Corp., obtained capital from Investors by selling \$12,500 units consisting of:

- Part 1 – the price of one Sunstone (2004) LP Unit (“LPU”).....\$2,500
- Part 2 – the principal amount of one Series B Debenture issued by SRAI, maturing on October 31, 2009, bearing interest at a rate of 9.95% per annum.....\$10,000

SRAI loaned to Sunstone (2004) LP, by way of a debenture debt, an amount equal to the net proceeds received by SRAI from subscriptions for the Series B Debentures, that is, gross proceeds of \$10,000 per debenture minus SRAI’s pro rata share of offering costs.

Sunstone (2004) 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 (2004) 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 (2004) LP provides quarterly cash flow distributions to Investors targeted at 9% of the \$2,500 LPU on an annual basis.

## 2. SELECTED HISTORICAL ANNUAL INFORMATION

### Units Subscribed and Issued

An initial public offering prospectus contemplating the issue of a minimum of 400 Units to a maximum of 2,000 Units was issued on October 25, 2004.

The initial public offering was closed on December 20, 2004; the gross proceeds raised were \$13,075,000 and a total of 1,046 Units were issued. The net proceeds of \$11,579,426 [see Table 1.1] were used to purchase the property portfolio, which is expected to generate positive cash flows for distributions to the Sunstone (2004) LP unit holders after coverage of:

- debenture debt interest (see below) and
- any other expenses incurred by the Sunstone (2004) LP.

The details regarding each of the two 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
November 15, 2004	503	\$ 1,257,500	\$ 5,030,000	\$ 6,287,500
December 20, 2004	543	1,357,500	5,430,000	6,787,500
<b>Gross proceeds</b>	<b>1,046</b>	<b>2,615,000</b>	<b>10,460,000</b>	<b>13,075,000</b>
Issuance costs		(425,163)	(1,070,411)	(1,495,574)
<b>Net proceeds</b>	<b>1,046</b>	<b>\$ 2,189,837</b>	<b>\$ 9,389,589</b>	<b>\$ 11,579,426</b>

### Debenture Debt

Sunstone (2004) LP received a 9.95% debenture debt in the amount of \$9,382,600 [see Table 1.2] from SRAI and signed a promissory note to that effect. Interest was due quarterly and the principal was due on October 31, 2009. The debenture debt was repaid in full in September 2007.

### 9.95% Debenture Debt Issued by SRAI

Table 1.2

SRAI Series B Debenture proceeds [Table 1.1]	\$	10,460,000
Pro rata share of issuance costs [Table 1.1]		(1,070,411)
Other costs		(6,989)
SRAI's costs		(1,077,400)
9.95% Debenture debt issued to Sunstone (2004) LP	\$	9,382,600
50% of Debenture debt repaid on August 23, 2006	\$	(4,691,300)
The balance of Debenture debt repaid on September 7, 2007	\$	(4,691,300)
<b>9.95% Debenture debt as at December 31, 2007</b>	<b>\$</b>	<b>—</b>

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## 2. SELECTED HISTORICAL ANNUAL INFORMATION (CONTINUED)

### Income Producing Properties Owned

See Table 1.5 for a summary of properties owned by the Limited Partnership.

- **1425 Kebet Way**

1425 Kebet Way, located in Port Coquitlam, British Columbia, is a 47,693 square foot concrete warehouse that was constructed in 1993, with an overall site area of 2.18 acres. The property was acquired in January 2005 for a purchase price of \$3,765,187 plus standard closing costs and adjustments. The property was sold in May 2005 for \$4,570,000 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP realized a gain of \$594,522 on this property.

- **WestWillow Shopping Centre**

WestWillow Shopping Centre, located in Langley, British Columbia, is 70,074 square feet and was acquired in March 2005 at a cost of \$9,750,000 plus standard closing costs and adjustments. The centre has a total of 15 tenants and is anchored by a grocery store. WestWillow was sold on July 28, 2006 for \$14,200,000 less standard closing costs and adjustments. Sunstone (2004) LP realized a gain of \$3,123,468 on this property in 2006.

