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*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended and, subject to certain exemptions, may not be offered or sold in the U.S.*

## PRELIMINARY PROSPECTUS

**Initial Public Offering**

**September 10, 2007**



### **SUNSTONE OPPORTUNITY (2007) REALTY TRUST** (the “Realty Trust”)

### **SUNSTONE OPPORTUNITY (2007) MORTGAGE FUND** (the “Mortgage Fund”) (hereinafter collectively called the “Issuers”)

**Minimum: \$5,000,000 (4,000 Units)**  
**Maximum: \$50,000,000 (40,000 Units)**  
**\$1,250 per Unit**  
(the “Offering”)

This Prospectus qualifies the distribution of up to 40,000 units (each a “Unit”) at a price of \$1,250 per Unit (the “Offering Price”). Each Unit is comprised of one unit of the Realty Trust (a “Trust Unit”) having a price of \$250, and one unit of the Mortgage Fund (a “Fund Unit”) having a price of \$1,000. **Units may only be acquired in multiples of ten.**

	Price to Public <sup>(1)</sup>	Agents' Commission <sup>(2)</sup>	Proceeds to Issuer <sup>(3)</sup>
<b>Per Unit</b>			
Per Trust Unit <sup>(4)</sup>	\$250	\$20	\$230
Per Fund Unit <sup>(4)</sup>	\$1,000	\$80	\$920
<b>Minimum Offering<sup>(5)</sup></b>			
4,000 Trust Units <sup>(4)</sup>	\$1,000,000	\$80,000	\$920,000
4,000 Fund Units <sup>(4)</sup>	\$4,000,000	\$320,000	\$3,680,000
<b>Maximum Offering</b>			
40,000 Trust Units <sup>(4)</sup>	\$10,000,000	\$800,000	\$9,200,000
40,000 Fund Units <sup>(4)</sup>	\$40,000,000	\$3,200,000	\$36,800,000

- (1) The Offering Price was determined by negotiation between the Lead Agent, the Realty Trust and the Mortgage Fund. No third-party valuation was obtained.
- (2) The promoter of this Offering, Sunstone Realty Advisors Inc., will co-ordinate the placement of the Units through the Agents and sub-agents in the jurisdictions where the Units are offered for sale. A commission and fees will be paid to the Agents and any sub-agents in connection with this Offering, at a rate equal to 8% of the gross proceeds of the Offering (the “Agents’ Commission”). As a further incentive to the Agents, Sunstone Investments has agreed to pay to the Agents an amount equal to 25% of any amounts realized by Sunstone Investments in respect of its Subordinate Co-Ownership Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Units. As well, Sunstone Management will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6<sup>th</sup> of the Asset Management Fee paid to Sunstone Management pursuant to the Services Agreement. Such trailer fee will only be paid by Sunstone Management to the Agents if it is collected by Sunstone Management. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units. Pursuant to the Cost Sharing and Recovery Agreement the Agents’ Commission and expenses incurred with respect to the Offering will be borne entirely by the Realty Trust. Refer to “Plan of Distribution – Agency Agreement”.
- (3) Before deduction of the balance of the expenses of the Offering estimated at \$225,000 to \$400,000.
- (4) Subject to the qualifications and assumptions discussed under the heading “Canadian Federal Income Tax Considerations”, the Trust Units and Fund Units will, on the date of closing, be qualified for investment by RRSPs and similar Plans. If either the Realty Trust or the Mortgage Fund, or both, cease to qualify as a mutual fund trust, a Trust Unit or Fund Unit, as the case may be, will cease to be a qualified investment for RRSPs and similar Plans. Adverse tax consequences may apply to a Plan, and an annuitant thereunder, if the Plan acquires or holds property that is not a qualified investment for the Plan. Refer to “Canadian Federal Income Tax Considerations” for further particulars.
- (5) There will be no closing unless a minimum of 4,000 Units are sold not more than 90 days after the date of the receipt for the Final Prospectus (as hereinafter defined). **Units may only be acquired in multiples of ten.**

**This is a “blind pool” Offering. Although the Issuers expect that the available net proceeds of the Offering will be applied by the Realty Trust in the purchase of one or more Properties, the specific Properties in which the Realty Trust will invest have not yet been determined. In any event, if the maximum Offering of 40,000 Units is sold, the Issuers expect that the Realty Trust will apply approximately \$45,600,000 (approximately 91.2% 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 Sunstone Management), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 4,000 Units is sold, the Issuers expect that the Realty Trust will apply approximately \$4,375,000 (approximately 87.5% 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 Sunstone Management), and to the creation of working capital reserves and reserves for renovations and upgrades.**

**The Fund Units and the Trust Units will not be listed, quoted or traded on any stock exchange or other public market. 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”. An investment in Units is appropriate only for Purchasers who have the capacity to absorb a loss of some or all of their investment.**

**“Related Parties” (as defined in the Glossary of Terms) shall not, in total, subscribe for more than 25% of the Units sold pursuant to the Offering.**

**Sunstone Realty Advisors Inc. (“SRAI”) is a connected issuer of one of the Agents, Sora Group Wealth Advisors Inc. (“SGWA”), due to the ownership of SGWA shares by the principals of SRAI, Darren Latoski and Steve Evans. Refer to “Plan of Distribution – Potential Agent Conflict”.**

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

The return on an investment in the Units is not comparable to the return on an investment in a fixed-income security. Cash distributions are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions. Although the Realty Trust and Mortgage Fund intend to distribute their available cash to the holders of Trust Units and Fund Units, such cash distributions may be reduced or suspended. The ability of the Realty Trust and Mortgage Fund to make cash distributions and the actual amount distributed will depend on the operations of the Properties acquired by the Realty Trust with the proceeds from its issuance of Trust Units and from the Mortgage Loan, and will be subject to various factors including those referenced under the heading "Risks of Real Estate Ownership" in the "Risk Factors" section of this Prospectus. In addition, the market value of the Trust Units and Fund Units may decline if the Realty Trust and/or Mortgage Fund are unable to meet their cash distribution targets in the future, and that decline may be significant.

**It is important for Purchasers to consider the particular risk factors that may affect the real estate market generally and therefore the stability of the distributions to Unitholders. Refer to "Risk Factors" for a more complete discussion of these risks and their potential consequences.**

The after-tax return from an investment in Units to Unitholders who are subject to Canadian income tax can be made up of both a return on and a return of capital, and will depend, in part, on the composition for tax purposes of distributions paid by the Mortgage Fund and the Realty Trust, as the case may be (portions of which distributions may be fully or partially taxable or may be tax deferred). Subject to the SIFT Measures (as defined herein), income (i.e. return on capital) is generally taxed in the hands of a Unitholder as ordinary income, capital gains, or dividends. Amounts in excess of the income of the Mortgage Fund or the Realty Trust that are paid or payable by the Mortgage Fund or the Realty Trust, respectively, to a Unitholder (i.e. return of capital) are generally non-taxable to a Unitholder (but reduce the Unitholder's adjusted cost base in the Fund Unit or the Trust Unit, as the case may be, for purposes of the Tax Act). The extent to which distributions will be tax deferred in the future will depend on the extent to which the Mortgage Fund and the Realty Trust can reduce their respective taxable income by claiming available non-cash deductions such as capital cost allowances. Refer to "Canadian Federal Income Tax Considerations".

The directors of the Realty Trustee, the Mortgage Fund Trustee, SRAI, Sunstone Investments and Sunstone Management 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)".

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 "commercially reasonable best efforts" basis in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island until December 15, 2007 by Dundee Securities Corporation, as lead agent, Raymond James Ltd., Bieber Securities Inc., Canaccord Capital Corporation, Sora Group Wealth Advisors Inc., Blackmont Capital Inc., Laurentian Bank Securities Inc. and MGI Securities Inc., subject to: (a) prior sale, if, as and when issued and delivered by the Realty Trust in respect of the Trust Units and by the Mortgage Fund in respect of the Fund Units in accordance with the conditions of the Agency Agreement referred to in "Plan of Distribution"; (b) the approval of certain legal matters by Clark Wilson LLP, Vancouver, British Columbia on behalf of the Realty Trust and the

Mortgage Fund; and (c) the approval of certain legal matters by Miller Thomson LLP on behalf of the Agents. The Agents 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 Trust Units and Fund 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. Beneficial owners of Units, and of the underlying Trust Units and Fund Units, will not have the right to receive physical certificates evidencing their ownership of such securities. Refer to “Plan of Distribution”.**

## TABLE OF CONTENTS

<b>FORWARD-LOOKING STATEMENTS .....</b>	<b>VII</b>
<b>PROSPECTUS SUMMARY .....</b>	<b>VIII</b>
<b>1. GLOSSARY OF TERMS.....</b>	<b>XXI</b>
<b>2. CORPORATE STRUCTURE .....</b>	<b>1</b>
2.1 Name and Incorporation .....	1
2.2 Intercorporate Relationships .....	1
<b>3. DESCRIPTION OF THE BUSINESSES OF THE ISSUERS .....</b>	<b>3</b>
3.1 Business of the Realty Trust .....	3
3.2 Business of the Mortgage Fund .....	3
3.3 The Properties .....	3
<b>4. DEVELOPMENT OF THE BUSINESSES OF THE ISSUERS.....</b>	<b>7</b>
4.1 Description and General Development Since Inception .....	7
4.2 Significant Acquisitions.....	8
4.3 Trends .....	8
4.4 Stated Business Objectives .....	9
4.5 Milestones .....	9
<b>5. USE OF PROCEEDS .....</b>	<b>10</b>
<b>6. SELECTED FINANCIAL INFORMATION.....</b>	<b>14</b>
6.1 Financial Information .....	14
<b>7. EARNINGS COVERAGE RATIOS .....</b>	<b>15</b>
7.1 Realty Trust.....	15
7.2 Mortgage Fund.....	15
<b>8. DESCRIPTION OF THE SECURITIES DISTRIBUTED .....</b>	<b>15</b>
8.1 Trust Units .....	15
8.2 Fund Units.....	24
8.3 The Co-Ownership.....	33
8.4 The Mortgage Loan .....	37
8.5 Subscription .....	37
<b>9. SHARE AND LOAN CAPITAL.....</b>	<b>38</b>
9.1 Existing and Proposed Share Capital.....	38
9.2 Long-Term Debt .....	39
<b>10. PRIOR SALES .....</b>	<b>39</b>
<b>11. PRINCIPAL SECURITYHOLDERS .....</b>	<b>39</b>
<b>12. DIRECTORS AND OFFICERS .....</b>	<b>40</b>
12.1 Name, Address, Occupation and Security Holding .....	40
12.2 Corporate Bankruptcies .....	52
12.3 Penalties or Sanctions (Directors and Officers).....	52
12.4 Potential Conflicts of Interest (Directors and Officers).....	53
12.5 Insurance Coverage for Directors and Officers and Indemnification .....	53
<b>13. EXECUTIVE COMPENSATION.....</b>	<b>53</b>
13.1 Compensation .....	53
13.2 Management Agreements .....	54
13.3 Long-Term Incentive Plans - Awards.....	55

13.4	Option/SAR Grants.....	55
13.5	Compensation Committee.....	55
13.6	Indebtedness of Directors and Executive Officers.....	55
<b>14.</b>	<b>PLAN OF DISTRIBUTION.....</b>	<b>56</b>
14.1	Maximum Offering.....	56
14.2	Minimum Offering.....	56
14.3	Agency Agreement.....	56
14.4	Potential Agent Conflict.....	57
<b>15.</b>	<b>CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....</b>	<b>57</b>
<b>16.</b>	<b>RISK FACTORS.....</b>	<b>67</b>
<b>17.</b>	<b>PROMOTER.....</b>	<b>72</b>
<b>18.</b>	<b>LEGAL PROCEEDINGS.....</b>	<b>72</b>
<b>19.</b>	<b>AUDITORS.....</b>	<b>72</b>
<b>20.</b>	<b>REGISTRAR AND TRANSFER AGENT.....</b>	<b>72</b>
<b>21.</b>	<b>MATERIAL CONTRACTS.....</b>	<b>72</b>
21.1	Particulars of Material Contracts.....	72
21.2	Inspection of Contracts and Reports.....	73
<b>22.</b>	<b>EXPERTS.....</b>	<b>73</b>
<b>23.</b>	<b>PURCHASERS' STATUTORY RIGHTS.....</b>	<b>73</b>
	<b>FINANCIAL STATEMENTS.....</b>	<b>74</b>
	<b>CERTIFICATE OF THE REALTY TRUST.....</b>	<b>1</b>
	<b>CERTIFICATE OF THE MORTGAGE FUND.....</b>	<b>2</b>
	<b>CERTIFICATE OF THE AGENTS.....</b>	<b>3</b>

## **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 Realty Trust, 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. Refer to “Risk Factors”.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this Offering 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.*

**Structure of the Offering:** The securities being distributed pursuant to this Prospectus are bundled as investment Units, each of which is comprised of two separate underlying securities: one Unit of the Realty Trust (a "Trust Unit"); and one Unit of the Mortgage Fund (a "Fund Unit"). The Offering consists of a minimum of 4,000 Units and a maximum of 40,000 Units, at a price of \$1,250 per Unit. Each Trust Unit has a price to the public of \$250 and each Fund Unit has a price to the public of \$1,000. Refer to "Plan of Distribution".

### **Units may only be acquired in multiples of ten.**

Assuming the maximum Offering, the Mortgage Fund will invest the proceeds from the issuance of Fund Units in the Mortgage Loan to the Realty Trust. The Mortgage Loan will be in the principal amount of up to \$40,000,000, will bear interest at a rate of 8.1% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2008, and will mature on October 31, 2012.

The Realty Trust will invest the proceeds from the issuance of Trust Units and from the Mortgage Loan in the acquisition, ownership and operation through the Co-Ownership of a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada (or interests in such properties) and for limited development of capital properties as income-producing real estate for long-term investment.

Pursuant to the Cost Sharing and Recovery Agreement all costs and expenses incurred by the Mortgage Fund in respect of this Offering will be borne by the Realty Trust as a cost of borrowing the Mortgage Loan. Therefore, all proceeds of this Offering, net of the Agents' Commission and expenses, will ultimately be used by the Realty Trust in the purchase, ownership and operation of the Properties through its interest in the Co-Ownership.

