

NO SECURITIES REGULATORY AUTHORITY HAS EXPRESSED AN OPINION ABOUT THESE SECURITIES AND IT IS AN OFFENCE TO CLAIM OTHERWISE.

**PROSPECTUS**

**Initial Public Offering**

**January 5, 2004**



**SUNSTONE OPPORTUNITY FUND  
LIMITED PARTNERSHIP**  
(the “Limited Partnership”)

**SRAI CAPITAL CORP.**  
(the “Debenture Issuer”)  
(hereinafter collectively called the “Issuers”)

**Minimum: \$2,500,000 (200 Units)**  
**Maximum: \$20,000,000 (1,600 Units)**  
**\$12,500 per Unit**  
(the “Offering”)

This Prospectus qualifies the distribution of up to 1,600 units (each a “Unit”) at a price of \$12,500 per Unit. Each Unit is comprised of one unit of the Limited Partnership (an “LP Unit”) having a price of \$2,500, and one Series A Debenture (a “Debenture”) of the Debenture Issuer in the principal amount of \$10,000, maturing on February 28, 2009. The Debentures bear interest at a rate of 9% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing July 15, 2004.

|                                       | Price to Public <sup>(1)</sup> | Agent’s Discounts or Commissions <sup>(2)</sup> | Proceeds to Issuer <sup>(3)</sup> |
|---------------------------------------|--------------------------------|---|-----------------------------------|
| <b>Per Unit</b>                       |                                |   |                                   |
| Per LP Unit                           | \$2,500                        | \$200   | \$2,300                           |
| Per Debenture <sup>(4)(5)</sup>       | \$10,000                       | \$800   | \$9,200                           |
| <b>Minimum Offering<sup>(6)</sup></b> |                                |   |                                   |
| 200 LP Units                          | \$500,000                      | \$40,000  | \$460,000                         |
| 200 Debentures <sup>(4)(5)</sup>      | \$2,000,000                    | \$160,000                                       | \$1,840,000                       |
| <b>Maximum Offering</b>               |                                |   |                                   |
| 1,600 LP Units                        | \$4,000,000                    | \$320,000                                       | \$3,680,000                       |
| 1,600 Debentures <sup>(4)(5)</sup>    | \$16,000,000                   | \$1,280,000                                     | \$14,720,000                      |

(1) The price to the public was determined arbitrarily by the Limited Partnership and the Debenture Issuer.  
(2) The promoter of this Offering, Sunstone Realty Advisors Inc., will co-ordinate the placement of the Units through the Agent and sub-agents in the various jurisdictions where the Units are offered for sale. Sales

commissions and fees will be paid to the Agent and any sub-agents in connection with this Offering, at a rate equal to 8% of the purchase price of the LP Units and the Debentures. In addition, the Agent is entitled to receive an advisory fee of \$25,000. As a further incentive to the Agent, the General Partner may assign up to 25% of its Incentive Management Interest to the Agent, who in turn may assign all or part of such interest to sub-agents effecting sales of Units. As well, the General Partner has agreed to pay to the Agent, on a quarterly basis, a trailer fee equal to 1/6<sup>th</sup> of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. The Agent may assign all or part of the trailer fee to sub-agents effecting sales of Units. (Refer to “Plan of Distribution – Agency Agreement” on page 34 herein for further particulars.)

- (3) Before deduction of the balance of the expenses of the Offering estimated at \$300,000.
- (4) The proceeds raised by the Debenture Issuer from the issuance of Debentures will be loaned to the Limited Partnership by way of the Debenture Issuer Loan. (Refer to “Description of Business of the Issuers – Debenture Issuer Loan” on page 6 for further particulars on the Debenture Issuer Loan.) Therefore, all proceeds of this Offering, net of expenses, will ultimately be used by the Limited Partnership in the purchase, ownership and operation of the Properties.
- (5) The Debentures will be qualified for investment by a registered retirement savings plan (“RRSP”) and similar plans under the income tax laws of Canada. (Refer to “Experts – Income Tax Consequences” on page 40 herein for further particulars.)
- (6) There will be no closing unless a minimum of 200 Units are sold not more than 90 days after the date of the receipt for the Final Prospectus (as hereinafter defined).

**This is a blind pool Offering. Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been determined. In any event, if the maximum Offering of 1,600 Units is sold, the General Partner expects to cause the Limited Partnership to apply approximately \$18,100,000 (i.e. approximately 90.5% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner upon the closing of any Property acquisitions), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 200 Units is sold, the General Partner intends to cause the Limited Partnership to apply approximately \$2,148,000 (i.e. approximately 85.9% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), and to the creation of working capital reserves and reserves for renovations and upgrades.**

**There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus.**

**An investment in the securities offered by this Prospectus must be considered speculative as the securities are subject to certain risk factors as set out under the heading “Risk Factors” on page 35 herein. An investment in Units is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.**

Given the uncertainties involved in connection with predicting the Limited Partnership’s annual earnings and debt servicing requirements, it is impossible to determine the amount of earnings that the Limited Partnership will require to attain an earnings coverage ratio of one-to-one. The Debenture Issuer was incorporated on March 4, 2003, and has not had any earnings to date. The Debenture Issuer will require \$1,505,920 in earnings to attain an earnings coverage ratio of 1.05 to 1.00, based on the certain assumptions discussed in more detail under the heading “Earnings Coverage Ratios” on page 17 herein.

The directors of the Issuers are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates. (Refer to “Directors and Officers – Potential Conflicts of Interest (Directors and Officers)” on page 32 herein.)

**While the LP Units should not constitute “tax shelter investments,” the Promoter has nevertheless obtained a tax shelter identification number for the Limited Partnership. The tax shelter identification number is TS068965. The tax shelter identification number shall be included in any tax return filed by a Limited Partner. The issuance of an identification number by CCRA is for administrative purposes only and does not in any way confirm that the Limited Partners will be entitled to the tax benefits described herein. (Refer to “Experts – Income Tax Consequences – Tax Shelter Rules” on page 47 herein for further particulars.)**

No person is authorized by the Issuers to provide any information or to make any representation other than as contained in this Prospectus in connection with this issue and sale of the securities offered by the Issuers.

The Units offered hereunder are offered on a “best efforts” basis in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario until October 29, 2004 by Dundee Securities Corporation (the “Agent”), as agent, subject to: (a) prior sale, if, as and when issued and delivered by the General Partner on behalf of the Limited Partnership in respect of the LP Units and by the Debenture Issuer in respect of the Debentures in accordance with the conditions of the Agency Agreement referred to in “Plan of Distribution” on page 34 herein; and (b) the approval of certain legal matters by Clark, Wilson, Vancouver, British Columbia on behalf of the Limited Partnership and the Debenture Issuer, and the approval of certain legal matters by Fraser Milner Casgrain LLP on behalf of the Agent. Dundee Securities Corporation may enter into co-brokerage/selling group agreements with other investment dealers to market the Units offered hereunder.

**Registration and transfers of Units, and of the underlying LP Units and Debentures, will be effected only through the book entry only system administered by The Canadian Depository for Securities Limited (“CDS”). A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. Beneficial owners of Units, and of the underlying LP Units and Debentures, will not have the right to receive physical certificates evidencing their ownership of such securities. See “Plan of Distribution” on page 34 herein.**

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## **FORWARD-LOOKING STATEMENTS**

This Prospectus includes forward-looking statements with respect to the Issuers, including their respective business operations and strategy, and financial performance and condition. These statements generally can be identified by the use of forward-looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe” or “continue”, or the negative thereof, or similar variations. Although management of each of the Issuers believes that the expectations reflected in such forward-looking statements are reasonable and represent the relevant Issuer’s internal projections, expectations and belief at this time, such statements involve known and unknown risks and uncertainties which may cause a particular Issuer’s actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from a particular Issuer’s expectations include, among other things, the availability of suitable Properties for purchase by the Limited Partnership, the availability of mortgage financing for such Properties, and general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, in addition to those factors discussed or referenced in the “Risk Factors” section. (See “Risk Factors” commencing on page 35 herein.)

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus. Reference is made to the "Glossary of Terms" for the meanings of defined terms used in this summary.*

**Businesses:**

The General Partner is a company engaged in identifying real estate investment opportunities. In order to take advantage of such investment opportunities, the General Partner has established the Limited Partnership for the purposes of owning and operating a diversified portfolio of high quality income-producing commercial real estate Properties in Canada (or proportionate interests in such Properties).

The Debenture Issuer is a company established to purchase, own and operate interests in income-producing and other real estate properties, or the making of loans in respect of such properties. The Debenture Issuer's long-term objective in terms of the Debentures is to earn and distribute to the Debentureholders interest income from the Debenture Issuer Loan.

**The Offering:**

The Offering consists of a minimum of 200 Units and a maximum of 1,600 Units, at a price of \$12,500 per Unit.

Each Unit consists of one LP Unit of the Limited Partnership having a price of \$2,500, and one Debenture of the Debenture Issuer in the principal amount of \$10,000 maturing on February 28, 2009. The Debentures bear interest at a rate of 9% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing July 15, 2004. (Refer to "Plan of Distribution" on page 34 herein.)

**Plan Of Distribution:**

Sunstone Realty Advisors Inc. will co-ordinate the placement of the Units through the Agent and sub-agents in the various jurisdictions where the Units are offered for sale.

There will be no closing unless a minimum of 200 Units are sold. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agent in trust.

Sales commissions and fees will be paid to the Agent at a rate equal to 8% of the purchase price of the LP Units and the Debentures. In addition, the Agent is entitled to receive an advisory fee of \$25,000. As a further incentive to the Agent or any sub-agents, the General Partner may assign up to 25% of its Incentive Management Interest to the Agent, who in turn may assign all or part of such interest to sub-agents effecting sales of Units, such assignment to be made on a basis determined by the

General Partner. As well, the General Partner has agreed to pay to the Agent, on a quarterly basis, a trailer fee equal to 1/6<sup>th</sup> of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. The Agent may assign all or part of the trailer fee to sub-agents effecting sales of Units. (Refer to “Plan of Distribution” on page 34 herein.)

**Use Of Proceeds:**

Assuming that the maximum Offering of 1,600 Units is sold, the gross proceeds to the Issuers will be \$20,000,000. The gross proceeds of this Offering, plus estimated Mortgage Loans in the aggregate principal amount of \$46,016,949 will be used to: pay the estimated aggregate purchase price of, as yet unidentified Properties of \$61,355,932; pay due diligence and documentation costs relating to the purchase of such Properties of \$1,227,119; pay Agent’s commissions and fees of \$1,600,000; pay estimated third party offering expenses of \$300,000; create reserves for renovation and upgrading of such Properties of \$306,779; create reasonable working capital reserves for such Properties of \$306,780; and pay the aggregate Financing Fee of \$920,339.

Assuming that the minimum Offering of 200 Units is sold, the gross proceeds to the Issuers will be \$2,500,000. The aggregate gross proceeds of this Offering, plus estimated Mortgage Loans in the aggregate principal amount of \$5,466,102 will be used to: pay the estimated aggregate purchase price of one or more, as yet unidentified Properties of \$7,288,136; pay due diligence and documentation costs relating to the purchase of such Properties of \$145,763; pay Agent’s commissions and fees of \$200,000; pay estimated third party offering expenses of \$150,000; create reserves for renovation and upgrading of such Properties of \$36,440; create reasonable working capital reserves for such Properties of \$36,441; and pay a Financing Fee of \$109,322. (Refer to “Use of Proceeds” on page 10 herein.)

**Management:**

The General Partner’s directors and officers are Steve Evans and Darren Latoski. The Debenture Issuer’s directors and officers are Steve Evans and Darren Latoski. The Limited Partner is managed by the General Partner and does not have a board of directors. (Refer to “Directors and Officers” on page 27 herein.)

**Risk Factors:**

These securities are speculative in nature. Investors should consider the following risk factors before purchasing Units:

*This is a Blind Pool Offering; Reliance on General Partner and its Management*– Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been determined. Depending on the return on investment achieved on the Properties that may be acquired by the Limited Partnership, the Limited Partners’ return on their respective investments in the Units will vary. Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the General

Partner and its principals, Darren Latoski and Steve Evans.

*No Market for Units or the Underlying Securities* – There currently is no market for the Units, or for the underlying LP Units and Debentures, and it is expected that there will be no market for the Units, the LP Units or the Debentures.

*Less than Full Offering* – There can be no assurance that this Offering will be completely sold out.

*Risks of Real Estate Ownership* – Investment in real estate is subject to numerous risks.

*Financing Risks* – There is no assurance that the Limited Partnership will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties on commercially acceptable terms or at all. There is also no assurance that any Mortgage Loans, if obtained, will be renewed when they mature. In the absence of mortgage financing, the number of Properties which the Limited Partnership is able to purchase will decrease and the projected return from the ownership of Properties may be reduced.

The Limited Partnership may not be able to generate sufficient funds through the operation of the Properties to make the payments of principal and interest due on the Mortgage Loans, and, upon default, one or more Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.

*Potential Liability Under Environmental Protection Legislation* – Under various environmental and ecological laws, the Limited Partnership could become liable for the costs of removal or remediation of certain hazardous or toxic substances that may be released on or in one or more of the Properties or disposed of at other locations. The failure to deal effectively with such substances, if any, may adversely affect the Limited Partnership's ability to sell such a Property or to borrow using such Property as collateral, and could potentially also result in claims against the Limited Partnership by private parties.

*Uninsured Losses* – The General Partner will arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned by the Limited Partnership and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses are either uninsurable or not economically insurable.

*Limited Liability* – Limited Partners may lose their limited liability in certain circumstances.

*Limited Redemption Rights* – If, in any given year, the Issuers receive notices requiring the Issuers to redeem a number of Units in excess of 5% of the total number of Units issued by the Issuers, or if insufficient funds are available to redeem the number of Units in respect of which a request

for redemption has been made, then the redemption of Units in that year will be made on a *pro rata* basis. The number of Units redeemed will be limited to the lesser of 5% of the total number of Units issued by the Issuers and that number of Units for which funds are determined to be available. Therefore, there can be no assurance that Investors will be able to redeem their Units when they wish to do so. (Refer to “Description of the Securities Distributed – Terms – Limited Redemption Rights” at page 22 herein for further particulars.)

*Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Mortgage Loans or to fund changes in any variable rates of interest charged in respect of such loans.

*Tax Matters* – The tax treatment of real estate activities and of the Limited Partnership has a material effect on the advisability of investment in the Units. (Refer to “Experts – Income Tax Consequences” on page 40 herein.)

*Net Worth of the General Partner* – The General Partner, which has unlimited liability for the obligations of the Limited Partnership, has no material net worth. If the Limited Partnership is not able to generate sufficient funds to meet its obligations, the General Partner will be exposed to bankruptcy or insolvency, which could prevent the General Partner from implementing the Limited Partnership’s business strategy.

*Additional Contributions* – The Limited Partnership Agreement provides that the General Partner may, if authorized by Special Resolution, request that additional capital contributions be made by Limited Partners.

*Reliance on Property Management* – The General Partner will not have the management personnel to manage the Properties, but will rely upon independent management companies to perform this function. The employees of the management companies will devote so much of their time to the management of the Properties as in their judgement is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Properties and their other development, investment and/or management activities.

*No Independent Liability to Repay Debentures* – The Debenture Issuer will not be independently liable for the payment of interest or the repayment of the Debentures and no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan.

For a more complete discussion of the risks associated with an investment in Units, refer to “Risk Factors” commencing on page 35 herein, and also to “Directors and Officers – Potential Conflicts of Interest (Directors and Officers)” commencing on page 27 herein.

**Summary Financial Information:**

Included in this Prospectus are: audited financial statements of Sunstone Opportunity Fund Limited Partnership for the year ended December 31, 2002 and for the period from formation on December 21, 2001 to December 31, 2001; unaudited financial statements of Sunstone Opportunity Fund Limited Partnership for the ten month period ended October 31, 2003; audited financial statements of SRAI Capital Corp. for the period from incorporation on March 4, 2003 to October 31, 2003; audited financial statements of Sunstone Realty Advisors (Canada) Inc. for the year ended December 31, 2002 and for the period from incorporation on November 6, 2001 to December 31, 2001; and unaudited financial statements of Sunstone Realty Advisors (Canada) Inc. for the ten month period ended October 31, 2003.

## GLOSSARY OF TERMS

Certain terms and abbreviations used in this Prospectus are defined below:

- (a) **“Agency Agreement”** means an agreement dated as of December 1, 2003 between the Issuers and the Agent;
- (b) **“Agent”** means Dundee Securities Corporation;
- (c) **“Alberta Act”** means the *Securities Act* (Alberta);
- (d) **“BC Act”** means the *Securities Act* (British Columbia);
- (e) **“Debenture Issuer”** means SRAI Capital Corp., a closely-held British Columbia company;
- (f) **“Debenture Issuer Loan”** means a loan from the Debenture Issuer to the Limited Partnership in an amount equal to the net proceeds from the issuance of the Debentures, the proceeds of which will be used by the Limited Partnership for the financing, purchase, ownership and operation of the Properties;
- (g) **“Debentureholders”** means holders of record of any Debentures;
- (h) **“Debentureholders Agreement”** means the agreement between the Debenture Issuer and each of the Debentureholders setting out the interest, rights and obligations of Debentureholders;
- (i) **“Debentures”** means Series A Debentures issued by the Debenture Issuer, each in the principal amount of \$10,000 maturing on February 28, 2009 and bearing interest at a rate of 9% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing July 15, 2004;
- (j) **“Disposition Fee”** means a fee in the amount of 1.5% of the gross sales price of a Property payable to the General Partner in consideration of the General Partner negotiating and finalizing the sale of such Property on behalf of the Limited Partnership;
- (k) **“Effective Date”** means the date a final receipt for the Prospectus is issued by the Securities Commissions;
- (l) **“Final Prospectus”** means the final version of this Prospectus which will be filed by the Issuers with the Securities Commissions;
- (m) **“Financing Fee”** means a fee payable to the General Partner for financing services, in an amount equal to 1.5% of the gross purchase price of a Property, and payable to the General Partner upon the completion of the purchase of each Property;
- (n) **“General Partner”** means Sunstone Realty Advisors (Canada) Inc., a closely-held British Columbia company;
- (o) **“General Partner Services Agreement”** means an agreement dated as of December 1, 2003 between the Limited Partnership and the General Partner pursuant to which the General Partner has agreed to provide certain services to the Limited Partnership;

- (p) **“GST”** means the goods and services tax imposed under Part IX of the *Excise Tax Act* (Canada), or, if the context requires, any similar sales or value added tax;
- (q) **“Incentive Management Interest”** means an allocation and distribution to be made, subject to the payment of the Limited Partners’ Minimum Return, to the General Partner from the Limited Partnership in an amount equal to 20/80ths of the total to the date of such allocation and distribution of (a) the total payments made to Limited Partners in respect of the Limited Partners’ Minimum Return, and (b) the interest paid on the Debenture Issuer Loan, thereby providing the General Partner with a 20% share of the total of the interest paid on the Debenture Issuer Loan and the amounts allocated and distributed to the Limited Partners by the Limited Partnership up to such date;
- (r) **“Income Share”** means an allocation of the Limited Partner’s proportionate share of the income or loss of the Limited Partnership, subject to certain adjustments which may be made by the General Partner to ensure a fair allocation of income and expenses on a cumulative, proportionate basis;
- (s) **“Initial Limited Partner”** means SRA First Partner Ltd., a British Columbia company;
- (t) **“Issuers”** mean collectively, Sunstone Opportunity Fund Limited Partnership and SRAI Capital Corp.;
- (u) **“Knightswood”** means Knightswood Financial Corp., a company incorporated under the *Company Act* (British Columbia) whose common shares are listed for trading on the TSX Venture Exchange, and which is at arm’s length to SRAI and the Limited Partnership;
- (v) **“Lender”** means a lender and mortgagee of any of the Mortgage Loans;
- (w) **“Limited Partners”** means holders of record of any LP Units;
- (x) **“Limited Partners’ Minimum Return”** means a minimum return to the Limited Partners of 9% per annum, cumulative but not compounded, calculated on the Limited Partners’ Net Equity in the Limited Partnership;
- (y) **“Limited Partnership”** means Sunstone Opportunity Fund Limited Partnership, a British Columbia limited partnership;
- (z) **“Limited Partnership Agreement”** means the amended and restated limited partnership agreement between the General Partner, SRA First Partner Corp. and all persons who subscribe for LP Units establishing the Limited Partnership;
- (aa) **“LP Units”** means units in the capital of the Limited Partnership, issued pursuant to the terms of the Limited Partnership Agreement;
- (bb) **“Mortgage Loans”** means one or more mortgages on the Properties to be granted by the Limited Partnership (or, if a Property is held by a nominee entity on behalf of the Limited Partnership, by such entity) to one or more Lenders, the proceeds of which will be used to finance the purchase, ownership and operation of such Properties;

- (cc) **“Net Asset Value”** means the greater of: (a) the total gross cash proceeds from this Offering; and (b) the total purchase price of the Properties including all fees and expenses and cash reserves, less the outstanding Mortgage Loans;
- (dd) **“Net Equity”** means the cash paid by a Limited Partner in respect of his, her or its LP Units, being \$2,500 per LP Unit, less the aggregate of any distributions made to the Limited Partner arising from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds;
- (ee) **“Net Receipts”** means the net cash distributions made to Limited Partners by the Limited Partnership;
- (ff) **“Offering”** means the offering of a minimum of 200 Units at a price of \$12,500 per Unit for gross proceeds of \$2,500,000 and a maximum of 1,600 Units at a price of \$12,500 per Unit for gross proceeds of \$20,000,000;
- (gg) **“Offering Price”** means \$12,500 per Unit;
- (hh) **“Ontario Act”** means the *Securities Act* (Ontario);
- (ii) **“Property”** means one of the Properties;
- (jj) **“Properties”** means the lands and premises purchased, owned and operated by the Limited Partnership, or interests therein;
- (kk) **“Prospectus”** means this prospectus and any amendments thereto;
- (ll) **“Purchaser”** means the purchaser of a Unit;
- (mm) **“Qualifying Provinces”** means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario;
- (nn) **“Receipt”** means a mutual reliance review system (MRRS) decision document issued by or on behalf of a Securities Commission for the Final Prospectus pursuant to National Policy 43-201, and each receipt issued for the Final Prospectus by a Securities Commission that opts out of the MRRS system;
- (oo) **“Securities”** means the Units, the LP Units and the Debentures being offered pursuant to this Offering;
- (pp) **“Securities Commission”** means any one of the Securities Commissions;
- (qq) **“Securities Commissions”** means, collectively, the securities commission or other securities regulatory authority in each of the Qualifying Provinces;
- (rr) **“Special Resolution”** means a resolution approved by not less than 75% of the votes cast by those Limited Partners who vote in person or by proxy at a duly convened meeting of Limited Partners, or a written resolution signed by Limited Partners entitled, in the aggregate, to not less than 75% of the aggregate number of votes of the Limited Partners;
- (ss) **“SRAI”** means Sunstone Realty Advisors Inc., a closely-held British Columbia company, and the promoter of this Offering;

- (tt) **“Tax Act”** means the *Income Tax Act* (Canada), as amended from time to time; and
- (uu) **“Units”** means a minimum of 200 units and a maximum of 1,600 units to be offered by the Issuers pursuant to the Prospectus, and each such unit consisting of one LP Unit and one Debenture.

## **1. CORPORATE STRUCTURE**

### **1.1 Name and Incorporation**

#### ***Limited Partnership***

The Limited Partnership was formed under the name “CIPC Project (No. 3) Limited Partnership” by a certificate filed pursuant to the *Partnership Act* (British Columbia) on December 21, 2001 under number 314320 - 01. The Limited Partnership changed its name to “Sunstone Opportunity Fund Limited Partnership” by an amended certificate registered pursuant to the *Partnership Act* (British Columbia) on November 20, 2003.

The head office and address for service of the Limited Partnership is located at 600 – 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1. The Limited Partnership’s registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

#### ***The General Partner***

The general partner of the Limited Partnership is Sunstone Realty Advisors (Canada) Inc., which was incorporated under the name “636812 B.C. Ltd.” pursuant to the *Company Act* (British Columbia) on November 6, 2001, under incorporation number 636812. The General Partner changed its name to “Sunstone Realty Advisors (Canada) Inc.” on November 20, 2003.

The head office and address for service of the General Partner is located at 600 – 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1. The General Partner’s registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

#### ***The Debenture Issuer***

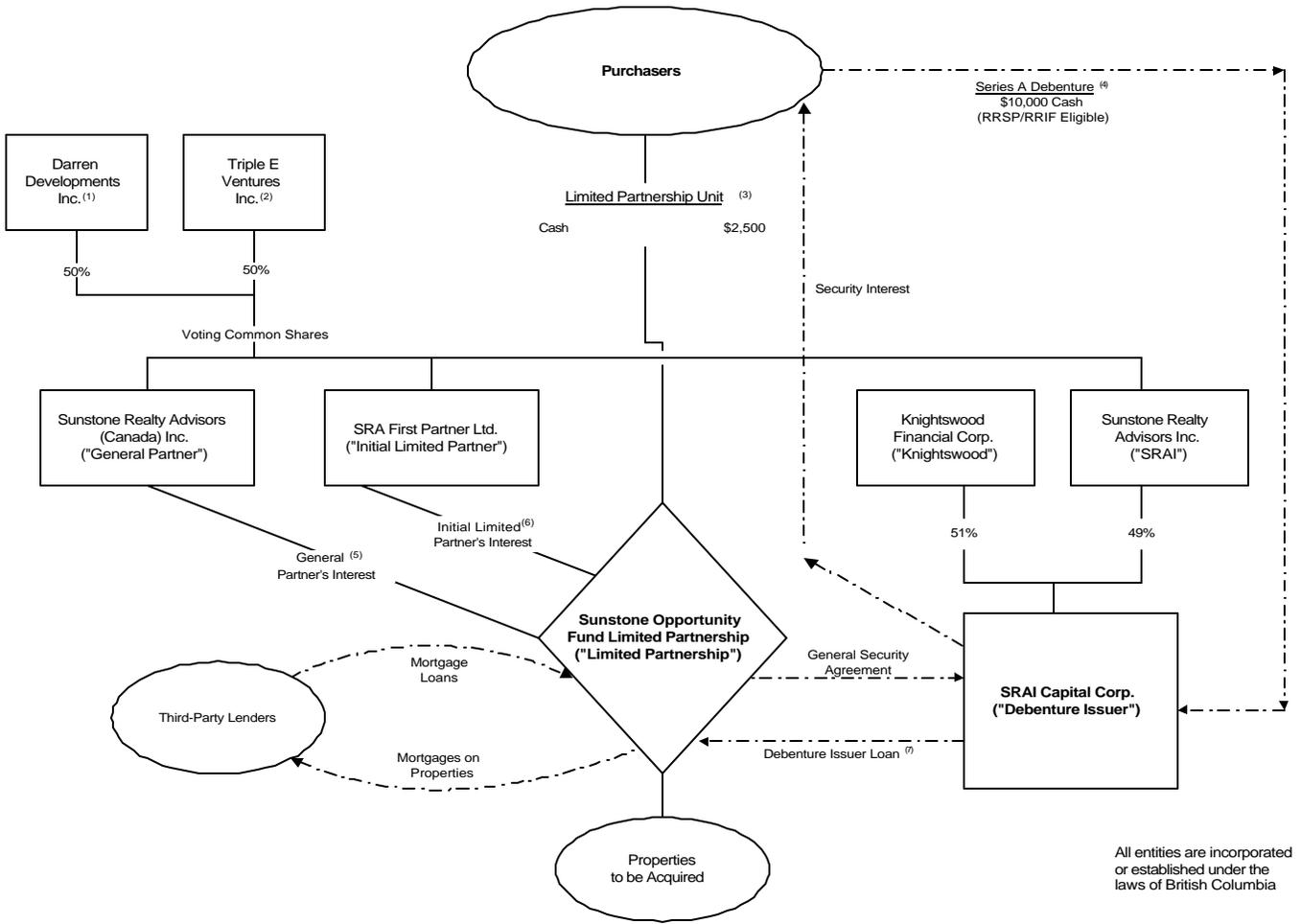
The Debenture Issuer was incorporated under the name “665126 B.C. Ltd.” pursuant to the *Company Act* (British Columbia) on March 4, 2003, under incorporation number 665126. The Debenture Issuer changed its name to “SRAI Capital Corp.” on November 20, 2003. The Debenture Issuer is a subsidiary of Knightswood, a public company which is at arm’s length to SRAI and the Limited Partnership.

The head office and address for service of the Debenture Issuer is located at 600 – 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1. The Debenture Issuer’s registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

### **1.2 Intercorporate Relationships**

The following chart sets forth the relationships among the General Partner, the Limited Partnership, the Debenture Issuer and SRAI, each entity having been organized under the laws of the Province of British Columbia. The chart also illustrates the means by which funds invested by the public under this Prospectus flow through to the Limited Partnership.

**Investment Structure**



**Notes:**

- (1) Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.
- (2) Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc.
- (3) The terms and conditions attaching to each Limited Partnership Unit are summarized in "Description of the Securities Distributed – Terms – Limited Partnership Units" at page 18 herein.
- (4) The terms and conditions attaching to each Debenture are summarized in "Description of the Securities Distributed – Terms – Debentures" at page 21 herein.
- (5) The General Partner has made a capital contribution of \$10 to the Limited Partnership, and has no further obligation to contribute capital. The General Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum plus its Incentive Management Interest. (Refer to "Description of the Securities Distributed – Terms – Limited Partnership Units" at page 18 herein.) The General Partner has also agreed to provide certain services to the Limited Partnership pursuant to the General Partner Services Agreement, as described in more detail under the heading "Executive Compensation – Management Agreements" on page 33 herein.

- (6) The Initial Limited Partner has made a capital contribution of \$10 to the Limited Partnership, and has no further obligation to contribute capital. The Initial Limited Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum. (Refer to “Description of the Securities Distributed – Terms – Limited Partnership Units” at page 18 herein.)
- (7) The Debenture Issuer will loan to the Limited Partnership by way of the Debenture Issuer Loan an amount equal to the net proceeds received by the Debenture Issuer from subscriptions for Debentures. Assuming that all 1,600 Units are sold pursuant to this Offering, and that the aggregate expenses of this Offering will be \$300,000, the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$9,050 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agent’s 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$150). Assuming that the minimum Offering of 200 Units is sold, and that the aggregate expenses of the minimum Offering will be \$150,000, the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$8,600 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agent’s 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$600). (Refer to “Description of the Businesses of the Issuers – The Debenture Issuer Loan” at page 6 herein.)