- **Scott Town Plaza**

Scott Town Plaza, located in Surrey, British Columbia, is 56,781 square feet and was acquired in May 2005 for a purchase price of \$8,000,000 plus standard closing costs and adjustments. Scott Town Plaza is a shopping centre anchored by Pharmasave and Buy-Rite Foods, a successful grocery store chain.

Scott Town is well located on 120th Street (Scott Road), a major commercial artery which has daily traffic volumes in excess of 33,000 and is the boundary between Surrey to the east and Delta to the west. Surrey is one of the fastest growing cities in Canada and is the largest geographical municipality in the province, equal in size to Vancouver, Richmond and Burnaby combined.

Scott Town Plaza was sold in November 2007 for \$9,710,000 less standard closing costs and adjustments. Sunstone (2004) LP realized a gain of \$1,610,256 on this property.

- **Halton Hills Shopping Plaza**

In May 2005, Sunstone (2004) LP acquired Halton Hills Shopping Plaza, located in Ontario's Georgetown area, approximately 40 minutes northwest of Toronto, for a purchase price of \$8,650,000 plus standard closing costs and adjustments. Halton Hills is a 70,228 square foot shopping centre situated in the high-traffic commercial area of Georgetown. The centre is anchored by Food Basics, a successful grocery store chain, and includes TD Canada Trust, PetValu, Pita Pit and Dollarama.

The town of Halton Hills is increasingly becoming a regional centre within the Georgetown area and is experiencing significant residential development. The town has strong drawing power, bringing traffic from the surrounding areas of both Brampton and Burlington. The community is located near the intersection of Highway 401 and Highway 407, which provides ready access to Highway 403 and Queen Elizabeth Way.

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**2. SELECTED HISTORICAL ANNUAL INFORMATION (CONTINUED)**

- **Drumheller Shopping Centre**

In June 2005, Sunstone (2004) LP acquired Drumheller Shopping Centre in Drumheller, Alberta, for a purchase price of \$2,335,000 plus standard closing costs and adjustments. Drumheller is a 10,537 square foot shopping centre with three tenants: A&W Restaurants, Alberta Treasury Branches and VHQ Entertainment (Video Headquarters, which was recently acquired by Movie Gallery). The site has great exposure to traffic flow from Highway 10 and the downtown core. The centre is located in the new “South Side” business district, adjacent to tenants such as IGA, McDonalds, Country Style Donuts, Super 8 Motel and Canadian Tire.

Drumheller is located northeast of Calgary. The “Badlands” help make Drumheller Alberta’s third-ranked tourist destination with the dinosaur fossil industry attracting over 400,000 visitors annually.

Drumheller is the retail trade and professional services centre for 30,000 people in east central Alberta and is evolving as a regional centre due to growth in the key industries of farming, oil and gas, and tourism. Developments in residential housing and industrial properties are under way to meet the needs of this growing community.

Drumheller Shopping Centre was sold in September 2007 for \$2,930,000 less standard closing costs and adjustments. Sunstone (2004) LP realized a gain of \$490,770 on this property.

- **Torquay Village Shopping Centre**

In July 2005, Sunstone (2004) LP acquired Torquay Village Shopping Centre in Victoria, British Columbia, for a purchase price of \$3,350,000 plus standard closing costs and adjustments. Torquay Village Plaza is a single-storey shopping plaza comprised of approximately 14,634 square feet of retail space that is currently divided into 9 units. The overall site area is 47,825 square feet. Tenants include nationwide companies such as Edward Jones, Dominos Pizza and General Paint.

Torquay Village is well located as it fronts Shelbourne Street, a major north-south artery that cuts through the neighborhoods of Shelbourne and Gordon Head. Other commercial developments in the area are primarily concentrated along Shelbourne Street. Torquay Village is in close proximity to University Heights Shopping Centre, which has received recent upgrades, and the Tuscany Village Shopping Centre, a mixed use retail residential project.

Torquay Village was sold in August 2007 for \$4,850,000 less standard closing costs and adjustments. Sunstone (2004) LP realized a gain of \$1,261,065 on this property.