### **Business of the Realty Trust**

The Realty Trust is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia and created pursuant to the Realty Trust Declaration. It was established, among other things, to:

- (a) own and operate a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada, or interests in such properties, and for limited development of capital properties as income-producing real estate for long-term investment; and



- (b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Realty Trust, make other investments as contemplated by the Realty Trust Declaration, pay amounts payable by the Realty Trust in connection with the redemption of any Trust Units, and make distributions to Trust Unitholders.

The principal business of the Realty Trust will be to issue Trust Units and borrow the Mortgage Loan, to invest the proceeds from such issuance in its interest in the Properties, and to own and operate its interest in the Properties through the Co-Ownership.

**Business of the Mortgage Fund**

The Mortgage Fund is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia and created pursuant to the Mortgage Fund Declaration. It was established, among other things, to:

- (a) invest in the Mortgage Loan;
- (b) earn and distribute to the Fund Unitholders income derived from the investment in the Mortgage Loan; and
- (c) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Mortgage Fund, make other investments as contemplated by the Mortgage Fund Declaration, pay amounts payable by the Mortgage Fund in connection with the redemption of any Fund Units, and make distributions to Fund Unitholders.

The principal business of the Mortgage Fund will be to issue Fund Units and to invest in and hold the Mortgage Loan. The Mortgage Loan bears interest at a rate of 8.1% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2008, and matures on October 31, 2012.

**The Co-Ownership Agreement:**

Sunstone Investments is a company engaged in identifying real estate investment opportunities. In order to take advantage of such investment opportunities, Sunstone Investments and the Realty Trust have formed the Co-Ownership pursuant to the Co-Ownership Agreement for the purposes of owning and operating a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada, or interests in such properties, and for limited development of capital properties as income-producing real estate for long-term investment.

**Co-Ownership Interests:**

Under the terms of the Co-Ownership Agreement, the Realty Trust and Sunstone Investments will each own an undivided beneficial interest in the Properties owned through the Co-Ownership.

The Realty Trust will be responsible for funding the payment of all costs and expenses incurred by the Co-Ownership in the acquisition, ownership and operation of the Properties owned through the Co-

Ownership. As a co-owner, the Realty Trust will be entitled to receive, in priority to amounts received by Sunstone Investments:

- (a) the Minimum Return, being a minimum return of 8% per annum, cumulative but not compounded, calculated on the Realty Trust's Net Equity in the Properties owned and operated by the Co-Ownership; and
- (b) in the case of a capital transaction, such as a refinancing, sale or expropriation of a Property or the receipt of insurance proceeds, the amount of the Realty Trust's Net Equity which it has invested in the Co-Ownership.

After payment to Sunstone Investments of the Subordinate Return, the Realty Trust will be entitled to receive 80% of the balance of all cash flows, revenues and proceeds from the Properties.

As a co-owner under the Co-Ownership Agreement, Sunstone Investments will identify prospective Properties for investment by the Realty Trust and Sunstone Investments through the Co-Ownership, will undertake and implement financial, physical and environmental due diligence in respect of each such prospective Property, will coordinate the placement of Senior Mortgage Loans and will engage counsel to complete the purchase of the Properties for the Co-Ownership. After acquisition, Sunstone Investments will develop an ownership and asset management strategy for each Property and oversee the implementation of such strategy.

No fees will be paid to Sunstone Investments under the Co-Ownership Agreement. However, Sunstone Investments will be entitled to receive, after payment to the Realty Trust of the Minimum Return and the amount of the Realty Trust's Net Equity which it has invested in the Co-Ownership:

- (a) the Subordinate Return, being an amount equal to 20/80ths of the total Minimum Return realized by the Realty Trust; and
- (b) 20% of the balance of all cash flows, revenues and proceeds from the Properties.

Refer to "Description of the Securities Distributed- the Co-Ownership".

**Investment Objectives:**

The Co-Ownership's primary investment objectives are as follows:

- (a) to co-own a diversified portfolio of quality residential and/or commercial revenue-producing Properties with positive cash flow;
- (b) to provide quarterly cash flow distributions targeted at 8%, upon full investment of the net proceeds allocated to the purchase price of Properties;
- (c) to provide an opportunity to enhance the Co-Ownership's return on

capital and the Purchaser's yield through limited development of capital properties as income-producing real estate for long-term investment; and

- (d) 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:**

Sunstone Investments and the Realty Trust have agreed under the Co-Ownership Agreement, to comply with the following general guidelines in acquiring Properties:

- (a) assuming all 40,000 Units offered under this Prospectus are issued, not more than 40% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement on account of the Agents' Commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) assuming all 40,000 Units offered under this Prospectus are issued, not more than 20% of the net proceeds from such issuance will be invested in opportunities for development of capital properties as income-producing real estate for long-term investment, through joint ventures, partnerships or similar entities;
- (c) in the event that less than 40,000 Units are issued, 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 (d) below, or more than 20% of the net proceeds to investment in opportunities for development of capital properties as income-producing real estate for long-term investment, 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); and
- (d) upon purchase, each Property (other than a capital property under development) would be expected to generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the Co-Ownership's invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. Sunstone Investments will be able to waive this minimum requirement for Properties which Sunstone Investments believes provide unique value added opportunities through development of capital properties, replacement of management, re-leasing or similar initiatives.

**Services Agreement:**

Pursuant to a Services Agreement between the Realty Trust and Sunstone Investments, as co-owners under the Co-Ownership Agreement, and Sunstone Management, Sunstone Management has agreed to provide certain services relating to the Properties, including structuring the Co-Ownership and this Offering, structuring the ownership of each of the Properties, arranging for the Senior Mortgage Loans in respect of the Properties, negotiating and completing the sale of a Property, overseeing and supervising property management of the Properties, and preparing annual financial reports on the Properties.

In consideration of providing such services, Sunstone Management 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), the Disposition Fee, in an amount equal to 1.5% of the selling price for each Property, and the Asset Management Fee, in an amount equal to 1.5% of the Net Asset Value.

**Plan Of Distribution:**

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

There will be no closing unless a minimum of 4,000 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 Agents in trust.

Sales commissions (the "Agents' Commission") will be paid to the Agents at a rate equal to 8% of the purchase price of the Trust Units and the Fund Units. Pursuant to the Cost Sharing and Recovery Agreement the Agents' Commission and expenses will be borne entirely by the Realty Trust as a cost of issuing Trust Units and borrowing the Mortgage Loan. As a further incentive to the Agents or any sub-agents, Sunstone Investments has agreed to pay to the Agents an amount equal to 25% of any amounts realized by Sunstone Investments in respect of its Subordinate Co-Ownership Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Units, such assignment to be made on a basis determined by Sunstone Investments. As well, Sunstone Management will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6<sup>th</sup> of the Asset Management Fee paid to Sunstone Management pursuant to the Services Agreement. Such trailer fee will only be paid by Sunstone Management to the Agents if it is collected by Sunstone Management. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units. Refer to "Plan of Distribution".

**Use Of Proceeds:**

Assuming that the maximum Offering of 40,000 Units is sold, the gross proceeds to the Issuers will be \$50,000,000. Of this amount, \$40,000,000 will be received by the Mortgage Fund and invested in the Mortgage Loan to the Realty Trust and \$10,000,000 will be received by the Realty Trust. The gross proceeds therefore received by the Realty Trust, plus estimated Senior Mortgage Loans in the aggregate principal amount of \$115,932,203 will be used by the Realty Trust to: pay the Agents' Commission of \$4,000,000; pay the other expenses of this Offering estimated at 400,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$154,576,272; pay due diligence and documentation costs relating to the purchase of such Properties of \$3,091,525; create reserves for renovation and upgrading of such Properties of \$772,881; create reasonable working capital reserves for such Properties of \$772,881; and pay the Financing Fee of \$2,318,644. Refer to "Use of Proceeds".

Assuming that the minimum Offering of 4,000 Units is sold, the gross proceeds to the Issuers will be \$5,000,000. Of this amount, \$4,000,000 will be received by the Mortgage Fund and invested in the Mortgage Loan to the Realty Trust and \$1,000,000 will be received by the Realty Trust. The gross proceeds therefore received by the Realty Trust, plus estimated Senior Mortgage Loans in the aggregate principal amount of \$10,372,983 will be used by the Realty Trust to: pay the Agents' Commission of \$400,000; pay the other expenses of this Offering estimated at \$225,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$14,112,902; pay due diligence and documentation costs relating to the purchase of such Properties of \$282,258; create reserves for renovation and upgrading of such Properties of \$70,565; create reasonable working capital reserves for such Properties of \$70,565; and pay the Financing Fee of \$211,693. Refer to "Use of Proceeds".

**Redemption of Trust Units:**

Trust Units will be redeemable at any time on the demand of the Trust Unitholders, subject to applicable law and certain other conditions. Trust Units will be redeemed at a redemption price per Trust Unit equal to either:

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of
  - (i) the aggregate value of the real estate assets of the Realty Trust (including the Realty Trust's Priority Co-Ownership Interest in the Properties) on the last day of the most recent calendar quarter that ends prior to the redemption date; plus

(ii) the aggregate value of the cash and other working capital assets of the Realty Trust on the redemption date; less

(iii) the aggregate of:

(A) the aggregate value of the Realty Trust's liabilities on the redemption date (including the aggregate amount of the Mortgage Loan and any Trust Notes outstanding on the redemption date);

(B) the amount to which Sunstone Investments would be entitled under the Co-Ownership Agreement (to the extent not taken into account in (i) above) if the Co-Ownership was terminated and liquidated on the redemption date; and

(C) the amount which would be payable to Sunstone Management (other than amounts included in (iii)(A) above) if the Services Agreement and Administration Agreement were terminated on the redemption date,

divided by the number of outstanding Trust Units on the redemption date.

The redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption will be paid to a Trust Unitholder by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the Trust Units were tendered for redemption, provided that:

(a) the total amount payable by the Realty Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$50,000;

(b) the total amount payable by the Realty Trust by cash payment in respect of the redemption of Trust Units in any twelve month period ending at the end of that calendar quarter will not exceed  $\frac{3}{4}$  of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period;

(c) after such payment the ratio of the aggregate principal amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of outstanding Trust Units would not exceed 4:1; and

(d) in the event the Trust Units are listed on a stock exchange or similar market, the normal trading of the Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

If any of the conditions in paragraphs (a) to (d) above preclude the payment of the redemption price in cash (and the Realty Trustee does not, in its sole discretion, waive such limitation in respect of all Trust Units tendered for redemption in any particular calendar quarter), the redemption price shall be paid and satisfied by way of either of the following methods to be selected by the Realty Trustee, using its sole discretion:

- (a) the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption; or
- (b) a distribution *in specie* to the Trust Unitholder of a number of Debt Securities (each in the principal amount of \$100) having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption.

**Redemption of Fund Units:**

Fund Units will be redeemable at any time on the demand of the Fund Unitholders, subject to applicable law and certain other conditions. Fund Units will be redeemed at a redemption price per Fund Unit equal to either:

- (a) where the Fund Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Fund Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Fund Units on the redemption date; or
- (b) where the Fund Units are not listed on a stock exchange or similar market, 95% of the aggregate principal amount of the Mortgage Loan on the redemption date plus
  - (i) the aggregate value of the cash and other working capital assets of the Mortgage Fund; less
  - (ii) the aggregate value of the Mortgage Fund's liabilities on the redemption date (including the aggregate amount of any Fund Notes outstanding on the redemption date),

divided by the number of outstanding Fund Units on the redemption date.

The redemption price per Fund Unit multiplied by the number of Fund Units tendered for redemption will be paid to a Fund Unitholder by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the Fund Units were tendered for redemption, provided that:

- (a) the total amount payable by the Mortgage Fund by cash payment in respect of the redemption of Fund Units for that calendar quarter will not exceed \$50,000;
- (b) the total amount payable by the Mortgage Fund by cash payment in respect of the redemption of Fund Units in any twelve month period ending at the end of that calendar quarter will not exceed 3/4 of 1% of the aggregate subscription price of all Fund Units that were issued and outstanding at the start of such twelve month period;
- (c) after such payment the ratio of the aggregate principal amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of outstanding Trust Units would not be less than 4:1; and
- (d) in the event the Fund Units are listed on a stock exchange or similar market, the normal trading of the Fund Units is not suspended or halted on any stock exchange on which the Fund Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

If any of the conditions in paragraphs (a) to (d) above preclude the payment of the redemption price in cash (and the Fund Trustee does not, in its sole discretion, waive such limitation in respect of all Fund Units tendered for redemption in any particular calendar quarter), the redemption price shall be paid and satisfied by way of either of the following methods selected by the Fund Trustee using its sole discretion:

- (a) the issuance and delivery of a number of Fund Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Fund Unit multiplied by the number of Fund Units tendered for redemption; or
- (b) a distribution *in specie* to the Fund Unitholder of a number of Debt Securities (each in the principal amount of \$100) having an aggregate principal amount equal to the redemption price per Fund Unit multiplied by the number of Fund Units tendered for redemption.

**Management:**

The directors of each of the Realty Trustee and the Mortgage Fund Trustee are Robert King and James Redekop. The sole officers of the Realty Trustee and the Mortgage Fund Trustee are Darren Latoski, President, and Robert King, Secretary. Refer to “Directors and Officers”.

**Risk Factors:**

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

*This is a Blind Pool Offering* – The net proceeds of the Offering will ultimately be invested in the acquisition by the Realty Trust and Sunstone Investments through the Co-Ownership of one or more Properties.



However, the specific Properties in which the net proceeds will be invested have not yet been determined. Depending on the return on investment achieved on the Properties that may be acquired through the Co-Ownership, the Unitholders' return on their respective investments in the Trust Units and Fund Units will vary.

*Reliance on Management of Sunstone Management and Sunstone Investments* – 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 Sunstone Management and Sunstone Investments and their 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 Trust Units and Fund Units, and it is expected that there will be no market for the Units, Trust Units or Fund Units.