## **2. DESCRIPTION OF THE BUSINESSES OF THE ISSUERS**

### **2.1 Limited Partnership**

The Limited Partnership has been established for the purpose of owning and operating a diversified portfolio of high quality income-producing commercial real estate properties in Canada (or proportionate interests in such properties). An investment in LP Units is intended to provide Purchasers 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 Loans, and the potential to realize capital gains upon the sale of any of the Properties.

### **2.2 Business of the Limited Partnership**

The General Partner will focus on purchasing properties which, in the opinion of the General Partner, are currently operating below their full potential. The General Partner intends to invest the aggregate gross proceeds realized from this Offering in high quality income-producing commercial real estate properties, including mixed use light industrial and retail properties. The General Partner intends to concentrate on identifying properties for possible acquisition in strong growth markets, and to aggressively manage and reposition the Properties with the view to preserving Purchasers’ capital, providing quarterly cash returns and enhancing the potential for capital gains.

All Properties will be purchased at prices and on terms negotiated with arm’s length third party vendors. In some cases, the Properties will be acquired pursuant to agreements of purchase and sale entered into by SRAI with arm’s length third party vendors, which will be assigned by SRAI to the Limited Partnership at no cost other than reimbursement of any deposits (some of which may be refundable to the Limited Partnership) and due diligence expenses paid by SRAI prior to such assignment.

The General Partner has targeted commercial properties for investment by the Limited Partnership, as they typically offer a higher cash yield than residential properties, yet can still offer a diversified tenant mix with a reduced lease renewal exposure. As well, the General Partner believes that in the current market there exist excellent opportunities to acquire individual properties from the owners or managers of larger property portfolios, where such properties do not fit the current asset mix of the portfolio. In doing

so, the General Partner believes it can optimize investor yield through quarterly cash flow distributions and potential long term capital appreciation, while diversifying the risks associated with real estate ownership.

### ***Investment Objectives***

The Offering has been structured with the view to facilitating the following as primary investment objectives:

- (a) to provide an investment in a diversified portfolio of quality commercial revenue-producing Properties with positive cash flow, which also permits the investor to invest in a debenture which is RRSP eligible;
- (b) to provide quarterly cash flow distributions targeted at 8-10%, upon full investment of the net proceeds allocated to the purchase price of Properties; and
- (c) to enhance the potential for long-term growth of capital through value-added enhancements to the Properties and organic growth in rental rates, combined with an overall reduction in capitalization rates. A reduction in capitalization rates may occur during periods of increasing demand for real estate investment opportunities, when investors become prepared to pay higher prices for the same level of net operating income.

### ***Guidelines for Property Acquisitions***

The General Partner intends to cause the Limited Partnership to comply with the following general guidelines in acquiring Properties:

- (a) assuming all 1,600 Units are sold pursuant to this Offering, not more than 40% of the net proceeds (gross proceeds less the Agent's commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) in the event that less than the maximum Offering is sold, it may be necessary to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (c) below, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property) if the number of Units sold is at or close to the minimum Offering of 200 Units; and
- (c) upon purchase, each Property would be expected to generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership's invested capital in the Property of not less than 6% per annum, with a target range of 8-10% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide significant capital gain opportunities due to capital improvement programs.

### ***Alignment of Interests***

The General Partner believes that individual investors should have the same opportunities as institutions, pension funds and high net worth individuals. With this goal in mind, this Offering has been structured to

align the interests of the General Partner with those of the Limited Partners. In the event of any capital transaction in respect of the Properties, including a sale or a refinancing of the Properties, the General Partner will be entitled to receive any unpaid Incentive Management Interest only after all Net Equity has been returned to the Limited Partners, and the Limited Partners have received full payment of the Limited Partners' Minimum Return and the interest due under the Debentures. (Refer to "Description of the Securities Distributed – Terms – Limited Partnership Units – Net Proceeds from Refinancings, Sale or other Capital Transactions" at page 19 herein.)

### ***Title to the Properties***

The Limited Partnership intends to have title to each of the Properties registered in the name of a nominee company, which will own such title as bare trustee for the Limited Partnership.

### ***Management of Properties***

The Limited Partnership intends to engage third party property managers for the ongoing day-to-day management of the operation of the Properties. The General Partner intends to structure each third party property management contract with a performance bonus, such that the manager will be rewarded for increases in operating income that the manager achieves from a Property, thereby aligning the interests of the manager with that of the Limited Partnership. The General Partner expects that the fee payable to a Property Manager will be between 3% and 5% of the gross revenue from the managed Property or Properties. A portion of this fee may be recovered from the tenants of the Property.

### ***Mortgage Loans***

The General Partner intends to cause the Limited Partnership to finance a part of the purchase price of the Properties by way of Mortgage Loans from third party Lenders. The General Partner will target the overall loan to value ratio of the Mortgage Loans at not more than 75% of the purchase price of the Properties as a whole, plus the amount of any property improvement reserve account approved by the Lenders. However, if deemed appropriate by the General Partner, having regard to all of the circumstances including the potential value of the Properties identified for acquisition by the Limited Partnership, the General Partner may cause the overall loan to value ratio of the Mortgage Loans to exceed this threshold.

### ***Allocations of Income and Cash Distributions***

The net operating income from the Properties will be paid on account of interest which has accrued on the Debenture Issuer Loan after payment of operating expenses, the provision of reasonable reserves for working capital, renovations and upgrades, and the payment of interest and annual principal payments on the Mortgage Loans. After payment of such amounts, subject to the Limited Partners' right to receive the Limited Partners' Minimum Return and the General Partner's right to receive the Incentive Management Interest, cash distributions and income of the Limited Partnership will be allocated 80% to the Limited Partners and 20% to the General Partner.

## **2.3 Business of the Debenture Issuer**

The business of the Debenture Issuer is the purchase, ownership and operation of interests in income-producing and other real estate properties, or the making of loans in respect of such properties. The Debenture Issuer's long-term objective in terms of the Debentures is to earn interest income from the Debenture Issuer Loan, to distribute such interest income to holders of the Debentures in accordance with

the terms of the Debentures, and to repay the Debentures upon the repayment of the Debenture Issuer Loan by the Limited Partnership.

As described under the heading “Experts – Income Tax Consequences” on page 40 herein, the Debentures issued by the Debenture Issuer will be qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans provided that, at all times, the Debenture Issuer is controlled directly or indirectly by a corporation whose shares are listed on a prescribed stock exchange in Canada. Because Knightswood’s common shares are listed on the TSX Venture Exchange, a prescribed stock exchange in Canada for these purposes, the Debentures will constitute qualified investments for such deferred income plans. Under an option agreement between SRAI and Knightswood dated December 1, 2003: (i) Knightswood has the option, exercisable at any time, to require SRAI or a third party purchaser listed on a Canadian stock exchange nominated by SRAI, to acquire from Knightswood all of the shares in the capital of the Debenture Issuer owned by Knightswood at an aggregate purchase price of \$51, and (ii) SRAI has the option, exercisable in certain circumstances in which it would be prejudicial to the Debenture Issuer’s interests to remain as a subsidiary of Knightswood, to require Knightswood to sell to SRAI or a third party listed on a Canadian stock exchange nominated by SRAI all of the shares in the capital of the Debenture Issuer owned by Knightswood for an aggregate purchase price of \$51. If either of these options is exercised, the Debentures will cease to be qualified investments for deferred income plans should the Debenture Issuer no longer be controlled directly or indirectly by a corporation whose shares are listed on a prescribed stock exchange in Canada.

**The Debenture Issuer will not be independently liable for the payment of interest or the repayment of the Debentures and no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.**

#### **2.4 The Debenture Issuer Loan**

The Debenture Issuer will loan to the Limited Partnership by way of the Debenture Issuer Loan an amount equal to the net proceeds received by the Debenture Issuer from subscriptions for Debentures. Assuming that all 1,600 Units are sold pursuant to this Offering, and further assuming that the aggregate expenses of the maximum Offering will be \$300,000 (80% of which will be borne by the Debenture Issuer), the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$9,050 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agent’s 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$150). Accordingly, the Debenture Issuer Loan will be in the principal amount of approximately \$14,480,000 in the event that the maximum Offering is sold.

Assuming that the minimum Offering of 200 Units is sold, and further assuming that the aggregate expenses of the minimum Offering will be \$150,000 (80% of which will be borne by the Debenture Issuer), the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$8,600 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agent’s 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$600). Accordingly, the Debenture Issuer Loan will be in the principal amount of approximately \$1,720,000 in the event that the minimum Offering is sold.

The Debenture Issuer Loan bears interest at the annual rate of 9.9%, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing July 15, 2004, in respect of the interest

accrued during the immediately preceding calendar quarter. The Debenture Issuer Loan will be due on February 28, 2009, which is approximately five years from the date of the initial advance. In addition, the Limited Partnership will pay to the Debenture Issuer:

- (a) an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected in the aggregate over the term of the Debenture Issuer Loan to equal the total Agent's commissions and fees and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures. This fee will be payable on December 31 in each year, commencing December 31, 2004; and
- (b) an ongoing loan fee, payable quarterly in arrears on the last day of each calendar quarter, commencing March 30, 2004, equal to one-quarter of 0.5% of the outstanding principal amount of Debentures at the beginning of each such calendar quarter.

The Debenture Issuer Loan will be secured by way of a general security agreement executed by the Limited Partnership in favour of the Debenture Issuer, notice of which will be registered in any province in which the Limited Partnership commences to carry on business. This general security agreement does not, and will not, represent a registered security interest in any Properties, and will be subject to the prior charge of the Mortgage Loans.

### **3. DEVELOPMENT OF THE BUSINESSES OF THE ISSUERS**

#### **3.1 Description and General Development Since Inception**

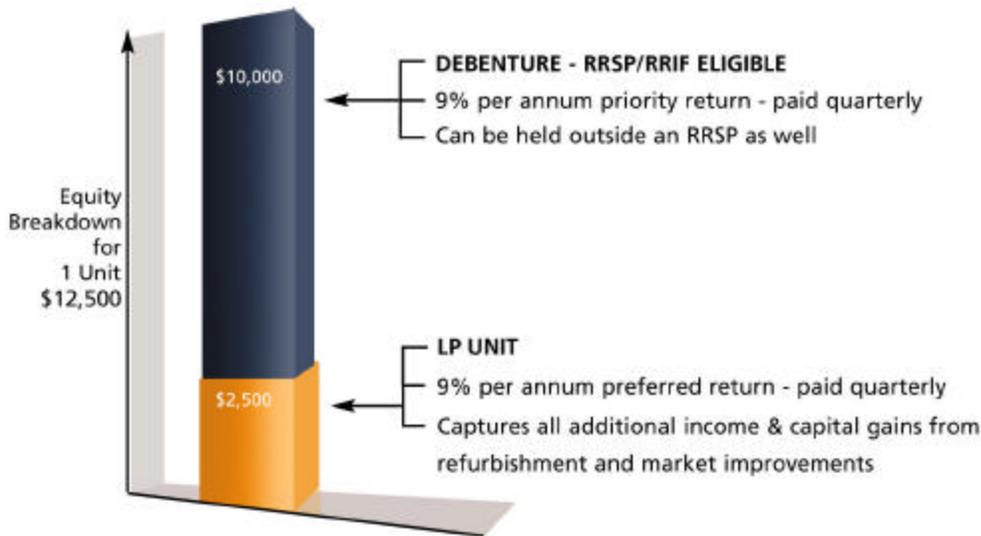
The Limited Partnership was established in December, 2001 for the purpose of owning and operating interests in a diversified portfolio of high quality income-producing commercial real estate properties in Canada (or proportionate interests in such properties), or the making of loans in respect of such properties. The Limited Partnership does not have an operating history.

To date, the General Partner has not identified any Properties for potential acquisition by the Limited Partnership. Assuming that the maximum Offering of 1,600 Units is sold, the General Partner is intending to cause the Limited Partnership to apply up to \$15,338,983 of the net proceeds of the Offering to an estimated aggregate purchase price of, as yet unidentified Properties. If only the minimum Offering of 200 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$1,822,034 of the net proceeds to the purchase price of one or more as yet unidentified Properties.

If the maximum Offering is sold, the general guidelines that the General Partner has established for the Limited Partnership provide that not more than 40% of the net proceeds (gross proceeds less the Agent's commission and the expenses of this Offering) should be applied to the acquisition of any one Property. In the event that less than the maximum Offering is sold, it may be necessary for the Limited Partnership to apply more than 40% of the net proceeds to the acquisition of any one Property, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property) if the number of Units sold is at or close to the minimum Offering of 200 Units.

The Debenture Issuer was incorporated on March 4, 2003 for the purpose of purchasing, owning and operating interests in income-producing and other real estate properties, or the making of loans in respect of such properties. The Debenture Issuer does not have an operating history.

The Offering has been structured with the view to facilitating a tax-efficient investment in real estate, as described under the heading “Experts – Income Tax Consequences” on page 40 herein and as illustrated in the diagram below:



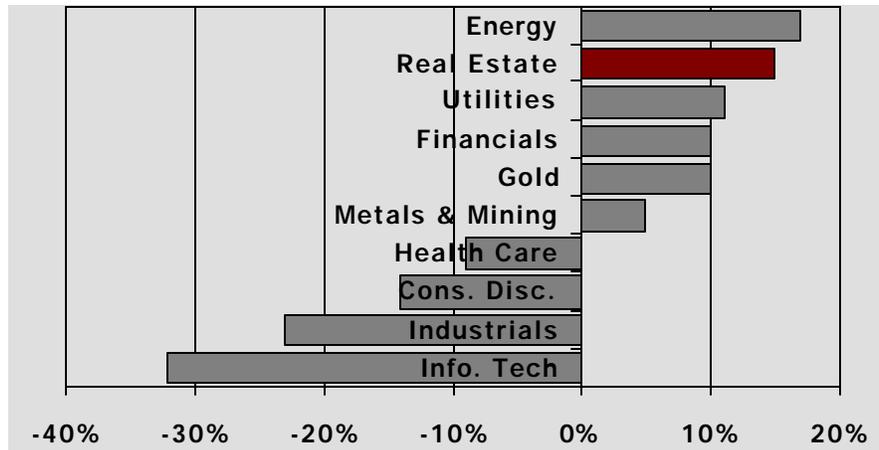
### 3.2 Significant Acquisitions

The Issuers have not made any significant property acquisitions or dispositions to date.

### 3.3 Trends

The General Partner believes that the current economic environment has created attractive investment opportunities in real estate. In particular, the General Partner expects that growing investment demand for high quality real estate properties will place downward pressure on capitalization rates, resulting in higher property valuations. As well, long-term mortgage interest rates are at or near historically low levels, in the range of 5.5% to 7.5% per annum, and many high quality real estate properties are being sold at prices which provide an initial return, on an unleveraged basis, of 8% to 10% per annum. The difference between mortgage rates and the potential rates of return on investment will offer Purchasers the potential for immediate positive financial leverage, enhancing the potential return on investment.

Real estate investments are subject to a number of risks, some of which are outlined under the heading “Risk Factors” at page 35 herein. However, while past performance is not necessarily an indicator of future performance, real estate investments have historically outperformed investments in many other sectors of the economy, as illustrated in the following chart covering the 12-month period ended in March 2003:



Source: Standard & Poor's Index Services, March 31, 2003. Based on Excess Returns over S&P/TSX Composite, for 12 months from March 2002 to March 2003.

### 3.4 Stated Business Objectives

The Limited Partnership has been established for the purpose of owning and operating a diversified portfolio of high quality income-producing commercial real estate properties in Canada (or proportionate interests in such properties).

The business of the Debenture Issuer is the purchase, ownership and operation of interests in income-producing and other real estate properties, or the making of loans in respect of such properties. The Debenture Issuer's long-term objective in terms of the Debentures is to earn interest income from the Debenture Issuer Loan, to distribute such interest income to holders of the Debentures in accordance with the terms of the Debentures, and to repay the Debentures upon the repayment of the Debenture Issuer Loan by the Limited Partnership.

The Limited Partnership's short-term objectives are:

- (a) to evaluate properties which the General Partner has identified for potential acquisition by the Limited Partnership as Properties; and
- (b) to complete by October 31, 2004 the purchase of sufficient Properties to utilize the full amount made available to the Limited Partnership by way of purchases of LP Units pursuant to this Offering, the Debenture Issuer Loan and the Mortgage Loans.

### 3.5 Milestones

Utilization of the full amount made available to the Limited Partnership by way of purchase of LP Units, the Debenture Issuer Loan and the Mortgage Loans will depend in large extent to the purchase prices to be negotiated with the owners of any properties which are judged by the General Partner to be suitable for acquisition by the Limited Partnership.

The General Partner has not identified any properties for potential acquisition by the Limited Partnership, and is intending to apply up to \$15,338,983 to an estimated aggregate purchase price of, as yet unidentified Properties, assuming that the maximum Offering of 1,600 Units is sold. If only the minimum Offering of 200 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$1,822,034 of the net proceeds to the purchase price of one or more as yet unidentified Properties.

The General Partner proposes to pursue the business objectives set forth under the heading “Description of the Businesses of the Issuers – Stated Business Objectives” in accordance with the following schedule:

| Milestone                                    | Target Date for Completion      | Estimated Costs                                      |                           |                           |
|--|---------------------------------|--|---------------------------|---------------------------|
|  |                                 |  | Assuming Minimum Offering | Assuming Maximum Offering |
| Document And Complete Purchase Of Properties | October 31, 2004 <sup>(1)</sup> | Purchase Price                                       | \$7,288,136               | \$61,355,932              |
|  |                                 | Due Diligence and Documentation Costs <sup>(2)</sup> | \$145,763                 | \$1,227,119               |
|  |                                 | Reserve for renovations and upgrades                 | \$36,440                  | \$306,779                 |
|  |                                 | Working capital reserve                              | \$36,441                  | \$306,780                 |
|  |                                 | Financing Fee  | \$109,322                 | \$920,339                 |
|  |                                 | <b>Subtotal</b>                                      | <b>\$7,616,102</b>        | <b>\$64,116,949</b>       |

(1) It is assumed that the minimum Offering or the maximum Offering, as the case may be, has closed prior to such date.

(2) Includes estimated closing costs for purchasing the Properties.

#### 4. USE OF PROCEEDS

| Sources of Funds |  | Assuming Minimum Offering <sup>(1)</sup> | Assuming Maximum Offering <sup>(2)</sup> |
|------------------|--|--|--|
|                  | Gross cash proceeds of this Offering     |  |  |
|                  | Subscription price for LP Units          | \$500,000                                | \$4,000,000                              |
|                  | Subscription price for Debentures        | \$2,000,000                              | \$16,000,000                             |
| <b>A</b>         | <b>Total Subscription Proceeds</b>       | <b>\$2,500,000</b>                       | <b>\$20,000,000</b>                      |
| <b>B</b>         | Mortgage Loans                           | \$5,466,102                              | \$46,016,949                             |
| <b>C</b>         | <b>Total Sources of Funds: C = A + B</b> | <b>\$7,966,102</b>                       | <b>\$66,016,949</b>                      |

(1) There will be no closing unless a minimum of 200 Units are sold not more than 90 days after the date of the receipt for the Final Prospectus.

(2) The maximum Offering is 1,600 Units.

The Issuers intend to use the gross proceeds of this Offering as follows:

| Use of Available Funds                          | Assuming Min. Offering <sup>(1)</sup> | Assuming Max. Offering <sup>(2)</sup> |
|---|---------------------------------------|---------------------------------------|
| Purchase Price of the Properties <sup>(3)</sup> | \$7,288,136                           | \$61,355,932                          |
| Agent’s commissions <sup>(4)</sup>              | \$200,000                             | \$1,600,000                           |

| <b>Use of Available Funds</b>  | <b>Assuming Min. Offering<sup>(1)</sup></b> | <b>Assuming Max. Offering<sup>(2)</sup></b> |
|--|---|---|
| Agent fees and expenses <sup>(5)</sup>   | \$75,000                                    | \$75,000                                    |
| Expenses of this Offering (legal, accounting and audit, tax advice, printing, securities filings)                          | \$75,000                                    | \$225,000                                   |
| Estimated closing costs for purchase of Properties (including transfer fees, legal and due diligence costs) <sup>(6)</sup> | \$145,763                                   | \$1,227,119                                 |
| Creation of reserve for renovation and upgrading of Properties <sup>(7)</sup>  | \$36,440                                    | \$306,779                                   |
| Creation of reasonable working capital reserves for the Properties <sup>(8)</sup>  | 36,441                                      | \$306,780                                   |
| Financing Fee <sup>(9)</sup>   | \$109,322                                   | \$920,339                                   |
| <b>Total</b>   | <b>\$7,966,102</b>                          | <b>\$66,016,949</b>                         |

- (1) There will be no closing unless a minimum of 200 Units are sold not more than 90 days after the date of the Receipt for the Final Prospectus.
- (2) The maximum Offering is 1,600 Units.
- (3) The purchase price of Properties shown is an estimate only, and may not be the actual aggregate price payable pursuant to the agreements of purchase and sale to be made between the Limited Partnership and arm's-length third party vendors, or to be made between SRAI and arm's-length third party vendors and assigned to the Limited Partnership by SRAI.
- (4) SRAI will co-ordinate this Offering through the Agent and will pay, on behalf of the Issuers, a commission and fee equal to 8% of the subscription price of LP Units and the Debentures.
- (5) The Agent is entitled to receive an advisory fee of \$25,000. The Issuers have also agreed to bear all of the Agent's expenses (currently estimated to be \$50,000) of or incidental to the issue, sale and delivery of the Units pursuant to this Offering, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agent and the reasonable out-of-pocket expenses (including applicable taxes) of the Agent.
- (6) The amount incurred in respect of the purchase of Properties by the Limited Partnership will include, without limitation, all due diligence inspections and reviews of the Properties, third party consultant's fees, closing adjustments, legal and accounting fees, financing fees paid to third party mortgage Lenders, insurers and brokers, other closing costs and transfer fees and taxes.
- (7) The General Partner may undertake a refurbishment program in respect of one or more of the Properties. The amount shown is an estimate of the amount which may be required to establish a reserve for the payment of the anticipated and unanticipated costs of such programs for all of the Properties.
- (8) The General Partner will establish working capital reserves for the Limited Partnership, to help ensure sufficient funds are on hand from time to time to pay anticipated and unanticipated operating and capital expenses of the Properties.
- (9) The General Partner will be paid a Financing Fee equal to 1.5% of the gross purchase price of each Property for the provision of certain financial services to the Limited Partnership.

The proceeds will also be used from time to time by the Limited Partnership to make refundable and non-refundable deposits on account of the purchase price of Properties, to pay mortgage application fees and to pay property due diligence and inspection costs. These payments and costs will include amounts paid

to arm's-length third parties and all out-of-pocket costs incurred by the General Partner in the conduct of property inspection and due diligence. Some Properties in respect of which non-refundable deposits, mortgage application fees and property due diligence and inspection costs are paid may not be acquired by the Limited Partnership, resulting in a possible loss of such deposits, fees and/or costs.

The Issuers intend to spend the funds available to it as stated in this Prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary.

The General Partner has agreed to provide certain services to the Limited Partnership pursuant to the General Partner Services Agreement, as described in more detail under the heading "Executive Compensation – Management Agreements" on page 33.

The General Partner has agreed under the General Partner Services Agreement that if by October 29, 2004, the Limited Partnership has not invested at least 97% of the aggregate net proceeds of the Offering in the purchase of Properties (or interests in Properties), and the creation of reasonable reserves for renovation and upgrading and working capital reserves for such Properties, the General Partner will cause the Limited Partnership to: (a) repay to the Limited Partners as a return of Limited Partnership capital on or before December 1, 2004, 20% of that portion of the aggregate net proceeds of the Offering not so invested; and (b) to repay to the Debenture Issuer on or before December 1, 2004, on account of the Debenture Issuer Loan, 80% of that portion of the aggregate net proceeds of the Offering not so invested, together with interest thereon at the rate of 9.9% per annum. The Debenture Issuer is obligated under the Debentureholders Agreement to apply any amount that it so receives to the repayment of principal and interest under the outstanding Debentures, on a pro rata basis. In addition, the General Partner will repay to the Limited Partnership and the Debenture Issuer all commissions paid on the amount of the proceeds which are repaid to Purchasers, which amount will be deducted from the Incentive Management Interest otherwise payable to the General Partner.

The General Partner's obligation to cause the Limited Partnership to return capital and repay a portion of the principal under the Debenture Issuer Loan in the event that the Limited Partnership has not invested at least 97% of the aggregate net proceeds of the Offering in the manner described above by October 29, 2004, will not be secured in any way, and the Issuers do not intend to make any of the proceeds of this Offering subject to escrow. Any subscription proceeds for LP Units which are not invested in Properties or applied to the Limited Partnership's working capital needs, and any subscription proceeds for Debentures that are used to fund the Debenture Issuer Loan and are not then invested in Properties or applied to the Limited Partnership's working capital needs, will be retained by the General Partner for the Limited Partnership in money market investments, and will therefore be available for repayment to subscribers should the 97% threshold referred to above not be achieved.

In acquiring Properties, the General Partner intends to cause the Limited Partnership to comply with:

- the Limited Partnership's business strategy outlined under the heading "Description of the Businesses of the Issuers – Business of the Limited Partnership" (see page 3 herein); and
- the guidelines discussed under the heading "Description of the Businesses of the Issuers – Business of the Limited Partnership – Guidelines for Property Acquisitions" (see page 4 herein).

In determining what would constitute "reasonable reserves" for renovation and upgrading and working capital reserves for such Properties, the General Partner will review a comprehensive third party due diligence report that will be produced for each Property. The amount of a renovation and upgrading reserve for a given Property will be assessed by the General Partner having regard to, among other things, the Property's age, general state of repair, and an assessment of whether anticipated revenues would be

sufficient to cover all or a portion of the repairs or upgrades identified as reasonably necessary through the due diligence process.

In determining how much of a working capital reserve would be reasonable for a given Property, the General Partner will generally target a working capital reserve of at least  $\frac{1}{2}\%$  of the purchase price of the Property. In the event that the maximum Offering of 1,600 Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$61,355,932; if the minimum Offering of 200 Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$7,288,136. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$306,780, and the targeted working capital reserves in the event of a minimum Offering is \$36,441. However, for any given Property, the General Partner could allocate a larger or smaller amount to working capital reserves than the targeted amount of  $\frac{1}{2}\%$  of the purchase price of the Property, based on Property-specific considerations such as the anticipated revenues from the Property.

## 5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

### 5.1 Financial Information

#### *Limited Partnership*

*The following is a summary of certain selected financial information which is qualified by the more detailed information appearing in the audited and unaudited financial statements included in this Prospectus.*

| <b>Balance Sheets</b>    |                  |                   |                   |
|--------------------------|------------------|-------------------|-------------------|
|                          | October 31, 2003 | December 31, 2002 | December 31, 2001 |
|                          | \$               | \$                | \$                |
|                          | (Unaudited)      |                   |                   |
| <b>Assets</b>            |                  |                   |                   |
| Cash                     | 20               | 20                | 20                |
| <b>Partners' capital</b> |                  |                   |                   |
| Partners' capital        | 20               | 20                | 20                |

| <b>Statements of Cash Flows</b>             |   |                                 |  |
|---|---|---------------------------------|--|
|   | Ten Month<br>Period Ended<br>October 31, 2003 | Year Ended<br>December 31, 2002 | Period from<br>Formation on<br>December 21, 2001 to<br>December 31, 2001 |
|   | \$  | \$                              | \$   |
|   | (Unaudited)                                   |                                 |  |
| <b>Cash flows from financing activities</b> |   |                                 |  |
| Partners' capital                           | -   | -                               | 20   |
| Net cash provided by financing activities   | -   | -                               | 20   |
| <b>Cash, beginning of period</b>            | 20  | 20                              | -  |
| <b>Cash, end of period</b>                  | 20  | 20                              | 20   |

**Debenture Issuer**

*The following is a summary of certain selected financial information which is qualified by the more detailed information appearing in the audited financial statements included in this Prospectus.*

| <b>Balance Sheet</b>        |                                 |
|-----------------------------|---------------------------------|
|                             | As at<br>October 31, 2003<br>\$ |
| <b>Assets</b>               |                                 |
| Cash                        | 1                               |
| <b>Shareholder's equity</b> |                                 |
| Capital stock               | 1                               |

| <b>Statement of Cash Flows</b>              |  |
|---|--|
|   | Period from Incorporation<br>on March 4, 2003 to<br>October 31, 2003<br>\$ |
| <b>Cash flows from financing activities</b> |  |
| Issuance of capital stock                   | 1  |
| Net cash provided by financing activities   | 1  |
| <b>Cash, end of period</b>                  | <b>1</b>   |

**General Partner**

The following is a summary of certain selected financial information which is qualified by the more detailed information appearing in the audited and unaudited financial statements included in this Prospectus.

| <b>Balance Sheets</b>  |                  |                   |                   |
|--|------------------|-------------------|-------------------|
|  | October 31, 2003 | December 31, 2002 | December 31, 2001 |
|  | \$               | \$                | \$                |
| (Unaudited)  |                  |                   |                   |
| <b>ASSETS</b>  |                  |                   |                   |
| <b>Current</b>   |                  |                   |                   |
| Cash   | 90               | 90                | 90                |
| <b>Investment in Sunstone Opportunity Fund Limited Partnership</b> | 10               | 10                | 10                |
|  | 100              | 100               | 100               |

**SHAREHOLDERS' EQUITY**

|                      |     |     |     |
|----------------------|-----|-----|-----|
| <b>Capital Stock</b> | 100 | 100 | 100 |
|----------------------|-----|-----|-----|

| <b>Statements of Cash Flows</b>             |   |                                 |   |
|---|---|---------------------------------|---|
|   | Ten Month<br>Period Ended<br>October 31, 2003 | Year Ended<br>December 31, 2002 | Period from<br>Incorporation on<br>November 6, 2001 to<br>December 31, 2001 |
|   | \$  | \$                              | \$  |
| (Unaudited)                                 |   |                                 |   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |   |                                 |   |
| Issuance of common stock                    | -   | -                               | 100   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |   |                                 |   |
| Purchase of limited partnership unit        | -   | -                               | (10)  |
| Net cash used in investing activities       | -   | -                               | (10)  |
| <b>Increase in cash during the period</b>   | -   | -                               | 90  |
| <b>Cash, beginning of period</b>            | 90  | 90                              | -   |
| <b>Cash, end of period</b>                  | 90  | 90                              | 90  |

## **6. EARNINGS COVERAGE RATIOS**

### **6.1 Limited Partnership**

The Limited Partnership has not had any earnings to date, and currently has no outstanding long-term debt. However, it is anticipated that the Limited Partnership will incur Mortgage Loans in the aggregate principal amount of up to \$46,016,949, and the Debenture Issuer Loan in the aggregate principal amount of up to \$14,480,000.