- **Northland Buildings**

Sunstone (2004) LP acquired Northland Buildings in Calgary, Alberta, in November 2005 for a purchase price of \$4,925,000 plus standard closing costs and adjustments. Northland Buildings is a three building office complex, located at 9705 Horton Road SW. The overall site area is 74,273 square feet, with 54,581 square feet of rentable office space.

The complex is very well situated in the Haysboro district and is located close to the busy Macleod Trail commercial corridor. Horton Road SW is a service road providing rear access to commercial developments situated on Macleod Trail South and intersecting Southland Drive SW and Heritage Drive SW, both of which are major arterial routes. The property is within easy walking distance of the Calgary Light Rapid Transit and is in the predominantly commercial area of the district with excellent access to restaurants, banks and other retail tenants.

The Northland Buildings complex was sold in August 2007 for \$8,533,500 less standard closing costs and adjustments. Sunstone (2004) LP realized a gain of \$3,134,704 on this property.

### 3. RESULTS OF ANNUAL OPERATIONS

Sunstone (2004) LP sold Northland Buildings and Torquay Village in August 2007; Drumheller in September 2007 and Scott Town in November 2007. Upon closing, Sunstone (2004) LP repaid mortgages on Northland Buildings, Torquay Village, Drumheller and Scott Town in full. The Limited Partnership also redeemed the debenture debt in full using the net proceeds from the sales of properties in September 2007. Due to the sales, the total assets and liabilities decreased; rental income from properties also decreased during the year ended December 31, 2007 compared to the same period in 2006.

Sunstone (2004) LP earned operating income from the five properties of \$3,015,457 during the year ended December 31, 2007 in line with management's expectations (December 31, 2006 – \$4,207,955). The Limited Partnership earned net income of \$5,613,885 after amortization, interest, administrative expenses, disposition costs and legal fees related to the sales of Northland Buildings, Torquay Village, Drumheller and Scott Town for the year ended December 31, 2007 (December 31, 2006 – net gain of \$1,919,110).

Cash flow from the properties was strong for the year. As such, the Limited Partnership paid and/or accrued a cash distribution to its Limited Partners totaling \$2,833,352 (December 31, 2006 – \$549,150), which included two special distributions - \$1,569,000 on October 11, 2007 and \$1,046,000 on November 26, 2007. The accrued distribution of \$41,840 was subsequently paid in January 2008. The Limited Partnership also repaid the debenture debt of \$4,691,300 in full in September 2007.

For the year ended December 31, 2007, the Limited Partnership's assets decreased to \$12,285,254 compared to \$28,661,370 for the year ended December 31, 2006. During the same period, liabilities decreased to \$6,690,390, compared to \$25,847,040 as at December 31, 2006 due to mortgage repayments upon the sales of the above four properties and the redemption of debenture debt.

#### Selected Annual Information

Table 1.3

Year Ended	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
Total revenue	\$ 3,087,175	\$ 4,283,160	\$ 2,860,929	\$ 14,828
Loss before disposal	(881,752)	(1,205,386)	(956,038)	(148,622)
Net income (loss)	5,613,886	1,919,110	(361,516)	(148,622)
Total assets	12,285,254	28,661,370	39,762,300	14,628,265
Total liabilities	6,690,390	25,847,040	38,317,930	12,571,476

### 4. RESULTS OF QUARTERLY OPERATIONS

- Rental revenues totaling \$299,166 and operating expenses of \$180,667 were in line with management's budget expectations, producing operating profits of \$118,499 (December 31, 2006 – \$900,457, \$342,176 and \$558,281 respectively). Both rental revenue and operating expenses decreased during the fourth quarter of 2007 due to the sales of properties. Most revenue was generated by Halton Hills.
- The Limited Partnership earned \$30,508 in interest from short term investments (December 31, 2006 – \$11,566).
- The Limited Partnership incurred administrative expenses that produced a net income of \$1,354,314 (December 31, 2006 – net loss of \$361,113). The expenses consist of:
  - amortization of the properties totaling \$50,865 (December 31, 2006 – \$122,517);
  - amortization of deferred expenses totaling \$114,966 (December 31, 2006 – \$202,019);
  - mortgage interest totaling \$103,753 (December 31, 2006 – \$248,252);