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

*Subsequent Priority of Fund Mortgage* – Generally, the Fund Mortgage and the amount outstanding under the Mortgage Loan will be subsequent in priority to the interests of the Lenders of the Senior Mortgage Loans granted by the Realty Trust and Sunstone Investments as co-owners under the Co-Ownership to secure financing used in the purchase, ownership and operation of Properties. However, pursuant to the terms of the Mortgage Loan Agreement, the Realty Trust may grant one or more further mortgages to Lenders to secure such proceeds or to secure financing used in the development of capital properties as income-producing real estate for long-term investment. In such cases, the Fund Mortgage will be subsequent in priority to two or more mortgages and will be a third or subsequent charge of the subject Property. Mortgages ranking subsequent to a first charge are generally considered a higher risk than a first position mortgage since they are subject to the interests of prior charge holders.

*Registration of Fund Mortgage only in certain circumstances* – The Fund Mortgage will be registered as a charge against title to the Properties only in certain circumstances

*Risks of Real Estate Ownership* – An investment in Trust Units and Fund Units is an indirect investment in real estate through the Realty Trust's interest in the Co-Ownership and the Properties acquired by the Realty Trust and Sunstone Investments through the Co-Ownership. Investment in real estate is subject to numerous risks, which include but are not limited to the following:

- (a) *Financing Risks* – There is no assurance that the Realty Trust will be able to obtain sufficient Senior Mortgage Loans to finance the acquisition of Properties on commercially acceptable terms or at all. There is also no assurance that any Senior Mortgage Loans, if

obtained, will be renewed when they mature. In the absence of mortgage financing, the number of Properties which the Realty Trust and Sunstone Investments will be able to purchase through the Co-Ownership will decrease and the return from the ownership of Properties may be reduced.

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

- (b) *Interest Rate Fluctuations* – The Senior Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Realty Trust’s cost of borrowing.
- (c) *Environmental Matters* – Under various environmental and ecological laws, the Realty Trust 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 Realty Trust’s ability to sell its Co-Ownership interest in such a Property or to borrow using its Co-Ownership interest in such Property as collateral, and could potentially also result in claims against the Realty Trust by private parties.
- (d) *Uninsured Losses* – The Realty Trust and Sunstone Investments will, under the terms of the Co-Ownership Agreement, arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned through the Co-Ownership 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.
- (e) *Reliance on Property Management* – The Realty Trust, Sunstone Management and Sunstone Investments 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.
- (f) *Competition for Real Property Investments* – The Realty Trust and Sunstone Investments will, through the Co-Ownership, compete for suitable real property investments with other individuals, corporations, real estate investment trusts and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those

sought by Realty Trust and Sunstone Investments. Such competition would tend to increase purchase prices of real estate properties and reduce the yield on such investments.

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

*Liability of Unitholders* – There is a risk that a Trust Unitholder or Fund Unitholder could be held personally liable for obligations in connection with the Realty Trust or Mortgage Fund, respectively (to the extent that claims are not satisfied by the Realty Trust or Mortgage Fund, as the case may be). The Realty Trust Declaration and the Mortgage Fund Declaration provide that no Unitholder shall be held to have any personal liability as such for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Realty Trust or Mortgage Fund or their respective Trustees (to the extent that claims are not satisfied by the Trust). In any event, each of the Realty Trust Declaration, the Mortgage Fund Declaration and the Co-Ownership Agreement requires the respective Trustee and Sunstone Investments to ensure that any written contract or commitment of either the Realty Trust (including the Co-Ownership) or Mortgage Fund include an express limitation of liability except where not reasonably possible.

*Risks Associated with Redemptions*

- (a) *Use of Available Cash* – The payment in cash by the Realty Trust and Mortgage Fund, respectively, of the redemption price of Trust Units and Fund Units will reduce the amount of cash available to the Realty Trust and Mortgage Fund for the payment of distributions to the holders of Trust Units and Fund Units, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.
- (b) *Limitation on Payment of Redemption Price in Cash* – The total cash amount available for the payment of the redemption price of Trust Units or Fund Units by the Realty Trust and Mortgage Fund, respectively, is limited to, in each case, \$50,000 in each calendar quarter and in each case is also limited in any twelve month period to 3/4 of 1% of the aggregate subscription price of all Trust Units or Fund Units, as the case may be, that were issued and outstanding at the start of such twelve month period. Further, certain requirements must be satisfied with respect to the ratio of the aggregate amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of Trust Units in order for the redemption price to be paid in cash.
- (c) *Payment of Redemption Price in Kind* – As a result of the foregoing limitations, the redemption of Trust Units may be paid by way of a Trust Note or a Debt Security and the redemption of Fund Units may

be paid by a Fund Note or Debt Security. Trust Notes, Fund Notes and Debt Securities are payable over a term of several years with annual interest at the Canada Five-Year Yield. Trust Notes, Fund Notes and Debt Securities received as a result of redemptions of Trust Units or Fund Units may not be liquid. Further, they may not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant under a Plan, including the redeeming Unitholder becoming subject to a penalty tax, the Plan annuitant being deemed to receive income from the Plan, or, in the case of an RESP, having the Plan's tax exempt status revoked. Accordingly, Plans that propose to invest in Trust Units or Fund Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Units.

*Tax Matters* – The tax treatment of investment and real estate activities and of the Issuers has a material effect on the advisability of an investment in the Units. Refer to “Canadian Federal Income Tax Considerations”.

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

**Summary Financial Information:**

Included in this Prospectus are: audited financial statements of Sunstone Opportunity (2007) Realty Trust for the period from formation on September 4, 2007 to September 5, 2007, and audited financial statements of Sunstone Opportunity (2007) Mortgage Fund for the period from formation on September 4, 2007 to September 5, 2007

## 1. GLOSSARY OF TERMS

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

- (a) **“Administration Agreement”** an agreement dated as of September 4, 2007 among Sunstone Management, the Realty Trust and the Mortgage Fund, pursuant to which Sunstone Management will provide certain managerial and administrative services to each of the Realty Trust and the Mortgage Trust;
- (b) **“Agency Agreement”** means an agreement dated as of  $\blacklozenge$ , 2007 between the Realty Trustee, as trustee for and on behalf of the Realty Trust, the Mortgage Fund Trustee, as trustee for and on behalf of the Mortgage Fund, SRAI, Sunstone Investments, Sunstone Management and the Agents;
- (c) **“Agents”** means, collectively, the Lead Agent, Raymond James Ltd., Bieber Securities Inc., Canaccord Capital Corporation, Sora Group Wealth Advisors Inc., Blackmont Capital Inc., Laurentian Bank Securities Inc. and MGI Securities Inc.;
- (d) **“Asset Management Fee”** means an annual fee equal to 1.5% of the Net Asset Value payable monthly on the last day of each month during the term of the Services Agreement in an amount equal to 0.125% of the Net Asset Value at the beginning of each such month, plus an amount equal to the amount of any portion of the Asset Management Fee for a previous year or years of the term of the Services Agreement, the payment of which was waived by Sunstone Management, payable within 30 days of the presentation by Sunstone Management of an invoice therefore;
- (e) **“Business Day”** means any day which is not a Saturday, Sunday or statutory holiday in the Province of British Columbia;
- (f) **“Canada Five-Year Yield”** means on any date means the yield to maturity on such date (expressed as a percentage), assuming semi-annual compounding, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of approximately five years, which Canada Five-Year Yield shall be determined by a major Canadian investment dealer selected by either the Realty Trustee or the Fund Trustee;
- (g) **“CBCA”** means the *Business Corporations Act* (Canada), as amended from time to time;
- (h) **“Cost Sharing and Recovery Agreement”** means an agreement dated as of September 4, 2007 between the Realty Trust and the Mortgage Fund pursuant to which the Realty Trust has agreed to bear all of the costs of this Offering, including those incurred by the Mortgage Fund, as a cost of borrowing under the Mortgage Loan, such aggregate Offering costs to be treated under the Co-Ownership Agreement as a cost of the Co-Ownership;
- (i) **“Co-Ownership”** means the co-ownership formed by the Realty Trust and Sunstone Investments pursuant to the Co-Ownership Agreement for the identification, acquisition, ownership and operation of the Properties;
- (j) **“Co-Ownership Agreement”** means the agreement establishing the Co-Ownership made as of September 4, 2007 between Sunstone Investments and the Realty Trust;

- (k) **“Current Liabilities”** means the current liabilities of the Realty Trust, whether incurred directly or through the Co-Ownership, and of Sunstone Investments, whether incurred directly or through the Co-Ownership (but in relation to the Properties), other than interest or other amounts on the Mortgage Loan or Trust Notes or any distributions or other amounts due on the Trust Units;
- (l) **“Debt Securities”** means debt securities of any subsidiary of either the Realty Trust or the Mortgage Fund that may be created and issued from time to time, including Redemption Notes issued to either the Realty Trust or the Mortgage Fund pursuant to a Transfer Agreement, that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the option of the issuer prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (m) **“Disposition Fee”** means a fee in the amount of 1.5% of the gross sales price of a Property, plus GST if applicable, payable to Sunstone Management by the Realty Trust as a cost of the Co-Ownership in consideration of Sunstone Management negotiating and finalizing the sale of such Property on behalf of the Realty Trust;
- (n) **“Final Prospectus”** means the final version of this Prospectus which will be filed by the Issuers with the Securities Commissions;
- (o) **“Financing Fee”** means a fee payable to Sunstone Management by the Realty Trust as a cost of the Co-Ownership pursuant to the Services Agreement for financing services, in an amount equal to 1.5% of the gross purchase price of a Property, plus GST if applicable, and payable to Sunstone Management upon the completion of the purchase of each Property;
- (p) **“Fund Mortgage”** means a mortgage interest in the Properties securing payment of the obligations under the Mortgage Loan, such mortgage to be granted by the Realty Trust and Sunstone Investments on their beneficial co-ownership interests in the Properties under the Co-Ownership Agreement, and ranking after the mortgage interests of Lenders under the Senior Mortgage Loans. A Fund Mortgage may only in certain circumstances be also registered against the titles to the Properties that are registered in the name of a nominee or bare trustee;
- (q) **“Fund Notes”** means promissory notes of the Mortgage Fund issued that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Mortgage Fund’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (r) **“Fund Property”** means all of the property and assets of the Mortgage Fund held in trust by the Mortgage Fund Trustee pursuant to the Mortgage Fund Declaration;
- (s) **“Fund Unit”** means a redeemable unit of beneficial interest in the Mortgage Fund;
- (t) **“Fund Unitholder”** means a holder of record of any Fund Unit;
- (u) **“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;
- (v) **“Issuers”** means, collectively, Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund;
- (w) **“Lead Agent”** means Dundee Securities Corporation;

- (x) **“Lender”** means a lender and mortgagee of any of the Senior Mortgage Loans;
- (y) **“Mabe Property”** means the lands and premises purchased by Pure Industrial Real Estate Trust from Sunstone (2005) LP and located at 1601 Dickson Street, Montreal, Quebec as more particularly described under the heading “Directors and Officers – Sunstone (2005) LP”;
- (z) **“Minimum Return”** means a portion of the Realty Trust’s Priority Co-Ownership Interest in the cash flows, revenues and proceeds from the Properties owned and operated through the Co-Ownership which is equal to 8% per annum, cumulative but not compounded, calculated on the Realty Trust’s Net Equity in such Properties;
- (aa) **“Mortgage Fund”** means Sunstone Opportunity (2007) Mortgage Fund, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;
- (bb) **“Mortgage Fund Declaration”** means the Declaration of Trust establishing the Mortgage Fund made as of September 4, 2007 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Funds Units as provided therein;
- (cc) **“Mortgage Fund Property”** means all of the property and assets of the Mortgage Fund held in trust by the Mortgage Fund Trustee pursuant to the Mortgage Fund Declaration;
- (dd) **“Mortgage Fund Trustee”** means SRAI Mortgage Fund (2007) Inc., a private, closely-held British Columbia corporation;
- (ee) **“Mortgage Loan”** means a loan by the Mortgage Fund to the Realty Trust in the principal amount of up to \$40,000,000, having the terms described in this Prospectus and being secured by the Fund Mortgage;
- (ff) **“Mortgage Loan Agreement”** means the agreement dated as of September 4, 2007 and made between the Mortgage Fund and the Realty Trust, pursuant to which the Mortgage Fund has agreed to lend up to \$40,000,000 to the Realty Trust on the security of the Mortgage Loan and other collateral agreements;
- (gg) **“MRRS System”** means the Mutual Reliance Review System for Prospectuses administered by the Canadian Securities Administrators pursuant to National Policy 43-201;
- (hh) **“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 Senior Mortgage Loans;
- (ii) **“Net Subscription Proceeds”** means the net proceeds received by the Realty Trust from the issuance of Trust Units and the advance of the Mortgage Loan, after any payment by the Realty Trust directly and pursuant to the Cost Sharing and Recovery Agreement of any Agents’ Commission, fees and expenses and the other expenses of this Offering;
- (jj) **“Offering”** means the offering of a minimum of 4,000 Units at a price of \$1,250 per Unit for gross proceeds of \$5,000,000 and a maximum of 40,000 Units at a price of \$1,250 per Unit for gross proceeds of \$50,000,000. Units may only be acquired and held in blocks of ten Units;
- (kk) **“Offering Price”** means \$1,250 per Unit;