In acquiring Properties, the General Partner intends to cause the Limited Partnership to comply with the guidelines discussed under the heading "Description of the Businesses of the Issuers – Business of the Limited Partnership – Guidelines for Property Acquisitions" (see page 4 herein), including the expectation that each Property generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership's invested capital in the Property of not less than 6% per annum, with a target range of 8-10% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide significant capital gain opportunities due to capital improvement programs.

Given the uncertainties involved in connection with predicting the Limited Partnership's annual earnings and debt servicing requirements, it is impossible to determine the amount of earnings that the Limited Partnership will require to attain an earnings coverage ratio of one-to-one.

### **6.2 Debenture Issuer**

The Debenture Issuer was incorporated on March 4, 2003, and has not had any earnings to date. As discussed more fully below, the Debenture Issuer will require \$1,505,920 in earnings to attain an earnings coverage ratio of 1.05 to 1.00, based on the following assumptions:

- (1) The Debenture Issuer will have 1,600 Debentures outstanding, each with a principal amount of \$10,000, bearing 9.0% per annum. Although the Debentures mature on February 28, 2009, for the purpose of calculating the Debenture Issuer's earnings coverage ratio, it is assumed that the Debentures will have a term of 60 months. Interest expense for a 12 month period will be approximately \$1,440,000. Deferred debt offering costs comprised of the 8.0% commission of \$1,280,000 and other offering expenses estimated at \$240,000 (the Debenture Issuer will bear 80% of the other offering expenses comprised of aggregate estimated Agent expenses of \$50,000 and aggregate estimated offering expenses of \$250,000) will be amortized over the term of the Debentures resulting in an annual amortization of \$304,000.
- (2) The Debenture Issuer will have advanced to the Limited Partnership by way of the Debenture Issuer Loan \$14,480,000. The Debenture Issuer Loan will generate income at 9.9% per annum resulting in interest income of \$1,433,520 for a 12 month period.
- (3) Based on an average outstanding Debenture Issuer Loan balance of \$14,480,000 during a 12 month period (assuming no repayment of the debenture issuer loans), the Debenture Issuer will be entitled to a fee equal to 0.5% of the outstanding principal amount resulting in income of \$72,400.
- (4) The Debenture Issuer is entitled to an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected to aggregate over the term of

the Debenture Issuer Loan to equal the total selling commissions and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures. The total estimated costs incurred by the Debenture Issuer (commission of \$1,280,000 and other estimated offering expenses of \$240,000) are assumed to be repaid in equal annual payments over the term of the Debentures. Accordingly, the Debenture Issuer has an annual loan fee of \$304,000.

- (5) No other expenses or income sources have been assumed for the Debenture Issuer.

Based on the above assumptions, the Debenture Issuer's earnings before interest and income tax for a 12 month period would be \$1,505,920, which is 1.05 times the Debenture Issuer's interest requirements for such period.

## **7. DESCRIPTION OF THE SECURITIES DISTRIBUTED**

### **7.1 Terms**

The Issuers are offering a minimum of 200 Units and a maximum of 1,600 Units, at a purchase price of \$12,500 per Unit. Each Unit is comprised of one LP Unit and one Debenture.

#### ***Limited Partnership Units***

The rights and obligations of the General Partner and the Limited Partners are governed by the Limited Partnership Agreement made December 19, 2001 between the General Partner and the Initial Limited Partner, which was amended and restated on December 1, 2003. The following is a summary of certain material provisions of the Limited Partnership Agreement. **This summary does not purport to be complete and reference should be to the Limited Partnership Agreement itself, a copy of which is attached to this Prospectus.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Limited Partnership Agreement.**

*Capital in the Limited Partnership* - The capital of the Limited Partnership consists of up to 5,000 LP Units, plus the respective interests held by the Initial Limited Partner and the General Partner. The Limited Partnership is offering up to 1,600 LP Units at a total price of \$4,000,000 pursuant to this Offering.

The General Partner and the Initial Limited Partner each have made a capital contribution of \$10 to the Limited Partnership, and have no further obligation to contribute capital. Limited Partners will contribute to the Limited Partnership \$2,500 in capital per LP Unit purchased.

*Allocation of Income or Losses* - The General Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum, plus its Incentive Management Interest (see below). The Initial Limited Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum. Thereafter, each of the LP Units represents a right to receive a proportionate Income Share in the income or losses of the Limited Partnership.

*Cash Flow from Operations* - In each fiscal year of the Limited Partnership, the Limited Partnership will pay and distribute an amount equal to all cash flow from operations of the Properties in that year after payment of all current obligations relating to the Properties, including all current principal and interest payments under the Mortgage Loans, all interest payable under the Debenture Issuer Loan, and after the

creation of reasonable working capital and capital improvement reserves as determined by the General Partner.

Such distributions will be made as follows:

- (a) firstly, to the Limited Partners, in the amount of the Limited Partners' Minimum Return. The General Partner will not be entitled to share in cash flow, proceeds of sale, and surplus proceeds from refinancing until the Limited Partners' Minimum Return has been paid. The Limited Partners' Minimum Return will be calculated on a non-compounded, cumulative basis such that in the years when the Limited Partners' Minimum Return is not available from cash flow, it will accumulate and be paid from cash flow in subsequent years; and
- (b) secondly, to the General Partner, the Incentive Management Interest (being an amount equal to 20/80ths of the total to the date of such distribution of: (i) the total payments made to Limited Partners in respect of the Limited Partners' Minimum Return to that date, and (ii) the total interest paid on the Debenture Issuer Loan to that date, thereby providing the General Partner with a 20% share of the total of the interest paid on the Debenture Issuer Loan and the amounts distributed to the Limited Partners by the Limited Partnership up to that date); and
- (c) thirdly, the balance will be paid out as to 80% to the Limited Partners and 20% to the General Partner.

*Net Proceeds from Refinancings, Sale or other Capital Transactions* - All net proceeds received by the Limited Partnership from any capital transaction in respect of the Properties, after the creation of a reasonable reserve as determined by the General Partner, will be allocated and distributed on the following basis:

- (a) firstly, to repay all current obligations relating to the Properties;
- (b) secondly, to the repayment of the Debenture Issuer Loan;
- (c) thirdly, to the payment to Limited Partners of (i) the amount, if any, of their cumulative Limited Partners' Minimum Return which remains unpaid; and then (ii) the amount of Net Equity received from the Limited Partners, to the extent that the Net Equity has not been repaid to them;
- (d) fourthly, to the payment to the General Partner of the amount, if any, of the Incentive Management Interest which remains unpaid; and
- (e) fifthly, to the payment of the balance as to 80% to the Limited Partners and 20% to the General Partner.

Notwithstanding the foregoing, upon any sale of a Property which closes on or before September 30, 2006, the General Partner may in its discretion retain for re-investment by the Limited Partnership the net proceeds from such sale, including any gain on the sale, provided that the Limited Partnership will distribute to the Limited Partners an amount determined by the General Partner to be required by the Limited Partners to pay any income or other taxes arising as a result of such sale.

*Additional Capital Contributions and Partner Loans* - No Limited Partner is required to make additional capital contributions to the Limited Partnership over and above the purchase price paid for such Limited Partner's LP Units, unless the General Partner is authorized by Special Resolution of the Limited Partners to request additional capital contributions from the Limited Partners. If the Limited Partnership requires additional funding, the General Partner may also request that one or more Limited Partners voluntarily loan funds to the Limited Partnership. If a Limited Partner elects to make a loan to the Limited Partnership, the Limited Partnership will be required to repay such loan, together with interest thereon, in priority to any distributions of amounts in respect of cash flow from the operations of the Properties, and in priority to any distributions of net proceeds received by the Limited Partnership from any capital transaction in respect of the Properties.

*Distributions upon Wind-up, etc.* - Upon the liquidation, dissolution or wind-up of the Limited Partnership, the General Partner will be entitled to receive any amounts due to it on account of costs and expenses incurred on behalf of the Limited Partnership, and each of the General Partner and the Initial Limited Partner will be entitled to a return of their respective capital contributions of \$10. Thereafter:

- (a) the Initial Limited Partner will not be entitled to participate in any distributions;
- (b) the Limited Partners will be entitled to payment of (i) the amount, if any, of their cumulative Limited Partners' Minimum Return which remains unpaid, and then (ii) the amount of Net Equity provided by the Limited Partners, to the extent that such Net Equity has not been repaid to them;
- (c) the General Partner will be entitled to payment of the amount, if any, of the Incentive Management Interest which remains unpaid; and
- (d) the balance will be paid as to 80% to the Limited Partners and 20% to the General Partner.

*Allocation of Income and Losses for Tax and Accounting Purposes* - For income tax and accounting purposes, all net income and losses from operations for each fiscal year of the Limited Partnership will be allocated to the Limited Partners and the General Partner in the same manner in which cash flow and distributions of net proceeds from refinancings, sale or other capital transactions are ultimately distributed to such parties (excluding returns of capital and repayments of loans) with such adjustments as necessary to be made on a cumulative basis.

*Management and Control of the Limited Partnership* - Under the terms of the Limited Partnership Agreement, the General Partner is given full power and authority to manage, control, administer and operate the business of the Limited Partnership, except for certain matters being subject to votes of the Limited Partners. No Limited Partner is permitted to take part in the management of the business of the Limited Partnership. The General Partner has unlimited liability for the debts, liabilities and obligations of the Limited Partnership to the extent required by the *Partnership Act* (British Columbia) and other applicable legislation. A Limited Partner will not be liable for any debts, liabilities or obligations of the Limited Partnership in excess of such Limited Partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such Limited Partner's LP Units, provided such Limited Partner does not take part in the control or management of the business of the Limited Partnership.

*Voting* - Each LP Unit has attached to it the right to exercise one vote at meetings of the Limited Partnership. Certain powers, relating generally to the existence and fundamental powers of the Limited Partnership, are specified in the Limited Partnership Agreement to be exercisable only by way of a Special Resolution passed by the Limited Partners.

*Residency* - Under the terms of the Limited Partnership Agreement, LP Units may only be held by persons or entities that are residents of Canada for Canadian income tax purposes. If, at any time, a Limited Partner becomes a non-resident for Canadian income tax purposes, such non-resident Limited Partner may be required to sell such Limited Partner's LP Units to a resident of Canada.

### ***Debentures***

The Debenture Issuer is offering up to 1,600 Debentures of \$10,000 each for total proceeds of \$16,000,000. However, the Debenture Issuer has authorized the creation and issuance of up to 5,000 Debentures of \$10,000 each.

The Debentures will bear interest at a fixed, simple rate of 9% per annum. Interest will be paid quarterly in arrears on the 15th days of each of January, April, July and October commencing on July 15, 2004. Interest will be paid when cash is available to the Debenture Issuer from interest received by it from the Limited Partnership under the Debenture Issuer Loan. **If cash flow from the Debenture Issuer Loan is insufficient to permit the Debenture Issuer to pay the full amount of the interest over the terms of the Debentures, the recourse of Debentureholders in respect of any unpaid interest will be limited to the Debenture Issuer Loan.**

The Debentures have a term of approximately five years, expiring February 28, 2009. The term of the Debentures may be extended by way of the favourable vote of Debentureholders owning Debentures representing more than 50% of the dollar principal amount of Debentures then outstanding. The Debenture Issuer must repay the principal amount outstanding under the Debentures, and accrued interest, if and to the extent, at any time during its term, the Debenture Issuer Loan is repaid by the Limited Partnership in whole or in part. The Limited Partnership is obligated to repay the Debenture Issuer Loan under certain terms and conditions.

The Debentures will be secured by way of a security interest to be granted by the Debenture Issuer in favour of the Debentureholders under the Debentureholders Agreement, notice of which will be registered in the personal property security registry in each province in which a Debentureholder is resident.

**The Debenture Issuer will not be independently liable for the payment of interest or the repayment of the Debentures and no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.**

The Debenture Issuer Loan will be secured by way of a general security agreement given by the Limited Partnership to the Debenture Issuer, notice of which will be registered in the personal property security registries of the provinces in which the Limited Partnership carries on business.

The interest, rights and obligations of Debentureholders will be set out in the Debentureholders Agreement. Under the Debentureholders Agreement, the Debentureholders may, by a majority of the votes attached to the Debentures cast at a meeting called for that purpose, make certain amendments to the Debentureholders Agreement and Debentures, including extending the term of the Debentures. The Debentures will rank equally with one another and will be secured equally under the Debentureholders Agreement. Upon the occurrence of an event of default, subject to certain terms and conditions set out in the Debentureholders Agreement, the Debentureholders may, by way of the favourable vote of Debentureholders owning Debentures representing more than 75% of the dollar principal amount of Debentures then outstanding, demand payment of all monies evidenced by the Debentures and enforce the security interest created by the Debentureholders Agreement by realizing upon the Debenture Issuer

Loan. The recourse of the Debenture Issuer and the Debentureholders is limited to the proceeds realized on a sale of the Debenture Issuer Loan.

**The foregoing is a summary only of certain of the material provisions of the Debentureholders Agreement. For a complete understanding of all of the provisions of the Debentureholders Agreement, reference should be made to the instrument itself, a copy of which is available from the General Partner.**

***Limited Redemption Rights***

Pursuant to both the Limited Partnership Agreement and the Debentureholders Agreement, and in addition to the Issuers' rights to redeem in whole or in part, Purchasers will have a limited right to require the Issuers to redeem Units, as follows:

- (a) on or before May 31 in each year, commencing on May 31, 2007, the Issuers will determine and provide written notice to the Purchasers of the price at which Units will be redeemed (the "Redemption Price") on the following January 15th (a "Redemption Date");
- (b) a Purchaser (the "Requestor") wishing to have such Purchaser's Units redeemed by the Issuers may, by delivering notice in writing to the Issuers prior to July 1 in each year (the "Notice Date"), commencing on July 1, 2007, require the redemption of all or part of such Purchaser's Units;
- (c) the obligation of the Issuers to redeem Units will be subject to the General Partner and the directors of the Debenture Issuer determining, in their sole discretion, that funds are available to the Limited Partnership and the Debenture Issuer, respectively, for the purposes of redemption;
- (d) the number of Units which will be redeemed on any one Redemption Date will be limited in each year to 5% of the total number of Units issued by the Issuers;
- (e) if by any Notice Date the Issuers have received notices requiring the Issuers to redeem a number of Units in excess of 5% of the total of number of Units issued by the Issuers, or if on a Redemption Date the General Partner and the directors of the Debenture Issuer determine that funds are not available to the Limited Partnership and the Debenture Issuer, respectively, to redeem the number of Units in respect of which a request for redemption has been made, then the redemption of Units on the next following Redemption Date will be made *pro rata* to the number of Units in respect of which requests for redemption have been made;
- (f) on a Redemption Date, commencing on January 15, 2008, the Issuers will pay to the Requestors, the Redemption Price for each Unit in respect of which redemption will be made; and
- (g) all accrued and unpaid Limited Partners' Minimum Return in respect of LP Units which are redeemed will be forfeited.

**Purchasers should refer to the Limited Partnership Agreement and Debentureholders Agreement for a more thorough description of the terms of redemption of LP Units and Debentures, respectively.**

### ***Subscription***

The acceptance of an offer to purchase, whether by allotment in whole or in part, by the Issuers shall constitute a subscription agreement between the Purchaser and the Issuers upon the terms and conditions set out in this Prospectus, the Limited Partnership Agreement and the Debentureholders Agreement, whereby the Purchaser, among other things:

- (a) irrevocably authorizes and directs the Agent to provide certain information to the General Partner, including such Purchaser's full name, residential address, telephone number, social insurance, business or corporation account number, as the case may be, and the name and registered representative number of the Agent and covenants to provide such information to the Agent;
- (b) acknowledges that he, or she or it, as the case may be, is bound by the terms of the Limited Partnership Agreement and is liable for all obligations of a Limited Partner;
- (c) agrees to be bound as a party to the Debentureholders Agreement, as from time to time amended and in effect;
- (d) makes the representations and warranties, including without limitation, the respective representations and warranties set out in the Limited Partnership Agreement and the Debentureholders Agreement;
- (e) irrevocably nominates, constitutes and appoints the General Partner as the Purchaser's true and lawful attorney and agent with the full power and authority as set out in the Limited Partnership Agreement; and
- (f) irrevocably nominates, constitutes and appoints the Debenture Issuer as the Purchaser's true and lawful attorney and agent with full power and authority as set out in the Debentureholders Agreement.

The foregoing subscription agreement shall be evidenced by delivery of this Prospectus to the Purchaser, provided that the subscription has been accepted by the Issuers.

A Purchaser whose subscription is accepted by the Issuers will become a Limited Partner of the Partnership upon the amendment of the record of Limited Partners maintained by the General Partner. If a subscription is withdrawn, in the time permitted for rescission pursuant to applicable securities laws, or is not accepted by the General Partner, all documents will be returned to the Purchaser within 15 days following such withdrawal or rejection.

## 8. SHARE AND LOAN CAPITAL

### 8.1 Existing and Proposed Share Capital

#### *Limited Partnership*

The following table summarizes information about outstanding securities of the Limited Partnership:

| Description of security            | Number authorized to be issued | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value after Offering |                                       |
|------------------------------------|--------------------------------|---|---|--|---------------------------------------|
|                                    |                                |   |   | Assuming Minimum Offering                            | Assuming Maximum Offering             |
| Initial Limited Partner's Interest | 1                              | 1<br>(\$10)   | 1<br>(\$10)   | 1<br>(\$10)  | 1<br>(\$10)                           |
| General Partner's Interest         | 1                              | 1<br>(\$10)   | 1<br>(\$10)   | 1<br>(\$10)  | 1<br>(\$10)                           |
| LP Units                           | 5,000                          | Nil   | Nil   | 200<br>(\$500,000) <sup>(1)</sup>                    | 1,600<br>(\$4,000,000) <sup>(1)</sup> |

<sup>(1)</sup> Gross proceeds before issuance costs.

#### *General Partner*

The following table summarizes information about outstanding common shares of the General Partner:

| Description of security | Number authorized to be issued | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value after Offering |
|-------------------------|--------------------------------|---|---|--|
| Common Shares           | 100,000,000<br>(no par value)  | 1,000<br>(\$100)  | 1,000<br>(\$100)  | 1,000<br>(\$100)                                     |

#### *Debenture Issuer*

The following table summarizes information about outstanding common shares of the Debenture Issuer:

| Description of security | Number authorized to be issued | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value as at November 30, 2003 | Number outstanding and carrying value after Offering |
|-------------------------|--------------------------------|---|---|--|
| Common Shares           | 100,000,000<br>(no par value)  | 100<br>(\$100)  | 100<br>(\$100)  | 100<br>(\$100)                                       |

### 8.2 Long-Term Debt

Neither the Limited Partnership, the General Partner nor the Debenture Issuer has any long-term debt.

The Limited Partnership intends to borrow funds by way of the Mortgage Loans, the terms and conditions of which will vary in the case of each Property to be purchased. In addition, the proceeds raised by the Debenture Issuer from the issuance of Debentures will be loaned to the Limited Partnership by way of the Debenture Issuer Loan, to be secured by way of a general security interest granted by the Limited Partnership in favour of the Debenture Issuer. Assuming all 1,600 Units are sold pursuant to this Offering, the Debenture Issuer Loan will be in the principal amount of approximately \$14,480,000. (Refer to “Description of Business of the Issuers – Debenture Issuer Loan” on page 6 for further particulars on the Debenture Issuer Loan.)

The Debenture Issuer is offering up to 1,600 Debentures of \$10,000 each for total proceeds of \$16,000,000. The Debentures have a term of approximately five years, expiring February 28, 2009. The Debentures will be secured by way of a security interest to be granted by the Debenture Issuer in favour of the Debentureholders pursuant to the Debentureholders Agreement. The Debenture Issuer will not be independently liable for the payment of interest or the repayment of principal under the Debentures, and no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan. (Refer to “Description of the Securities Distributed – Terms – Debentures” at page 21 herein for further particulars of the terms of the Debentures.)

## 9. PRIOR SALES

The following table summarizes information about the issuance of interests in and securities of the Limited Partnership, General Partner and Debenture Issuer during the last 12 months:

| Entity              | Date of issuance  | Type of security issued            | Number of securities issued | Price per security | Gross Proceeds |
|---------------------|-------------------|------------------------------------|-----------------------------|--------------------|----------------|
| Limited Partnership | December 21, 2001 | General Partner’s Interest         | 1                           | \$10               | \$10           |
| Limited Partnership | December 21, 2001 | Initial Limited Partner’s Interest | 1                           | \$10               | \$10           |
| General Partner     | Not applicable    | Not applicable                     | 0                           | Not applicable     | Not applicable |
| Debenture Issuer    | March 4, 2003     | Common Share(s)                    | 1                           | \$1                | \$1            |
|                     | November 27, 2003 | Common Share(s)                    | 99                          | \$1                | \$99           |
|                     |                   |                                    |                             |                    |                |

## 10. PRINCIPAL SHAREHOLDERS

### *Limited Partnership*

As of the date of this Prospectus, the following are the persons who have direct or indirect beneficial ownership of, control or direction over, or a combination thereof of, partnership units which constitute more than 10% of the outstanding partnership units of the Limited Partnership:

| Name and Municipality of Residence                                       | Class                              | Ownership | Number of Securities | Percentage of Class Prior to the Offering | Percentage of Class After the Offering |
|--|------------------------------------|-----------|----------------------|---|--|
| Sunstone Realty Advisors (Canada) Inc. <sup>(1)</sup><br>Vancouver, B.C. | General Partner's Interest         | Direct    | 1                    | 100%                                      | 100%                                   |
| SRA First Partner Ltd. <sup>(2)</sup><br>Vancouver, B.C.                 | Initial Limited Partner's Interest | Direct    | 1                    | 100%                                      | 100%                                   |

<sup>(1)</sup> The shares of Sunstone Realty Advisors (Canada) Inc. are owned by Triple E Ventures Inc. and Darren Developments Inc., as to 50% each. Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc., and Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.

<sup>(2)</sup> The shares of SRA First Partner Ltd. are owned by Triple E Ventures Inc. and Darren Developments Inc., as to 50% each. Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc., and Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.

### ***Debenture Issuer***

As of the date of this Prospectus, the following are the persons who have direct or indirect beneficial ownership of, control or direction over, or a combination thereof of, common shares which constitute more than 10% of the issued and outstanding common shares of the Debenture Issuer:

| Name and Municipality of Residence            | Class  | Ownership | Number of Securities | Percentage of Class Prior to the Offering | Percentage of Class After the Offering |
|---|--------|-----------|----------------------|---|--|
| Knightswood <sup>(1)</sup><br>Vancouver, B.C. | Common | Direct    | 51                   | 51%                                       | 51%                                    |
| SRAI <sup>(2)</sup><br>Vancouver, B.C.        | Common | Direct    | 49                   | 49%                                       | 49%                                    |
| <b>TOTAL</b>                                  | --     | --        | <b>100</b>           | <b>100%</b>                               | <b>100%</b>                            |

<sup>(1)</sup> The shares of Knightswood are listed on the TSX Venture Exchange. According to the most recent information circular filed by Knightswood in connection with the annual general meeting of its shareholders held on June 10, 2003, to the knowledge of the directors and officers of Knightswood, the following persons beneficially own, directly or indirectly, more than 10% of the issued and outstanding shares of Knightswood:

| Name of Beneficial Shareholder                       | No. of Common Shares | Percentage of 1,161,667 Common Shares Outstanding as at April 30, 2003 |
|--|----------------------|--|
| Liza V. Lanzet and Stanley Lanzet<br>(joint tenants) | 191,947              | 16.52%   |
| Liza V. Lanzet                                       | 183,936              | 15.83%   |

- (2) The shares of SRAI are owned by Triple E Ventures Inc. and Darren Developments Inc., as to 50% each. Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc., and Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.

### ***The General Partner***

As of the date of this Prospectus, the following are the persons who have direct or indirect beneficial ownership of, control or direction over, or a combination thereof of, common shares which constitute more than 10% of the issued and outstanding common shares of the General Partner:

| <b>Name and Municipality of Residence</b> | <b>Class</b> | <b>Ownership</b>        | <b>Number of Securities</b> | <b>Percentage of Class Prior to the Offering</b> | <b>Percentage of Class After the Offering</b> |
|---|--------------|-------------------------|-----------------------------|--|---|
| Steve Evans<br>North Vancouver, BC        | Common       | Indirect <sup>(1)</sup> | 500                         | 50%  | 50%   |
| Darren Latoski<br>Vancouver, BC           | Common       | Indirect <sup>(2)</sup> | 500                         | 50%  | 50%   |
| <b>TOTAL</b>                              | --           | --                      | <b>1,000</b>                | <b>100%</b>                                      | <b>100%</b>                                   |

- (1) These shares are owned by Triple E Ventures Inc., of which Mr. Evans is the sole director, officer and shareholder.

- (2) These shares are owned by Darren Developments Inc., of which Mr. Latoski is the sole, director, officer and shareholder.

## **11. DIRECTORS AND OFFICERS**

### **11.1 Name, Address, Occupation and Security Holding**

#### ***The General Partner***

The following are the names, ages and municipalities of residence of the directors and executive officers of the General Partner, their respective offices with the General Partner, their principal occupations during the past five (5) years and the number, class and kind of securities of the General Partner held by each of them.

| Name, Age, Municipality of Residence and Position Held With General Partner | Principal Occupation  | Periods Served as a Director                                | Securities of the General Partner Beneficially Owned or Directly or Indirectly Controlled | Percentage of Class Outstanding | Percentage of Class Outstanding After Giving Effect to this Offering |
|---|---|---|---|---------------------------------|--|
| Darren Latoski<br>Age 34<br>Vancouver, BC<br>President and Director         | Director and President of Sunstone Realty Advisors Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren Developments Inc., a personal holding, investment, development and management company from September 1989 to present; Vice President of Macluan Capital Corporation from December 1997 to February 2001.                        | President since November 2003; Director since November 2001 | 500 common shares <sup>(1)</sup>  | 50%                             | 50%  |
| Steve Evans<br>Age 39<br>North Vancouver, BC<br>Secretary and Director      | Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Churchill Property Group Inc., from January 2002 to present; President of Triple E Ventures Inc., a personal holding and investment company from June 1997 to present; Vice President of England Securities Ltd., a real estate investment, development and management company from June 1987 to September 2001. | Secretary and Director since November 2001                  | 500 common shares <sup>(2)</sup>  | 50%                             | 50%  |

(1) These shares are owned by Darren Developments Inc., of which Mr. Latoski is the sole director, officer and shareholder.

(2) These shares are owned by Triple E Ventures Inc., of which Mr. Evans is the sole director, officer and shareholder.

As disclosed below, the principals of SRAI, Messrs. Evans and Latoski, have a wide range of experience in the real estate business, including a history of identifying real estate investment opportunities that are not being operated to their full potential, either as a result of inefficient management or the need for asset refurbishment. To date, all of the projects in which either of Mr. Evans or Mr. Latoski has been involved as a principal have provided investors with a positive return on their investments.

Messrs. Evans and Latoski are two of the three founders of Churchill Property Group Inc. (“CPGI”), and indirectly collectively own  $66\frac{2}{3}\%$  of the outstanding shares of CPGI. CPGI organized Churchill Institutional Real Estate Limited Partnership (“CIRE LP”) which raised total cash proceeds from its joint offering with CPG Capital Corp., of \$14,967,500. CIRE LP acquired and currently owns Parkway Mall and a 50% interest in Queensway Business Park, both of which are located in Toronto, Ontario.

CIRE LP acquired Parkway Mall on January 22, 2003 for an effective purchase price of \$30,000,000 (before acquisition costs). Parkway Mall is a 280,000 square feet enclosed mall situated in a predominantly residential neighbourhood with a mix of single and multi-family homes. It serves as its neighbourhood’s main centre for shopping and medical, dental and professional services. A significant percentage of Parkway Mall’s revenue is derived from major tenants with strong financial covenants, including Dominion Food Stores, Liquor Control Board of Ontario, Shoppers Drug Mart, Zeller’s, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, TD Canada Trust, a regional library, McDonald’s Restaurant, Kentucky Fried Chicken, Payless Shoes and Home Hardware. In addition, there are 116 other stores and services.

As two of the three principals of CPGI, Messrs. Evans and Latoski were instrumental in the identification of Parkway Mall as an opportunity to add value to the property through strategic management, upgrades to the property and certain re-leasing.

CIRE LP acquired an undivided 50% interest in Queensway Business Park on October 8, 2003 for an effective purchase price of \$11,500,000 (before acquisition costs). Queensway Business Park is located within close proximity to Toronto’s downtown core and the Lester B. Pearson International Airport. Queensway is an unenclosed business park consisting of 10 industrial/office buildings totalling 334,200 square feet of gross building area and 332,594 of net leasable area. The overall site is 20.73 acres. The property is leased to a diverse number of tenants with staggered lease expiries.

As two of the three principals of CPGI, Messrs. Evans and Latoski were instrumental in the identification of Queensway Business Park as a stable income producing property with the opportunity to increase revenues through pro-active lease management and a small redevelopment.

Messrs. Evans and Latoski also indirectly own an interest in, and participate in the management of, the Christina Place / Ocean View Retirement Community in White Rock, British Columbia. This property is comprised of a 72 unit intermediate care facility and an 85 suite independent living retirement community, and was acquired in April, 2002 for \$18,150,000 (including all offering and acquisition costs and a capital reserve for refurbishing the property). A total of \$4,700,850 in cash proceeds was raised by way of an Offering Memorandum for this purchase. The property is held through CIPC (Ocean View) Limited Partnership, a British Columbia limited partnership which was established for the purposes of financing the acquisition of and owning this property.