#### 4. RESULTS OF QUARTERLY OPERATIONS (CONTINUED)

- expenses totaling \$Nil with SRAI in connection with the debenture debt proceeds received from SRAI (December 31, 2006 – \$390,162) [see Section 10 – Related Party Transactions and Table 1.7]. The amount for the current quarter is lower than the comparative quarter due to the repayment of the debenture debt and sales of Northland Buildings, Torquay Village, Drumheller and Scott Town in 2007;
- an asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership to the General Partner, Sunstone Advisors (Canada) Inc., totaling \$Nil (December 31, 2006 – \$49,031) [see Section 10 – Related Party Transactions and Table 1.8].

<b>Summary of Quarterly Results</b>					
Table 1.4					
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Total assets, balance	12,285,254	19,681,007	28,570,956	28,797,393	28,661,370
Mortgages payable, balance	6,493,780	12,284,289	20,033,073	20,127,793	20,224,166
Debenture debt, balance	—	—	4,691,300	4,691,300	4,691,300
Partners' capital, balance	5,594,864	6,897,389	2,827,221	2,874,233	2,814,330
Rental income, for quarter	299,166	755,685	980,620	979,986	900,457
Interest income, for quarter	30,508	29,480	5,524	6,206	11,566
Net income (loss), for quarter	1,354,315	4,129,005	11,826	118,740	(361,113)

<b>Summary of Quarterly Results</b>					
Table 1.4					
	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Total assets, balance	29,116,307	39,331,823	39,605,301	39,762,300	36,244,173
Mortgages payable, balance	20,317,752	27,526,376	27,657,866	27,792,354	24,197,615
Debenture debt, balance	4,691,300	9,382,600	9,382,600	9,382,600	9,382,600
Partners' capital, balance	3,548,080	1,119,416	1,261,197	1,444,370	1,742,663
Rental income, for quarter	999,806	1,128,381	1,179,311	1,167,121	859,350
Interest income, for quarter	12,702	28,851	22,086	25,871	23,202
Net income (loss), for quarter	2,487,502	(77,627)	(129,652)	(239,458)	(95,624)

#### 5. INCOME PRODUCING PROPERTIES

##### Current Property Highlights

- **WestWillow Shopping Centre**

On July 28, 2006, Sunstone (2004) LP successfully disposed of its undivided beneficial interest in WestWillow Shopping Centre for a gross sale price of \$14,200,000 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP acquired its interest in March 2005 for \$9,750,000 plus standard closing costs and adjustments. The remaining balance on the first mortgage on the property was discharged at the time of disposition.

- **Halton Hills Shopping Plaza**

The Limited Partnership is in the process of negotiating with Dollarama to relocate their store into the existing theatre space and demise their current space into small retail units.

## 5. INCOME PRODUCING PROPERTIES (CONTINUED)

- **Scott Town Plaza**

On November 5, 2007, Sunstone (2004) LP successfully disposed of its undivided beneficial interest in Scott Town Plaza for a gross sale price of \$9,710,000 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP acquired its interest in May 2005 for \$8,000,000 plus standard closing costs and adjustments. The remaining balance on the first mortgage on the property was discharged at the time of disposition.

- **Drumheller Shopping Centre**

On September 21, 2007, Sunstone (2004) LP successfully disposed of its undivided beneficial interest in Drumheller Shopping Centre for a gross sale price of \$2,930,000 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP acquired its interest in June 2005 for \$2,335,000 plus standard closing costs and adjustments. The remaining balance on the first mortgage on the property was discharged at the time of disposition.

- **Torquay Village Shopping Centre**

On August 29, 2007, Sunstone (2004) LP successfully disposed of its undivided beneficial interest in Torquay Village Shopping Centre for a gross sale price of \$4,850,000 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP acquired its interest in July 2005 for \$3,335,000 plus standard closing costs and adjustments. The remaining balance on the mortgages on the property was discharged at the time of disposition.