- (ll) **“Ordinary Resolution”** in respect of the Realty Trust or the Mortgage Fund, as the case may be, means a resolution approved by not less than 50% of the votes cast by those Trust Unitholders or Fund Unitholders, as the case may be, who vote in person or by proxy at a duly convened meeting of Trust Unitholders or Fund Unitholders or a written resolution signed by Trust Unitholders or Fund Unitholders entitled, in the aggregate, to not less than 50% of the aggregate number of votes of the Trust Unitholders or Fund Unitholders;
- (mm) **“Other Indebtedness”** means, other than Current Liabilities, any indebtedness of the Realty Trust, whether incurred directly or through the Co-Ownership, and any indebtedness of Sunstone Investments, whether incurred directly or through the Co-Ownership (but in relation to the Properties), including Senior Mortgage Loans, but excluding any principal or other amounts due on the Mortgage Loan or Trust Notes, or any distributions or other amounts due in respect of the Trust Units;
- (nn) **“Plans”** means RRSPs, RESPs, registered retirement income funds, and deferred profit sharing plans, as those phrases are defined in the Tax Act, and **“Plan”** means any of them;
- (oo) **“Priority Co-Ownership Interest”** means the Realty Trust’s undivided beneficial co-ownership interest in and to all Properties that are subject to the Co-Ownership Agreement which:
  - (i) entitles the Realty Trust to a portion of the cash flows, revenues and proceeds from such Properties, in priority to Sunstone Investments’ Subordinate Return, after satisfaction of the Current Liabilities which are then due and payable, which portion shall be in an amount equal to: (i) the Minimum Return, and (ii) after payment of the Subordinate Return to Sunstone Investments 80% of the balance of the cash flows, revenues and proceeds; and
  - (ii) requires the Realty Trust to bear all costs, Current Liabilities, or other debts arising from the business of the Co-Ownership that are in excess of the Subordinate Net Equity, which liabilities and costs shall be recoverable by the Realty Trust from cash flows, revenues and proceeds of co-owned Properties in priority to the Subordinate Co-Ownership Interest;
- (pp) **“Property”** means one of the Properties;
- (qq) **“Properties”** means the lands and premises or interests therein to be purchased, owned and operated by the Realty Trust and Sunstone Investments pursuant to the Co-Ownership Agreement;
- (rr) **“Prospectus”** means this prospectus and any amendments hereto;
- (ss) **“Purchaser”** means the purchaser of Units;
- (tt) **“Qualifying Provinces”** means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island;
- (uu) **“Realty Trust”** means Sunstone Opportunity (2007) Realty Trust, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;



- (vv) **“Realty Trust Declaration”** means the Declaration of Trust establishing the Realty Trust made as of September 4, 2007 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein;
- (ww) **“Realty Trust Property”** means all of the property and assets of the Realty Trust held in trust by the Realty Trustee pursuant to the Realty Trust Declaration;
- (xx) **“Realty Trustee”** means SRAI Realty Services (2007) Inc., a private, closely-held British Columbia corporation;
- (yy) **“Realty Trust’s Net Equity”** means the cash contributed by the Realty Trust in respect of the acquisition, ownership, and operation of the Properties through the Co-Ownership, including for these purposes the proceeds from the issuance of the Trust Units and the Mortgage Loan applied to the Properties but excluding any Current Liabilities or Other Indebtedness, less the aggregate of any proceeds received by the Realty Trust arising from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds to the extent not applied towards satisfaction of Current Liabilities or Other Indebtedness;
- (zz) **“Receipt”** means a mutual reliance review system (MRRS) decision document issued the Securities Commission that is designated as the principal regulator, for the Final Prospectus pursuant to National Policy 43-201, *“Mutual Reliance Review System for Prospectuses”* and each receipt issued for the Final Prospectus by a Securities Commission that opts out of the MRRS System;
- (aaa) **“Redemption Notes”** means promissory notes to be issued by a Subsidiary Trust pursuant to a Transfer Agreement in payment for property transferred to the Subsidiary Trust by the payee, or an undivided beneficial interest in any such property;
- (bbb) **“Related Party”** means, with reference to any of the Issuers, any of the following: (1) any person who participates in the management of any of the Issuers, the Realty Trustee, the Mortgage Fund Trustee; (2) any person who participates in the management of a Property; (3) the contractor, where the proceeds from the Offering are used to build or develop a Property; (4) a promoter or an affiliate of a promoter; (5) an affiliate of a person mentioned in (1), (2) or (3), or a person with whom any such affiliate is associated, including limited partnerships or other real estate entities set up by any such persons; or (6) any director or officer of a person mentioned in (1), (2), (3), (4) or (5), as well as the persons with whom he or she is associated;
- (ccc) **“RESPs”** means registered education savings plans as defined in the Tax Act;
- (ddd) **“RRSPs”** means registered retirement savings plans as defined in the Tax Act;
- (eee) **“Securities”** means the Units, the Trust Units and the Fund Units;
- (fff) **“Securities Commission”** means any one of the Securities Commissions;
- (ggg) **“Securities Commissions”** means, collectively, the securities commissions or other securities regulatory authorities in the Qualifying Provinces;
- (hhh) **“Senior Mortgage Loans”** means one or more mortgages of the Properties to be granted by the Realty Trust and Sunstone Investments as co-owners under the Co-Ownership (or, if a Property is held by a nominee entity on behalf of the Co-Ownership, 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;
- (iii) **“Services Agreement”** means an agreement dated as of September 4, 2007 between the Realty Trust and Sunstone Investments, as co-owners under the Co-Ownership Agreement, and Sunstone Management pursuant to which Sunstone Management has agreed to provide certain services relating to the Properties;
  - (jjj) **“Special Resolution”** means a resolution approved by not less than 75% of the votes cast by those Trust Unitholders or Fund Unitholders, as the case may be, who vote in person or by proxy at a duly convened meeting of Trust Unitholders or Fund Unitholders, or a written resolution signed by Trust Unitholders or Fund Unitholders entitled, in the aggregate, to not less than 75% of the aggregate number of votes of the Trust Unitholders or Fund Unitholders;
  - (kkk) **“SRAI”** means Sunstone Realty Advisors Inc., a private, closely-held British Columbia company, and the promoter of this Offering;
  - (lll) **“Subordinate Co-Ownership Interest”** means Sunstone Investments’ undivided beneficial co-ownership interest in and to all Properties that are subject to the Co-Ownership Agreement, which entitles Sunstone Investments, subject to the Realty Trust’s Minimum Return, to a portion of the cash flows, revenues and proceeds from such Properties after satisfaction of all liabilities, which portion shall be in an amount equal to: (i) the Subordinate Return, and (ii) 20% of the balance of the cash flows, revenues and proceeds, and which requires Sunstone Investments to invest the Subordinate Net Equity towards the acquisition, ownership and operation of the Properties;
  - (mmm) **“Subordinate Net Equity”** means the equity requirements of Sunstone Investments pursuant to the Co-Ownership, which shall be equal to \$1,000 plus any additional funding that Sunstone Investments shall in its sole discretion provide to support the business of the Co-Ownership;
  - (nnn) **“Subordinate Return”** means Sunstone Investments’ entitlement under the Co-Ownership Agreement, subject to the Realty Trust’s Minimum Return, to the distribution of a portion of the cash flows, revenues and proceeds from the Properties held under the Co-Ownership Agreement, which portion shall be in an amount equal to 20/80ths of the total Minimum Return realized by the Realty Trust to the date the Subordinate Return is received;
  - (ooo) **“Subsidiary Trust”** means an open-ended investment trust to be established pursuant to the laws of the Province of British Columbia and which will be a subsidiary of either the Realty Trust or the Mortgage Fund;
  - (ppp) **“Sunstone (2004) LP”** means Sunstone Opportunity Fund (2004) Limited Partnership, a British Columbia limited partnership;
  - (qqq) **“Sunstone (2005) LP”** means Sunstone Opportunity Fund (2005) Limited Partnership, a British Columbia limited partnership;
  - (rrr) **“Sunstone (2006) LP”** means Sunstone Opportunity Fund (2006) Limited Partnership, a British Columbia limited partnership;
  - (sss) **“Sunstone Investments”** means Sunstone Investments (2007) Inc., a private, closely-held British Columbia company;

- (ttt) **“Sunstone LP”** means Sunstone Opportunity Fund Limited Partnership, a British Columbia limited partnership;
- (uuu) **“Sunstone Management”** means Sunstone Realty Advisors (2007) Inc., a private, closely-held British Columbia company;
- (vvv) **“Tax Act”** means the *Income Tax Act* (Canada), as amended from time to time;
- (www) **“Team Tube Properties”** means nine properties purchased by Pure Industrial Real Estate Trust from Sunstone (2005) LP located at 7470 Vantage Way, Delta, British Columbia; 13325 Comber Way, Surrey, British Columbia; 75, Golden Drive, Coquitlam, British Columbia; 7805 – 51st Street SE, Calgary Alberta; 1401 – 17th Avenue SE, Calgary, Alberta; 1390 – 17th Avenue SE, Calgary, Alberta; 9203- 35 Avenue NW, Edmonton, Alberta; 333 DeBaets Street, Winnipeg, Manitoba; and 8055 Esquesing Line, Milton, Ontario;
- (xxx) **“Transfer Agreement”** means an agreement to be entered into between the Realty Trust or the Mortgage Fund with a Subsidiary Trust pursuant to which the Realty Trust or the Mortgage Fund, as the case may be, may transfer Trust Property or Fund Property, respectively, or an undivided beneficial interest in Trust Property or Fund Property, to the Subsidiary Trust in consideration for the issuance by the Subsidiary Trust of Redemption Notes for the purpose of delivering such Redemption Notes as an *in specie* distribution on the redemption of Trust Units or Fund Units;
- (yyy) **“Trust Note”** means promissory notes of the Realty Trust issued that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Realty Trust’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (zzz) **“Trust Property”** means all of the property and assets of the Realty Trust held in trust by the Realty Trustee pursuant to the Trust Declaration;
- (aaa) **“Trust Unit”** means a redeemable unit of beneficial interest in the Realty Trust;
- (bbb) **“Trust Unitholder”** means a holder of record of any Trust Unit;
- (ccc) **“Unitholder”** means a holder of record of any Trust Unit or Fund Unit; and
- (ddd) **“Units”** means a minimum of 4,000 units and a maximum of 40,000 units to be offered by the Issuers pursuant to the Prospectus, and each such unit consisting of one Trust Unit and one Fund Unit.

## **2. CORPORATE STRUCTURE**

### **2.1 Name and Incorporation**

#### ***Realty Trust***

The Realty Trust is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Realty Trust was formed by a Declaration of Trust made September 4, 2007 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein.

The trustee of the Realty Trust is SRAI Realty Services (2007) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on August 17, 2007 under incorporation number BC0800148 and under the name “SRA Realty Services (2007) Inc.” and changed its name to “SRAI Realty Services (2007) Inc.” on September 7, 2007.

The head office and address for service of the Realty Trust and the Realty Trustee is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. The Realty Trustee’s registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

#### ***Mortgage Fund***

The Mortgage Fund is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Mortgage Fund was formed by a Declaration of Trust made September 4, 2007 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Fund Units as provided therein.

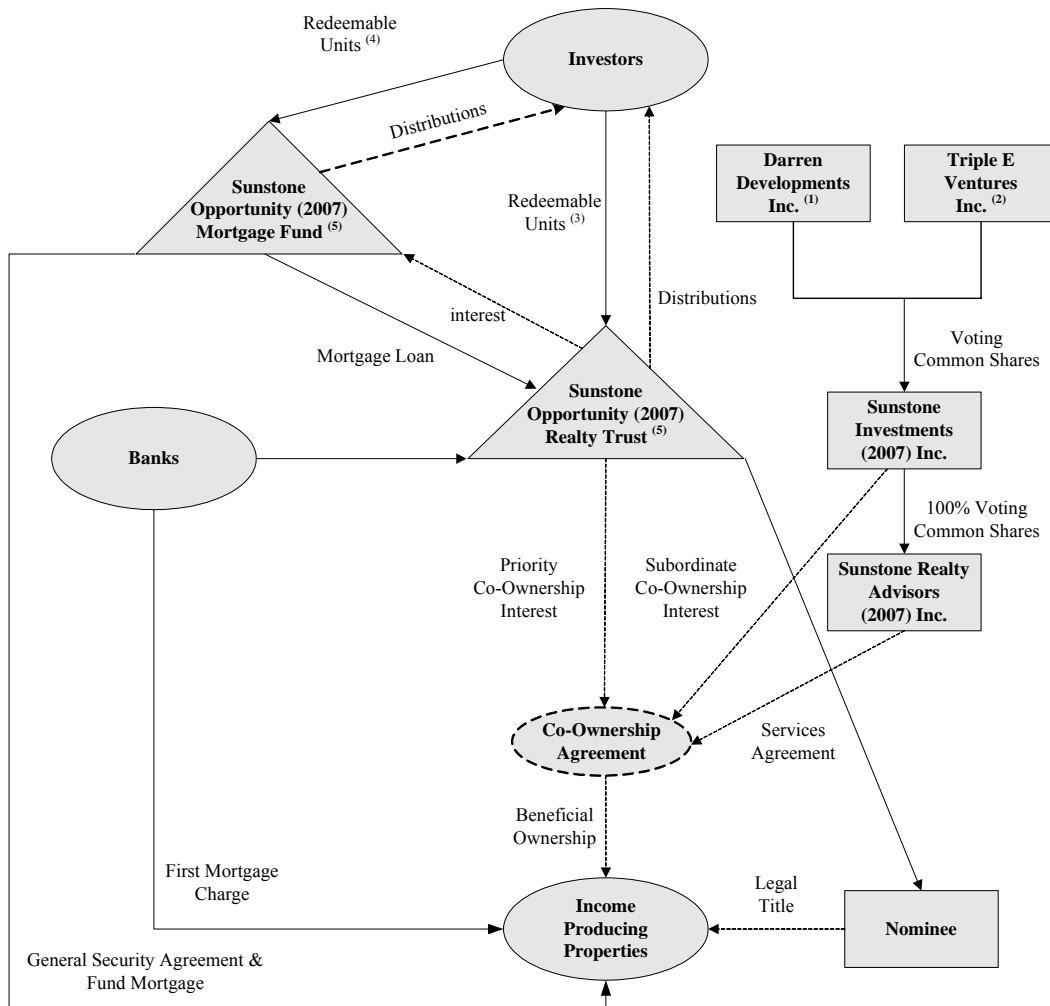
The trustee of the Fund Trust is SRAI Mortgage Fund (2007) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on July 27, 2007 under incorporation number BC0798317 and the name SRAI Debenture Fund (2007) Inc., and changed its name to SRAI Mortgage Fund (2007) Inc. on August 30, 2007.

The head office and address for service of the Mortgage Fund and the Mortgage Fund Trustee is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. The Mortgage Fund Trustee’s registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

### **2.2 Intercorporate Relationships**

The following chart sets forth the relationships among the Realty Trust, the Mortgage Fund, the Realty Trustee, the Mortgage Trustee, Sunstone Investments and Sunstone Management, each of which 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 Realty Trust and are invested by the Realty Trust in the Properties through the Co-Ownership.