**Darren Latoski** - As President and the indirect owner of one-third of the shares in CPGI, Mr. Latoski participated in the negotiation and acquisition of the property interests totalling \$41,500,000 detailed above. He continues his active role in the management of the business of CPGI, with a focus on enhancing the value of CIRE LP's assets.

Mr. Latoski was also involved as a principal in the Cambridge Grand, a 169 unit apartment condominium project located in Cambridge, Ontario. This property was acquired in 2000 at a purchase price of \$12,500,000 and was subsequently refurbished and resold to individual owners for total resale proceeds of \$16,965,000 over an 18 month period.

Between 1990 and 1997, Mr. Latoski was involved as a principal of a group of private companies in connection with the identification, refurbishment and sale of fifteen condominium projects located in British Columbia and Alberta, representing 2,073 residential units, for total gross sale proceeds of \$199,500,000, and the refurbishment and sale of a 41-unit rental building located in the State of Washington, for gross sale proceeds of US\$8,400,000. These projects ranged in size from 19 suites and \$1.5 million in value to 302 suites and \$28 million in value. Mr. Latoski was integrally involved in the due diligence leading to the placement of these projects under contract, including three projects that were at the turn-key construction project stage of development and in planning and implementing the marketing and sales of the finished condominium units or, in the case of the rental building located in Washington, the entire building. During this period, Mr. Latoski identified assets which were undervalued in relation to their best use as condominiums and worked as a principal to realize their full value.

**Steve Evans** – As Managing Director and the indirect owner of one-third of the shares in CPGI, Mr. Evans participated in the negotiation and acquisition of the property interests totalling \$41,500,000 detailed above. He continues his active role in the management of the business of CPGI, with a focus on enhancing the value of CIRE LP's assets.

Prior to participating in the formation of CPGI, Mr. Evans was Vice President of England Securities Ltd., a real estate investment, development and management company, from June 1987 to September 2001. In his capacity as Vice President, Mr. Evans actively participated in the negotiation, acquisition and management by England Securities Ltd. of a number of real estate assets totaling 4,500 residential units with an aggregate value in excess of \$280,000,000. Mr. Evans' experience in this regard encompassed assets in the following markets: Dallas, Texas (ten projects); Houston, Texas (three projects); Palm Desert, California (one project – converted to condominiums); Toronto and surrounding area (eight projects); Calgary, Alberta (one project); Vancouver and surrounding area (three projects). In addition to these initial acquisitions, Mr. Evans also participated in the successful mortgage refinancing of 19 projects in order to re-capitalize various limited partnerships totaling in excess of \$200,000,000.

**Limited Partnership**

The Limited Partnership is managed by the General Partner and does not have a board of directors or any officers.

**Debenture Issuer**

The following are the names, ages and municipalities of residence of the directors and executive officers of the Debenture Issuer, their respective offices with the Debenture Issuer, their principal occupations during the past five (5) years and the number, class and kind of securities of the Debenture Issuer held by each of them.

| <b>Name, Age, Municipality of Residence and Position Held With Debenture Issuer</b> | <b>Principal Occupation</b>   | <b>Periods Served as a Director</b>        | <b>Securities of the Debenture Issuer Beneficially Owned or Directly or Indirectly Controlled</b> | <b>Percentage of Class Outstanding</b> | <b>Percentage of Class Outstanding After Giving Effect to this Offering</b> |
|---|---|--|---|--|---|
| Steve Evans<br>Age 39<br>North Vancouver, BC<br>President and Director              | Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Churchill Property Group Inc., from January 2002 to present; President of Triple E Ventures Inc., a personal holding and investment company from June 1997 to present; Vice President of England Securities Ltd., a real estate investment, development and management company from June 1987 to September 2001. | President and Director since November 2003 | See note (1) below  | See note (1) below                     | See note (1) below  |
| Darren Latoski<br>Age 34<br>Vancouver, BC<br>Secretary and Director                 | Director and President of Sunstone Realty Advisors Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren Developments Inc., a personal holding, investment, development and management company from September 1989 to present; Vice President of Macluan Capital Corporation from December 1997 to February 2001.                        | Secretary and Director since November 2003 | See note (1) below  | See note (1) below                     | See note (1) below  |

<sup>(1)</sup> SRAI owns 49 common shares of the Debenture Issuer. The shares of SRAI are owned by Triple E Ventures Inc., and Darren Developments Inc., as to 50% each.

**Steve Evans** – For a brief description of Mr. Evans’ background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 27.

**Darren Latoski** – For a brief description of Mr. Latoski’s background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 27.

## **11.2 Potential Conflicts of Interest (Directors and Officers)**

The General Partner is beneficially owned by Steve Evans and Darren Latoski. The General Partner will be receiving various fees and payments from the Limited Partnership in respect of the acquisition and disposition of Properties, will be participating in the profits of the Limited Partnership, and is entitled to be allocated, to the extent earned, the Incentive Management Interest. All such fees will be paid to the General Partner for its own account and the General Partner will not have any obligation to account to the Limited Partnership or any Limited Partner for any such amounts.

The Limited Partnership will be obligated to pay interest and to repay principal to the Debenture Issuer under the Debenture Issuer Loan. The Debenture Issuer Loan bears interest at the annual rate of 9.9%, payable quarterly in arrears, commencing July 15, 2004. In addition, the Limited Partnership will pay to the Debenture Issuer:

- (a) an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected in the aggregate, over the term of the Debenture Issuer Loan, to equal the total Agent’s commissions and fees and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures; and
- (b) an ongoing loan fee, payable quarterly in arrears on the last day of each calendar quarter, commencing March 30, 2004, equal to one-quarter of 0.5% of the outstanding principal amount of Debentures at the beginning of each such calendar quarter.

Steve Evans and Darren Latoski are the sole officers and directors of the Debenture Issuer, and indirectly collectively own 49% of the issued and outstanding common shares of the Debenture Issuer through SRAI. All of the issued and outstanding common shares of SRAI are owned by Triple E Ventures Inc., and Darren Developments Inc., as to 50% each. Mr. Evans is the sole director, officer and shareholder of Triple E Ventures Inc. and Mr. Latoski is the sole director, officer and shareholder of Darren Developments Inc.

None of the General Partner, Steve Evans and Darren Latoski are in any way limited or affected in their ability to carry on other business ventures for their own accounts and for the accounts of others, and are now, and intend in the future to be, engaged in the development of, investment in and management of other real estate properties. None of these persons will have any obligation to account to the Limited Partnership, the Limited Partners, the Debenture Issuer or the Debentureholders for profits made in such other activities.

## **12. EXECUTIVE COMPENSATION**

### **12.1 Compensation**

#### *Limited Partnership*

The Limited Partnership does not have any executive officers.

#### *General Partner*

During the financial year ended December 31, 2002, no compensation was paid by the General Partner to any of the following executive officers: Darren Latoski, President; and Steve Evans, Secretary.

### **12.2 Management Agreements**

Under the General Partner Services Agreement, the General Partner has agreed to provide the following services to the Limited Partnership, for which it will be paid the fees set out below:

- (a) structure the Limited Partnership and this Offering, structure the ownership of each of the Properties, arrange for the Mortgage Loans in respect of the Properties, and arrange for the provision of any guarantees required in connection with the Mortgage Loans, for which the General Partner will be paid the Financing Fee, in an amount equal to 1.5% of the gross purchase price of each Property (or interest in a Property), plus GST if applicable. The Financing Fee will be paid to the General Partner upon the completion of the purchase of each such Property (or interest in a Property);
- (b) when necessary or advisable, negotiate and complete the sale of a Property on such terms and conditions and at such time as the General Partner may determine, for which the General Partner will be paid a fee upon disposition of each Property equal to 1.5% of the gross sales price of the Property, plus GST if applicable. The fee payable on the sale of any proportionate interest in a Property held by the Limited Partnership will be proportionate to such interest in the Property;
- (c) oversee and supervise property management of the Properties, establish appropriate legal and accounting systems for the Limited Partnership, report to the Limited Partners on an ongoing basis, liaise with the Lenders of the Mortgage Loans, and provide overall management, financial and business planning, in respect of which the General Partner will be paid an asset management fee (payable quarterly in arrears) equal to 1.5% of the Net Asset Value, plus GST if applicable; and
- (d) oversee the preparation of this Prospectus, the offering and sale of Units, and the completion of all matters related to the closing of subscriptions. In addition, the General Partner will be entitled to be reimbursed for any deposits paid and for all out-of-pocket expenses incurred by the General Partner in completing any of the above duties, both in respect of the purchase of a Property or the ongoing ownership, operation and management of a Property.

The Debenture Issuer has entered into a Capital Agreement with Knightswood pursuant to which the Debenture Issuer will pay to Knightswood a quarterly fee of \$6,250. Such fee is subject to adjustment as follows: (i) if the aggregate principal amount of the Debentures issued by the Debenture Issuer is less than \$5,000,000, the quarterly fee will be reduced to \$5,000; and (ii) if the aggregate principal amount of

the Debentures issued by the Debenture Issuer is greater than \$10 million, the quarterly fee will be increased to \$7,500.

The Debenture Issuer has entered into an Administration Agreement with Trilogy Bancorp Ltd., an affiliate of Knightswood, pursuant to which Trilogy Bancorp Ltd. will provide general office, administrative and management services to the Debenture Issuer, in consideration of which the Debenture Issuer has agreed to pay to Trilogy Bancorp Ltd. a structuring and due diligence fee of \$3,000, as well as a quarterly administration fee of \$2,000.

### **12.3 Long-Term Incentive Plans - Awards**

None of the Limited Partnership, the Debenture Issuer nor the General Partner has a long-term incentive plan and has made no awards under any such plan in the period from the date of formation of each of the Limited Partnership, the Debenture Issuer or the General Partner to the date of this Prospectus.

### **12.4 Option/SAR Grants**

None of the Limited Partnership, the Debenture Issuer nor the General Partner has issued or intends to issue options to purchase securities.

### **12.5 Compensation Committee**

None of the Limited Partnership, the Debenture Issuer nor the General Partner has a compensation committee.

## **13. PLAN OF DISTRIBUTION**

### **13.1 Maximum Offering**

SRAI will co-ordinate through the Agent, by this Prospectus, the offer to sell to the public in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, on a continuing basis, up to a maximum of 1,600 Units at a price of \$12,500 per Unit until October 29, 2004. Each Unit consists of one LP Unit having a price of \$2,500 and one Debenture at a price of \$10,000 per Debenture.

### **13.2 Minimum Offering**

**There will be no closing unless a minimum of 200 Units are sold pursuant to this Offering. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agent, in trust; if the minimum number of Units are not sold during the 90-day period, these funds will be returned to the subscribers unless the subscribers have otherwise instructed the Agent.**

### **13.3 Agency Agreement**

Pursuant to an Agency Agreement made as of December 1, 2003 between the Limited Partnership, the Debenture Issuer, the General Partner, SRAI and the Agent, the Agent has agreed to offer the Units for sale on a "best efforts" basis until October 29, 2004, in consideration of a fee equal to 8% of the purchase price of the LP Units and the Debentures. In addition, in consideration of the advisory services provided

to the Issuers by the Agent under the Agency Agreement, the Agent is entitled to receive an advisory fee of \$25,000.

The Agent reserves the right to offer selling group participation, in the normal course of the brokerage business, to selling groups of other licensed dealers, brokers and investment dealers (“sub-agents”), who may or may not be offered part of the commissions to be received by the Agent pursuant to the Agency Agreement.

As a further incentive to the Agent or sub-agents, the General Partner may assign up to 25% of its Incentive Management Interest to the Agent, who in turn may assign all or part of such interest to sub-agents effecting sales of Units, such assignment to be made on a basis determined by the General Partner.

As well, the General Partner has agreed to pay to the Agent, on a quarterly basis, a trailer fee equal to 1/6<sup>th</sup> of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. The Agent may assign all or part of the trailer fee to sub-agents effecting sales of Units.

The Issuers, the General Partner and SRAI have also agreed to bear all expenses of or incidental to the issue, sale and delivery of the Units, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agent and the reasonable out-of-pocket expenses (including applicable taxes) of the Agent.

The obligations of the Agent under the Agency Agreement may be terminated at any time at the Agent’s discretion on the basis of its assessment of the state of the financial markets and may also be terminated at any time on the occurrence of certain stated events.

The Issuers have granted the Agent a right of first refusal to provide future equity financing to the Issuers for a period of 12 months from the final closing date of the sale of the Units.

Currently, the Agent does not beneficially own, directly or indirectly, any securities of the Issuers.

Other than as disclosed in this section, there are no payments in cash, securities or other consideration being made, or to be made, to a promoter, finder, or any other person or company in connection with this Offering.

Registration and transfers of Units, and of the underlying LP Units and Debentures, will be effected only through the book entry only system administered by The Canadian Depository for Securities Limited (“CDS”). A book entry only certificate representing the Units will be issued in registered form only to CDS or its nominee, and will be deposited with CDS on the closing of the Offering. Immediately thereafter, the book entry only certificate representing the Units will be replaced by book entry only certificates representing the underlying LP Units and Debentures. The book entry only certificates representing the underlying LP Units and Debentures will also be issued in registered form only to CDS or its nominee, and will be deposited with CDS. A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. Beneficial owners of Units, and of the underlying LP Units and Debentures, will not have the right to receive physical certificates evidencing their ownership of such securities.

#### **14. RISK FACTORS**

The purchase of securities hereunder involves a number of risk factors. The risks described below are not the only risks involved with an investment in the Units. If any of the following risks occur, or if others

occur, the Limited Partnership's business, operating results and financial condition could be seriously harmed and Purchasers may lose all of their investment. In addition to the risk factors set forth elsewhere in this Prospectus, prospective purchasers should consider the following risks associated with a purchase of such securities:

*This is a Blind Pool Offering; Reliance on General Partner and its Management* – Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been determined. In any event, if the maximum Offering of 1,600 Units is sold, the General Partner expects to cause the Limited Partnership to apply approximately \$18,100,000 (i.e. approximately 90.5% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner upon the closing of any Property acquisitions), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 200 Units is sold, the General Partner intends to cause the Limited Partnership to apply approximately \$2,148,000 (i.e. approximately 85.9% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), and to the creation of working capital reserves and reserves for renovations and upgrades. Depending on the return on investment achieved on any Properties that may be acquired by the Limited Partnership, the Limited Partners' return on their respective investments in the Units will vary.

Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the General Partner and its principals, Darren Latoski and Steve Evans. In particular, prospective purchasers will have to rely on the discretion and ability of the General Partner and its principals in determining the composition of the portfolio of Properties, and in negotiating the pricing and other terms of the agreements leading to the acquisition of Properties. The ability of the General Partner to successfully implement the Limited Partnership's business strategy will depend in large part on the continued employment of Messrs. Latoski and Evans. Neither the General Partner nor the Limited Partnership maintains key person life insurance for any of these named individuals. If the General Partner loses the services of one or more of these individuals, the business, financial condition and results of operations of the Limited Partnership may be materially adversely affected.

*No Market for Units* – There currently is no market whatsoever for the Units, or for the underlying LP Units and Debentures, and it is expected that there will be no market for the Units, the LP Units or the Debentures. Consequently, holders of such securities may not be able to sell them readily, and Units, LP Units and Debentures may not be readily accepted as collateral for a loan. Purchasers should be prepared to hold these securities indefinitely and cannot expect to be able to liquidate their investment even in the case of an emergency. Accordingly, an investment in Units is suitable solely for persons able to make and bear the economic risk of a long-term investment.

*Less than Full Offering* – There can be no assurance that this Offering will be completely sold out. If less than all of the 1,600 Units are sold pursuant to this Offering, then less than the maximum proceeds will be available to the Limited Partnership and, consequently, its business development plans and prospects could be adversely affected, since fewer Properties will be purchased, owned and operated by the Limited Partnership.

*Risks of Real Estate Ownership* – Investment in real estate is subject to numerous risks, including the highly competitive nature of the real estate industry, changes in general or local conditions, failure of tenants to pay rent, changes in neighbourhood property values, interest rates, availability of mortgage funds, increases in real estate tax rates and other operating expenses, the possibility of competitive

overbuilding and of the inability to obtain full occupancy of the properties, governmental rules and fiscal policies, including rent control legislation, which limit potential rent increases, and other events and factors which are beyond the control of the Limited Partnership.

*Financing Risks* – There is no assurance that the Limited Partnership will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties, or, if available, that the Limited Partnership will be able to obtain Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Mortgage Loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the Limited Partnership is able to purchase will decrease and the projected return from the ownership of Properties will be reduced.

Even if the Limited Partnership is successful in obtaining adequate Mortgage Loans, the Limited Partnership may not be able to generate sufficient funds through the operation of the Properties to service the Mortgage Loans. If a default occurs under any of the Mortgage Loans, one or more of the Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.

*Potential Liability under Environmental Protection Legislation* – Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, the Limited Partnership could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the Properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect the Limited Partnership's ability to sell such Property or to borrow using the Property as collateral, and could potentially also result in claims against the Limited Partnership by private parties.

*Uninsured Losses* – The General Partner will arrange for comprehensive insurance, including fire, liability and extended coverage, of the type and in the amounts customarily obtained for properties similar to those to be owned by the Limited Partnership and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses (generally of a catastrophic nature) are either uninsurable or not economically insurable. Should such a disaster occur with respect to any of the Properties, the Limited Partnership could suffer a loss of capital invested and not realize any profits which might be anticipated from the disposition of such Properties.

*Limited Liability* – The limited liability of a Limited Partner may be lost if a Limited Partner takes part in the management of the business of the Limited Partnership or through non-compliance with the *Partnership Act* (British Columbia).

*Limited Redemption Rights* – If by any Notice Date the Issuers have received notices requiring the Issuers to redeem a number of Units in excess of 5% of the total number of Units issued by the Issuers, or if on a Redemption Date the General Partner and the directors of the Debenture Issuer determine that funds are not available to the Limited Partnership and the Debenture Issuer, respectively, to redeem the number of Units in respect of which a request for redemption has been made, then the redemption of Units will be made *pro rata* to the number of Units in respect of which requests for redemption have been made. The number of Units redeemed will be limited to the lesser of 5% of the total number of Units issued by the Issuers and that number of Units for which the General Partner and the directors of the Debenture Issuer determine that funds are available. Therefore, there can be no assurance that Investors will be able to redeem any or all of their Units when they wish to do so. (Refer to “Description of the Securities Distributed – Terms – Limited Redemption Rights” at page 22 herein for further particulars.)

*Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Mortgage Loans or to fund changes in the variable rates of interest charged in respect of such loans.

*Tax Matters* – The tax treatment of real estate activities and of the Limited Partnership has a material effect on the advisability of an investment in the Units. (Refer to “Experts – Income Tax Consequences” on page 40 herein). Under an agreement between SRAI and Knightswood dated December 1, 2003: (i) Knightswood has the option, exercisable at any time, to require SRAI or a third party purchaser nominated by SRAI, to acquire from Knightswood all of the shares in the capital of the Debenture Issuer owned by Knightswood at an aggregate purchase price of \$51, and (ii) SRAI has the option, exercisable in certain circumstances in which it would be prejudicial to the Debenture Issuer’s interests to remain as a subsidiary of Knightswood, to require Knightswood to sell to SRAI or a third party nominated by SRAI all of the shares in the capital of the Debenture Issuer owned by Knightswood for an aggregate purchase price of \$51. If either of these options is exercised, the Debentures will cease to be qualified investments for deferred income plans should the Debenture Issuer no longer be controlled directly or indirectly by a corporation whose shares are listed on a prescribed stock exchange in Canada.

*Net Worth of the General Partner* – The General Partner, which has unlimited liability for the obligations of the Limited Partnership, has no material net worth. Therefore, if the Limited Partnership is not able to generate sufficient funds through the operation of the Properties to meet its obligations, the General Partner will be exposed to bankruptcy or insolvency. Bankruptcy or insolvency will impair or remove entirely the ability of the General Partner to: (i) successfully implement the Limited Partnership’s business strategy; (ii) carry out a restructuring of the business and affairs of the Limited Partnership if required, or (iii) satisfy certain limited obligations of the General Partner to the Limited Partnership.

*Additional Contributions* – The Limited Partnership Agreement provides that the General Partner may, if authorized by special resolution of the Limited Partners, request that additional capital contributions be made by Limited Partners.

*Reliance on Property Management* – The General Partner will not have the management personnel to manage the Properties, but will rely upon independent management companies to perform this function. The employees of the management companies will devote so much of their time to the management of the Properties as in their judgment is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Properties and their other development, investment and/or management activities.

*No Independent Liability to Repay Debentures* – The Debenture Issuer will not be independently liable for the payment of interest or the repayment of the Debentures and no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.

**For all of the aforesaid reasons and others set forth herein, the Units involve a certain degree of risk. Any person considering the purchase of Units should be aware of these and other factors set forth in this Prospectus and should consult with his or her legal, tax and financial advisors prior to making an investment in the Units. The Units should only be purchased by persons who can afford to lose all of their total investment.**

## 15. PROMOTER

SRAI may be considered to be the promoter of the Issuers by reason of its initiative in organizing the respective businesses of the Issuers and taking the steps necessary for the public distribution of the Units. SRAI owns 49 (49%) of the 100 issued and outstanding common shares in the capital of the Debenture Issuer. SRAI will not receive any other direct or indirect benefit from the Issuers.

## 16. LEGAL PROCEEDINGS

There are no outstanding legal proceedings to which the Limited Partnership, the Debenture Issuer or the General Partner is a party, nor are any such proceedings known to be contemplated.

## 17. AUDITORS

The auditors of the Limited Partnership, the Debenture Issuer and the General Partner are Davidson & Company, 1200 – 609 Granville Street, Vancouver, British Columbia V7Y 1G6.

## 18. REGISTRAR AND TRANSFER AGENT

Pursuant to the Limited Partnership Agreement, the General Partner acts as the registrar and transfer agent for the Limited Partnership. Pursuant to the Debentureholders Agreement, the Debenture Issuer acts as the registrar and transfer agent for the Debentures.

Registration and transfers of Units will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited (“CDS”). A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. See “Plan of Distribution” on page 34 herein.

## 19. MATERIAL CONTRACTS

### 19.1 Particulars of Material Contracts

The following are the only material agreements, other than contracts entered into in the ordinary course of business, which one or both of the Issuers have entered into during the last two years, and the material agreements to which Purchasers will be required to become a party. **Copies of these agreements are available for inspection during regular business hours at the offices of the General Partner, located at 600 – 1040 West Georgia Street, Vancouver, British Columbia V6E 4H1.**

1. ***Limited Partnership Agreement*** – described in “Description of the Securities Distributed – Terms – Limited Partnership Units” on page 18 herein and attached as Schedule A hereto.
2. ***Debentureholders Agreement*** - described in “Description of the Securities Distributed – Terms – Debentures” on page 21 herein.
3. ***Debenture Issuer Loan Agreement*** – described in “Description of the Businesses of the Issuers – Debenture Issuer Loan” on page 6 herein.
4. ***General Security Agreement executed by the Limited Partnership in favour of the Debenture Issuer*** – described in “Description of the Businesses of the Issuers – Debenture Issuer Loan” on page 6 herein.

5. **General Partner Services Agreement** – described in “Use of Proceeds” on page 10 herein and in “Executive Compensation – Management Agreements” on page 33 herein.
6. **Agency Agreement** – described in “Plan of Distribution – Agency Agreement” on page 34 herein.
7. **Administration Agreement between the Debenture Issuer and Trilogy Bancorp Ltd.** – described in “Executive Compensation - Management Agreements” on page 33 herein.
8. **Capital Agreement between SRAI and Knightswood** – described in “Executive Compensation - Management Agreements” on page 33 herein.
9. **Option Agreement between SRAI and Knightswood** – described in “Description of the Businesses of the Issuers – Business of the Debenture Issuer” on page 5 herein.

## 19.2 Inspection of Contracts and Reports

There are no material contracts except as disclosed in this Prospectus or entered into in the ordinary course of the Issuers’ or General Partner’s business, all of which may be inspected at the registered office of the Limited Partnership, 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1, during normal business hours while the Offering under this Prospectus is in progress, and for a period of thirty days thereafter.

## 20. EXPERTS

No professional person providing an opinion in this Prospectus expects to be elected, appointed or employed as a director, senior officer or employee of the Issuers or the General Partner or of an associate of the Issuers or the General Partner, or is a promoter of the Issuers or the General Partner or of any associate of the Issuers or the General Partner.

As of December 2, 2003, the partners of Davidson & Company, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

As of December 2, 2003, the partners of Ernst & Young LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

### 20.1 Income Tax Consequences

**You should consult your own professional advisors to obtain advice on the tax consequences that apply to you.**

The following summary has been prepared by Ernst & Young LLP and is in their view a fair and adequate summary of the principal Canadian federal income tax consequences of investing in Units to a Purchaser who is resident in Canada. The income tax consequences will not be the same for all Purchasers but will vary depending on a number of factors, including the province in which the Purchaser resides or carries on business, whether the Units acquired by the Purchaser will be characterized as capital property, whether the Purchaser is an individual, trust or corporation, the nature and amount of the Purchaser’s income from other sources and whether the Debentures are purchased by the Purchaser’s Registered Retirement Savings Plan (“RRSP”). The following discussion of the income tax consequences of an investment in Units is, therefore, of a general nature only, is not intended to constitute an exhaustive

analysis of those income tax consequences and should not be interpreted as legal or tax advice to any particular Purchaser.

**Each prospective Purchaser should obtain independent tax advice as to both the federal and provincial income tax consequences of an investment in Units.**

This summary is based upon Ernst & Young LLP's understanding of the current provisions of the Tax Act, the Regulations to the Tax Act (the "Regulations"), all specific amendments to the Tax Act proposed by the Minister of Finance prior to the date hereof, and the current administrative practices of the Canada Customs & Revenue Agency ("CCRA").

This summary outlines the Canadian federal income tax consequences of investing in Units to a Purchaser based on the following assumptions:

- (a) the Purchaser is an individual resident in Canada;
- (b) the Purchaser acquires Units pursuant to this Prospectus and holds the Units as capital property for the purpose of earning income from the Units;
- (c) all members of the Limited Partnership are residents of Canada;
- (d) the Limited Partnership holds its interest in the Properties as capital property;
- (e) the Units will not constitute "tax shelter investments" as defined by the Tax Act (see "Tax Shelter Rules" below); and
- (f) the Purchaser deals at arm's length with the Limited Partnership.

***Reasonable Expectation of Cumulative Profit***

On October 31, 2003 the Department of Finance announced proposed amendments to the Tax Act, which may impact on the ability of a Purchaser to deduct Limited Partnership losses and interest on funds borrowed to acquire Units in 2005 and subsequent years. Under the proposed amendments, a Purchaser will be able to deduct a loss from Units, including interest paid on funds borrowed to acquire those units, only if it is reasonable to expect that the Purchaser will realize a cumulative profit from the Units. If a loss is denied by virtue of these proposed rules, there is no provision to claim the loss in a future year. These proposed amendments have been released for public comment and there is no assurance that they will be adopted as proposed. The issue of whether a Purchaser has a reasonable expectation of cumulative profit will be a question of fact.

***Eligibility for Investment by Deferred Income Plans***

The LP Units are not qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, registered education savings plans or deferred profit sharing plans.

The Debentures issued by the Debenture Issuer will be qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans provided that, at all times, the Debenture Issuer is controlled directly or indirectly by a corporation whose shares are listed on a prescribed stock exchange in Canada. The Debentures will not constitute foreign property provided that the value of the shares of the Debenture Issuer is not derived primarily from foreign property. The Debenture Issuer Loan, which is expected to

be the only asset of the Debenture Issuer, will not be foreign property provided that, at all times, all of the members of the Limited Partnership are Canadian residents.

### ***Computation of Partnership Income or Loss***

In the following discussion, references to income or loss mean income or loss determined for purposes of the Tax Act.

#### ***General***

The income or loss of the Limited Partnership will be computed as if the Limited Partnership was a separate person resident in Canada. However, the Limited Partnership is not subject to tax under the Tax Act. Rather, each Purchaser will be required to include, in computing his income for a taxation year, his share of Limited Partnership income for the Limited Partnership's fiscal period ending in that taxation year whether or not any cash or other property is distributed to the Purchaser on account of the income for that year. Subject to the "at-risk" rules (see "At-Risk Rules" below) and the "Reasonable Expectation of Cumulative Profit Rules", in computing his income for a taxation year, each Purchaser will also be entitled to deduct his share of any Limited Partnership loss from any income from other sources. To the extent that the share of such loss exceeds the Purchaser's other income for that year, the loss may be carried back three years and forward seven years to reduce the Purchaser's income in those years.

Where the Debentures are held by a Purchaser, the debenture interest receivable will be included in his taxable income annually.

#### ***Capital Cost Allowance***

In computing the income or loss of the Limited Partnership, deductions will be claimed in respect of "capital cost allowance" to the extent permitted under the Tax Act and the Regulations. Such deductions may not exceed the net income of the Limited Partnership from the operation of the Properties. Further, the deductions in respect of a Property will be restricted in the Limited Partnership's fiscal period in which the Property is acquired to one-half of the amount otherwise allowable. Subject to such restrictions, annual deductions will be allowed on a declining balance basis at the rates of 4% per annum on the "undepreciated capital cost" (generally, initial capital cost less prior capital cost allowance deductions) of each class of property, which includes the buildings and their component parts, 8% for the class of property, which includes sidewalks, roads and parking areas, 20% for the class of property, which includes the appliances and equipment, and 30% for the class of property, which includes computer equipment. No deduction may be claimed in respect of the cost of the land. Each building with a cost of \$50,000 or more will comprise a separate class of property.

For the purposes of determining the annual permitted deductions, the Limited Partnership will allocate the acquisition cost of the Property amongst the land, buildings, appliances and equipment, sidewalks and roads, and computer equipment. There is no assurance that the CCRA will agree with the allocation and any reallocation of the acquisition cost of a Property imposed by the CCRA may affect the capital cost allowance deductions claimable by the Limited Partnership.

#### ***Limited Partnership Expenses***

Certain expenses will be incurred by the Limited Partnership in respect of the Offering, refurbishment of Properties and the management and financing of the Properties.