- **Northland Buildings**

On August 13, 2007, Sunstone (2004) LP successfully disposed of its undivided beneficial interest in Northland Buildings for a gross sale price of \$8,533,500 less standard closing costs and adjustments, including third party real estate commission. Sunstone (2004) LP acquired its interest in November 2005 for \$4,925,000 plus standard closing costs and adjustments. The remaining balance on the first mortgage on the property was discharged at the time of disposition.

**Original Property Portfolio – Original Purchase Price and Equity-Mortgage Split**

Table 1.5

<b>Property Description</b>	<b>Location</b>	<b>Purchase Date</b>	<b>Equity</b>	<b>Original Mortgage Amount</b>	<b>% Rate</b>	<b>Original Purchase Price</b>
1425 Kebet Way	Port Coquitlam, BC	Jan-05	\$941,297	\$2,823,890	4.85	\$3,765,187
WestWillow Shopping Centre	Langley, BC	Mar-05	2,437,500	7,312,500	4.35	9,750,000
Scott Town Plaza	Surrey, BC	May-05	2,000,000	6,000,000	5.00	8,000,000
Halton Hills Shopping Plaza	Halton Hills, ON	May-05	1,900,000	6,750,000	4.73	8,650,000
Drumheller Shopping Centre	Drumheller, AB	Jun-05	584,000	1,751,000	4.79	2,335,000
Torquay Shopping Centre	Victoria, BC	Jul-05	825,000	2,525,000	5.54	3,350,000
Northland Buildings	Calgary, AB	Nov-05	1,231,250	3,693,750	5.09	4,925,000
<b>Total</b>			<b>\$9,919,047</b>	<b>\$30,856,140</b>	<b>4.81</b>	<b>\$40,775,187</b>

## 6. MORTGAGE INDEBTEDNESS

- The Limited Partnership's original mortgage indebtedness was 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 4.68% as at December 31, 2007 and \$6,552,168 will mature in 2008.

The mortgages payable are summarized by Table 1.6.

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
<b><u>Kebet Way</u></b> — Mortgage with Canadian Western Bank bearing interest at 4.85%, calculated semi-annually, discharged when the income-producing property was sold in May 2005 and the mortgage was assumed by the purchaser. Less: principal paid during the period	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —
<b><u>WestWillow</u></b> — Open floating variable rate mortgage with Coast Capital Savings Credit Union, maturing April 2006. The mortgage was secured by the income-producing property and was repayable in blended monthly payments of principal and interest of \$39,866. The mortgage was retired after the property was sold in July 2006. Less: principal paid during the period	— —	— —	— —	— —	— —	7,117,821 (7,117,821)	7,159,770 (41,949)	7,202,939 (43,169)	7,243,865 (40,926)	7,285,405 (41,540)
<b><u>Scott Town</u></b> — Mortgage with Coast Capital Savings Credit Union bearing interest at 5.00%, calculated semi-annually, maturing June 10, 2010. The mortgage was retired when the property was sold in November 2007. Less: principal paid during the period	5,711,297 (5,711,297)	5,744,473 (33,176)	5,777,234 (32,761)	5,811,135 (33,901)	5,843,855 (32,720)	5,875,391 (31,536)	5,906,532 (31,141)	5,938,859 (32,327)	5,959,412 (20,553)	5,994,616 (35,204)