**INVESTMENT STRUCTURE**



- (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 Trust Unit are summarized in “Description of the Securities Distributed – Trust Units”.*
- (4) *The terms and conditions attaching to each Fund Unit are summarized in “Description of the Securities Distributed – Fund Units.*
- (5) *SRAI has made a capital contribution of \$10 to each of the Realty Trust and the Mortgage Fund, which comprises the initial property of the Realty Trust and the Mortgage Fund, respectively. SRAI has no further obligation to contribute capital to the Realty Trust or the Mortgage Fund. SRAI is entitled to receive the return of its \$10 capital contributions upon the first closing of Trust Units and Fund Units.*
- (6) *The Realty Trust will use the net proceeds received from the issuance of Trust Units to purchase the Properties. The Mortgage Fund will invest the proceeds from the sale of Fund Units in the Mortgage Loan*

*to the Realty Trust. Pursuant to the Cost Sharing and Recovery Agreement, the Realty Trust has agreed to bear (as a cost of the Realty Trust issuing Trust Units and borrowing the Mortgage Loan) all of the costs and expenses of this Offering in connection with the issuance of the Trust Units and the Fund Units.*

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

#### **3.1 Business of the Realty Trust**

The Realty Trust has been established for the purposes of issuing Trust Units, borrowing the Mortgage Loan and investing in the Properties. The Realty Trust will also temporarily hold cash for the purposes of paying the expenses and liabilities of the Realty Trust, pay amounts payable by the Realty Trust in connection with the redemption of any Trust Units, and make distributions to Trust Unitholders. The principal business of the Realty Trust will be to issue Trust Units and to invest in the Properties.

The Realty Trust's long-term objective is to earn income from the Realty Trust's interest in the Properties held in Co-Ownership, being a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada. An investment in Trust Units is intended to provide Purchasers with the opportunity to receive cash distributions originating from the ongoing operation of the Properties; and the opportunity to receive, in certain circumstances, the proceeds from a refinancing of a Senior Mortgage Loan or a sale of a Property.

#### **3.2 Business of the Mortgage Fund**

The Mortgage Fund has been established for the purposes of investing in the Mortgage Loan. The Mortgage Fund will also temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Mortgage Fund, pay amounts payable by the Mortgage Fund in connection with the redemption of any Fund Units, and make distributions to Fund Unitholders. The principal business of the Mortgage Fund will be to issue Fund Units and to acquire and hold the Mortgage Loan.

The Mortgage Fund's long-term objective is to earn interest income from its investment in the Mortgage Loan, to distribute such interest income to holders of the Fund Units in accordance with the terms of the Mortgage Fund Declaration, and to redeem the Fund Units upon the repayment of the Mortgage Loan by the Realty Trust. An investment in Fund Units is intended to provide Purchasers with the opportunity to receive cash distributions originating from the payment of interest on the Mortgage Loan and, in certain circumstances, the principal repayment of the Mortgage Loan.

#### **3.3 The Properties**

The Realty Trust has been established for the purpose of owning and operating an interest through the Co-Ownership in a diversified portfolio of high quality income-producing residential and/or commercial real estate Properties in Canada (or interests in such Properties) and for limited development of capital properties as income-producing real estate for long-term investment.

The Co-Ownership will focus on purchasing Properties which, in the opinion of Sunstone Investments, are currently operating below their full income-producing potential. The Co-Ownership intends to invest the proceeds realized from the issuance of Trust Units and from the Mortgage Loan in high quality income-producing residential and/or commercial real estate properties. The Co-Ownership 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 capital and providing quarterly cash returns.

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 Realty Trust and Sunstone Investments as co-owners under the Co-Ownership Agreement at no cost other than reimbursement of any deposits (some of which may be refundable to the Co-Ownership) and due diligence expenses paid by SRAI prior to such assignment.

Sunstone Investments will be focusing on commercial properties for investment by the Realty Trust and Sunstone Investments through the Co-Ownership, 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, Sunstone Investments 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, Sunstone Investments believes that the Realty Trust can optimize Unitholder yield through quarterly cash flow distributions and potential long-term capital appreciation, while diversifying the risks associated with real estate ownership.

Sunstone Investments will have a detailed inspection report prepared by an independent inspection firm for each property that is proposed for acquisition through the Co-Ownership, and will have any such property appraised by a qualified appraiser who is recognized as an Accredited Appraiser, Canadian Institute.

The Realty Trust may also invest up to that amount which is equal to 20% of the net proceeds from the issuance of Trust Units and from the Mortgage Loan for the limited development of capital property as income-producing real estate for long-term investment, to add to the high quality income-producing portfolio to be owned and operated through the Co-Ownership. Sunstone Investments intends that any such investment may be by way of participation through a joint venture with an established developer which has local knowledge and experience in the marketplace in which the income-producing properties would be located. Sunstone Investments intends that any such investment will be in strong growth markets, and will have a significant level of pre-leasing prior to commencement. Sunstone Investments has targeted limited development opportunities in order to enhance the return on the Co-Ownership capital and the Trust Unit yield, while retaining a diversified portfolio and conservative risk profile for the Co-Ownership as a whole.

### ***Investment Objectives***

The Co-Ownership's primary investment objectives are as follows:

- (a) to co-own a diversified portfolio of quality residential and/or commercial revenue-producing Properties with positive cash flow;
- (b) to provide quarterly cash flow distributions targeted at 8%, upon full investment of the net proceeds allocated to the purchase price of Properties;
- (c) to provide an opportunity to enhance the Co-Ownership's return on capital and the Purchaser's yield through limited development of capital properties as income-producing real estate for long-term investment; and
- (d) 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***

Sunstone Investments and the Realty Trust have agreed under the Co-Ownership Agreement, to comply with the following general guidelines in acquiring Properties:

- (a) assuming all 40,000 Units offered under this Prospectus are issued, not more than 40% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement on account of the Agents' Commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) assuming all 40,000 Units offered under this Prospectus are issued, not more than 20% of the net proceeds from such issuance will be invested in opportunities for development of capital properties as income-producing real estate for long-term investment, through joint ventures, partnerships or similar entities;
- (c) in the event that less than 40,000 Units are issued, 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 (d) below, or more than 20% of the net proceeds to investment in opportunities for development of capital properties as income-producing real estate for long-term investment, 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); and
- (d) upon purchase, each Property (other than a capital property under development) would be expected to generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the Co-Ownership's invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. Sunstone Investments will be able to waive this minimum requirement for Properties which Sunstone Investments believes provide unique value added opportunities through development of capital properties, replacement of management, re-leasing or similar initiatives.

***Alignment of Interests***

Sunstone Investments believes that individual investors should have the same opportunities as institutions, pension funds and high net worth individuals. With this goal in mind, an investment in Units has been structured to align the interests of Sunstone Investments with those of the Trust Unitholders and Fund Unitholders. In the event of any capital transaction in respect of the Properties, including a sale or a refinancing of the Properties, Sunstone Investments will be entitled to receive any unpaid Subordinate Return only after all interest due on the Mortgage Loan has been paid in full, all of the Realty Trust's Net Equity has been returned to the Realty Trust (including proceeds for the repayment in full of the Mortgage Loan), and the Realty Trust has received full payment of the Minimum Return. Refer to "Description of the Securities Distributed – The Co-Ownership".



### ***Mortgage Loan Agreement***

The Mortgage Fund will advance up to \$40,000,000 to the Realty Trust by way of the Mortgage Loan. The Mortgage Loan bears interest at an annual rate of 8.1%. Interest will be payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2008, in respect of the interest accrued during the immediately preceding calendar quarter. The Mortgage Loan will be due on October 31, 2012, which is approximately five years from the date of the initial advance of the Mortgage Loan by the Mortgage Fund.

The Realty Trust and the Mortgage Fund will enter into the Mortgage Loan Agreement in respect of the Mortgage Loan. Pursuant to the Mortgage Loan Agreement, the Realty Trust will issue a promissory note to evidence the advance of the Mortgage Loan. Upon the initial advance of the Mortgage Loan, the Mortgage Loan will be secured by way of a general security agreement executed by the Realty Trust in favour of the Mortgage Fund. Upon the purchase of each Property by the Realty Trust and Sunstone Investments through Co-Ownership, a Fund Mortgage of each Property will be granted to the Mortgage Fund, which shall be subordinate to the mortgage and other security instruments securing the Senior Mortgage Loans and which may, in certain circumstances, be registered against the title to the Property. The general security agreement and each Fund Mortgage will be subject to the prior charge of the Senior Mortgage Loans.

### ***Senior Mortgage Loans***

Sunstone Investments intends to cause the Co-Ownership to finance a part of the purchase price of the Properties by way of Senior Mortgage Loans from third party Lenders. Sunstone Investments will target the overall loan to value ratio of the Senior 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 Sunstone Investments, having regard to all of the circumstances including the potential value of the Properties identified for investment, Sunstone Investments may cause the overall loan to value ratio of the Senior Mortgage Loans to exceed this threshold.

### ***Property Cash Flows***

The operating cash flows and revenues from the Properties will be allocated to the Realty Trust (and Sunstone Investments, if applicable as a result of Sunstone Investments having funded the payment of operating expenses and other expenses of the Co-Ownership) for 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 Senior Mortgage Loans. After the satisfaction of such amounts, operating cash flows and revenues from the Properties will be allocated to the Realty Trust on account of the Minimum Return. After such allocation, and after allocation to Sunstone Investments of the Subordinate Return, operating cash flows and revenue of the Properties in Co-Ownership will be allocated 80% to the Realty Trust and 20% to Sunstone Investments.

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

The Realty Trust and Sunstone Investments, through the Co-Ownership, intend 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 parties to the Co-Ownership.

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

The Realty Trust and Sunstone Investments, through the Co-Ownership, intend to engage third party property managers for the ongoing day-to-day management of the operation of the Properties and intend 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 Realty Trust and Sunstone Investments. Sunstone Investments 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. All or a portion of this fee may be recovered from the tenants of the Property depending on the terms of lease agreements with tenants.

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

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

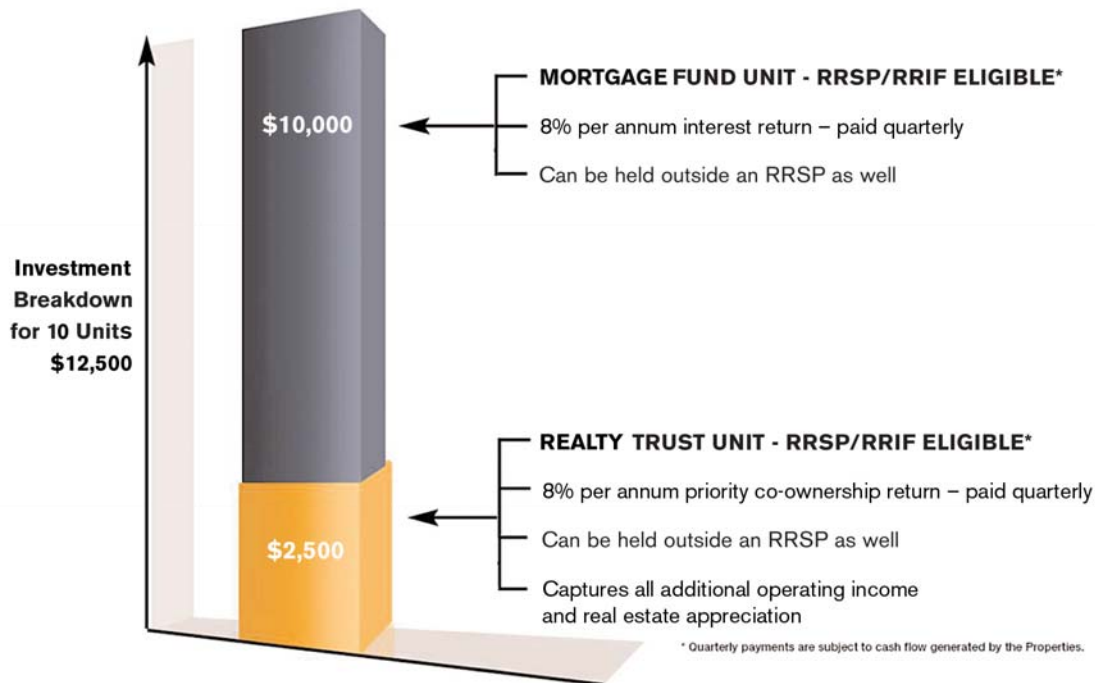
The Realty Trust was established on September 4, 2007 for the purpose of owning and operating interests in a diversified portfolio of high quality income-producing residential and/or commercial real estate Properties in Canada (or proportionate interests in such properties) and for limited development of capital properties as income-producing real estate for long-term investment. Its principal business will be to issue Trust Units and acquire, own and operate an interest in the Properties through the Co-Ownership. The Realty Trust does not have an operating history.

The Mortgage Fund was established on September 4, 2007 for the purpose of investing in the Mortgage Loan. Its principal business will be to issue Fund Units and acquire and hold the Mortgage Loan. The Mortgage Fund does not have an operating history.

To date, Sunstone Investments has not identified any Properties for potential investment by the Realty Trust and Sunstone Investments through the Co-Ownership or any opportunities for development of capital properties to be held as long-term investments. Assuming that the maximum Offering of 40,000 Units is sold, Sunstone Investments intends that up to \$45,600,000 of the net proceeds received by the Realty Trust from the issuance of Trust Units and from the Mortgage Loan will be applied to the purchase price of as yet unidentified Properties or the investment in as yet unidentified capital property development opportunities. If only the minimum Offering of 4,000 Units is sold, Sunstone Investments intends that up to \$4,375,000 of the net proceeds received by the Realty Trust from the issuance of Trust Units and from the Mortgage Loan will be applied to the purchase price of one or more as yet identified Properties.

If the maximum Offering is sold, the general guidelines that Sunstone Investments has established for the Co-Ownership provide that not more than 40% of the net proceeds (gross proceeds less the Agents' Commission and the expenses of this Offering) should be applied to the acquisition of any one Property, nor more than 20% of the net proceeds invested in the development of capital property. In the event that less than the maximum Offering is sold, it may be necessary for the Co-Ownership to apply more than 40% of the net proceeds to the acquisition of any one Property or more than 20% of the net proceeds to an investment in the development of a capital 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), or more than 20% of the net proceeds to the development of a capital property, if the number of Units sold is at or close to the minimum Offering of 4,000 Units.