- (i) Selling Commissions and Offering Costs

The Limited Partnership will pay 20%, and the Debenture Issuer will pay 80%, of the selling commissions and offering costs. Selling commissions and other offering costs incurred by the Limited Partnership in the course of the marketing and issuance of the Units will be deductible rateably over a five-year period, provided and to the extent that the amount of the commissions and other expenses is reasonable in the circumstances and that no portion of the amount can reasonably be allocated to the cost of the Properties or to the initial organization of the Limited Partnership. The undeducted balance of the commissions and offering costs which relate to the issue of the Units will be deductible directly by the Purchasers rateably over the remainder of the five-year amortization period if the Limited Partnership is dissolved or terminated prior to the end of the period. The reasonableness and allocation of the amount of the selling commissions and offering costs are questions of fact. There is no assurance that CCRA will agree to the reasonableness and allocation of the selling commission and offering costs.

(ii) Annual Loan Fees

The annual loan fees paid by the Limited Partnership to the Debenture Issuer will be deductible in each year by the Limited Partnership to the extent that the fees are reasonable in the circumstances and can reasonably be considered to relate solely to the particular year.

(iii) Asset Management Fee

The asset management fee payable by the Limited Partnership to the General Partner will be deductible in each year by the Limited Partnership provided and to the extent that the fee is reasonable in the circumstances and that no portion of the fee can reasonably be allocated to the cost of the Properties.

(iv) Refurbishments

Any amount paid by the Limited Partnership on account of refurbishments must be allocated on a reasonable basis among the items included in the refurbishments. Amounts allocated to landscaping and to repairs and maintenance will generally be deductible in the year the expenses are incurred provided that they are reasonable. Amounts, if any, allocated to the acquisition and installation of capital assets will generally be added to the undepreciated capital cost of the class of property to which the assets belong.

(v) Financing Fee

The Financing Fee payable by the Limited Partnership to the General Partner will be deductible by the Limited Partnership rateably over a five- year period, provided and to the extent that the amount of the fee is reasonable and that no portion of the amount can reasonably be regarded as interest nor allocated to the cost of the Properties. The reasonableness and allocation of the Financing Fee is a question of fact.

***Fiscal Period***

The fiscal period of the Limited Partnership will be the calendar year as adopted pursuant to the Limited Partnership Agreement. The Limited Partnership was formed prior to January 1, 2003 and therefore the

selling commissions and other issue expenses need not be pro-rated for its fiscal year ending December 31, 2003.

### ***Allocation of Income or Loss***

The Limited Partnership Agreement provides for the allocation of the income or loss of the Limited Partnership for any fiscal period. Generally, the income or loss of the Limited Partnership for a particular fiscal period will be allocated amongst the Purchasers who are partners at the end of that fiscal period according to their respective proportionate Income Shares, with adjustments for prior income, issue costs and certain other items where a Purchaser purchases an LP Unit during a fiscal year. Where a Purchaser assigns an LP Unit prior to the end of a fiscal period of the Limited Partnership, no portion of the income or loss of the Limited Partnership in respect of the LP Unit may be allocated to the withdrawing Purchaser. Rather, the portion of the income or loss of the Limited Partnership that would have been allocated in respect of the LP Unit to the withdrawing Purchaser will be allocated to his assignee that holds the LP Unit at the end of the Limited Partnership's fiscal period.

The profit or loss of the Limited Partnership for accounting purposes may differ from the income or loss for income tax purposes. For example, amortization rates under generally accepted accounting principles may differ from capital cost allowance rates prescribed by the Tax Act, and certain items which are capitalized for accounting purposes may be deducted for income tax purposes. For this reason, cash distributions to a Purchaser on account of his share of Limited Partnership profits may differ from income allocated to him for the purposes of the Tax Act.

Under the Tax Act, where the principal reason for the agreement to share income or loss in a certain manner may reasonably be considered to be the reduction or postponement of tax that might otherwise have been or become payable under the Tax Act, a Limited Partner's share of the income or loss of the Limited Partnership will be deemed to be the amount that is reasonable having regard to all the circumstances.

### ***At-Risk Rules***

The Tax Act contains "at-risk rules" which may, in certain circumstances, restrict the deduction of a Limited Partner's share of losses of the Limited Partnership to his "at-risk amount." A Limited Partner's at-risk amount will generally be the adjusted cost base of his LP Units immediately before the end of the Limited Partnership's fiscal period, plus his share of any Limited Partnership income for the fiscal period, less any amount owing by the Limited Partner to the Limited Partnership or to persons who do not deal at arm's length with the Limited Partnership and any amount or benefit granted to reduce the impact, in whole or in part, of any loss the Limited Partner may sustain by virtue of being a member of the Limited Partnership or of holding or disposing of LP Units. The effect, if any, that the at-risk rules will have on Limited Partner deductions will depend on the pricing, financing and results of operations of any Properties acquired in the future.

### ***Adjusted Cost Base of LP Units***

The cost to a Limited Partner of his LP Units, plus or minus adjustments required under the Tax Act, will be the adjusted cost base of the LP Units, against which a capital gain or capital loss is measured on a sale or other disposition of the LP Units. The adjustments required include additions to the adjusted cost base for income and capital gains allocated to a Limited Partner and reductions to the adjusted cost base for cash distributions received by, and for losses and capital losses allocated to, the Limited Partner. If, at the end of a fiscal period of the Limited Partnership, these reductions exceed the cost plus the additions to the adjusted cost base of a Limited Partner's LP Units, (hereafter referred to as a negative adjusted cost base),

the Limited Partner will realize an immediate capital gain to the extent of the excess. If LP Units are disposed of in mid-year, the amount by which the adjusted cost base is negative at the time the LP Units are disposed of by a Limited Partner is added in computing the capital gain on the disposition of the LP Units.

### ***Disposition of LP Units by Purchasers***

Generally, a Purchaser will realize a capital gain, or sustain a capital loss, equal to the amount by which the proceeds received or deemed to have been received on the disposition of an LP Unit exceed, or are exceeded by, the adjusted cost base of the LP Unit. The amount by which a Limited Partner's adjusted cost base is negative at the time of the disposition will be included in computing the Limited Partner's capital gain. Limited Partners will include one-half of a capital gain in computing taxable income as a "taxable capital gain." Similar proportions of a capital loss will be an "allowable capital loss" that may be used to offset taxable capital gains in the year that the capital loss is sustained. To the extent the allowable capital loss is not offset against taxable capital gains in that year, it may be carried back three years and forward indefinitely to offset taxable capital gains realized in those years.

### ***Disposition of the Properties***

On the sale or other disposition of all or some of the Properties by the Limited Partnership, the net proceeds (gross proceeds less costs of disposition including the Disposition Fee) must be allocated on a reasonable basis among the land, buildings, sidewalks and roads, appliances and equipment, and computer equipment. The lesser of the proceeds allocable to a particular class of property, and the original cost of the property is deducted from the undepreciated balance of the respective class. If the deduction causes the class to have a negative balance, that balance is included in the income of the Limited Partnership, resulting in a recapture of prior capital cost allowance claims. If, after the deduction, the class has a positive balance, and there are no assets of the class remaining, the balance can be deducted from the income of the Limited Partnership as a terminal loss. As long as the class has a positive balance and remaining assets, that balance will be used in computing future capital cost allowance claims.

A capital gain will be realized to the extent that the net proceeds allocated to the buildings, sidewalks and roads, appliances and equipment, and computer equipment exceed the capital cost of the property. A capital gain (or capital loss) will be realized to the extent that the net proceeds allocated to the land exceed (or are exceeded by) the adjusted cost base of the land.

If the allocation of proceeds on a disposition results in a terminal loss on a building and a capital gain on the related land, provisions in the Tax Act would reallocate sufficient proceeds to the building to eliminate the terminal loss.

### ***Alternative Minimum Tax***

The Tax Act imposes an alternative minimum tax that may require an individual to pay a minimum federal income tax of 16% (prior to any surtax) on "adjusted taxable income" in excess of \$40,000 if that amount exceeds the individual's federal tax otherwise payable for the taxation year. Adjusted taxable income is computed under specific rules that essentially disregard deductions for certain amounts that would otherwise be deductible in computing taxable income. To the extent that the alternative minimum tax of an individual exceeds income tax otherwise payable for a particular taxation year, the difference may be deducted in the seven taxation years following that taxation year from the excess of the individual's tax otherwise payable over the individual's alternative minimum tax for any such taxation year. A Purchaser's share of the Limited Partnership's losses and the Purchaser's carrying charges will

be added back in computing the adjusted taxable income of the Purchaser. Similarly, 60% of the non-taxable portion of any capital gain arising upon disposition by a Purchaser of LP Units (including a disposition arising from a negative adjusted cost base of the LP Units) must be included in computing adjusted taxable income which effectively results in 80% of any such capital gain being included in computing adjusted taxable income.

### ***Interest on Money Borrowed to Purchase Units***

A Purchaser will normally be entitled to deduct from any income from other sources, reasonable interest paid or payable (depending upon the method regularly followed by the Purchaser in computing his income) in respect of monies borrowed to acquire Units, subject to the conditions discussed above under the heading “Reasonable Expectation of Cumulative Profit.”

### ***Dissolution of the Limited Partnership***

Upon the dissolution or termination of the Limited Partnership, all property of the Limited Partnership that is distributed to the Limited Partners will be deemed to have been disposed of by the Limited Partnership at that time at its fair market value and acquired by the Limited Partners at a cost equal to the same amount. Each Limited Partner will also be deemed to have disposed of his LP Units at that time for proceeds of disposition equal to the amount of money plus the fair market value of other property, if any, received from the Limited Partnership in satisfaction of his LP Units.

### ***General Anti-Avoidance Rule (“GAAR”)***

Notwithstanding the specific provisions of the Tax Act discussed above, subsection 245(2) of the Tax Act provides that “where a transaction is an avoidance transaction, the tax consequences to a person shall be determined as is reasonable in the circumstances in order to deny a tax benefit that ... would result ... from the transaction or a series of transactions.” A transaction that results in a tax benefit will be an avoidance transaction unless it may reasonably be considered to have been undertaken for bona fide business purposes, other than to obtain the tax benefit. A transaction will not be considered an avoidance transaction where it may reasonably be considered that the transaction, or series of transactions, does not result in a misuse or abuse of the provisions of the Tax Act.

The term “tax benefit” means a “reduction, avoidance, or deferral of tax or other amount payable.” Even if a tax benefit were determined to be the primary purpose of the structure, it would then be necessary to determine whether the transaction could be considered an abuse or misuse of the provisions of the Tax Act.

There is no assurance that the CCRA will not attempt to apply GAAR to alter the tax consequences to the Limited Partnership of the acquisition and operation of the Properties or to a Purchaser of an investment in Units.

### ***Partnership Returns***

Each limited partner is required by the Tax Act to file a partnership return for each year with CCRA. However, this obligation is satisfied where any partner files the partnership return. The General Partner has undertaken to file the partnership return for each year.

### ***Tax Shelter Rules***

The Tax Act contains “tax shelter rules” that reduce the amount of any cost or expense in respect of a “tax shelter investment,” or any expenditure of a partnership an interest in which is a tax shelter investment by the amount of any “limited-recourse amount” and by the value of certain benefits to which the taxpayer may be entitled that reasonably relate to the expenditure.

A “tax shelter investment” includes a partnership interest where it can reasonably be considered, having regard to statements or representations made in connection with the partnership interest, that within four years after the day on which the interest is acquired, the losses and other amounts in respect of the partnership interest represented to be deductible in computing income will equal or exceed the cost of the partnership interest to the partner. The Tax Act provides for onerous penalties to a promoter and disallows deductions in respect of a tax shelter where tax shelter investments are sold before a tax shelter identification number is obtained. Accordingly, while the LP Units should not constitute “tax shelter investments,” the Promoter has nevertheless obtained a tax shelter identification number for the Limited Partnership. The tax shelter identification number is TS068965. The issuance of an identification number by CCRA does not in any way confirm that the Limited Partners will be entitled to the tax benefits described herein. The Regulations require that the following statement be included with this reference to the tax shelter identification number:

“The identification number issued for this tax shelter shall be included in any tax return filed by the Purchaser. Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of a Purchaser to claim any tax benefits associated with the tax shelter.”

If the LP Units constitute properties that are “tax shelter investments” as defined by the Tax Act, then the cost of the Properties would be reduced to the extent that the Mortgage Loans and any other funding of the acquisition cost of the Properties are considered to be “limited-recourse amounts,” or to the extent that the Limited Partnership has received an amount or benefit granted for the purpose of reducing the impact, in whole or in part, of any loss that the Limited Partnership may sustain in respect of the Properties. Any reduction in the cost of the Properties would result in reduced capital cost allowance deductions. In the case of a loan that is a “limited-recourse amount,” the cost of the Properties funded by the loan would be reinstated on the repayment of the loan (provided that the repayment is not funded by another “limited-recourse amount”).

A “limited-recourse amount” includes the unpaid principal amount of any indebtedness for which recourse is limited, including indebtedness of a partnership where recourse against any member of the partnership in respect of the indebtedness is limited. In addition, the unpaid principal of an indebtedness is deemed to be a limited-recourse amount unless written arrangements are made to repay the indebtedness and all interest on the indebtedness within 10 years, the interest is payable at least annually at a rate equal to or greater than the rate prescribed under the Regulations, and interest is paid no later than 60 days after the end of the debtor’s taxation year.

The administrative position of the CCRA is that mortgage financing with a term of 10 years or less and an amortization period of greater than 10 years will be deemed to be a limited-recourse amount. On the basis of this administrative position, the Mortgage Loans would be considered limited-recourse amounts and, if the LP Units were found to constitute tax shelter investments, the cost of the Properties would be reduced by the amount of the Mortgage Loans.

As the recourse against Limited Partners in respect of the Debenture Issuer Loan may be limited, the Debenture Issuer Loan may be considered a limited-recourse amount and, if the LP Units were found to

constitute tax shelter investments, the cost of the Properties would be reduced by the amount of the Debenture Issuer Loan.

## **20.2 Legal Matters**

Certain legal matters in connection with this Offering will be passed upon by Clark, Wilson, on behalf of the Issuers, and by Fraser Milner Casgrain LLP, on behalf of the Agent.

As at December 2, 2003, partners and associates of Clark, Wilson, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

As at December 2, 2003, partners and associates of Fraser Milner Casgrain LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

## **21. PURCHASERS' STATUTORY RIGHTS**

Securities legislation in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario provides Purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a Purchaser with remedies for rescission or damages where the Prospectus and any amendment contains a misrepresentation or is not delivered to the Purchaser, provided that such remedies for rescission or damages are exercised by the Purchaser within the time limit prescribed by the securities legislation in the Purchaser's province. The Purchaser should refer to any applicable provisions of the securities legislation of the Purchaser's province for the particulars of these rights or consult with a legal adviser.

**AUDITORS' CONSENT**

We have read the prospectus of Sunstone Opportunity Fund Limited Partnership (the "Limited Partnership") and SRAI Capital Corp. (the "Company") dated January 5, 2004 relating to the sale and distribution of up to 1,600 Units at a price of \$12,500 per Unit. Each Unit is comprised of one unit of the Limited Partnership having a price of \$2,500 and one Series A Debenture of the Company with a principal amount of \$10,000, maturing on February 28, 2009. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Sunstone Realty Advisors (Canada) Inc. in its capacity as general partner of the Limited Partnership on the balance sheets of the Limited Partnership as at December 31, 2002 and 2001 and the statements of cash flows for the year ended December 31, 2002 and for the period from formation on December 21, 2001 to December 31, 2001. Our report is dated November 21, 2003 (except as to Note 4 which is as of January 5, 2004.)

We also consent to the use in the above-mentioned prospectus of our report to the directors of Sunstone Realty Advisors (Canada) Inc. on the balance sheets of Sunstone Realty Advisors (Canada) Inc. as at December 31, 2002 and 2001 and the statements of cash flows for the year ended December 31, 2002 and the period from incorporation on November 6, 2001 to December 31, 2001. Our report is dated November 21, 2003 (except as to Note 5 which is as of January 5, 2004).

We further consent to the use in the above-mentioned prospectus of our report to the directors of SRAI Capital Corp. on the balance sheet of the Company as at October 31, 2003 and the statement of cash flows for the period from incorporation on March 4, 2003 to October 31, 2003. Our report is dated November 21, 2003 (except as to Note 3 which is as of January 5, 2004).

*"DAVIDSON & COMPANY"*

Vancouver, Canada

Chartered Accountants

January 5, 2004

A Member of *SC INTERNATIONAL*

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6  
Telephone (604) 687-0947 Fax (604) 687-6172

**SUNSTONE OPPORTUNITY FUND  
LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2003**

**AUDITORS' REPORT**

To the Directors of Sunstone Realty Advisors (Canada) Inc.,  
in its capacity as General Partner of Sunstone Opportunity Fund Limited Partnership

We have audited the balance sheets of Sunstone Opportunity Fund Limited Partnership as at December 31, 2002 and 2001 and the statements of cash flows for the year ended December 31, 2002 and the period from formation on December 21, 2001 to December 31, 2001. 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, 2002 and 2001 and the results of its cash flows for the year ended December 31, 2002 and the period from formation on December 21, 2001 to December 31, 2001 in accordance with Canadian generally accepted accounting principles.

*“DAVIDSON & COMPANY”*

Vancouver, Canada

Chartered Accountants

November 21, 2003 (except as to Note 4  
which is as of January 5, 2004)

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**SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**  
**BALANCE SHEETS**

|                                   | October 31,<br>2003<br>(Unaudited) | December 31,<br>2002 | December 31,<br>2001 |
|-----------------------------------|------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                     |                                    |                      |                      |
| <b>Cash</b>                       | \$ 20                              | \$ 20                | \$ 20                |
| <b>PARTNERS' CAPITAL</b>          |                                    |                      |                      |
| <b>Partners' capital</b> (Note 3) | \$ 20                              | \$ 20                | \$ 20                |

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

**Subsequent events** (Note 4)

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

"Darren Latoski" Director      "Steve Evans" Director

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

**SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**  
**STATEMENTS OF CASH FLOWS**

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|   | Ten Month<br>Period Ended<br>October 31,<br>2003 | Year Ended<br>December 31,<br>2002 | Period from<br>Formation on<br>December 21,<br>2001 to<br>December 31,<br>2001 |
|---|--|------------------------------------|--|
|   | (Unaudited)                                      |                                    |  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |  |                                    |  |
| Partners' capital                           | \$ _____ -                                       | \$ _____ -                         | \$ _____ 20  |
| Net cash provided by financing activities   | _____ -  | _____ -                            | _____ 20   |
| <b>Cash, beginning of period</b>            | _____ 20   | _____ 20                           | _____ -  |
| <b>Cash, end of period</b>                  | \$ _____ 20                                      | \$ _____ 20                        | \$ _____ 20  |

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

**SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

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

Sunstone Opportunity Fund Limited Partnership (the "Limited Partnership") was formed pursuant to the Partnership Act (British Columbia) on December 21, 2001 under the name CIPC Project (No. 3) Limited Partnership and was renamed on November 20, 2003. The Limited Partnership was established for the purposes of owning and operating income-producing commercial real estate properties in Canada. The term of the Limited Partnership is until December 31, 2100 unless dissolved earlier by special resolution.

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

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 of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners. The Limited Partnership has not engaged in any operating activities and, accordingly, no statements of operations for the periods have been presented.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Allocation of net income or net loss**

Net income or loss of the Limited Partnership will be allocated 0.005% to the General Partner to a maximum of \$100 per annum, 0.005% to the Initial Limited Partner to a maximum of \$100 per annum and 99.99% to the limited partners.

**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.

**3. PARTNERS' CAPITAL**

**Authorized**

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

**Issued**

During the period ended December 31, 2001, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each.

**SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

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**4. SUBSEQUENT EVENTS**

The Limited Partnership, along with SRAI Capital Corp. (the "Debenture Issuer"), is in the process of filing a prospectus for an initial public offering to sell a minimum of 200 Units up to a maximum of 1,600 Units at a price of \$12,500 per Unit. Each Unit will consist of one unit of the Limited Partnership and one Series A Debenture from SRAI Capital Corp. in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on February 28, 2009.

Pursuant to an Agency Agreement, the Agent will receive a commission equal to 8% of the purchase price of the Units sold and receive an advisory fee of \$25,000.

At least 97% of the aggregate net proceeds received from the initial public offering must be invested in the purchase of real estate properties and the creation of renovation and working capital reserves by October 29, 2004. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series A Debentures.

The Debenture Issuer will loan to the Limited Partnership by way of a Debenture Issuer Loan an amount equal to the net proceeds received from the issuance of the Series A Debentures. The Debenture Issuer Loan will bear interest at 9.9% per annum, mature on February 28, 2009 and will be secured by a general security agreement with the Limited Partnership in favour of the Debenture Issuer.

The Limited Partnership will pay the Debenture Issuer an annual loan fee to be determined over the term of the Debenture Issuer Loan which, in aggregate, is expected to equal the total commissions, fees and offering expenses to be incurred by the Debenture Issuer in respect of the debenture offering plus a fee equal to 0.5% of the Series A Debenture principal outstanding.

Pursuant to a General Partner Services Agreement, the Limited Partnership will pay the General Partner a financing fee equal to 1.5% of the gross purchase price of each real estate property acquired, a disposition fee equal to 1.5% of the gross sales price of each real estate property disposed of and an annual asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership.

**SRAI CAPITAL CORP.**  
**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2003**

**AUDITORS' REPORT**

To the Directors of  
SRAI Capital Corp.

We have audited the balance sheet of SRAI Capital Corp. as at October 31, 2003 and the statement of cash flows for the period from incorporation on March 4, 2003 to October 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Company as at October 31, 2003 and the results of its cash flows for the period from incorporation on March 4, 2003 to October 31, 2003 in accordance with Canadian generally accepted accounting principles.

*“DAVIDSON & COMPANY”*

Vancouver, Canada

Chartered Accountants

November 21, 2003 (except as to Note 3 which  
is as of January 5, 2004)

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Telephone (604) 687-0947 Fax (604) 687-6172

**SRAI CAPITAL CORP.**  
**BALANCE SHEET**  
**AS AT OCTOBER 31, 2003**

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**ASSETS**

**Cash** \$ 1

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**SHAREHOLDER'S EQUITY**

**Capital stock (Note 2)** \$ 1

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**Nature of business** (Note 1)

**Subsequent events** (Note 3)

**On behalf of the Board:**

"Darren Latoski" Director "Steve Evans" Director

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

**SRAI CAPITAL CORP.**

STATEMENT OF CASH FLOWS

PERIOD FROM INCORPORATION ON MARCH 4, 2003 TO OCTOBER 31, 2003

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**CASH FLOWS FROM FINANCING ACTIVITIES**

    Issuance of capital stock \$           1

    Net cash provided by financing activities           1

**Cash, end of period** **1**

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

**SRAI CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

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**1. NATURE OF BUSINESS**

SRAI Capital Corp. (the "Company") was incorporated pursuant to the Company Act (British Columbia) on March 4, 2003 under the name 665126 B.C. Ltd. and was renamed on November 20, 2003. The Company was established for the purpose of owning and operating income-producing commercial real estate properties in Canada or the making of loans in respect of such properties.

The Company has not engaged in any operating activities and, accordingly, no statement of operations for the period has been presented.

**2. CAPITAL STOCK**

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|   |    |   |
|---|----|---|
| Authorized                                  |    |   |
| 100,000,000 common shares without par value |    |   |
| Issued                                      |    |   |
| 1 common share                              | \$ | 1 |

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**3. SUBSEQUENT EVENTS**

- a) The Company issued 99 common shares for proceeds of \$99.
- b) The Company, along with Sunstone Opportunity Fund Limited Partnership (the "Limited Partnership"), is in the process of filing a prospectus for an initial public offering to sell a minimum of 200 Units up to a maximum of 1,600 Units at a price of \$12,500 per unit. Each Unit will consist of one unit of the Limited Partnership and one Series A Debenture from the Company in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on February 28, 2009.

Pursuant to an Agency Agreement, the Agent will receive a commission equal to 8% of the purchase price of the Units and receive an advisory fee of \$25,000.

At least 97% of the aggregate net proceeds received from the initial public offering must be invested in the purchase of real estate properties and the creation of renovation and working capital reserves by October 29, 2004. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series A Debentures.

The Company will loan to the Limited Partnership by way of a Debenture Issuer Loan an amount equal to the net proceeds received from the issuance of the Series A Debentures. The Debenture Issuer Loan will bear interest at 9.9% per annum, mature on February 28, 2009 and will be secured by a general security agreement with the Limited Partnership in favour of the Company.

**SRAI CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

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**3. SUBSEQUENT EVENTS** (cont'd...)

The Limited Partnership will pay the Company an annual loan fee to be determined over the term of the Debenture Issuer Loan which in aggregate is expected to equal the total commissions, fees and offering expenses to be incurred by the Company in respect of the debenture offering plus a fee equal to 0.5% of the Series A Debenture principal outstanding.

The Company entered into agreements with Sunstone Realty Advisors Inc., Knightswood Financial Corp. ("Knightswood") and Trilogy Bancorp Ltd. ("Trilogy") whereby the Company will pay Knightswood a quarterly fee of \$6,250 which may be increased to \$7,250 or reduced to \$5,000 based on the amount of Series A Debenture proceeds raised. In addition, the Company will pay Trilogy a structuring and due diligence fee of \$3,000 plus a quarterly administration fee of \$2,000.

**SUNSTONE REALTY ADVISORS (CANADA) INC.**

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2003**

## AUDITORS' REPORT

To the Directors of  
Sunstone Realty Advisors (Canada) Inc.

We have audited the balance sheets of Sunstone Realty Advisors (Canada) Inc. as at December 31, 2002 and 2001 and the statements of cash flows for the year ended December 31, 2002 and the period from incorporation on November 6, 2001 to December 31, 2001. These financial statements are the responsibility of the Company'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 Company as at December 31, 2002 and 2001 and the results of its cash flows for the year ended December 31, 2002 and the period from incorporation on November 6, 2001 to December 31, 2001 in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

*“DAVIDSON & COMPANY”*

Vancouver, Canada

Chartered Accountants

November 21, 2003 (except as to Note 5 which  
is as of January 5, 2004)

A Member of *SC INTERNATIONAL*

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6  
Telephone (604) 687-0947 Fax (604) 687-6172

**SUNSTONE REALITY ADVISORS (CANADA) INC.**  
**BALANCE SHEETS**

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|   | October 31,<br>2003 | December 31,<br>2002 | December 31,<br>2001 |
|---|---------------------|----------------------|----------------------|
|   | (Unaudited)         |                      |                      |
| <b>ASSETS</b>   |                     |                      |                      |
| <b>Current</b>  |                     |                      |                      |
| Cash  | \$ 90               | \$ 90                | \$ 90                |
| <b>Investment in Sunstone Opportunity Fund Limited Partnership (Note 3)</b> | <u>10</u>           | <u>10</u>            | <u>10</u>            |
|   | <u>\$ 100</u>       | <u>\$ 100</u>        | <u>\$ 100</u>        |

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**SHAREHOLDERS' EQUITY**

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|                               |        |        |        |
|-------------------------------|--------|--------|--------|
| <b>Capital stock (Note 4)</b> | \$ 100 | \$ 100 | \$ 100 |
|-------------------------------|--------|--------|--------|

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Nature of business (Note 1)

Subsequent events (Note 5)

**On behalf of the Board:**

"Darren Latoski" Director      "Steve Evans" Director

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

**SUNSTONE REALITY ADVISORS (CANADA) INC.**  
**STATEMENTS OF CASH FLOWS**

|   | Ten Month<br>Period Ended<br>October 31,<br>2003 | Year Ended<br>December 31,<br>2002 | Period From<br>Incorporation<br>On<br>November 6,<br>2001 to<br>December 31,<br>2001 |
|---|--|------------------------------------|--|
|   | (Unaudited)                                      |                                    |  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |  |                                    |  |
| Issuance of capital stock                   | \$ -   | \$ -                               | \$ 100   |
| Net cash provided by financing activities   | <u>-</u>   | <u>-</u>                           | <u>100</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |  |                                    |  |
| Purchase of limited partnership unit        | <u>-</u>   | <u>-</u>                           | <u>(10)</u>  |
| Net cash used in investing activities       | <u>-</u>   | <u>-</u>                           | <u>(10)</u>  |
| <b>Increase in cash during the period</b>   | -  | -                                  | 90   |
| <b>Cash, beginning of period</b>            | <u>90</u>  | <u>90</u>                          | <u>-</u>   |
| <b>Cash, end of period</b>                  | <u>\$ 90</u>                                     | <u>\$ 90</u>                       | <u>\$ 90</u>   |

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

**SUNSTONE REALTY ADVISORS (CANADA) INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

---

**1. NATURE OF BUSINESS**

Sunstone Realty Advisors (Canada) Inc. (the "Company") was formed pursuant to the Company Act (British Columbia) on November 6, 2001 under the name 636812 B.C. Ltd. and was renamed on November 20, 2003. The Company was established for the purposes of owning and operating income-producing commercial real estate properties in Canada through the Sunstone Opportunity Fund Limited Partnership (the "Limited Partnership"), in its capacity as general partner in the Limited Partnership.

The Company has not engaged in any operating activities and, accordingly, no statements of operations for the periods have been presented.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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 amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**Investments**

The Company's investment in the Limited Partnership is accounted for on the equity basis, whereby the investment is recorded at cost and adjusted to recognize the Company's share of the Limited Partnership's net income or loss.

**3. INVESTMENT IN LIMITED PARTNERSHIP**

The Company's investment in the Sunstone Opportunity Fund Limited Partnership consists of one general partner's unit with a cost of \$10.

The net income or loss of the Limited Partnership is allocated 0.005% to the Company to a maximum of \$100 per annum.

**4. CAPITAL STOCK**

---

|   | October 31,<br>2003 | December 31,<br>2002 | December 31,<br>2001 |
|---|---------------------|----------------------|----------------------|
|   | (Unaudited)         |                      |                      |
| Authorized                                  |                     |                      |                      |
| 100,000,000 common shares without par value |                     |                      |                      |
| Issued                                      |                     |                      |                      |
| 1,000 common shares                         | \$ 100              | \$ 100               | \$ 100               |

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**SUNSTONE REALITY ADVISORS (CANADA) INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
OCTOBER 31, 2003

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**5. SUBSEQUENT EVENTS**

The Limited Partnership, along with SRAI Capital Corp. (the “Debenture Issuer”), is in the process of filing a prospectus for an initial public offering to sell a minimum of 200 Units up to a maximum of 1,600 Units at a price of \$12,500 per Unit. Each Unit will consist of one unit of the Limited Partnership and one Series A Debenture from SRAI Capital Corp. in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on February 28, 2009.