**Summary of Mortgages Payable**

Table 1.6

	<b>December 31, 2007</b>	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
<p><b>Halton Hills</b> — Mortgages with RioCan Real Estate Investment Trust bearing a blended interest rate of 4.73%, calculated semi-annually, maturing May 28, 2008. The mortgages are secured by the income-producing property and are repayable in blended monthly payments of principal and interest of \$32,229.</p> <p>Less: principal paid during the period</p>	<p><b>\$ 6,572,992</b></p> <p><b>(20,824)</b></p>	<p>\$ 6,593,438</p> <p>(20,446)</p>	<p>\$6,613,513</p> <p>(20,075)</p>	<p>\$6,633,223</p> <p>(19,710)</p>	<p>\$6,652,575</p> <p>(19,352)</p>	<p>\$6,671,575</p> <p>(19,000)</p>	<p>\$6,690,230</p> <p>(18,655)</p>	<p>\$6,708,546</p> <p>(18,316)</p>	<p>\$6,726,529</p> <p>(17,983)</p>	<p>\$6,744,150</p> <p>(17,621)</p>
<p><b>Drumheller</b> — Mortgage with Canadian Western Bank bearing interest at 4.79%, calculated semi-annually. The mortgage was retired when the property was sold in September 2007.</p> <p>Less: principal paid during the period</p>	<p>—</p> <p>—</p>	<p>1,680,900</p> <p>(1,680,900)</p>	<p>1,690,654</p> <p>(9,754)</p>	<p>1,700,726</p> <p>(10,072)</p>	<p>1,710,464</p> <p>(9,738)</p>	<p>1,719,869</p> <p>(9,405)</p>	<p>1,729,161</p> <p>(9,292)</p>	<p>1,738,786</p> <p>(9,625)</p>	<p>1,748,078</p> <p>(9,292)</p>	<p>1,751,000</p> <p>(2,922)</p>
<p><b>Torquay</b> — Mortgage with Standard Life and a vendor take-back mortgage bearing a blended interest rate of 5.54%, calculated semi-annually, maturing February 10, 2008. The mortgages were retired when the property was sold in August 2007.</p> <p>Less: principal paid during the period</p>	<p>—</p> <p>—</p>	<p>2,435,861</p> <p>(2,435,861)</p>	<p>2,448,568</p> <p>(12,707)</p>	<p>2,461,097</p> <p>(12,529)</p>	<p>2,473,450</p> <p>(12,353)</p>	<p>2,485,628</p> <p>(12,178)</p>	<p>2,497,636</p> <p>(12,008)</p>	<p>2,509,474</p> <p>(11,838)</p>	<p>3,693,750</p> <p>—</p>	<p>2,525,000</p> <p>(5,269)</p>
<p><b>Northland</b> — Mortgage with Citizens Bank of Canada bearing interest at 5.09%, calculated semi-annually, maturing December 10, 2010. The mortgage was retired when the property was sold in August 2007.</p> <p>Less: principal paid during the period</p>	<p>—</p> <p>—</p>	<p>3,578,401</p> <p>(3,578,401)</p>	<p>3,597,824</p> <p>(19,423)</p>	<p>3,617,985</p> <p>(20,161)</p>	<p>3,637,408</p> <p>(19,423)</p>	<p>3,656,093</p> <p>(18,685)</p>	<p>3,674,537</p> <p>(18,444)</p>	<p>3,693,750</p> <p>(19,213)</p>	<p>3,693,750</p> <p>—</p>	<p>—</p> <p>—</p>
<b>Total mortgages payable</b>	<b>6,552,168</b>	12,284,289	20,033,073	20,127,793	20,224,166	20,317,752	27,526,376	27,657,866	27,792,354	24,197,615

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## 7. LIQUIDITY

Sunstone (2004) LP has financed its operations to date primarily through the issuance of LPUs. Each property acquired in the portfolio was 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 (2004) 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 2004, Sunstone (2004) LP issued 1,046 LPUs for gross proceeds of \$2,615,000 [see Table 1.1].

The Limited Partnership and the debenture issuer, SRAI, issued 1,046 Units for gross proceeds of \$13,075,000.

After issuance costs, Sunstone (2004) LP had over \$11.5 million (LP equity and debenture debt) to invest in the portfolio of properties.

## 9. OFF-BALANCE SHEET ARRANGEMENTS

Sunstone (2004) LP has no off-balance sheet arrangements.

## 10. RELATED PARTY TRANSACTIONS

The following transactions occurred in the normal course of operations during this period and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### 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. In connection with the debenture debt proceeds of \$Nil (\$4,691,300 from August 23, 2006 to September 7, 2007; \$9,382,600 before August 23, 2006) received from SRAI in 2004, the Limited Partnership incurred expenses totaling \$Nil with SRAI for the quarter ended December 31, 2007 as summarized on Table 1.7. These consist of:

- debenture debt interest of \$Nil for the 9.95% quarterly interest payment on the debenture debt;
- ongoing debenture loan fee of \$Nil representing 0.5% of the debenture debt; and,
- annual loan fee of \$Nil.