The Offering has been structured with the view to facilitating a tax-efficient investment in real estate, as described under the heading “Canadian Federal Income Tax Considerations” and as illustrated in the diagram below:



Note: Subject to the qualifications and assumptions discussed under heading “Canadian Federal Income Tax Considerations”.

## 4.2 Significant Acquisitions

The Realty Trust has not made any property acquisitions or dispositions to date.

## 4.3 Trends

Sunstone Investments believes that the current economic environment has created attractive investment opportunities in real estate. In particular, Sunstone Investments believes that the continued high level of investment demand for high quality real estate properties will support the current capitalization rates, and will encourage transaction activity in the marketplace. As well, long-term mortgage interest rates are at or near historically low levels, in the range of 5.5% to 6.5% per annum, and many high quality real estate properties are being sold at prices which provide an initial return, on an unleveraged basis, of 7-8% 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”. However, while past performance is not necessarily an indicator of future performance, real estate investments have historically provided stable cash flow with consistent moderate returns on capital, and have outperformed investments in many other sectors of the economy.

#### 4.4 Stated Business Objectives

##### *Realty Trust*

The business of the Realty Trust is the investment in Properties. Its short-term objectives are to complete the offering of Trust Units pursuant to this Offering by November 15, 2007 and invest the net proceeds thereof in the Properties. The Realty Trust's long-term objective is to earn income by way of distributions from the Properties owned and operated through the Co-Ownership, which comprise a diversified portfolio of high quality income-producing residential and/or commercial real estate Properties in Canada owned by the Realty Trust.

##### *Mortgage Fund*

The business of the Mortgage Fund is the investment in the Mortgage Loan. Its short-term objectives are to complete the offering of Fund Units pursuant to this Offering by November 15, 2007 and invest the proceeds thereof in the Mortgage Loan. The Mortgage Fund's long-term objective is to earn interest income from its investment in the Mortgage Loan, to distribute such interest income to holders of the Fund Units in accordance with the terms of the Mortgage Fund Declaration, and to redeem the Fund Units upon the repayment of the Mortgage Loan by the Realty Trust.

#### 4.5 Milestones

##### *Realty Trust and Mortgage Fund*

The Realty Trust and Mortgage Fund propose to pursue the business objectives set forth under the heading "Development 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
Complete the Offering	November 15, 2007	Agents' Commission <sup>(1)</sup>	\$400,000	\$4,000,000
		Agents' fees and expenses <sup>(2)</sup>	\$75,000	\$75,000
		Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings)	\$150,000	\$325,000
		<b>Subtotal</b>	<b>\$625,000</b>	<b>\$4,400,000</b>

<sup>(1)</sup> The Issuers will pay to the Agents the Agents' Commission in an amount equal to 8% of the subscription price of Trust Units and the Fund Units. Such amount will be borne entirely by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement (as a cost of borrowing the Mortgage Loan).

<sup>(2)</sup> The Issuers have also agreed to bear all of the Agents' expenses (currently estimated to be \$75,000) 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 Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. Such amounts will be borne entirely by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement (as a cost of borrowing the Mortgage Loan).

***Investment in Properties***

Utilization of the full amount from the net proceeds from the issuance of Realty Units and the borrowing of the Mortgage Loan for investment in income-producing properties will depend in large extent on the purchase prices to be negotiated with the owners of any Properties which are judged by Sunstone Investments to be suitable for acquisition through the Co-Ownership.

Sunstone Investments has not identified any Properties for potential acquisition through the Co-Ownership, but intends that up to \$45,600,000 is applied to an estimated aggregate purchase price of as yet unidentified Properties, assuming that the maximum Offering of 40,000 Units is sold. If only the minimum Offering of 4,000 Units is sold, Sunstone Investments intends that up to \$4,375,000 of the net proceeds is applied to the purchase price of one or more as yet unidentified Properties.

The Co-Ownership proposes to pursue the business objectives set forth under the heading “Development 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	March 31, 2009 <sup>(1)</sup>	Purchase Price	\$14,112,902	\$154,576,272
		Due diligence and documentation costs <sup>(2)</sup>	\$282,258	\$3,091,525
		Reserve for renovations and upgrades	\$70,565	\$772,881
		Working capital reserve	\$70,565	\$772,881
		Financing Fee	\$211,693	\$2,318,644
		<b>Subtotal</b>	<b>\$14,747,983</b>	<b>\$161,532,203</b>

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

<sup>(2)</sup> Includes estimated closing costs for purchasing the Properties.

**5. USE OF PROCEEDS**

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

Sources of Funds	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(2)</sup>
Subscription price for Trust Units	\$1,000,000	\$10,000,000
Subscription price for Fund Units	\$4,000,000	\$40,000,000

Sources of Funds	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(2)</sup>
<b>Total Subscription Proceeds</b>	<b>\$5,000,000</b>	<b>\$50,000,000</b>

Uses of Funds		
Investment by Realty Trust in Properties <sup>(3)</sup>	\$375,000	\$5,600,000
Investment by Mortgage Fund in the Mortgage Loan <sup>(4)</sup>	\$4,000,000	\$40,000,000
Payment of Agents' Commission and expenses and Offering Costs <sup>(5)</sup>	\$625,000	\$4,400,000
<b>Total</b>	<b>\$5,000,000</b>	<b>\$50,000,000</b>

- (1) There will be no closing unless a minimum of 4,000 Units are sold not more than 90 days after the date of the Receipt for the Final Prospectus.
- (2) The maximum Offering is 40,000 Units.
- (3) The net proceeds raised by the Realty Trust from the issuance of the Trust Units will be invested in Properties.
- (4) The gross proceeds raised by the Mortgage Fund from the issuance of Fund Units will be advanced to the Realty Trust by way of the Mortgage Loan and invested in Properties.
- (5) Pursuant to the Cost Sharing and Recovery Agreement, the Realty Trust has agreed to bear (as a cost of borrowing the Mortgage Loan) all costs and expenses incurred by the Mortgage Fund in respect of the Offering, including the Agents' Commission and expenses and the other expenses of the Offering.

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

### ***Investment in Properties***

The gross proceeds raised by the Mortgage Fund from the issuance of Fund Units will be advanced to the Realty Trust by way of the Mortgage Loan and invested in Properties, such that the full amount raised by this Offering, after the payment of the Agents' Commission and costs and expenses of this Offering, will be available to the Realty Trust for investment in Properties through the Co-Ownership.

The Realty Trust intends to use the gross proceeds received by it from the issuance of Trust Units and from the advance of the Mortgage Loan, and from the Senior Mortgage Loans as follows:

Sources of Funds	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(1)</sup>
Proceeds from issuances		
Gross proceeds from issuance of Trust Units	\$1,000,000	\$10,000,000
Gross proceeds from the advance of the Mortgage Loan	\$4,000,000	\$40,000,000
<b>A. Total Proceeds</b>	<b>\$5,000,000</b>	<b>\$50,000,000</b>
<b>B. Senior Mortgage Loans<sup>(2)</sup></b>	10,372,983	\$115,932,203

Sources of Funds		Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(1)</sup>
<b>C</b>	<b>Total Sources of Funds: C = A + B</b>	<b>\$15,372,983</b>	<b>\$165,932,203</b>

Use of Funds		
Purchase Price of the Properties <sup>(3)</sup>	\$14,112,902	\$154,576,272
Agents' Commission <sup>(4)</sup>	\$400,000	\$4,000,000
Agents' fees and expenses <sup>(5)</sup>	\$75,000	\$75,000
Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings) <sup>(6)</sup>	\$150,000	\$325,000
Estimated closing costs for purchase of Properties (including transfer fees, legal and due diligence costs) <sup>(7)</sup>	\$282,258	\$3,091,525
Creation of reserve for renovation and upgrading of Properties <sup>(8)</sup>	\$70,565	\$772,881
Creation of reasonable working capital reserves for the Properties <sup>(9)</sup>	\$70,565	\$772,881
Financing Fee <sup>(20)</sup>	\$211,693	\$2,318,644
<b>Total</b>	<b>\$15,372,983</b>	<b>\$165,932,203</b>

- (1) The minimum Offering is 4,000 Units and the maximum Offering is 40,000 Units.
- (2) The aggregate principal amount of the Senior Mortgage Loans is an estimate only and may not represent the actual aggregate principals amount of the Senior Mortgage Loans when they are advanced
- (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 in respect of the Properties. The purchase price may also include the development costs of one or more Properties.
- (4) The Issuers will pay to the Agents the Agents' Commission in an amount equal to 8% of the subscription price of Trust Units and the Fund Units. To the extent that such amount is incurred by the Mortgage Fund, it will be borne by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement (as a cost of borrowing the Mortgage Loan).
- (5) The Issuers have also agreed to bear all of the Agents' expenses (currently estimated to be \$75,000) 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 Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. To the extent that such amount is incurred by the Mortgage Fund, it will be borne by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement.
- (6) Pursuant to the Cost Sharing and Recovery Agreement, the Realty Trust has agreed to bear all costs and expenses incurred in respect of the Offering by the Mortgage Fund, including the Agents' Commission and expenses and the other expenses of the Offering (as a cost of borrowing the Mortgage Loan).
- (7) The amount incurred in respect of the purchase of Properties by the Co-Ownership 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.

- (8) The Co-Ownership 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.
- (9) The Co-Ownership will establish working capital reserves, to help ensure sufficient funds are on hand from time to time to pay anticipated and unanticipated operating and capital expenses of the Properties.
- (10) The Co-Ownership will pay to Sunstone Management a Financing Fee equal to 1.5% of the gross purchase price of each Property, plus GST if applicable, for the provision of certain financial services to the Co-Ownership.

The net proceeds of the Offering will also be used from time to time by the Realty Trust and Sunstone Investments in Co-Ownership 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 through the Co-Ownership 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 ultimately acquired, resulting in a possible loss of such deposits, fees and/or costs.

### ***Services Agreement***

Sunstone Management has agreed to provide to the Realty Trust and Sunstone Investments in Co-Ownership certain services pursuant to the Services Agreement, as described in more detail under the heading "Executive Compensation – Management Agreements".

Sunstone Investments has agreed under the Co-Ownership Agreement that if by March 31, 2009, the Realty Trust has not invested at least 90% of the Net Subscription Proceeds in the purchase of Properties (or interests in Properties) through the Co-Ownership, and in the creation of reasonable reserves for renovation and upgrading and working capital reserves for such Properties, or in the development of capital properties as income-producing real estate for long-term investment, Sunstone Investments will cause the Co-Ownership to return to the Realty Trust as a return of the Realty Trust's Net Equity on or before April 1, 2009: (a) 20% of that portion of the Net Subscription Proceeds not so invested; and (b) 80% of that portion of the Net Subscription Proceeds not so invested, together with a return on such amount at the rate payable on the Mortgage Loan, which the Realty Trust will apply towards payment of interest and repayment of principal amount on the Mortgage Loan. In addition, Sunstone Investments will repay to the Realty Trust an amount equal to all commissions borne by the Realty Trust (directly or pursuant to the Cost Sharing and Recovery Agreement) on the amounts of the Net Subscription Proceeds which are returned, which amount will be deducted from the Subordinate Return otherwise allocable to Sunstone Investments. The Realty Trust and Mortgage Fund are each obligated under the Realty Trust Declaration and the Mortgage Fund Declaration to apply any amounts that they so receive to make a pro-rata offer to Unitholders to redeem Trust Units and Fund Units, respectively.

Sunstone Investments' obligation to cause a return of the Realty Trust's Net Equity and the Realty Trust's obligation to repay a portion of the principal under the Mortgage Loan in the event that the Realty Trust has not invested at least 90% through the Co-Ownership of the aggregate Net Subscription Proceeds in the manner described above by March 31, 2009, 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 Net Subscription Proceeds which are not invested in Properties or applied to the Co-Ownership's working capital needs will be retained by the Realty Trust for the Co-Ownership. Cash will therefore be available for redemption of Fund Units or Trust Units should the 90% threshold referred to above not be achieved.



In acquiring Properties through the Co-Ownership, the Realty Trust and Sunstone Investments will comply with :

- (a) the Co-Ownership's business strategy outlined under the heading "Development of the Businesses of the Issuers – The Properties – Investment Objectives"; and
- (b) the guidelines discussed under the heading "Development of the Businesses of the Issuers – The Properties – Guidelines for Property Acquisitions".

In determining what would constitute "reasonable reserves" for renovation and upgrading and working capital reserves for such Properties, Sunstone Investments 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 Sunstone Investments 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, Sunstone Investments will generally target a working capital reserve of  $\frac{1}{2}\%$  of the purchase price of the Property. In the event that the maximum Offering of 40,000 Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$154,576,272; if the minimum Offering of 4,000 Units is sold, the estimated aggregate purchase price of, as yet unidentified, Properties is \$14,112,902. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$772,881, and the targeted working capital reserves in the event of a minimum Offering is \$70,565. However, for any given Property, Sunstone Investments 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.

## **6. SELECTED FINANCIAL INFORMATION**

### **6.1 Financial Information**

#### ***Realty Trust***

The audited financial statements of the Realty Trust for the period from the date of its formation to September 5, 2007 are included in this Prospectus. The Realty Trust was only recently formed and capitalized with nominal capital. As the Realty Trust has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

#### ***Mortgage Fund***

The audited financial statements of the Mortgage Fund for the period from the date of its formation to September 5, 2007 are included in this Prospectus. The Mortgage Fund was only recently formed and capitalized with nominal capital. As the Mortgage Fund has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

## **7. EARNINGS COVERAGE RATIOS**

### **7.1 Realty Trust**

The Realty Trust has not had any earnings to date, and currently has no outstanding long-term debt. It is anticipated that the Realty Trust, through its interest in the Co-Ownership, will incur Senior Mortgage Loans in the aggregate principal amount of up to \$115,932,203 and borrow up to \$40,000,000 by way of the Mortgage Loan.

### **7.2 Mortgage Fund**

The Mortgage Fund has not had any earnings to date, and currently has no outstanding long-term debt. It is not anticipated that the Mortgage Fund will incur any long-term debt.