At least 97% of the aggregate net proceeds received from the initial public offering must be invested in the purchase of real estate properties and the creation of renovation and working capital reserves by October 29, 2004. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series A Debentures.

Pursuant to a General Partner Services Agreement, the Limited Partnership will pay the Company a financing fee equal to 1.5% of the gross purchase price of each real estate property acquired, a disposition fee equal to 1.5% of the gross sales price of each real estate property disposed of and an annual asset management fee equal to 1.5% of the Net Asset Value of the Limited Partnership.

## **CERTIFICATE OF THE LIMITED PARTNERSHIP**

DATED: January 5, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

### **SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP by its General Partner, Sunstone Realty Advisors (Canada) Inc.**

*"Darren Latoski"*  
Darren Latoski,  
Chief Executive Officer and President

*"Steve Evans"*  
Steve Evans,  
Acting Chief Financial Officer

### **ON BEHALF OF THE BOARD OF DIRECTORS**

*"Darren Latoski"*  
Darren Latoski, Director

*"Steve Evans"*  
Steve Evans, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

*"Steve Evans"*  
Steve Evans, Secretary and Director

*"Darren Latoski"*  
Darren Latoski, President and Director

## **CERTIFICATE OF THE DEBENTURE ISSUER**

DATED: January 5, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

### **SRAI CAPITAL CORP.**

*"Steven Evans"*  
Steve Evans,  
Acting Chief Executive Officer

*"Darren Latoski"*  
Darren Latoski,  
Acting Chief Financial Officer

### **ON BEHALF OF THE BOARD OF DIRECTORS**

*"Steve Evans"*  
Steve Evans, Director

*"Darren Latoski"*  
Darren Latoski, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

*"Darren Latoski"*  
Darren Latoski, President and Director

*"Steve Evans"*  
Steve Evans, Secretary and Director

## **CERTIFICATE OF THE AGENT**

DATED: January 5, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part VII of *The Securities Act* (Manitoba) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

### **DUNDEE SECURITIES CORPORATION**

Per: *"David Anderson"*  
David Anderson

**SCHEDULE A**

**SUNSTONE OPPORTUNITY FUND  
LIMITED PARTNERSHIP**

**AMENDED AND RESTATED  
LIMITED PARTNERSHIP AGREEMENT**

December 1, 2003

|  |           |
|--|-----------|
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**AMENDED AND RESTATED  
LIMITED PARTNERSHIP AGREEMENT**

THIS LIMITED PARTNERSHIP AGREEMENT is dated for reference the 1st day of December, 2003.

BETWEEN:

**SUNSTONE REALTY ADVISORS (CANADA) INC.**, a corporation incorporated under the laws of the Province of British Columbia, having its office at 600 – 1040 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6E 4H1

(hereinafter called the “General Partner”)

OF THE FIRST PART

AND:

**SRA FIRST PARTNER CORP.**, a corporation incorporated under the laws of the Province of British Columbia, having its office at 600 – 1040 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6E 4H1

(hereinafter called the “Founding Limited Partner”)

OF THE SECOND PART

AND:

Each party who from time to time is accepted as a limited partner in the **SUNSTONE OPPORTUNITY FUND LIMITED PARTNERSHIP**, or who is a successor of any such person and who becomes a limited partner upon being registered as such under *The Partnership Act* (British Columbia)

(hereinafter individually called a “Limited Partner” and collectively called the “Limited Partners”)

OF THE THIRD PART

WHEREAS:

- A. By way of a Limited Partnership Agreement (the "Original Agreement") made the 19th day of December, 2001 between the General Partner (then known as 636812 B.C. Ltd.) and the Founding Limited Partner, the parties established the Limited Partnership;
- B. The General Partner and the Founding Limited Partner have agreed to amend and restate the terms of the Original Agreement as set out herein;
- C. The Partnership intends to acquire a beneficial interest in the Properties;
- D. The General Partner has agreed to offer Units of the Limited Partnership by way of public offering in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, and in such other jurisdictions where it may be permitted to do so, for the purposes of financing the acquisition of its interest in the Properties and shall admit Investors for Units as Limited Partners; and
- E. It is considered necessary and desirable to enter into this Agreement to set out the terms and conditions upon which the Limited Partnership is being continued.

NOW THEREFORE in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

**ARTICLE 1  
DEFINITIONS**

1.1 Definitions

In this Agreement, unless the context otherwise requires, the following words or expressions shall have the following meanings:

- (a) **Accountants** means Davidson & Company, Chartered Accountants, or such other firm of chartered accountants as may be appointed by the General Partner as auditor for the Limited Partnership pursuant to this Limited Partnership Agreement.
- (b) **Act** means *The Partnership Act* of British Columbia, R.S.B.C. 1996, c. 348, as amended.
- (c) **Affiliate or Associate** means, where used to indicate a relationship with any person,
- (i) a partner, other than a limited partner, of that person,
  - (ii) a trust or estate in which that person has a substantial beneficial interest or for which that person serves as trustee or in a similar capacity,
  - (iii) an entity in respect of which that person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the entity, or
  - (iv) a relative, including the spouse, of that person or a relative of that person's spouse, where the relative has the same home as that person,

and for the purpose of this definition “spouse” includes a man or woman not married to that person but who is living with that person and has lived with that person as husband or wife for a period of not less than 6 months.

- (d) **Cash Proceeds** means the Subscription Price for Units, being \$2,500 per Unit sold.
- (e) **Date of Closing** means in respect of any Units the date upon which the sale of such Units is closed.
- (f) **Debenture Issuer** means SRAI Capital Corp., a British Columbia company.
- (g) **Debenture Issuer Loan** means a loan of up to \$14,480,000 to be made by the Debenture Issuer to the Limited Partnership, the proceeds of which will be used by the Limited Partnership for the acquisition, ownership and operation of the Properties.
- (h) **Debenture Issuer Loan Agreement** means an agreement made between the Limited Partnership and the Debenture Issuer in respect of the Debenture Issuer Loan.
- (i) **Debenture Issuer Loan Interest** means the interest paid by the Limited Partnership to the Debenture Issuer pursuant to the Debenture Issuer Loan Agreement.
- (j) **Distributable Cash** means, for any period, an amount equal to the Gross Rents, less the Operating Expenses, less any other costs or expenses payable by the Limited Partnership, and less reasonable reserves determined by the General Partner to be necessary to operate the Properties or the affairs of the Limited Partnership in a prudent and businesslike manner, but does not include Extraordinary Distributions.
- (k) **Disposition Fee** means the fee of 1.5% of the gross sales proceeds received by the Limited Partnership on a Sale of a Property, which is payable to the General Partner from such Sale proceeds.
- (l) **Extraordinary Distributions** means distributions to the Partners arising from or related to funds received by the Limited Partnership on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a Refinancing or a Sale but excluding distributions of Distributable Cash.
- (m) **Extraordinary Net Cash Receipts** means, collectively, Net Proceeds from Sale and Net Proceeds from Refinancing, as the case may be.
- (n) **Final Closing** means the closing at which any then remaining unsubscribed Units are sold under the Public Offering and the Subscription Price paid therefor, which final closing shall occur on or before October 29, 2004.
- (o) **Financing Fee** means a fee payable to the General Partner upon the completion of the purchase of a Property equal to 1.5% of the gross purchase price of the Property.
- (p) **Fiscal Year** means the fiscal year of the Limited Partnership, as established by the General Partner.
- (q) **Founding Limited Partner** means SRA First Partner Corp., or its successors or assigns.

- (r) **General Partner** means Sunstone Realty Advisors (Canada) Inc., a British Columbia company, in its capacity as the general partner of the Limited Partnership, or any person who is from time to time admitted as the general partner of the Limited Partnership in accordance with the terms of this Limited Partnership Agreement.
- (s) **General Partner Services Agreement** means the agreement made between the Limited Partnership and the General Partner pursuant to which the General Partner will provide certain services to the Limited Partnership, as described in the Prospectus.
- (t) **Gross Rents** means, for any period, all rental and other income from the Properties (including interest income earned on any such monies prior to their distribution) but excluding therefrom security deposits and advance rents, unless and until applied, tenant incentive payments or allowances, tenant expense recoveries, Sale proceeds and Refinancing proceeds.
- (u) **Incentive Management Interest** means the allocation to be made to the General Partner, which allocation will be equal to 20/80ths of the aggregate of (A) the total payments made to Limited Partners in respect of the Minimum Return and (B) the Debenture Issuer Loan Interest, calculated from the Date of Closing .
- (v) **Income Share** means the allocation to a Limited Partner of a share of the income or loss of the Limited Partnership which shall be its Proportionate Share thereof subject to adjustments made to allocate revenue and expenses on a daily incremental basis from the date the Units are issued and to fairly allocate expenses on a cumulative, proportionate basis.
- (w) **Investor** means a person, firm, corporation or other entity who subscribes for Units, subject to acceptance or rejection by the General Partner.
- (x) **Limited Partner** means any Investor whose Subscription is accepted by the General Partner and any person, firm, corporation or other entity who acquires Units on a subsequent transfer from a Limited Partner in accordance with the terms of this Limited Partnership Agreement.
- (y) **Limited Partnership** means the Sunstone Opportunity Fund Limited Partnership, a limited partnership formed under the Act.
- (z) **Limited Partnership Agreement** means this limited partnership agreement.
- (aa) **Management Agreement** means an agreement or agreements to be entered into by the Limited Partnership and third party property managers or property management companies for the provision of property management services to the Limited Partnership in respect of the Properties.
- (bb) **Minimum Return** means an annual amount equal to 9% of the Net Equity, calculated and accumulated on a non-compounded basis from the Date of Closing, which return must be received by Limited Partners from distributions prior to any allocation of the Incentive Management Interest to the General Partner. If the Minimum Return is not achieved by Limited Partners, no Incentive Management Interest will be allocated to the General Partner.

- (cc) **Mortgage** means the mortgage or mortgages charging the Properties and securing the repayment of the Mortgage Loans, recorded or to be recorded against title to the Properties.
- (dd) **Mortgage Loans** means the financing, which may be provided under one or more separate financing facilities, to be borrowed or assumed by the Limited Partnership to fund the costs of the acquisition, ownership and operation of the Properties.
- (ee) **Net Distributions** means the cumulative Distributable Cash distributed to Limited Partners less the cumulative debt service payments made on the Mortgage Loans or any Refinancing.
- (ff) **Net Equity** means at any time, the difference between:
  - (i) the total proceeds received by the Limited Partnership from Subscriptions, being the aggregate Cash Proceeds; less
  - (ii) the aggregate of any Net Extraordinary Distributions made by the Limited Partnership to the date in question.
- (gg) **Net Extraordinary Distributions** means the cumulative Extraordinary Distributions distributed to the Partners less the cumulative total of payments made on account of the Mortgage Loans or any Refinancing from Extraordinary Distributions.
- (hh) **Net Income** or **Net Loss** means, for accounting purposes, the net income or net loss of the Limited Partnership for a Fiscal Year as determined in accordance with Canadian generally accepted accounting principles applied on a consistent basis to the extent possible and, for income tax purposes, means the income or loss of the Limited Partnership determined under all applicable income tax statutes and regulations after applying the following principles, subject to a determination by the General Partner that such an application generally would not be in the best interest of Limited Partners:
  - (i) deductions in arriving at income or loss will be taken at the earliest time and to the maximum extent permitted by applicable income tax statutes and regulations; and
  - (ii) the recognition of income will be deferred to the maximum extent permitted by applicable income tax statutes and regulations.
- (ii) **Net Proceeds from Refinancing** means all receipts of the Limited Partnership arising from a Refinancing, after deduction of amounts paid to discharge or pay down other encumbrances on the Properties, if any, and all other amounts required to be paid out of such receipts, and after the payment of all costs and expenses associated with the Refinancing.
- (jj) **Net Proceeds from Sale** means, on a sale of a Property, all receipts of the Limited Partnership arising from the Sale, including any principal and interest payments received by the Limited Partnership on any vendor financing taken back on such Sale, less the costs and expenses of the Sale.

- (kk) **Net Receipts** means Net Distributions, plus Net Proceeds from Sale plus Net Proceeds from Refinancing.
- (ll) **Operating Expenses** means all amounts paid or payable on account of expenses in the operation of the Properties including, without limitation, property taxes, the fees payable under the Management Agreements, all costs or expenses incurred in respect of rental of the Properties, all advertising and other related costs of the Properties, and any payments of a non-capital nature, determined in accordance with Canadian generally accepted accounting principles, required to be made in respect of the Properties, other than amortization of deferred charges, depreciation or capital cost allowance.
- (mm) **Ordinary Resolution** means a resolution approved by more than 50% of the votes cast by those Limited Partners who vote and who are entitled to vote in person or by proxy at a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with this Limited Partnership Agreement, or a written resolution in one or more counterparts distributed to all Limited Partners and signed by Limited Partners holding in the aggregate more than 50% of the aggregate number of votes held by those Limited Partners who are entitled to vote.
- (nn) **Prime Rate** means the rate of interest declared by the Limited Partnership's principal bankers from time to time at its main branch in Vancouver, British Columbia, as a reference rate for interest charged to its commercial customers for unsecured short term loans in Canadian funds which reference rate is commonly referred to as the "prime rate".
- (oo) **Properties** means the various direct and indirect interests in income-producing commercial real estate properties, including mixed use light industrial and retail properties, situate in Canada acquired, owned and operated from time to time by the Limited Partnership.
- (pp) **Prospectus** means the prospectus qualifying the Public Offering (and any amendment thereto), in respect of which a receipt is issued by the Securities Commissions having jurisdiction over the Public Offering.
- (qq) **Proportionate Share** means, for each Unit or Limited Partner, as the case may be, that fraction which has as its denominator an amount equal to the total Cash Proceeds received by the Limited Partnership from Subscriptions, and has as its numerator an amount equal to the Subscription Price of such Unit, or the total Subscription Price paid by such Limited Partner for all his, her or its Units, as the case may be.
- (rr) **Public Offering** means the initial public offering of a minimum of 200 Units and a maximum of 1,600 Units contemplated by the preliminary prospectus dated December 2, 2003 and filed by the Limited Partnership and the Debenture Issuer with the Securities Commissions of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.
- (ss) **Refinancing** means any renewal, extension, increase or refinancing of all or any part of any financing permitted in respect of the Properties, but excluding any ordinary course borrowing for operating purposes.
- (tt) **Register** means the records of the Limited Partnership in which are recorded the names and addresses of the Limited Partners, the number of Units held by each Limited Partner and particulars of transfers of Units

- (uu) **Registrar and Transfer Agent** means the General Partner, or such other person who may be appointed from time to time by the General Partner to act as registrar and transfer agent for the Limited Partnership.
- (vv) **Sale** means the sale by the Limited Partnership of all or part of its interest in a Property or the Properties, the receipt by the Limited Partnership of compensation for the expropriation of, condemnation of or injurious affection to a Property or the Properties or any part thereof or interest therein, or the recovery by the Limited Partnership of damage awards or insurance proceeds (other than business or rental interruption insurance proceeds) in respect thereof.
- (ww) **Special Resolution** means a resolution approved by not less than 75% of the votes cast by those Limited Partners who vote and are entitled to vote in person or by proxy at a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with the Limited Partnership Agreement or a written resolution in one or more counterparts distributed to all Limited Partners and signed by Limited Partners holding in the aggregate not less than 75% of the aggregate number of votes held by those Limited Partners who are entitled to vote.
- (xx) **Subscription** means a subscription for Units made by an Investor.
- (yy) **Subscription Price** means \$2,500 for each Unit payable upon subscribing for a Unit.
- (zz) **Tax Act** means the *Income Tax Act* (Canada), as amended, together with all regulations made pursuant thereto.
- (aaa) **Total Distributions** means, on a cumulative basis, the sum of Net Distributions plus Net Extraordinary Distributions.
- (bbb) **Unit** means the interest of a Limited Partner in the Limited Partnership consisting of a right to participate in the income and losses of the Limited Partnership, to participate in the distribution of the net assets of the Limited Partnership upon a liquidation or winding up of the Limited Partnership, and such other rights as are prescribed under the Limited Partnership Agreement.
- (ccc) **Unit Certificate** means a certificate issued by the Limited Partnership following the Date of Closing evidencing the number of Units owned by the Limited Partners.

## ARTICLE 2 THE LIMITED PARTNERSHIP

### 2.1 Formation, Status and Name of Limited Partnership

The General Partner and the Founding Limited Partner hereby agree to continue the Limited Partnership until termination in accordance with this Limited Partnership Agreement to carry on business under the name:

“Sunstone Opportunity Fund Limited Partnership”.

Subject to all applicable laws, the Limited Partnership shall carry on business under the name “Sunstone Opportunity Fund Limited Partnership” or such other name or names as the General Partner may determine

from time to time, provided that the General Partner files a new declaration or certificate under the Act as required.

## 2.2 Maintaining Status of Limited Partnership

The General Partner shall be the general partner of the Limited Partnership, shall do all things and shall cause to be executed and filed such certificates, declarations, instruments and documents as may be required under the laws of the Province of British Columbia or the laws of any other province or state having jurisdiction, to reflect the constitution of the Limited Partnership. The General Partner and each Limited Partner shall execute and deliver as promptly as possible any documents that may be necessary or desirable to accomplish the purposes of this Limited Partnership Agreement or to give effect to the formation of the Limited Partnership under any and all applicable laws. The General Partner shall take all necessary actions on the basis of information available to it in order to maintain the status of the Limited Partnership as a limited partnership under the Act.

## 2.3 Fiscal Period

The fiscal period of the Limited Partnership shall end in each and every year on a day to be determined by the General Partner, having reference to the requirements of the Tax Act and the best interests of the Limited Partners, or on such other date as the Limited Partners may determine by Special Resolution.

## 2.4 Business and Powers of the Limited Partnership

The business of the Limited Partnership shall be restricted to directly or indirectly acquiring, holding, managing, operating and selling income-producing commercial real estate properties, including mixed use light industrial and retail properties, in Canada, or any direct or indirect interests therein, which may include a direct or indirect interest in the Properties, conducting other business which is ancillary or incidental thereto, and deriving income therefrom with a view to making a profit.

All Properties will be purchased at prices and on terms negotiated with arm's length third party vendors. In selecting Properties, the General Partner will comply with the following general guidelines:

- (a) assuming that the Limited Partnership issues all of the 1,600 Units offered under the Public Offering and the full amount of the Debenture Issuer Loan is advanced by the Debenture Issuer to the Limited Partnership, not more than 40% of the aggregate Cash Proceeds and the Debenture Issuer Loan will be applied to the acquisition of any one Property;
- (b) if the Limited Partnership issues fewer than 1,600 Units under the Public Offering, the aggregate Cash Proceeds and the Debenture Issuer Loan may be applied to the acquisition of only one Property; and
- (c) upon purchase, each Property would be expected to generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership's invested capital in the Property of not less than 6% per annum, with a target range of 8-10% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide significant capital gain opportunities due to capital improvement programs.

The Limited Partnership shall not carry on any other business. The Limited Partnership shall have the power to do any and every act and thing necessary, proper, convenient or incidental to the accomplishment of its business and purposes including, without limitation, owning or disposing of partnership interests, shares or other securities whereby the Limited Partnership holds an indirect interest in real property or interests therein.

2.5 Principal Place of Business

The principal place of business and mailing address of the Limited Partnership and the General Partner shall be 600 – 1040 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6E 4H1. The General Partner may change the principal place of business, the registered office or the mailing address of the Limited Partnership and the registered office and mailing address of the General Partner from time to time by giving notice to that effect to all Limited Partners, pursuant to the notice provisions contained in this Limited Partnership Agreement.

2.6 Term

The Limited Partnership shall be formed upon the filing and recording of the requisite certificate under the Act and any other applicable legislation and shall continue until terminated upon the earlier of December 31, 2100, and the passage of a Special Resolution approving the dissolution of the Limited Partnership and, in any case, after the completion of the liquidation of the Limited Partnership and distribution of all funds remaining after payment of all of the debts, liabilities and obligations of the Limited Partnership to its creditors, in accordance with the provisions of this Limited Partnership Agreement.

2.7 Status of the General Partner

The General Partner represents and warrants to each Limited Partner that it:

- (a) is and shall continue to be duly incorporated and in good standing under the laws of the Province of British Columbia;
- (b) has and shall continue to have the requisite capacity and corporate authority to act as General Partner of the Limited Partnership and to perform its obligations under this Limited Partnership Agreement, and such obligations do not and shall not conflict with or breach its memorandum, articles of incorporation or any agreement by which it is bound;
- (c) shall not, nor shall any Affiliate or Associate of it, borrow from the Limited Partnership;
- (d) shall carry out its powers and authorities and manage and operate the Limited Partnership and the undertaking, property and assets thereof in a reasonable and prudent manner and will act honestly, in good faith and in the best interests of the Limited Partners;
- (e) shall act in utmost fairness and good faith towards the Limited Partners in the business of the Limited Partnership;
- (f) has contributed Ten Dollars (\$10) as a capital contribution to the Limited Partnership; and
- (g) shall not carry on any business other than for the purposes set forth herein.

2.8 Status of Each Limited Partner

Each Limited Partner represents and warrants to each other Limited Partner and to the General Partner that he, she or it:

- (a) is acting as a principal;
- (b) if an individual, has the capacity and competence to enter into and be bound by this Limited Partnership Agreement and all other agreements contemplated hereby;
- (c) if a corporation, partnership, unincorporated association or other entity, is legally competent to execute this Limited Partnership Agreement and all other agreements contemplated hereby and to take all actions required pursuant hereto, and further certifies that all necessary approvals of directors, shareholders, partners, members or otherwise have been given;
- (d) is a resident of Canada under the Tax Act and is not a “non-Canadian” person under the *Investment Canada Act*; and
- (e) shall promptly provide such evidence of his, her, or its status as the General Partner may reasonably request.

If the Limited Partners propose, by Special Resolution, to dissolve the Limited Partnership, the General Partner may require those Limited Partners who are then non-residents of Canada for the purposes of the Tax Act, to transfer their Units to residents of Canada. If a non-resident Limited Partner fails to transfer his, her or its Units to a resident of Canada who qualifies to hold Units under the terms of this Limited Partnership Agreement, within thirty (30) days of the giving of a notice to such non-resident Limited Partner to so transfer his Units, the General Partner shall be entitled to sell such Units on behalf of such non-resident Limited Partner on such terms and conditions as it deems reasonable and may itself become the purchaser of such Units. On any such sale by the General Partner the price shall be the fair market value for such Units as determined by an independent appraiser appointed by the General Partner, whose appraisal shall be final and binding on the Limited Partnership, the General Partner and the Limited Partners so affected. The cost of such appraisal shall be borne by those Limited Partners whose Units are sold by the General Partner and may be deducted from the proceeds of such sale together with any other expenses incurred in connection therewith.

2.9 Compliance with Laws

Each Limited Partner and the Founding Limited Partner shall, on request by the General Partner, immediately execute all certificates, declarations, instruments and documents necessary to comply with any law or regulation of any jurisdiction in Canada in regard to the formation, continuance, operation or dissolution of the Limited Partnership.

2.10 Limitation on Authority of Limited Partners

A Limited Partner may from time to time inquire as to the state and progress of the business of the Limited Partnership and may provide comment as to its management; however, no Limited Partner shall:

- (a) take part in the control or management of the business of the Limited Partnership;

- (b) execute any document which binds or purports to bind the Limited Partnership, the General Partner, the Founding Limited Partner or any other Limited Partner as such;
- (c) hold himself, herself or itself out as having the power or authority to bind the Limited Partnership, the General Partner, the Founding Limited Partner or any other Limited Partner as such;
- (d) have any authority to undertake any obligation or responsibility on behalf of the Limited Partnership (except that the General Partner may act on behalf of the Limited Partnership notwithstanding that it may also be a Limited Partner); or
- (e) bring any action for partition or sale in connection with the Limited Partnership's interest in the Properties or any other assets of the Limited Partnership, whether real or personal, or register or permit any lien or charge in respect of the Units of such Limited Partner to be filed or registered or remain undercharged against the Limited Partnership's interest in the Properties in respect of such Limited Partner's interest in the Limited Partnership.

The Limited Partners shall comply with the provisions of the Act in force or in effect from time to time and shall not take any action which will jeopardize or eliminate the status of the Limited Partnership as a limited partnership under the Act.

2.11 Number of Partners

The Limited Partnership shall at all times have at least one General Partner and one or more Limited Partners.

**ARTICLE 3  
THE GENERAL PARTNER**

3.1 General Powers and Duties of the General Partner

The General Partner represents and warrants that, should it become necessary and expedient for the Limited Partnership to have the following agreements, the General Partner will enter into such agreements on behalf of the Limited Partnership or the Limited Partners:

- (a) the General Partner Services Agreement;
- (b) the Management Agreements;
- (c) the Debenture Issuer Loan Agreement;
- (d) a General Security Agreement granted in favour of the Debenture Issuer to secure the Debenture Issuer Loan;
- (e) agreements of purchase and sale for the purchase of the Properties, or assignments of such agreements of purchase and sale; and
- (f) any other document or agreement referred to in the Prospectus or in furtherance thereof.

Without limiting the foregoing, the General Partner shall diligently enforce the obligations and commitments of those companies designated by the General Partner to provide services to the Limited Partnership and the Limited Partners, and their successors and assigns, contained in the aforementioned

agreements on behalf of the Limited Partnership and each Limited Partner without further authorization from any Limited Partner. The General Partner shall also carry out its obligations and commitments under such agreements.

### 3.2 Authority of the General Partner

Subject to those matters requiring an Ordinary Resolution or a Special Resolution, and subject to the provisions of the Act, the General Partner shall carry on the business of the Limited Partnership with full power and authority to administer, manage, control and operate the business of the Limited Partnership, and to do or cause to be done any act, take or cause to be taken any proceeding, make or cause to be made any decision and execute and deliver or cause to be executed and delivered any instrument, deed, agreement or document necessary, appropriate or incidental to the carrying on of the business of the Limited Partnership. No person dealing with the Limited Partnership is required to enquire into the authority of the General Partner to do any act, take any proceeding, make any decision or execute and deliver any instrument, deed, agreement or document for or on behalf of or in the name of the Limited Partnership. The General Partner may execute any document or instrument under seal or without a seal as it deems appropriate notwithstanding whether or not any document authorizing it to act on behalf of the Limited Partnership or any Limited Partner was executed under seal.

### 3.3 Specific Powers of the General Partner

Without limiting the generality of Section 3.2 hereof, it is acknowledged and agreed that the General Partner is authorized, at all appropriate times and from time to time, on behalf of and without further authority from the Limited Partners, to do all things which in its sole judgment are necessary, proper or desirable to carry on the business and purposes of the Limited Partnership including but not limited to the following:

- (a) to act as the Registrar and Transfer Agent for the Limited Partnership, or retain another person to so act;
- (b) to engage such counsel and other professional advisers or consultants as the General Partner considers advisable in order to perform its duties hereunder;
- (c) to open and operate, either in its own name or in the name of the Limited Partnership, a separate bank account in order to deposit and to distribute funds with respect to the Limited Partnership;
- (d) to execute, deliver and carry out all other agreements, documents and instruments which from time to time require execution by or on behalf of the Limited Partnership;
- (e) to pay all taxes, fees and other expenses relating to the orderly maintenance, repair, management and operation of the business of the Limited Partnership;
- (f) to act on behalf of the Limited Partnership with respect to any and all actions and other proceedings pertaining to the Limited Partnership or the Properties, brought by or against the Limited Partnership;
- (g) to determine the amount and type of insurance coverage to be maintained in order to protect the Limited Partnership from all usual perils of the type covered in respect of comparable properties and businesses to that of the Limited Partnership and in order to comply with the requirements of the lenders of funds to the Limited Partnership;

- (h) to determine the amount, if any, to be claimed by the Limited Partnership in any year in respect of capital cost allowance and initial services incurred by the Limited Partnership;
- (i) to hold the Limited Partnership assets and any properties in the name of the General Partner, the Limited Partnership or other designated person;
- (j) to purchase or acquire assets or property on behalf of the Limited Partnership or sell, transfer or otherwise dispose of the whole or any part of the Limited Partnership's assets or property, all on such terms and conditions as the General Partner may determine;
- (k) to invest funds not immediately required for the business of the Limited Partnership in short term securities or accounts;
- (l) to provide or arrange for the provision of such financial and other reporting functions as may be required by the provisions hereof or applicable securities regulatory authorities;
- (m) to make distributions of Distributable Cash and Extraordinary Net Cash Receipts should it be required;
- (n) to borrow money for and on behalf of the Limited Partnership and to give security therefor, in the name of the Limited Partnership or the General Partner, for the purposes of the Limited Partnership including, without limitation, for the purpose of financing and refinancing the Limited Partnership's interest in the Properties or the business and operation of the Limited Partnership;
- (o) to grant and execute debentures, promissory notes, mortgages, documents and other instruments charging the whole or any part of the Limited Partnership's assets and undertaking and any undivided interest of the Limited Partners in such assets and to do all acts relating thereto as may be necessary or desirable to further the business of the Limited Partnership;
- (p) to oversee the operation, management and rental of the Properties;
- (q) to sell the Properties and to undertake any and all action necessary or desirable to complete such sale, including the execution and delivery of any agreements and documents relating to the sale;
- (r) to approve of a refinancing of the Limited Partnership's interest in the Properties and to undertake any and all action necessary or desirable to complete such refinancing, including the execution and delivery of any agreements, documents or financing, agreements or the granting of any mortgages or other security relating to the sale or refinancing; and
- (s) to execute any and all other deeds, documents and instruments and to do or cause to be done all acts and things as may be necessary or desirable to carry out the intent and purpose of this Limited Partnership Agreement, including, without limitation, retaining qualified agents to carry out any of the foregoing.

3.4 Reimbursement of General Partner

The General Partner is entitled to reimbursement by the Limited Partnership for all reasonable third party costs and expenses actually incurred by it on behalf of the Limited Partnership in the ordinary course of business or other costs and expenses incidental to acting as General Partner to the Limited Partnership which are incurred provided that the General Partner is not in default of its duties hereunder, in connection with such costs and expenses.