The debenture debt of \$4,691,300 was repaid in full on September 7, 2007.

## Transactions with the Debenture Debt Issuer – SRAI (Continued)

Related Party Transactions with Debenture Debt Issuer – SRAI									
Table 1.7									
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Debenture debt interest expense	\$ —	\$ 86,323	\$116,696	\$116,696	\$ 116,696	\$ 186,714	\$233,392	\$233,392	\$ 233,393
Annual loan fee expense	—	294,363	—	(26,760)	267,602	267,603	—	—	214,082
Ongoing debenture debt fee expense	—	4,338	5,864	5,864	5,864	9,382	11,728	11,728	11,729
Total	\$ —	\$ 385,024	\$122,560	\$ 95,800	\$ 390,162	\$ 463,699	\$245,120	\$245,120	\$ 459,204
Amount in accrued liabilities, balance	\$ —	\$ —	\$363,402	\$363,402	\$ 390,162	\$ 54,485	\$512,722	\$512,722	\$ —

## Transactions with the General Partner – Sunstone Advisors (Canada) Inc.

Pursuant to the General Partner Services Agreement, Sunstone (2004) LP is required to pay to the General Partner [see Table 1.8]:

- a one-time financing fee equal to 1.5% of the gross purchase price of each property when acquired. There was no financing fee paid in the three months ended December 31, 2007 (December 31, 2006 – \$Nil).
- a one-time disposition fee equal to 1.5% of the gross proceeds from each property when sold. \$145,650 was paid to General Partner in the fourth quarter of 2007 (December 31, 2006 – \$Nil).
- an annual asset management fee, paid quarterly, of \$Nil for the current quarter equal to 1.5% of the Net Asset Value of Sunstone (2004) LP (December 31, 2006 – \$49,031).

Related Party Transactions with General Partner – Sunstone Advisors (Canada) Inc.									
Table 1.8									
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
One-time financing fee per property, in deferred expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 73,875
One-time disposition fee per property when sold	145,650	244,703	—	—	—	213,000	—	—	—
Annual asset management fee, paid quarterly	—	24,717	29,419	29,419	49,031	49,031	49,031	49,031	—
Total	\$ 145,650	\$ 269,420	\$ 29,419	\$ 29,419	\$ 49,031	\$ 262,031	\$ 49,031	\$ 49,031	\$ 73,875
Amount in AP and accrued liabilities, balance	\$ —	\$ 186,220	\$ 67,502	\$ 36,318	\$ 5,134	\$ 5,134	\$177,072	\$ 128,041	\$ —

## 11. OUTSTANDING PARTNERSHIP UNIT DATA

As of this filing, the types of partnership units outstanding and their book values are summarized in Table 1.9.

Outstanding Partnership Unit Data		
Table 1.9		
Types of Outstanding Partnership Units	Units	Book Value Per Unit
Limited Partnership Units	1,046	\$ 2,500
Initial Limited Partner's Unit	1	\$ 10
General Partner's Unit	1	\$ 10
	1,048	

## 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 (2004) LP's primary risk is the potential for declining revenue arising from vacancies or rental rate declines. Sunstone (2004) LP, while searching for properties, focused on a diversified portfolio of properties in various regions in Canada to reduce this risk.

## 13. 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.

### **13. CHANGES TO ACCOUNTING POLICIES (CONTINUED)**

#### *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.

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 straight-line 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.

### **14. FUTURE ACCOUNTING POLICIES CHANGES**

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 on 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.

## 14. FUTURE ACCOUNTING POLICIES CHANGES (CONTINUED)

### *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.

## 15. FINANCIAL INSTRUMENTS

### **Fair value of financial instruments**

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

	December 31, 2007		December 31, 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.

## 16. 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.

### **Currency risk**

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

## **16. RISK MANAGEMENT (CONTINUED)**

### **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.

## **17. SUBSEQUENT EVENTS**

There were no subsequent events at the time this analysis was prepared.