In acquiring Properties through the Co-Ownership, the Realty Trust and Sunstone Investments intend to comply with the guidelines discussed under the heading “Development of the Businesses of the Issuers – The Properties – Guidelines for Property Acquisitions”, including the expectation that each Property (other than a capital property under development) generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the Realty Trust’s Net Equity in the Property of not less than 6% per annum, with a target range of 8% per annum. The Realty Trust will be able to waive this minimum requirement for Properties which Sunstone Investments believes provide unique value added opportunities through limited development of capital properties as income-producing real estate for long-term investment, replacement of management, re-leasing or similar initiatives.

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

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

The Issuers are offering a minimum of 4,000 Units and a maximum of 40,000 Units, at a purchase price of \$1,250 per Unit. Each Unit is comprised of two underlying securities, being one Trust Unit and one Fund Unit. Units may only be purchased in multiples of ten.

### **8.1 Trust Units**

The rights and obligations of the Trust Unitholders are governed by the Declaration of Trust for the Realty Trust made September 4, 2007 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein. The following is a summary of certain material provisions of the Realty Trust Declaration. **This summary does not purport to be complete and reference should be to the Realty Trust Declaration itself, a copy of which is available from the Realty Trustee.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Realty Trust Declaration.**

#### ***Trust Units***

The Realty Trust is authorized to issue an unlimited number of redeemable units of beneficial interest (each a “Trust Unit”). Each Trust Unit entitles the Trust Unitholder to the same rights and obligations as any other

Trust Unitholder and no Trust Unitholder is entitled to any privilege, priority or preference in relation to any other Trust Unitholders.

Each Trust Unitholder is entitled to participate equally with respect to any and all distributions made by the Realty Trust to the Trust Unitholders, including distributions of net income and net realized capital gains, subject to an adjustment in a Trust Unit's proportionate share as a result of the date of first issue of a Trust Unit in the first fiscal year of the Realty Trust. On termination, the Trust Unitholders of record are entitled to receive all of the assets of the Realty Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. Refer to "Termination of the Realty Trust" below.

### ***Distributions***

The Realty Trust will distribute to each Trust Unitholder distributable cash flow realized from Properties owned and operated through the Co-Ownership, in accordance with the allocation provisions of the Co-Ownership Agreement, for each quarter in which such amounts are realized. Subject to the foregoing, the Realty Trust intends to make quarterly distributions to Trust Unitholders of record on the last Business Day of each quarter. Distributions will be paid within 15 days following the end of each quarter for which a distribution is declared. The Realty Trust may also make additional distributions in excess of quarterly distributions during the year, as the Realty Trustee may determine.

Each distribution declared pursuant to the Realty Trust Declaration constitutes a binding obligation of the Realty Trust on the date so declared. Consequently, a Trust Unitholder holding Trust Units can demand a payment of a declared distribution on the Declaration Date and upon receipt of such demand the Realty Trust must pay that amount to the Trust Unitholder forthwith.

To the extent distributions are calculated in respect of a period and payable at the end of such period, if for any reason, including the termination of the Realty Trust, such period is not completed or such amounts are no longer payable, then the distribution will be pro-rated to the end of the shortened period and be payable at the end of such shortened period.

On the last day of each taxation year, the following amount shall be automatically payable to Trust Unitholders of record at the close of business on such day (whether or not such day is a Business Day): an amount equal to the net income of the Realty Trust for such taxation year, determined in accordance with the provisions of the Tax Act other than paragraph 82(1)(b) and subsection 104(6) thereof, including net realized capital gains plus the non-taxable portion of net realized capital gains realized by the Realty Trust, other than:

- (a) income and taxable capital gains of the Realty Trust arising on or in connection with an *in specie* redemption of Trust Units which are paid or payable by the Realty Trust to redeeming Trust Unitholders;
- (b) capital gains, the tax on which may be offset by capital losses carried forward from prior years or is recoverable by the Realty Trust;
- (c) income, the tax on which may be offset by non-capital losses, if any, carried forward from prior years; and
- (d) net income and net realized capital gains of the Realty Trust for the taxation year otherwise distributed or made payable to the Trust Unitholders during such year.

The Realty Trustee will designate for tax purposes any such income or capital gain as being paid to the redeeming Trust Unitholder, with the result that the taxable portion of such gains and income will be deductible by the Realty Trust.

Distributions payable to Trust Unitholders pursuant to the Realty Trust Declaration shall be deemed to be distributions of income of the Realty Trust (including dividends), net realized taxable capital gains of the Realty Trust, Realty Trust capital or other items in such amounts as the Realty Trustee, in its absolute discretion determines and shall be allocated to the Trust Unitholders in the same proportions as distributions received by the Trust Unitholders, subject to the discretion of the Trustee to adopt an allocation method which the Trustee considers to be more reasonable in the circumstances. For greater certainty, any distribution of net realized capital gains of the Realty Trust shall include the non-taxable portion of the capital gains of the Realty Trust which are included in such distribution.

If, on a Distribution Payment Date, the Realty Trust does not have cash in an amount sufficient to pay the cash distribution to be made on such Distribution Payment Date, the Realty Trustee may, in its discretion, borrow sufficient funds on such terms as it deems appropriate to make such cash distributions. In the event that the Realty Trustee is unable to, or determines that it is not in the best interests of, the Realty Trust and the Trust Unitholders to borrow funds in order to make a distribution wholly in cash, the distribution payable to the Trust Unitholders on such Distribution Payment Date will, to the extent necessary to ensure that the Realty Trust does not have an income tax liability under Part I of the Tax Act, be distributed to holders of Trust Units in the form of additional Trust Units, and will include a distribution of additional Trust Units (at \$250 per Trust Unit) having a value equal to the cash shortfall. If the Realty Trustee determines that the value of a Trust Unit is materially different than \$250, each additional Trust Unit will be issued at such different value. Those additional Trust Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. The distribution of Trust Units will be subject to the requirements of the applicable securities authority and if not permitted, distributions will be made in cash. The Realty Trustee may, in exceptional circumstances, consolidate the number of outstanding Trust Units after a distribution of additional Trust Units, so that each Trust Unitholder holds the same number of Trust Units held before the distribution of additional Trust Units.

#### ***Distribution on Termination of the Realty Trust***

On the termination of the Realty Trust, the assets of the Realty Trust shall be liquidated and the proceeds distributed in the following order:

- (a) to pay the liabilities of the Realty Trust and to establish reserves for the contingent liabilities of the Realty Trust;
- (b) to pay unpaid fees and expenses of the Realty Trustee; and
- (c) to redeem from the Trust Units, on a *pro rata* basis from the Trust Unitholders.

#### ***Meetings of Unitholders and Resolutions***

The Realty Trustee may, at any time, convene a meeting of the Trust Unitholders and will be required to convene a meeting on receipt of a request in writing of Trust Unitholders holding, in aggregate, 15% or more of the Trust Units outstanding. Any matter to be considered at a meeting of Trust Unitholders, other than certain matters requiring the approval of Trust Unitholders by Special Resolution, will require the approval of Trust Unitholders by an Ordinary Resolution. A quorum for any meeting convened to consider such matter will consist of two or more Trust Unitholders present in person or by proxy and representing not

less than 10% of the Trust Units outstanding on the record date. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Trust Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days later, selected by the Realty Trustee and notice will be given to the Trust Unitholders of such adjourned meeting. The Trust Unitholders present at any adjourned meeting will constitute a quorum.

Each Trust Unitholder is entitled to one vote per Trust Unit held.

The following matters require approval by Ordinary Resolution and shall be deemed approved, consented to or confirmed, as the case may be, upon the adoption of such Ordinary Resolution:

- (a) matters relating to the administration of the Realty Trust for which the approval of the Trust Unitholders is required by policies of the securities regulatory authorities or other applicable laws and regulations in effect from time to time, and such policies, laws or regulations do not require approval by Special Resolution;
- (b) subject to the requirements for a Special Resolution, any matter or thing stated in the trust declaration to be required to be consented to or approved by the Trust Unitholders; and
- (c) any matter which the Realty Trustee considers appropriate to present to the Trust Unitholders for their confirmation or approval.

Each of the following actions requires approval by Special Resolution, the terms of which shall specify the date upon which the proposed action shall be undertaken and the party who shall undertake the action:

- (a) the amendment of the Realty Trust Declaration (except as provided under “Amendments to the Realty Trust Declaration” below) or changes to the Realty Trust, including changes to the investment objectives of the Realty Trust;
- (b) the removal of the Realty Trustee;
- (c) the appointment of a new trustee;
- (d) the termination of the Realty Trust;
- (e) a reduction in the amount payable on any outstanding Trust Units upon liquidation of the Realty Trust;
- (f) an increase in the liability of any Trust Unitholders; or
- (g) the alteration or elimination of any voting rights pertaining to any outstanding Trust Units.

Notwithstanding the above or any other provision herein, no confirmation, consent or approval shall be sought or have any effect and no Trust Unitholders shall be permitted to effect, confirm, consent to or approve, in any manner whatsoever, where the same increases the obligations of or reduces the compensation payable to or protection provided to the Realty Trustee, except with the prior written consent of the Realty Trustee.

### ***Termination of the Realty Trust***

The Realty Trustee may at any time terminate and dissolve the Realty Trust by giving written notice to each of the then Trust Unitholders of its intention to terminate the Realty Trust at least ninety (90) days before the date on which the Realty Trust is to be terminated. Upon termination, the net assets of the Realty Trust will be distributed to the Trust Unitholders on a pro-rata basis. Prior to the termination date, the Realty Trustee will convert the assets of the Realty Trust to cash. After payment of the liabilities of the Realty Trust, each Trust Unitholder registered as such at the close of business on the date fixed as the termination date will be entitled to receive from the Realty Trustee his proportionate share of the value of the Realty Trust in accordance with the number of Trust Units which he then holds.

### ***Amendments to the Realty Trust Declaration***

Subject to the restrictions described in “Meetings of Unitholders and Resolutions”, any provision of the Realty Trust Declaration may be amended, deleted, expanded or varied by the Realty Trustee, if the amendment is, in the opinion of counsel, not a material change which adversely affects the pecuniary value of the interest of any Trust Unitholders and does not relate to:

- (a) any material change in the position, authority or responsibility of the Realty Trustee;
- (b) any change in the investment policy of the Realty Trust or to the Realty Trust Declaration, if such change is material or is otherwise required by the Realty Trust Declaration.

### ***Information and Reports***

After the end of each calendar quarter, the Realty Trust’s accountant prepared and reviewed financial statements will be distributed in accordance with applicable securities legislation. After the close of each calendar year, the Realty Trust’s audited financial statements and report will be forwarded to each Trust Unitholder on or before the following March 31. In addition, on or before March 31 in each calendar year, the Realty Trust will forward to each person who received a distribution at any time during the previous calendar year, tax reporting information in such a manner as will enable such person to report the income tax consequences of investment in Trust Units in the Trust Unitholder’s annual Canadian income tax return.

### ***Liability of Unitholders***

In circumstances where a material obligation of the Realty Trust is created, it is provided in the Realty Trust Declaration that the Realty Trustee shall use its best efforts to have any such obligations modified so that there is no personal liability of Trust Unitholders. Further, the Realty Trustee will cause the operations of the Realty Trust to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, as far as possible, any material risk of liability on the Trust Unitholders for claims against the Realty Trust.

As a general rule, the Realty Trustee making investments for the Realty Trust contracts as principal and therefore, subject to contract, the Realty Trustee is liable for all obligations incurred in carrying out such investments for the Realty Trust. However, in cases where the Realty Trustee is unable to obtain written agreement that a material obligation assumed by the Realty Trust is not binding upon the Trust Unitholders personally there is a risk that if the claims made in respect thereof are to be satisfied by the Realty Trust, a Trust Unitholder will be held personally liable for the obligations of the Realty Trust. In case of claims made against the Realty Trust which do not arise out of contracts, for example, claims for taxes or claims in tort, personal liability may also arise against Trust Unitholders.

### ***Redemption***

A Trust Unitholder holding Trust Units wishing to redeem the whole or any part of his or her Trust Units (a "Redemption") may deliver a notice of such desire (the "Redemption Notice") to the Realty Trustee at any time. Upon receipt by the Trust of the Redemption Notice, the Trust Unitholder shall thereafter cease to have any rights with respect to the Trust Units tendered for redemption (other than to receive the redemption payment therefor) including the right to receive any distributions thereon that are declared payable to the Trust Unitholders of record on a date that is subsequent to the day of receipt by the Realty Trustee of the Redemption Notice. Trust Units shall be considered to be tendered for redemption on the date that the Realty Trustee has, to the satisfaction of the Realty Trustee, received the Redemption Notice and further documents or evidence the Realty Trustee may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

Subject to applicable laws and the conditions listed below, the Realty Trust will redeem the Realty Trust Units specified in such Redemption Notice. The price per Trust Unit payable upon redemption will be equal to either:

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of (i) the aggregate value of the real estate assets of the Realty Trust (including the Realty Trust's Priority Co-Ownership Interest in the Properties) on the last day of the most recent calendar quarter that ends prior to the redemption date; plus (ii) the aggregate value of the cash and other working capital assets of the Realty Trust on the redemption date; less (iii) the aggregate of: (A) the aggregate value of the Realty Trust's liabilities on the redemption date (including the aggregate amount of the Mortgage Loan and any Trust Notes outstanding on the redemption date); (B) the amount to which Sunstone Investments would be entitled under the Co-Ownership Agreement (to the extent not taken into account in (i) above) if the Co-Ownership was terminated and liquidated on the Redemption Date; and (C) the amount which would be payable to Sunstone Management (other than amounts in (iii)(A) above) if the Administration Agreement and the Services Agreement were terminated and liquidated on the redemption date.

The redemption price per Trust Unit multiplied by the number of Trust Units tendered for Redemption will be paid to a Trust Unitholder by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the Trust Units were tendered for redemption, provided that:

- (a) the total amount payable by the Realty Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$50,000;
- (b) the total amount payable by the Realty Trust by cash payment in respect of the redemption of Trust Units in any twelve month period ending at the end of that calendar quarter will not exceed 3/4 of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period;

- (c) after such payment the ratio of the aggregate principal amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of outstanding Trust Units would not exceed 4:1; and
- (d) in the event that the Trust Units are listed on a stock exchange or similar market, the normal trading of the Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

If any of the conditions in paragraphs (a) to (d) above preclude the payment of the redemption price in cash (and the Realty Trust does not, in its sole discretion, waive such limitation in respect of all Trust Units tendered for redemption in any particular calendar quarter), the redemption price shall be paid and satisfied by way of either of the following methods to be selected by the Realty Trustee using its sole discretion:

- (a) the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption; or
- (b) a distribution *in specie* to the Trust Unitholder of a number of Debt Securities (each in the principal amount of \$100), having an aggregate principal amount equal to the redemption price per unit multiplied by the number of Trust Units tendered for redemption.