3.5 Amendment of Agreement

The General Partner may, without prior notice to or consent from the Founding Limited Partner or any Limited Partner amend any other provision of this Limited Partnership Agreement from time to time:

- (a) for the purpose of adding to this Limited Partnership Agreement any further covenants, restrictions, deletions or provisions which, in the opinion of the General Partner, acting reasonably, are necessary for the protection of the Limited Partners;
- (b) to cure any ambiguity or to correct or supplement any provisions contained herein, which, in the opinion of the General Partner, acting reasonably, may be defective or inconsistent with any other provisions contained herein, and with respect to which, in the General Partner's reasonable opinion, the cure, correction or supplemental provision does not and will not adversely affect the interests of the Limited Partners; or
- (c) to make such other provisions in regard to matters or questions arising under this Limited Partnership Agreement, which, in the opinion of the General Partner, acting reasonably, do not and will not substantially adversely affect the interests of the Limited Partners.

The Limited Partners will be notified of full details of such amendment to this Limited Partnership Agreement within thirty (30) days of the effective date of the amendment.

Unless otherwise provided for herein, this Limited Partnership Agreement may otherwise only be amended with the consent of the Limited Partners given by Special Resolution, but no such amendment that adversely affects the rights of the General Partner may be made without the approval of the General Partner.

3.6 Power of Attorney

Each Limited Partner hereby irrevocably nominates, constitutes and appoints the General Partner, with full power of substitution as his, her or its true and lawful attorney and agent, with full power and authority in his, her or its name, place and stead and for his, her or its use and benefit to do the following, namely:

- (a) execute, swear to, acknowledge, deliver and file as and where required any and all of the following:
  - (i) this Limited Partnership Agreement and all declarations and certificates of change required under the Act or any other applicable legislation and other instruments necessary to form, qualify or continue and keep in good standing the Limited Partnership as a limited partnership under the Act;

- (ii) all instruments, declarations and certificates necessary to reflect any amendment to this Limited Partnership Agreement;
  - (iii) any filing or election made pursuant to any applicable tax legislation;
  - (iv) any certificates of fictitious or trade names; and
  - (v) all conveyances, agreements and other instruments or documents deemed necessary or desirable by the General Partner to reflect the dissolution and termination of the Limited Partnership including cancellation of any certificates or declarations and the execution of any elections or making of any filings under the Tax Act and any analogous legislation, as any of the same may be amended or re-enacted from time to time;
- (b) execute and file with any governmental body or instrumentality thereof of the Government of Canada or a province thereof any documents necessary to be filed in connection with the business, property, assets and undertaking of the Limited Partnership;
  - (c) execute and deliver any documents or instruments required in connection with the Mortgage Loans or any Refinancing or any amendments thereto or renewals thereof;
  - (d) execute and deliver any documents or instruments on behalf of and in the name of the Limited Partnership and for or on behalf of the Limited Partners as may be deemed necessary or desirable by the General Partner to carry out fully the provisions of this Limited Partnership Agreement or any other material agreement referred to in the Prospectus, in accordance with its respective terms; and
  - (e) complete, amend or modify any of the foregoing to complete any missing information or correct any clerical or other errors in the completion of any of the foregoing.

To evidence the foregoing, each Limited Partner, in subscribing for a Unit or in executing an assignment of a Unit, will be deemed to have executed a power of attorney on substantially the powers set forth above. The power of attorney granted is irrevocable, is coupled with an interest, shall survive the death, disability, incapacity, insolvency or other legal incapacity of a Limited Partner and shall survive the assignment, to the extent of the obligations of the Limited Partner hereunder, by the Limited Partner of the whole or any part of the interest of the Limited Partner in the Limited Partnership and extends to the heirs, executors, administrators, successors and assigns of the Limited Partner, and may be exercised by the General Partner, executing on behalf of each Limited Partner, by executing any instrument with a single signature as the general partner of the Limited Partnership or as attorney and agent for all of the Limited Partners executing such instrument, or by such other form of execution as the General Partner may determine, and it shall not be necessary for the General Partner to execute any instrument under seal notwithstanding the manner of execution of the power of attorney by the Limited Partner. The power of attorney shall not merge on the dissolution of the Limited Partnership but shall continue in full force and effect thereafter for the purposes of concluding any matters pertaining to the Limited Partnership, to the business previously carried on by the Limited Partnership or to the dissolution of the Limited Partnership and the winding up of its affairs.

Each Limited Partner agrees to be bound by any representation and actions made or taken in good faith by the General Partner pursuant to such power of attorney in accordance with the terms hereof or in furtherance of the terms contemplated by the Prospectus and hereby waives any and all defences which

may be available to contest, negate or disaffirm action of the General Partner taken in good faith under such power of attorney.

3.7 Duties of the General Partner

The General Partner covenants that it will exercise its powers and discharge its duties under this Limited Partnership Agreement honestly, in good faith, and in the best interests of the Limited Partners, and that it will exercise the care, diligence and skill of a reasonably prudent person, and will maintain the confidentiality of financial and other information and data which it may obtain through or on behalf of the Limited Partnership, the disclosure of which may adversely affect the interests of the Limited Partnership or a Limited Partner, except to the extent that disclosure is required by law or is in the best interests of the Limited Partnership, and it will utilize the information and data only for the business of the Limited Partnership. The General Partner shall be entitled to retain advisors, experts and consultants to assist it in the exercise of its powers and the performance of its duties hereunder.

3.8 Income Tax Claims and Deductions

The General Partner shall cause the Limited Partnership to claim the maximum amount allowable in each year for income tax purposes in respect of capital cost allowance and costs of initial services incurred by the Limited Partnership unless to do so would not, in the General Partner's reasonable opinion, be in the best interests of the Limited Partnership and the Limited Partners as a group or would unfairly advantage some Limited Partners to the detriment of others.

3.9 Transactions Involving Affiliates or Associates

The validity of a transaction, agreement or payment involving the Limited Partnership and an Affiliate or Associate of the General Partner is not affected by reason of the relationship between the General Partner and the Affiliate or Associate or by reason of the approval or lack thereof of the transaction, agreement or payment by the directors of the General Partner, all of whom may be officers, directors, or employees of, or otherwise interested in or related to such Affiliate or Associate.

3.10 Safekeeping of Assets

The General Partner is responsible for the safekeeping and use of all of the funds of the Limited Partnership, whether or not in its immediate possession or control, and will not employ or permit another to employ the funds or assets of the Limited Partnership except for the exclusive benefit of the Limited Partnership.

3.11 Indemnification

The Limited Partnership will indemnify and hold harmless the General Partner, its directors, officers, employees and agents from and against any and all losses, costs, expenses, liabilities and damages (including reasonable legal fees) incurred by the General Partner, its directors, officers, employees or agents by reason of acts, omissions or alleged acts or omissions arising out of the activities of the General Partner on behalf of the Limited Partnership or in furtherance of the interests of the Limited Partnership, but only if the acts, omissions or the alleged acts or omissions in respect of which any actual or threatened action, proceeding or claim are based, were performed in good faith and were not performed or omitted to be performed fraudulently or in bad faith or as a result of the negligence of the General Partner, its directors, officers, employees or agents. In no event, however, shall the provisions of this Section 3.11 expand upon a Limited Partner's liability beyond the amount of capital contributed or agreed to be contributed to the Limited

Partnership by him, as stated in the declaration or certificate filed pursuant to the Act relating to the Limited Partnership, and his, her or its share of the undistributed income of the Limited Partnership.

3.12 Restrictions Upon the General Partner

The General Partner's power and authority does not extend to any power, action or authority enumerated in Sections 9.15 or 9.16 hereof, unless and until the requisite Special Resolution or Ordinary Resolution is passed by the Limited Partners. In addition, the General Partner will not:

- (a) cause the Limited Partnership to guarantee the obligations or liabilities of or make loans to the General Partner, or any Affiliate or Associate of the General Partner, provided that the General Partner may cause the Limited Partnership to grant a guarantee, make loans or otherwise provide financial assistance to the General Partner or an Affiliate or Associate of the General Partner where such guarantee, loan or financial assistance is given in connection with or in furtherance of the business of the Limited Partnership;
- (b) commingle the funds of the Limited Partnership with the funds of the General Partner or any other person; or
- (c) make a call for additional capital contributions by the Limited Partners, except after having received the approval of the Limited Partnership by way of Special Resolution.

3.13 Employment of an Affiliate or Associate

The General Partner may employ or retain an Affiliate or Associate on behalf of the Limited Partnership to provide goods or services to the Limited Partnership, provided that the cost of such goods or services are reasonable and competitive with the cost of similar goods or services provided by an independent third party.

3.14 Removal of General Partner

The General Partner shall not be deemed to resign as the General Partner in the event of the bankruptcy, dissolution, insolvency, liquidation or winding up of the General Partner or the appointment of a trustee, receiver or receiver-manager of the affairs of the General Partner. Unless the Limited Partners resolve, by Special Resolution, to dissolve the Limited Partnership upon the occurrence of any such event or upon the resignation, retirement or withdrawal of the General Partner from the Limited Partnership, and effective immediately prior to the occurrence of any such event, a successor general partner appointed pursuant hereto shall assume all of the responsibilities of the General Partner and shall have full authority to manage and operate the business of the Limited Partnership and exercise all of the rights and powers of the General Partner. The General Partner covenants not to resign or withdraw from the Limited Partnership unless its successor has been appointed and has agreed to assume the obligations of the General Partner hereunder.

The General Partner shall not be removed as General Partner of the Limited Partnership except as provided herein.

The Limited Partners may not remove the General Partner except in circumstances where the General Partner has committed an act of gross negligence, wilful misconduct, bad faith or dishonesty or is in material default of its obligations hereunder and such default has not been remedied after notice from the Limited Partners and, in such circumstances, the Limited Partners may remove the General Partner by Special Resolution but only if:

- (a) the Limited Partners appoint, concurrently with the removal, a replacement General Partner (the “New General Partner”) to assume all of the responsibilities and obligations of the removed General Partner (the “Former General Partner”) under this Limited Partnership Agreement;
- (b) the New General Partner causes to be delivered to the Former General Partner a release of any further liabilities, responsibilities and obligations under this Limited Partnership Agreement and the Limited Partnership shall hold harmless the Former General Partner from and against all actions, claims, causes, demands, losses, damages and expenses with respect to events which occur in relation to the Limited Partnership after the appointment of the New General Partner;
- (c) the New General Partner, prior to assuming its responsibilities as the General Partner, under the terms of this Limited Partnership Agreement, executes the documents presented by the Limited Partnership to give effect to such assumption, and from and after registration of an effective declaration of change or amended certificate under the Act or any other applicable legislation, the New General Partner shall assume the powers, duties and obligations of the Former General Partner under this Limited Partnership Agreement and shall be subject to the terms hereof, and for the purposes of this Limited Partnership Agreement, the New General Partner shall thereafter be the General Partner in the place of the Former General Partner so replaced; and
- (d) the Former General Partner assigns its interest in the Limited Partnership to the New General Partner for an amount equal to the credit balance outstanding in the capital account of the Former General Partner as at the effective date of removal.

The replacement of the Former General Partner as aforesaid shall not dissolve the Limited Partnership, and the business of the Limited Partnership shall be continued by the New General Partner, and each Limited Partner hereby consents to the business of the Limited Partnership being continued by the New General Partner.

3.15            Continuation of the Limited Partnership

It is the intention of the parties that upon the bankruptcy, retirement or dissolution of the General Partner, the business of the Limited Partnership shall be continued without interruption unless the Limited Partners resolve by Special Resolution to dissolve the Limited Partnership.

3.16            Appointment of Successor General Partner

The Limited Partners may appoint by Ordinary Resolution a corporation to serve as a successor General Partner as required by Sections 3.17, 3.18 and 3.19. To the extent the Limited Partners do not by Ordinary Resolution appoint a successor General Partner within thirty (30) days of notice that such appointment is required by Section 3.17, 3.18 or 3.19, then the General Partner covenants and agrees to appoint a corporation to act as a successor General Partner. If for any reason a successor General Partner is not appointed upon the occurrence of an event described in Sections 3.17, 3.18 or 3.19 then, provided there is at least one other Limited Partner, the Founding Limited Partner shall be deemed to be appointed as the successor General Partner and the Founding Limited Partner agrees to act as such, effective as of the occurrence of such event.

3.17 Retirement of the General Partner

The General Partner hereby agrees and covenants that it will not retire, resign or otherwise withdraw from the Limited Partnership prior to the appointment of a successor General Partner who shall agree to be bound by the provisions of this Limited Partnership Agreement. The resignation or withdrawal of the General Partner shall not be effective until such time as a successor is appointed in accordance with Section 3.16. The Partnership and the Limited Partners shall have the right to enforce this Section 3.17 without the consent or joinder of the General Partner and the General Partner and any successor General Partner hereby consent to any equitable remedies, including temporary and/or permanent injunctions or specific performance preventing the retirement or withdrawal of the General Partner or any successor general partner. Upon the retirement or withdrawal of the General Partner, the General Partner and the successor to the General Partner hereby covenant and agree to continue the business of the Limited Partnership without interruption.

3.18 Bankruptcy of the General Partner

The General Partner hereby agrees and covenants that it will not file or otherwise commence bankruptcy proceedings prior to the appointment of a successor General Partner who shall agree to be bound by the provisions of this Limited Partnership Agreement. Any filing or commencement of bankruptcy proceedings in respect of the General Partner shall not be effective until such time as a successor is appointed in accordance with Section 3.16. The Partnership and the Limited Partners shall have the right to enforce this Section 3.18 without the consent or joinder of the General Partner and the General Partner and any successor general partner hereby consent to any equitable remedies, including temporary and/or permanent injunctions or specific performance preventing such filings or proceedings. Upon the bankruptcy of the General Partner, the successor to the General Partner hereby covenants and agrees to continue the business of the Limited Partnership without interruption.

3.19 Dissolution of General Partner

The General Partner hereby agrees and covenants that it will not dissolve, liquidate or otherwise cease to exist prior to the appointment of a successor General Partner who shall agree to be bound by the provisions of this Limited Partnership Agreement. The Partnership and the Limited Partners shall have the right to enforce this Section 3.19 without the consent or joinder of the General Partner and the General Partner and any successor General Partner hereby consent to any equitable remedies, including temporary and/or permanent injunctions or specific performance preventing the dissolution or withdrawal, of the General Partner or any successor General Partner. Upon the dissolution or withdrawal of the General Partner after the appointment of a successor in accordance with Section 3.16, the General Partner and the successor to the General Partner hereby covenant and agree to continue the business of the Limited Partnership without interruption.

3.20 Prohibition on Non-Corporate General Partners

The Partners hereby covenant and agree that no individuals or entities, other than corporations, may be admitted as General Partner of the Limited Partnership and that any successor General Partner admitted to the Limited Partnership will be a corporation.

3.21 Valuation and Sale of Interest of Former General Partner

If the business of the Limited Partnership is continued after the resignation, deemed resignation, removal or retirement of the General Partner under this Article 3, the Limited Partnership shall purchase from such former General Partner its interest in the Limited Partnership for a price equal to

the fair market value of such interest (“Fair Market Value”), which shall not include any allowance for goodwill, trade names, patents or other intangible assets owned by the Limited Partnership, less the damages caused to the Limited Partnership by such former General Partner in the termination of its relationship with the Limited Partnership, if any. Such Fair Market Value shall be determined either by agreement between the Limited Partnership and the former General Partner or its personal representative or by agreement of two independent appraisers, one selected by the Limited Partnership and one selected by the former General Partner or its personal representative. If such appraisers are unable to agree on the value of the former General Partner’s interest in the Limited Partnership, they shall appoint a third independent appraiser whose appraisal must be between the two prior appraisals and whose determination as to value shall be final and binding. The cost of such appraisals shall be borne in equal amounts by the former General Partner and the Limited Partnership. The amount of damages to the Limited Partnership as aforesaid shall be determined by agreement between the Limited Partnership and the former General Partner or its personal representatives, and failing agreement shall be determined by a binding arbitration conducted pursuant to the *Commercial Arbitration Act* (British Columbia).

Promptly after the determination of the Fair Market Value, and after deducting any damages to the Limited Partnership caused by the former General Partner withdrawing, the Limited Partnership shall pay to the former General Partner in cash an amount equal to ten (10%) percent of such Fair Market Value less damages and shall deliver to such former General Partner a promissory note for the balance payable in five equal consecutive annual instalments commencing on the first anniversary of the date of such note. Such promissory note shall bear interest per annum at the Prime Rate plus two (2%) percent, which interest shall be due and payable annually on the date the principal payment for such year is due and payable.

#### **ARTICLE 4 OBLIGATIONS OF PARTNERS**

##### 4.1 Unlimited Liability of the General Partner

The General Partner has unlimited liability for the debts, liabilities, losses and obligations of the Limited Partnership.

##### 4.2 Limited Liability of Limited Partners and Founding Limited Partner

Subject to the provisions of the Act and any specific assumption of liability, the liability of each Limited Partner and the Founding Limited Partner for the debts, liabilities, losses and obligations of the Limited Partnership is limited to the amount of the capital contributed or agreed to be contributed to the Limited Partnership by him, her or it in respect of his, her or its Unit(s), as the case may be, as stated in the certificate or any amended certificate filed pursuant to the Act relating to the Limited Partnership, plus any additional capital required or agreed to be contributed by Limited Partners pursuant to the provisions hereof, plus his, her or its share of any undistributed income of the Limited Partnership as hereinafter provided.

##### 4.3 Indemnity by General Partner

The General Partner will indemnify and save harmless each Limited Partner from and against any and all costs, damages, liabilities or expenses incurred by a Limited Partner as a result of the liability of the Limited Partner not being limited in the manner herein described, except where caused by the act or omission of such Limited Partner.

The General Partner will indemnify and save harmless the Limited Partnership from and against any and all costs, damages, liabilities and expenses incurred by the Limited Partnership as a result of

any breach by the General Partner of its duties under this Limited Partnership Agreement, including reasonable legal expenses incurred by the Limited Partnership in defending an action based in whole or in part upon an allegation that the General Partner has been guilty of such breach if such defence is substantially unsuccessful.

## **ARTICLE 5 THE UNITS**

### 5.1 Capital

The Limited Partnership shall consist of 5,000 Units each having a subscription price of \$2,500. No more than 5,000 Units, exclusive of the interest of the Founding Limited Partner and the General Partner, shall be issued unless:

- (a) additional funding is required for the prudent and businesslike operation of the affairs of the Limited Partnership;
- (b) the General Partner shall have made reasonable efforts to obtain the necessary funding by debt financing or other borrowings by the Limited Partnership which borrowing must be non-recourse to the Limited Partners;
- (c) the additional Units are offered on terms substantially similar to the offering of Units under the Prospectus; and
- (d) any such additional Units are offered to Limited Partners holding Units *pro rata* in accordance with their Proportionate Shares before any such Units are offered to third parties.

### 5.2 Nature of Unit

The holder of each Unit shall have the right to exercise one vote for each Unit held by the Limited Partner in respect of all matters to be decided by the Limited Partners. Limited Partners will be entitled to receive allocations of income or loss, distributions on wind-up or other dissolution, or any return of capital, *pro rata* in accordance with their respective Income Shares or Proportionate Shares, as the case may be. Except as otherwise provided herein, no Unit shall have any preference or right in any circumstances over any other Unit.

Except for a fraction of a Unit which is created as a result of a partial retraction of a Unit pursuant to Article 7, no transfer of a fraction of a Unit will be permitted.

### 5.3 Unit Certificates

A Unit Certificate shall be in such form as is from time to time approved by the General Partner and shall not be valid unless signed by the General Partner.

### 5.4 Receipt by Limited Partner

The receipt of any money, securities and other property from the Limited Partnership by a person in whose name any Units are recorded, or if such Units are recorded in the names of more than one person, the receipt thereof by any one of such persons, or by the duly authorized agent of any such person in that regard, shall be a sufficient and proper discharge for that amount of money, securities and

other property payable, issuable or deliverable in respect of such Units and from all liability to see to the application thereof.

5.5 Registrar and Transfer Agent

- (a) The General Partner, or such other person as may be appointed from time to time by the General Partner, shall act as Registrar and Transfer Agent of the Limited Partnership and shall maintain the Register. Such Registrar and Transfer Agent shall perform or shall cause to be performed, all other duties usually performed by a Registrar and Transfer Agent of certificates of shares in a corporation, except as the same may be modified by reason of the nature of the Units.
- (b) Registration and transfers of Units will be effected only through the book entry only system administered by The Canadian Depository for Securities Limited (“CDS”). An Investor will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which the Investor has purchased Units, and will not have the right to receive physical certificates evidencing ownership of such Units.

5.6 Inspection of Records

The General Partner shall cause the Registrar and Transfer Agent to make the records relating to the Limited Partner available for inspection by any Limited Partner, or his agent duly authorized in writing, at the expense of the Limited Partner. A copy of the register of Limited Partners shall be provided to any Limited Partner on forty-eight hours notice in writing to the Registrar and Transfer Agent, at the expense of the Limited Partner requesting same.

5.7 Transfer of Units

A Unit may be assigned and transferred by a Limited Partner or such Limited Partner’s agent duly authorized in writing without restriction and no such transfer or assignment shall require any approval or consent from the General Partner or any other Limited Partner. However, the transferor must comply with the applicable securities legislation and the following conditions must be satisfied:

- (a) the transferee has executed, in forms acceptable to the Registrar and Transfer Agent, a transfer form and declaration that the transferee of the Unit is not a non-resident of Canada within the meaning of the Tax Act and is not a non-Canadian within the meaning of the *Investment Canada Act*;
- (b) the transferee agrees to assume the obligations of the transferor that pertain to the Unit transferred;
- (c) the transferee acquires the assigning Limited Partner’s capital account;
- (d) the transferee has paid such costs, expenses and disbursements, including legal fees, as are reasonably incurred by the Limited Partnership by reason of the transfer; and
- (e) such other requirements as may reasonably be required by the Registrar and Transfer Agent are satisfied,

provided that a transferee of a Unit will not become a Limited Partner in respect of that Unit until all filings and recordings required by law to validly effect a transfer have been duly made.

When a transferee is entitled to become a Limited Partner pursuant to the provisions hereof, the General Partner shall be authorized to admit such person to the Limited Partnership as a Limited Partner and the Limited Partners hereby consent to the admission of, and will admit, the transferee to the Limited Partnership as a Limited Partner, without further act of the Limited Partners. The General Partner, or the Registrar and Transfer Agent if not the General Partner, will:

- (a) record in the Register any such assignment and transfer;
- (b) make such filings and cause to be made such recordings as are required by law; and
- (c) forward notice of the transfer to the transferee.

5.8 Parties Not Bound to See to Trust or Equity

Except where specific provision has been made therefor in this Limited Partnership Agreement, the Registrar and Transfer Agent shall not, nor shall the General Partner, the Founding Limited Partner or the Limited Partners, be bound to see to the execution of any trust, expressed, implied or constructive, or any charge, pledge or equity to which any Unit or any interest therein are subject, or to ascertain or inquire whether any sale or transfer of any such Unit or interest therein by any Limited Partner or his personal representatives is authorized by such trust, charge, pledge or equity, or to recognize any person having any interest therein except for the person or persons recorded as such Limited Partner.

5.9 Liability on Transfer

When an assignment and transfer of any Unit is completed and the transferee is registered as a Limited Partner, the transferor of that Unit will be thereupon relieved of all obligations and liabilities relating to his Unit, including the obligations and liabilities under this Limited Partnership Agreement to the extent permitted by law and the transferee will assume all such obligations and liabilities.

5.10 Successors in Interest of Partners

The Limited Partnership shall continue notwithstanding the admission of any new General Partner or Limited Partner or the withdrawal, insolvency, dissolution, liquidation, winding up, bankruptcy or other disability or incapacity of the General Partner, the Founding Limited Partner or any Limited Partner. The Limited Partnership shall be dissolved only in the manner provided for in Article 10 hereof.

5.11 Incapacity, Death, Insolvency or Bankruptcy

Where a person becomes entitled to a Unit on the incapacity, death, insolvency or bankruptcy of a Limited Partner, or otherwise by operation of law, in addition to the requirements of Section 5.7 hereof, that person will not be recorded as or become a Limited Partner until:

- (a) the person produces evidence satisfactory to the General Partner of such entitlement; and
- (b) the person has delivered such other evidence, approvals and consents in respect of such entitlement as the General Partner may require and as may be required by law or by this Limited Partnership Agreement.

5.12 Lost Unit Certificate

Where a holder of Units claims that the Unit Certificate evidencing ownership of such Units has been defaced, lost, apparently destroyed or wrongly taken, the General Partner shall cause a Unit Certificate to be issued, provided that, if requested by the General Partner, the Limited Partner files with the General Partner an indemnity bond in such form and in such amount as may be satisfactory to the General Partner to protect the General Partner and the Limited Partnership from any loss, cost or damage that they may incur or suffer by complying with the request to issue a new Unit Certificate and provided further that the Limited Partner satisfies all other reasonable requirements imposed by the General Partner, including delivery of a form of proof of loss.

**ARTICLE 6**  
**CONTRIBUTIONS, ALLOCATIONS AND DISTRIBUTIONS**

6.1 Capital Contributions

The initial capital of the Limited Partnership shall be the aggregate amount of the capital contribution made or agreed to be made by all of the Limited Partners which shall be an amount of up to \$12,500,000 plus the contributions of the Founding Limited Partner and the General Partner in the amount of Ten Dollars (\$10) each. The capital contributed by each Limited Partner shall be \$2,500 for each Unit. Capital contributions will be made by Limited Partners if, as and when Units are subscribed for and issued. There is no requirement that all Units be issued and therefore the actual capital of the Limited Partnership may be less than the authorized capital of \$12,500,000.

It is hereby acknowledged and agreed that as of the date hereof each of the General Partner and the Founding Limited Partner has made a capital contribution of Ten Dollars (\$10). This contribution entitles each of the General Partner and the Founding Limited Partner to an interest in the profits of the Limited Partnership as calculated pursuant to Subsection 6.4(a) hereof, and to the return of their respective Ten Dollars (\$10) capital contributions, and such other rights as are specifically set out herein, and no more.

6.2 Payment of Subscription Proceeds

Each Investor will pay the Subscription Price by a way of a cash payment of \$2,500 per Unit subscribed for.

6.3 Discretion of the General Partner in Raising Capital

The General Partner has complete discretion in determining the terms and conditions of the Public Offering, and the General Partner may do all things which it deems necessary, convenient, appropriate or advisable in connection therewith. All things done or to be done by the General Partner in that regard are hereby ratified and confirmed. Without limiting the generality of the foregoing, the General Partner may raise capital for the Limited Partnership by offering up to 5,000 Units by way of the Public Offering and will admit subscribers for Units as Limited Partners of the Limited Partnership. Each Unit shall represent a contribution to the capital of the Limited Partnership in the amount of the Subscription Price for the Unit in question.

The Limited Partners hereby ratify, adopt and approve the actions of the General Partner taken or to be taken in connection with the Public Offering including, but not limited to, the preparation of the Prospectus and distribution of Units to qualified investors on behalf of the Limited Partnership.

6.4 Allocation of Profits and Losses

The Net Income and Net Loss of the Limited Partnership shall be allocated and distributed among the Partners on the following basis:

- (a) the General Partner shall be entitled to receive .005% of the Net Income or Net Loss of the Limited Partnership to a maximum of \$100 per annum, plus its Incentive Management Interest, and the Founding Limited Partner shall be entitled to receive .005% of the Net Income and Net Loss of the Limited Partnership to a maximum of \$100 per annum;
- (b) the balance of the Net Income or Net Loss of the Limited Partnership shall be allocated among the Limited Partners *pro rata* in accordance with their respective Income Shares.

6.5 Negative Capital Accounts

Notwithstanding the provisions of Section 6.4, if any Limited Partner has a negative balance in his, her or its capital account, the General Partner shall have the right to allocate Net Income to that Limited Partner in priority to other Limited Partners to the extent of the negative balance. The General Partner shall not allocate Net Losses to a Limited Partner if after the allocation, the Limited Partner would have a negative balance in his, her or its capital account.

6.6 General Partner Discretion in Allocation

The General Partner shall have the discretion, acting in good faith, to allocate revenue and expenses on a daily, incremental basis to ensure a fair distribution among Limited Partners after taking into consideration any matters that may be relevant. Adjustments may be made in respect of revenue earned or expenses incurred prior to the time each Limited Partner became a Limited Partner of the Limited Partnership and adjustments may be made in respect of fees paid in years prior to the year in which the Limited Partner became a Limited Partner. In calculating Net Income and Net Loss allocated to each Limited Partner, adjustments may be made to ensure that allocations to any Limited Partner in respect of fees and expenses incurred by the Limited Partnership shall not, on a cumulative basis, exceed such Limited Partner's Proportionate Share of the aggregate amount of such fees paid by the Limited Partnership. The General Partner shall also have the right to allocate revenues and expenses among Limited Partners to ensure they are treated equitably taking into account differences that may arise as a result of the acquisition of Units at different times in a year or in different calendar years.

6.7 Effect of Assignment on Allocation

Each Limited Partner who is a partner of the Limited Partnership at the end of each Fiscal Year will be allocated his, her or its Income Share of such Net Income and Net Losses for such Fiscal Year. Where a Limited Partner assigns a Unit prior to the end of the Fiscal Year, the portion of Net Income or Net Losses which would have been attributed to such assigning Limited Partner shall be allocated to the assignee who holds the Unit at the end of the Fiscal Year. Where a Unit was initially subscribed for after the beginning of the Fiscal Year, income and losses will be allocated on a proportionate basis in accordance with the portion of the Fiscal Year that the person was a Limited Partner.

6.8 Distributions

Subject to Subsection 6.8(c) and Section 10.2:

- (a) Distributable Cash shall be distributed quarterly, as cash flow permits, as follows:
- (i) first, to the Limited Partners an amount equal to the Minimum Return until each has received an amount which, when aggregated with all previous distributions pursuant to Subsection 6.8(a)(i) and Subsection 6.8(b)(iii), is equal to (but not in excess of) the sum of such Limited Partner's Minimum Return from the Date of Closing;
  - (ii) secondly, to the General Partner, to the extent not previously distributed, the Incentive Management Interest;
  - (iii) thirdly, as to the balance, 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner;
- (b) Extraordinary Net Cash Receipts will be distributed as and when funds are received and are available for distribution, as follows:
- (i) first, in the event of a Sale of a Property, to pay any costs involved in the Sale, including the Disposition Fee payable to the General Partner, and to pay all amounts required to discharge any Mortgages or encumbrances registered against the assets;
  - (ii) secondly, to pay all current obligations of the Limited Partnership, including without limitation, the Debenture Issuer Loan and any loans advanced by the General Partner or the Limited Partners, plus accrued interest;
  - (iii) thirdly, if the Limited Partners have not received cash distributions from Distributable Cash or Extraordinary Net Cash Receipts equal to the Minimum Return, to the Limited Partners until they have received the full Minimum Return in proportion to their accrued but unpaid Minimum Return and until each has received an amount which, when aggregated with all previous distributions pursuant to this Subsection 6.8(b)(iii) and Subsection 6.8(a)(i) is equal to (but not in excess of) the sum of such Limited Partner's Minimum Return from the Date of Closing;
  - (iv) fourthly, to the Limited Partners until the Limited Partners have received repayment in full of the Cash Proceeds, to the extent the Cash Proceeds have not been paid from previous distributions of Distributable Cash or Extraordinary Net Cash Receipts;
  - (v) fifthly, if the General Partner has not received any unpaid amount or amounts of the Incentive Management Interest to which it is entitled pursuant to Subsection 6.8(a)(ii) from the respective Dates of Closing, such amount or amounts will be distributed to the General Partner; and
  - (vi) sixthly, the balance of Extraordinary Net Cash Receipts will be distributed 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner.

The General Partner shall, in its discretion, be entitled to retain such reserves as it considers prudent for the Limited Partnership's business from any Extraordinary Net Cash Receipts;

- (c) The Founding Limited Partner is entitled to receive .005% of Distributable Cash to a maximum of \$100 for each fiscal period and to receive .005% of Extraordinary Net Cash Receipts to a maximum of \$100.

#### 6.9 Overpayments

In the event of any overpayment to a Limited Partner, such overpayment will be refunded by such Limited Partner to the Limited Partnership, and any underpayment will be paid by the Limited Partnership to the Limited Partners, within 30 days of the final determination of such underpayment or overpayment.

#### 6.10 Effect of Assignment on Distribution

If, during the Fiscal Year, a Limited Partner assigns or transfers a Unit, such Limited Partner is not entitled to, and the General Partner will not distribute to that Limited Partner, any share of the profits available for distribution in respect of the Unit transferred and will not allocate any profits or losses to the Limited Partner's capital account as of the date of transfer, but will allocate the profit or loss to the capital account of the beneficial holder of the Unit as at the end of the Fiscal Year.

#### 6.11 Adjustments

If the Accountants of the Limited Partnership determine that the share of a Limited Partner in the distribution or allocation of income or loss, calculated in accordance with this Limited Partnership Agreement, differs from the Limited Partner's share as determined by the General Partner, then the determination of the Accountants shall be deemed to be final and binding upon the Limited Partnership and the Limited Partners. The General Partner will cause the necessary adjustments to be made by payment or reallocation to or from such Limited Partner as the case may be.

#### 6.12 Payment of Adjustments

The General Partner will, within seven (7) days after receiving a report of the Accountants under Section 6.11 hereof, notify in writing each Limited Partner whose share of the income or loss is to be adjusted, of the amount of the adjustment, together with a cheque for the amount payable to the Limited Partner or a request for payment in respect of the amount payable by the Limited Partner, as the case may be. Each Limited Partner hereby agrees to pay any amount owing by the Limited Partner under Section 6.11, within fifteen (15) days from the date of notice of an adjustment given under this Section 6.12. If such amount is not paid within such 15 day period, such amount shall thereafter bear interest at the Prime Rate plus 4%, calculated and compounded monthly. Any unpaid amount together with interest thereon may be deducted from any distributions that the Limited Partner may otherwise be entitled to.

#### 6.13 Determination of Profits and Losses

Profits and losses of the Limited Partnership will be determined by the General Partner in accordance with Canadian generally accepted accounting principles consistently applied, subject to review by the Accountants where a dispute arises and the determination of the Accountants with respect to any such dispute shall be binding upon the Limited Partners, the General Partner and the Founding Limited Partner.

6.14 Commingling of Funds

The funds and assets of the Limited Partnership shall not be commingled with the funds or assets of any other person (including those of the General Partner).

6.15 Separate Capital Account

A separate capital account shall be established and maintained on the books of the Limited Partnership for the General Partner, the Founding Limited Partner, and each Limited Partner. A credit shall be made to each Limited Partner's capital account to reflect the Limited Partner's entitlement to any profit, Extraordinary Net Cash Receipts and any other amounts received by the Limited Partnership and there shall be deducted from each Limited Partner's capital account his, her or its share of any losses and all distributions made to the Limited Partner. No Limited Partner shall be entitled to withdraw any part of his, her or its capital account or to receive any distribution except as provided in this Limited Partnership Agreement.

6.16 Additional Capital Contributions and Partner Loans

No Limited Partner shall be required to make additional capital contributions to the Limited Partnership except pursuant to a call for additional capital contributions by the Limited Partners as provided for in Subsection 3.12(c). If the Limited Partnership requires additional funding, the General Partner may request that one or more Limited Partners voluntarily loan funds to the Limited Partnership. In the event that a Limited Partner, in its sole discretion, elects to make a loan to the Limited Partnership, then the Limited Partnership shall repay the loans, together with interest thereon, in priority to any distributions of Distributable Cash or Extraordinary Net Cash Receipts.

6.17 No Interest Payable

No Limited Partner shall be entitled to receive interest on the amount of his, her or its capital contribution or any balance in his, her or its capital account from the Limited Partnership. No Limited Partner shall be liable to pay interest to the Limited Partnership on any negative balance of capital or on a negative balance in his, her or its capital account unless interest may be charged pursuant to a specific provision hereof.

6.18 Individuality of Limited Partners

No Limited Partner shall be responsible for any of the losses of any other Limited Partner, nor share in the income or allocation of tax deductible expenses attributable to the Units of any other Limited Partner.

6.19 Return of Capital

A Limited Partner is only entitled to demand a return of such Limited Partner's capital contribution upon the dissolution, winding-up or liquidation of the Limited Partnership as provided in Section 10.2 hereof.

6.20 Withholding Tax

If the Limited Partnership is required by any applicable income tax or similar legislation to withhold an amount with respect to income allocated to or distributed to a partner, the amount withheld by the Limited Partnership shall be treated as a distribution of Distributable Cash or Extraordinary Net Cash

Receipts (a “Withholding Distribution”), whichever the case may be, to the partner to whom such withholding relates. The General Partner shall have the full discretion to determine whether any such withholding taxes are required to be paid and the amount of any such withholding taxes. The General Partner shall have full authority and discretion to determine the proper method or methods for assuring that Withholding Distributions are treated in a manner consistent with the provisions for distribution to Limited Partners contained herein.

## **ARTICLE 7 RETRACTION**

### 7.1 Limited Partnership’s Notice

The Limited Partnership will give to the Limited Partners in the manner provided in Section 12.2 on or before May 31 in each year, commencing May 31, 2007, a notice specifying (i) that the Limited Partners may require the Limited Partnership to retract some or all of their Units; (ii) the amount payable per Unit in respect of the retraction (the “Retraction Price”); and (iii) the place of payment.

### 7.2 Retraction Notice

The Limited Partners may deliver to the Limited Partnership on or before July 1 in each year (the “Notice Date”), commencing July 1, 2007, a notice (the “Retraction Notice”) setting out the intention of the Limited Partner to retract any Units, which notice shall specify the number of Units which the Limited Partner wishes to retract.

### 7.3 Retraction of Units

On January 15 in each year (the “Retraction Date”), commencing January 15, 2008, the Limited Partnership will retract Units in accordance with the following terms:

- (a) the obligation of the Limited Partnership to retract Units will be subject to the General Partner determining in its sole discretion that sufficient funds are available to the Limited Partnership for the purposes of retraction;
- (b) the number of Units which will be retracted on any one Retraction Date will not exceed 5% of the number of Units originally issued under the Public Offering;
- (c) if by any Notice Date, the Limited Partnership has received Retraction Notices requiring the Limited Partnership to redeem a number of Units in excess of 5% of the number of Units originally issued under the Public Offering, or if on a Retraction Date the General Partner determines that sufficient funds are not available to retract the Net Equity of the Units in respect of which Retraction Notices have been received, then the retraction of Units will be made *pro rata* to the Net Equity of the Units specified on Retraction Notices for retraction such that each Limited Partner who has given a Retraction Notice to the Limited Partnership will receive a partial repayment of their Net Equity;
- (d) on the Retraction Date, the Limited Partnership will pay the Retraction Price for each Unit being retracted on such Date, and the Retraction Price will be applied to the Net Equity of the Limited Partners holding Units which are retracted;
- (e) the provisions of Sections 7.4 to 7.10 will apply to all retractions of Units.

7.4 Partial Retraction of Units

The holder of any Unit which is retracted in part only, upon surrender of the Unit Certificate for such Unit for payment as required herein, shall be entitled to receive, without expense to such Limited Partner, a new Unit Certificate representing the fractional Unit remaining, and the Limited Partnership shall execute and deliver, at the expense of the Limited Partnership, such new Unit Certificate upon receipt of the Unit Certificate representing the Unit so surrendered.

7.5 Units Due on Retraction Date

- (a) If payment of the amounts required to be paid in connection with a retraction of a Unit is not made, all rights attaching to such Unit shall revive and continue as if such Unit had not been called for retraction.
- (b) In case any question shall arise as to whether any Notice of Retraction has been given as above provided and any deposit referred to below made, such question shall be decided by an arbitration conducted in accordance with the *Commercial Arbitration Act* (British Columbia).

7.6 Deposit of Moneys

Upon Units having been called for retraction as hereinbefore provided, the Limited Partnership shall pay or cause to be paid to the holders of such Units so called for retraction, upon surrender of Unit Certificates for such Units, the Retraction Price to which they are entitled.

7.7 Effect of Retraction

If the money necessary to redeem the Units due and payable or called for retraction shall have been paid to the holders of such Units due for payment or so called for retraction, such Units shall cease to be outstanding hereunder and the Minimum Return upon such Units shall cease to accrue from the date of payment.

7.8 Failure to Surrender Units Due or Called for Retraction

In case the holder of any Unit that is called for retraction fails to surrender the Unit Certificate for such Unit within 30 days of the Retraction Date or shall not within such time accept payment of the retraction funds payable in respect thereof, or give such receipt therefor, if any, as the Limited Partnership may require, such retraction funds shall be set aside and deposited in a separate account established for such purpose by the Limited Partnership, and such setting aside and depositing shall for all purposes be deemed a payment to the Limited Partner of the sum so set aside and deposited and, to that extent, the Limited Partner shall have no right except to receive payment out of the money so set aside and deposited upon surrender and delivery up of the Unit Certificate representing his, her or its Unit.

7.9 Surrender of Units for Cancellation

If the monies due upon any Unit shall become payable by retraction, the person presenting the Unit Certificate for such Unit for payment must surrender the same for cancellation. All Unit Certificates so surrendered for cancellation shall forthwith be delivered to the Limited Partnership and shall be cancelled by it and, subject to Section 7.4, no Unit Certificate shall be issued in substitution therefor.

7.10 Retraction of Limited Partnership Units

A Limited Partner (the “Retractor”) may not give a Retraction Notice to the Limited Partnership unless the Retractor, prior to or concurrently with the giving of the Retraction Notice, gives a notice to the Debenture Issuer that the Retractor (or the Registered Retirement Savings Plan trust of which the Retractor is the annuitant) wishes to retract a proportionate share of the Retractor’s (or such trust’s, as the case may be) Series A Debentures issued by the Debenture Issuer, such proportionate share to be equal to the proportionate share of the Units held by the Retractor in respect of which the Retractor has given or is giving a Retraction Notice to the Limited Partnership.

**ARTICLE 8  
ACCOUNTING AND REPORTING**

8.1 Books and Records

The General Partner will keep or cause to be kept on behalf of the Limited Partnership books and records reflecting the assets, liabilities, income and expenditures of the Limited Partnership and a register listing all Limited Partners and the Units. Such books, records and register will be kept available for inspection by any Limited Partner or his, her or its duly authorized representative (at the expense of such Limited Partner) during business hours at the offices of the General Partner. In the event the General Partner ceases to be the Registrar and Transfer Agent, the register shall thereupon be maintained at the office of such Registrar and Transfer Agent as may be appointed by the General Partner.

8.2 Annual Financial Information

The General Partner, or its agent in that behalf, shall be responsible for the preparation of annual financial statements of the Limited Partnership as at the end of each Fiscal Year. The General Partner, or its agent in that behalf, shall distribute a copy of such annual financial statements to each Limited Partner within ninety (90) days after the end of each Fiscal Year and will provide each Limited Partner with annual income tax information for each Fiscal Year by March 31 of the following year to assist in declaring his, her or its share of the Limited Partnership income; provided, however, each Limited Partner shall be solely responsible for filing all income tax returns and reporting his, her or its share of the Limited Partnership income or loss. All financial statements shall be prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis. The General Partner shall provide interim financial and management reports regarding the affairs of the Limited Partnership on a semi-annual basis.

**ARTICLE 9  
MEETINGS**

9.1 Meetings

The General Partner may convene meetings of the Limited Partners at any time and, upon the written request of one or more Limited Partners holding not less than 50% of the number of all issued and outstanding Units (the “Requisitioning Partners”), will convene a meeting of the Limited Partners. If the General Partner fails or neglects to call such a meeting within 60 days of receipt of a written request of the Requisitioning Partners, then any Requisitioning Partner may convene such meeting by giving notice to the Limited Partners in accordance with this Limited Partnership Agreement, signed by such person or persons as the Requisitioning Partners specify. Every meeting, however convened, will be conducted in accordance with this Limited Partnership Agreement. There is no requirement to hold annual general

meetings; however, the General Partner may call periodic information meetings from time to time to advise Limited Partners as to the status of the Properties.

9.2 Place of Meeting

Every meeting will be held in the City of Vancouver, British Columbia or at such other place in Canada as may be designated by the General Partner.

9.3 Notice of Meeting

Notice of any meeting will be given to each Limited Partner by prepaid mail, personal delivery or fax not less than twenty-one (21) days prior to such meeting, and will state:

- (a) the time, date and place of such meeting; and
- (b) in general terms, the nature of the business to be transacted at the meeting.

9.4 Accidental Omissions

Accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any Limited Partner will not invalidate the proceedings at that meeting.

9.5 Proxies

Any Limited Partner entitled to vote at a meeting may vote by proxy if a proxy has been received by the General Partner or the chairman of the meeting for verification prior to the meeting.

9.6 Validity of Proxies

A proxy purporting to be executed by or on behalf of a Limited Partner will be considered to be valid unless challenged at the time of or prior to its exercise, and the person challenging will have the burden of proving to the satisfaction of the chairman of the meeting that the proxy is invalid and any decision of the chairman concerning the validity of a proxy will be final.

9.7 Form of Proxy

Every proxy will be substantially in the form which follows or in such other form as may be approved by the General Partner or as may be satisfactory to the chairman of the meeting at which it is sought to be exercised:

“I, \_\_\_\_\_ of \_\_\_\_\_, in the Province of \_\_\_\_\_, being a Limited Partner of Sunstone Opportunity Fund Limited Partnership, hereby appoint \_\_\_\_\_ of \_\_\_\_\_ in the Province of \_\_\_\_\_, as my proxy, with full power of substitution to vote for me and on my behalf at the meeting of Limited Partners to be held on the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, and every adjournment thereof and every poll that may take place in consequence thereof.

As witness my hand this \_\_\_\_ day of \_\_\_\_\_, 20\_\_”

9.8 Corporations

A Limited Partner which is a corporation may appoint under seal or otherwise, an officer, director or other authorized person as its representative to attend, vote and act on his, her or its behalf at a meeting of Limited Partners.

9.9 Attendance of Others

Any officer or director of a General Partner, counsel to the General Partner or the Limited Partnership and representatives of the accountants of the Limited Partnership, will be entitled to attend and receive notice of any meeting of Limited Partners.

9.10 Chairman

The General Partner may nominate an individual (who need not be a Limited Partner) to be chairman of a meeting of Limited Partners and the person nominated by the General Partner will be chairman of such meeting unless the Limited Partners elect another person as chairman by Ordinary Resolution.

9.11 Quorum

Subject to this Limited Partnership Agreement, a quorum at any meeting of Limited Partners will consist of two or more persons present in person who collectively hold or represent by proxy not less than ten per cent (10%) of the outstanding Units in the Limited Partnership and who are entitled to vote on any resolution and a quorum for any specific resolution presented to the meeting shall be two or more persons present who hold or represent by proxy not less than ten per cent (10%) of the outstanding Units entitled to vote on such resolution. If, within half an hour after the time fixed for the holding of such meeting, a quorum for the meeting is not present, the meeting will be held at the same time and, if available, the same place not less than ten (10) days or more than twenty-one (21) days later (or if that date is not a business day, the first business day after that date), and the General Partner who called the meeting will give at least seven (7) days' notice to all Limited Partners of the date of the reconvening of the adjourned meeting. Such notice need not set forth the matters to be considered unless they are different from those for which the original meeting was called. At such reconvened meeting the quorum for the meeting and the quorum for any specific resolution to be passed at such meeting will consist of the Limited Partners then present in person or represented by proxy at such reconvened meeting.

9.12 Voting

Every question submitted to a meeting:

- (a) which requires a Special Resolution under this Limited Partnership Agreement will be decided by a poll; and
- (b) which does not require a Special Resolution will, except as otherwise provided in this Limited Partnership Agreement, be decided by an Ordinary Resolution on a show of hands unless a poll is demanded by a Limited Partner, in which case a poll will be taken,

and, in the case of an equality of votes, the chairman will not have a casting vote and the resolution will be deemed to be defeated. The chairman will be entitled to vote in respect of any Units held by the chairman or for which the chairman may be proxyholder. On any vote at a meeting of Limited Partners, a declaration of the chairman concerning the results of the vote will be conclusive.

Subject as herein provided, each person present at the meeting will have one vote for each Unit of which such person is registered as the Unit holder and one vote for each Unit in respect of which such person is the proxyholder.

For greater certainty, the General Partner and the Founding Limited Partner shall not be entitled to a vote in respect of their respective interests in the Limited Partnership unless such persons are also Limited Partners and hold Units.

Any Limited Partner who is a party to a contract or proposed contract or who has a material interest in a contract, proposed contract or transaction (either directly or indirectly, including through an Affiliate or Associate), which is the subject matter of a resolution, shall not be entitled to any vote on such resolution; provided however, that a Limited Partner shall be deemed not to have a material interest in a contract, proposed contract or transaction if the interest arises merely from the ownership of Units where the Limited Partner will have or receive no extra or special benefit or advantage not shared on an equal basis by all other Limited Partners.

9.13 Poll

A poll requested or required concerning:

- (a) the election of a chairman or an adjournment, will be taken immediately on request; or
- (b) any other matter, will be taken at the meeting or an adjournment of the meeting in such manner as the chairman directs.

9.14 Resolutions Binding

Any resolution, whether a Special Resolution or an Ordinary Resolution, passed in accordance with this Limited Partnership Agreement will be binding on all the Limited Partners and their respective heirs, executors, administrators, successors and assigns, whether or not any such Limited Partner was present in person or voted against any resolution so passed.

9.15 Powers Exercisable by Special Resolution

The following powers shall only be exercisable by Special Resolution passed by the Limited Partners:

- (a) consenting to the amendment of this Limited Partnership Agreement except as provided herein;
- (b) waiving any default by the General Partner on such terms as the Limited Partners may determine;
- (c) agreeing to any compromise or arrangement by the Limited Partnership with any creditor, or class or classes of creditors;
- (d) changing the Fiscal Year;
- (e) amending, modifying, altering or repealing any Special Resolution previously passed by the Limited Partners;
- (f) dissolving or terminating the Limited Partnership;

- (g) approving a settlement of an action against the General Partner as a result of a breach of its duties; and
- (h) creating or issuing additional interests in the Limited Partnership of a different class than the Units where such additional interests would have a preference or priority over the existing Units in respect of distributions of Distributable Cash, Extraordinary Net Cash Receipts, income or loss or return of contributed capital.

Where the General Partner, the Founding Limited Partner, or any director or officer thereof is the owner of a Unit, they shall be required to abstain from voting in respect of items (b) or (g) above and in addition, shall be required to abstain in any other circumstance in which there is a conflict of interest.

9.16 Powers Exercisable by Ordinary Resolution

Any other matters to be determined by the Limited Partners other than as is otherwise expressly provided for in this Limited Partnership Agreement shall be determined by Ordinary Resolution, provided such matter shall be permitted pursuant to Section 2.10.

9.17 Minutes

The General Partner will cause minutes to be kept of all proceedings and resolutions at every meeting, and copies of any resolutions of the Limited Partnership to be made and entered in books to be kept for that purpose, and any minutes, if signed by the chairman of the meeting, will be deemed to be evidence of the matters stated in them, and such meeting will be deemed to have been duly convened and held and all resolutions and proceedings shown in them will be deemed to have been duly passed and taken.

9.18 Additional Rules and Procedures

To the extent that the rules and procedures for the conduct of a meeting of the Limited Partners are not prescribed in this Limited Partnership Agreement, the rules and procedures will be determined by the chairman of the meeting.

9.19 Authorized Attendance

The chairman of the meeting or the General Partner has the right to authorize the presence of any person at a meeting regardless of whether the person is a Limited Partner. With the approval of the chairman of the meeting or the General Partner that person will be entitled to address the meeting.

**ARTICLE 10**  
**DISSOLUTION, LIQUIDATION AND DISTRIBUTION OF SALE PROCEEDS**

10.1 Dissolution and Termination

The Limited Partnership shall be dissolved upon the earlier of the expiration of its term as described in Section 2.6 or the authorization of a dissolution by Special Resolution and, in either case, after the completion of the liquidation of the Limited Partnership and distribution to the Limited Partners of all funds remaining after payment of all debts, liabilities and obligations of the Limited Partnership to its creditors. Notwithstanding any rule of law or equity to the contrary, the Limited Partnership shall not be terminated except in the manner provided for herein.

10.2 Distributions upon Dissolution

Upon the dissolution of the Limited Partnership, the assets of the Limited Partnership shall be liquidated and all proceeds thereof collected by the General Partner and all such proceeds shall be distributed as follows:

- (a) in the event that dissolution occurs upon the Sale of the last of the Properties, to pay any costs involved in the Sale, including the Disposition Fee payable to the General Partner, and to pay all amounts required to discharge any mortgages or encumbrances registered against the assets;
- (b) to pay all expenses incurred in the winding-up of the Limited Partnership;
- (c) to pay all of the liabilities of the Limited Partnership including any loans or advances made by Limited Partners and including amounts owing to the General Partner in respect of costs and expenses owing to it pursuant to this Limited Partnership Agreement, in the manner required by law;
- (d) to establish such reserves as the General Partner considers necessary;
- (e) to return to each Limited Partner the amount in such Limited Partner's capital account;
- (f) to return to the General Partner and the Founding Limited Partner the balance in their respective capital accounts;
- (g) to pay to the Limited Partners any unpaid portion of their Minimum Return;
- (h) if the General Partner has not received any unpaid amount or amounts of the Incentive Management Interest to which it is entitled pursuant to Subsection 6.8(a)(ii) from the respective Dates of Closing, to pay such amount to the General Partner; and
- (i) to distribute any balance then remaining 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner.

Alternatively, the Limited Partners may approve by Special Resolution distributions of all assets of the Limited Partnership in kind or *in specie* in which event each Limited Partner shall, subject to the provisions contained herein, be entitled to receive an undivided interest in each and every asset of the Limited Partnership in accordance with such Limited Partner's Proportionate Share as of the date of dissolution or sale.

10.3 Events Not Causing Dissolution

Notwithstanding any rule of law or equity to the contrary, the Limited Partnership shall not be dissolved except in accordance with this Limited Partnership Agreement. In particular, but without restricting the generality of the foregoing, the Limited Partnership shall not be dissolved or terminated by the removal, actual or deemed resignation, retirement, expulsion, death, incompetence, bankruptcy, insolvency, other disability or incapacity, dissolution, liquidation, winding-up or receivership of the General Partner or the admission, resignation or withdrawal of the Founding Limited Partner or of any Limited Partner.

## **ARTICLE 11 FORFEITURE**

### 11.1 Default by Limited Partner

Upon any Limited Partner defaulting in such Limited Partner's obligations pursuant to this Limited Partnership Agreement the General Partner may, at its option and in addition to any other remedies of the General Partner or the Limited Partnership, declare that the Limited Partner's Units are forfeited and the General Partner may forthwith, without any notice, without demand for payment, without advertisement, or without any other formality, all of which is hereby waived by each Limited Partner, sell the Units, or any of them, by public or private sale as fully and effectively as if the General Partner was the absolute owner thereof.

### 11.2 Application of Proceeds

Upon any sale of Units pursuant to Section 11.1, the General Partner shall apply any proceeds received from such sale to the payment of any amounts due from the Limited Partner to the Limited Partnership or the General Partner, in such manner as the General Partner deems to be appropriate, and the balance of any proceeds so received, if any, shall be paid to the Limited Partner.

### 11.3 Costs

All costs, charges and expenses incurred by the General Partner in respect of the Units or any realization thereon (including, without limitation, all solicitor and counsel fees on an as-paid basis) shall be deemed to be an amount due from the defaulting Limited Partner and may be deducted from any proceeds realized by the General Partner.

## **ARTICLE 12 MISCELLANEOUS**

### 12.1 Competing Interests

Each Limited Partner is entitled, without the consent of the General Partner or the other Limited Partners, to carry on any business whether or not of the same nature and competing with that of the Limited Partnership, and is not liable to account to the other Limited Partners therefor.

### 12.2 Notices

#### (a) Notice to the General Partner and Founding Limited Partner:

Except as otherwise provided in this Limited Partnership Agreement, any notice required or permitted to be given to the General Partner or the Founding Limited Partner under this Limited Partnership Agreement shall be sufficiently given if in writing and served personally on an officer of the General Partner or the Founding Limited Partner or sent by delivery, fax or by letter, postage prepaid, addressed to the addresses as set forth on page 1 of this Limited Partnership Agreement (unless at the time of mailing or within four (4) days thereafter there shall be a strike, interruption or lockout in the Canadian postal service, in which case the notice shall be given by personal delivery or fax). Any notice, if delivered or sent by fax, shall be considered to have been given on the next business day following the date of delivery or the date of sending of the fax, as the case may be or, if sent by letter, on the third business day following the date of mailing the letter in a regularly-maintained receptacle for the deposit of mail. The General Partner shall advise the Limited Partners of any change in the above addresses.

(b) Notice to the Limited Partners:

Except as otherwise provided in this Limited Partnership Agreement, any notice required or permitted to be given to a Limited Partner under this Limited Partnership Agreement shall be sufficiently given if in writing and served personally on the Limited Partner or, if delivered or sent by fax or by letter, postage prepaid, addressed to the last address of the Limited Partner as shown in the register of Limited Partners (unless at the time of mailing or within four days thereafter there shall be a strike, interruption or lockout in the Canadian postal service, in which case notice shall be given by personal delivery or fax). Any notice, if delivered or sent by fax, shall be considered to have been given on the next business day following the date of delivery or the date of sending of the fax, as the case may be or, if sent by letter, on the third business day following the date of mailing the letter in a regularly-maintained receptacle for the deposit of mail. Each Limited Partner shall advise the Registrar and Transfer Agent of any change in such Limited Partner's address as then shown on the register of Limited Partners.

12.3 Further Acts

The parties hereto agree to execute and deliver such further and other documents and to perform and cause to be performed such further and other acts and things as may be necessary or desirable in order to give full effect to this Limited Partnership Agreement and every part hereof.

12.4 Binding- Effect

Subject to the provisions regarding assignment and transfer herein contained, this Limited Partnership Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators and other legal representatives, successors and assigns.

12.5 Severability

Each provision of this Limited Partnership Agreement is intended to be severable. If any provision hereof is illegal or invalid, such illegality or invalidity shall not affect the validity of the remainder hereof.

12.6 Counterparts

This Limited Partnership Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. This Limited Partnership Agreement may also be adopted in any subscription or assignment forms or similar instruments signed by a Limited Partner or by the General Partner on his, her or its behalf, with the same effect as if such Limited Partner had executed a counterpart of this Limited Partnership Agreement. All counterparts and adopting instruments shall be construed together and shall constitute one and the same agreement.

12.7 Time

Time is of the essence hereof.

12.8 Governing Law

This Limited Partnership Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the parties hereto hereby submit to and attorn to the non-exclusive jurisdiction of the Courts of the Province of British Columbia.

12.9 Interpretation

For all purposes of this Limited Partnership Agreement, except as otherwise expressly provided or unless the context otherwise requires:

- (a) the headings are for convenience only and do not form a part of this Limited Partnership Agreement nor are they intended to interpret, define or limit the scope, extent or intent of this Limited Partnership Agreement or any provision hereof;
- (b) all accounting terms not otherwise defined herein have the meanings assigned to them and all computations made pursuant to this Limited Partnership Agreement, except as expressly provided otherwise, shall be made in accordance with Canadian generally accepted accounting principles applied on a consistent basis;
- (c) any reference to a statute shall include and shall be deemed to be a reference to such statute and to the regulations made pursuant thereto, with all amendments made thereto and in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing or superseding the statute so referred to or the regulations made pursuant thereto;
- (d) any reference to an entity shall include and shall be deemed to be a reference to any entity that is a successor to such entity;
- (e) words importing the masculine gender include the feminine gender or neuter gender and words in the singular include the plural, and vice versa; and
- (f) any capitalized term used but not defined herein shall have the meaning ascribed thereto in the Prospectus.

IN WITNESS WHEREOF this Limited Partnership Agreement is executed as of the day and year first above written.

**SUNSTONE REALTY ADVISORS (CANADA) INC.**

Per: *"Steve Evans"*  
Authorized Signatory

**SRA FIRST PARTNER CORP.**

Per: *"Steve Evans"*  
Authorized Signatory

Each person who from time to time becomes a  
Limited Partner, by his, her or its agent and attorney,  
**SUNSTONE REALTY ADVISORS (CANADA) INC.**

Per: *"Steve Evans"*  
Authorized Signatory