Trust Units will be redeemed according to the order in which Redemption Notices are received.

Trust Notes or Redemption Notes received as a result of redemptions of Trust Units may not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant under a Plan, including the redeeming Unitholder becoming subject to a penalty tax or having its tax exempt status revoked depending on the circumstances. Accordingly, Purchasers which are Plans should consult their own tax advisors before deciding to exercise the redemption rights attached to the Trust Units. Refer to “Risk Factors”.

### ***Forced Redemption Upon Non-Residency***

At no time may non-residents of Canada be the beneficial owners of Trust Units. If a Trust Unitholder becomes a non-resident of Canada or otherwise becomes a “designated beneficiary” as defined in section 210 of the Tax Act (and as defined in proposed subsection 210(1) of the Tax Act), the Realty Trustee may in its discretion, either forthwith redeem all or a part of the Trust Units held by such Trust Unitholder, or by written notice require the Trust Unitholder to, within thirty (30) days, transfer the Trust Units to a transferee who is not a “designated beneficiary” as defined in section 210 of the Tax Act. The redemption proceeds payable for each Trust Unit to be redeemed will be equal to 85% of the lesser of the Subscription Price and the amount payable to a redeeming Trust Unitholder in the event of a Redemption of a Trust Unit, determined on the day on which the Realty Trustee issues the redemption notice.

### ***Powers and Responsibilities of the Realty Trustee***

The Realty Trustee has exclusive authority to manage the operations and affairs of the Realty Trust and to make all decisions regarding the business of the Realty Trust, and has authority to bind the Realty Trust. The powers, authorities and responsibilities of the Realty Trustee are limited to those expressly set forth in the Realty Trust Declaration. The Realty Trustee is responsible for managing the business and



administration of the Realty Trust and the conduct of the affairs of the Realty Trust, including without limitation:

- (a) holding Realty Trust Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Realty Trust Property (as such term is defined in the Realty Trust Declaration);
- (b) ensuring that the Net Subscription Proceeds are invested in Properties as described in Item 3.3;
- (c) borrowing money as necessary to pay distributions to Trust Unitholders, and encumbering Realty Trust Property in respect thereof;
- (d) paying properly incurred expenses out of Realty Trust Property;
- (e) depositing monies from time to time forming part of the Realty Trust Property in accounts;
- (f) possessing and exercising rights, powers and privileges appertaining to ownership of or interest in Realty Trust Property;
- (g) holding legal title to Realty Trust Property;
- (h) appointing the accountants of and registrar and transfer agent for the Realty Trust;
- (i) appointing the bankers of the Realty Trust;
- (j) ensuring compliance with applicable securities legislation;
- (k) preparing and filing or causing to be prepared and filed all requisite returns, reports and filings;
- (l) monitoring the listing or trading of the Trust Units on a stock exchange or other market;
- (m) monitoring the Realty Trust's tax status as a "mutual fund trust" and, if applicable, a "real estate investment trust" within the meaning of the Tax Act;
- (n) providing all requisite office accommodation and associated facilities;
- (o) providing or causing to be provided to the Realty Trust all other administrative and other services and facilities required by the Realty Trust; and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Realty Trust;
- (p) prescribing any instrument provided for or contemplated by the Realty Trust Declaration; and
- (q) remitting distributions,

all subject to the terms and conditions set out in the Realty Trust Declaration. The Realty Trust Declaration provides that the Realty Trustee may engage or employ persons in connection with the Realty Trust and pay to them compensation out of Realty Trust Property and may delegate its powers, authorities and duties.

The Realty Trustee or any successor trustee may resign upon 60 days' notice to Trust Unitholders, or may be removed by a Special Resolution of the Trust Unitholders by notice to the Realty Trustee not less than sixty (60) days prior to the date that such removal is to take effect, provided a successor trustee is appointed or the Realty Trust is terminated. In the event that the Realty Trustee resigns or is removed or becomes incapable of acting or if for any cause a vacancy shall occur in the office of the Realty Trustee, a successor trustee shall forthwith be appointed by the Trust Unitholders by Special Resolution to fill such vacancy. Forthwith following such appointment of a successor trustee, the Realty Trustee shall execute and deliver such documents as such successor trustee may require for the conveyance of any property of the Realty Trust held in the Realty Trustee's name, shall account to the successor trustee for all property of the Realty Trust which the Realty Trustee holds as trustee and shall thereupon be discharged as trustee.

The Realty Trust Declaration provides that the Realty Trustee will be indemnified out of the Realty Trust Property in respect of any civil, criminal or administrative action or proceeding to which it, any of its officers or directors, or any officer or director of any of its affiliates, is made a party by reason of being or having been a Realty Trustee or officer or director of the Realty Trustee, and/or in respect of any and all taxes, penalties or interest in respect of unpaid taxes or other governmental charges imposed upon such parties as a result of the exercise of his or her powers or duties under the Realty Trust Declaration. However, any such party will not be indemnified in respect of unpaid taxes or other governmental charges that result from his or her failure to act honestly and in good faith with a view to the best interests of the Realty Trust, or as a result of his or her failure to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where such party did not have reasonable grounds for believing that his or her conduct was lawful.

In addition, the Realty Trust Declaration contains other customary provisions limiting the liability of the Realty Trustee and indemnifying the Realty Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Realty Trustee will not receive fees from the Realty Trust for acting as trustee of the Realty Trust, and will be reimbursed by the Realty Trust for all expenses and liabilities which are properly incurred by the Realty Trustee in connection with the activities of the Realty Trust. The Realty Trustee may dispose of any Realty Trust Property on such terms as the Realty Trustee may in its sole discretion determine for the purpose of paying any obligations imposed on the Realty Trust or for repaying any loan hereby authorized.

The Realty Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Realty Trust and to exercise the degree of care, diligence and skill that a reasonably prudent professional manager would exercise in comparable circumstances.

### ***Rights of Unitholders***

A Trust Unitholder has substantially all of the same protections, rights and remedies as a shareholder would have under the CBCA, except as described herein. Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Realty Trust Declaration. For example, Trust Unitholders are entitled to exercise voting rights in respect of their Trust Units in a manner comparable to shareholders of a CBCA corporation, and provisions relating to the calling and holding of meetings of Trust Unitholders included in the Realty Trust Declaration are comparable to those of the CBCA. Unlike shareholders of a CBCA corporation, Trust Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Realty Trust. The matters in respect of which Trust Unitholder approval is required under the Realty Trust Declaration are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. The appointment of auditors is reserved to

the Realty Trustee rather than the Unitholders. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, the sale of all or substantially or of its property, or a going private transaction). As an alternative, Trust Unitholders seeking to terminate their investment in the Realty Trust are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the Realty Trust's net assets through the exercise of the redemption rights described above under "Redemption". Trust Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties.

Shareholders of a CBCA corporation may apply to a court to order the liquidation and dissolution of the corporation in certain circumstances, whereas Trust Unitholders may rely only on the general provisions of the Realty Trust Declaration which permit the winding up of the Realty Trust with the approval of a Special Resolution of the Trust Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Realty Trust Declaration does not include comparable rights.

### ***Administration of the Realty Trust***

Sunstone Management will act as the administrator of the Realty Trust pursuant to the terms of the Services Agreement.

**The foregoing is a summary only of certain of the material provisions of the Realty Trust Declaration. For a complete understanding of all of the provisions of the Realty Trust Declaration Agreement, reference should be made to the Realty Trust Declaration itself, a copy of which is available from the Realty Trustee.**

## **8.2 Fund Units**

The rights and obligations of the Fund Unitholders are governed by the Declaration of Trust for the Mortgage Fund made September 4, 2007 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Fund Units as provided therein. The following is a summary of certain material provisions of the Mortgage Fund Declaration. **This summary does not purport to be complete and reference should be to the Mortgage Fund Declaration itself, a copy of which is available from the Mortgage Fund Trustee.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Mortgage Fund Declaration.**

### ***Fund Units***

The Mortgage Fund is authorized to issue an unlimited number of redeemable units of beneficial interest. Each Fund Unit entitles the Fund Unitholder to the same rights and obligations as any other Fund Unitholder and no Fund Unitholder is entitled to any privilege, priority or preference in relation to any other Fund Unitholders.

Each Fund Unitholder is entitled to participate equally with respect to any and all distributions made by the Mortgage Fund to the Fund Unitholders, including distributions of net income and net realized capital gains, subject to an adjustment in a Fund Unit's proportionate share as a result of the date of first issue of a Fund Unit in the first fiscal year of the Mortgage Fund. On termination, the Fund Unitholders of record are entitled to receive all of the assets of the Mortgage Fund remaining after payment of all debts, liabilities and liquidation expenses of the Mortgage Fund. Refer to "Termination of the Mortgage Fund" below.

### ***Distributions***

The Mortgage Fund will distribute to each Fund Unitholder amounts of distributable cash flow from payments received by the Mortgage Fund on account of interest income and principal repayments on the Mortgage Loan, for each quarter in which such amounts are realized. Subject to the foregoing, the Mortgage Fund intends to make quarterly distributions to Fund Unitholders of record on the last Business Day of each quarter. Distributions will be paid within 15 days following the end of each quarter for which a distribution is declared. The Mortgage Fund may also make additional distributions in excess of quarterly distributions during the year, as the Mortgage Fund Trustee may determine.

Each distribution declared pursuant to the Mortgage Fund Declaration constitutes a binding obligation of the Mortgage Fund on the date so declared. Consequently, a Fund Unitholder holding Fund Units can demand a payment of a declared distribution on the Declaration Date and upon receipt of such demand the Mortgage Fund must pay that amount to the Fund Unitholder forthwith.

To the extent distributions are calculated in respect of a period and payable at the end of such period, if for any reason, including the termination of the Mortgage Fund, such period is not completed or such amounts are no longer payable, then the distribution will be pro-rated to the end of the shortened period and be payable at the end of such shortened period.

The Mortgage Fund intends to distribute all of its net income and net realized capital gains, if any, to Fund Unitholders, so that the Mortgage Fund will not be liable to pay income tax pursuant to the Tax Act during any year. If distributions to Fund Unitholders are in excess of the net income and net realized capital gains, if any, of the Mortgage Fund, it will generally result in a reduction in the adjusted cost base of the Fund Units to the Fund Unitholder.

On the last day of each taxation year, the following amount shall be automatically payable to Fund Unitholders of record at the close of business on such day (whether or not such day is a Business Day): an amount equal to the net income of the Mortgage Fund for such taxation year, determined in accordance with the provisions of the Tax Act other than paragraph 82(1)(b) and subsection 104(6) thereof, including net realized capital gains plus the non-taxable portion of net realized capital gains realized by the Mortgage Fund, other than:

- (a) income and taxable capital gains of the Mortgage Fund arising on or in connection with an *in specie* redemption of Fund Units which are paid or payable by the Mortgage Fund to redeeming Fund Unitholders;
- (b) capital gains, the tax on which may be offset by capital losses carried forward from prior years or is recoverable by the Mortgage Fund;
- (c) income, the tax on which may be offset by non-capital losses, if any, carried forward from prior years; and

- (d) net income and net realized capital gains of the Mortgage Fund for the taxation year otherwise distributed or made payable to the Fund Unitholders during such year.

The Mortgage Fund Trustee will designate for tax purposes any such income or capital gain as being paid to the redeeming Fund Unitholder, with the result that the taxable portion of such gains and income will be deductible by the Mortgage Fund.

Distributions payable to Fund Unitholders pursuant to the Mortgage Fund Declaration shall be deemed to be distributions of income of the Mortgage Fund (including dividends), net realized taxable capital gains of the Mortgage Fund, Mortgage Fund capital or other items in such amounts as the Mortgage Fund Trustee, in its absolute discretion determines and shall be allocated to the Fund Unitholders in the same proportions as distributions received by the Fund Unitholders, subject to the discretion of the Mortgage Fund Trustee to adopt an allocation method which the Mortgage Fund Trustee considers to be more reasonable in the circumstances. For greater certainty, any distribution of net realized capital gains of the Mortgage Fund shall include the non-taxable portion of the capital gains of the Mortgage Fund which are included in such distribution.

If, on a Distribution Payment Date, the Mortgage Fund does not have cash in an amount sufficient to pay the cash distribution to be made on such Distribution Payment Date, the Mortgage Fund Trustee may, in its discretion, borrow sufficient funds on such terms as it deems appropriate to make such cash distributions. In the event that the Mortgage Fund Trustee is unable to, or determines that it is not in the best interests of, the Mortgage Fund and the Fund Unitholders to borrow funds in order to make a distribution wholly in cash, the distribution payable to the Fund Unitholders on such Distribution Payment Date will, to the extent necessary to ensure that the Mortgage Fund does not have an income tax liability under Part I of the Tax Act, be distributed to holders of Fund Units in the form of additional Fund Units, include a distribution of additional Fund Units (at \$1,000 per Fund Unit) having a value equal to the cash shortfall. If the Mortgage Fund Trustee determines that the value of a Fund Unit is materially different than \$1,000, each additional Fund Unit will be issued at such different value. Those additional Fund Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. The distribution of Fund Units will be subject to the requirements of the applicable securities authority and if not permitted, distributions will be made in cash. The Mortgage Fund Trustee may, in exceptional circumstances, consolidate the number of outstanding Fund Units after a distribution of additional Fund Units, so that each Fund Unitholder holds the same number of Fund Units held before the distribution of additional Fund Units.

***Distribution on Termination of the Mortgage Fund***

On the termination of the Mortgage Fund, the assets of the Mortgage Fund shall be liquidated and the proceeds distributed in the following order:

- (a) to pay the liabilities of the Mortgage Fund and to establish reserves for the contingent liabilities of the Mortgage Fund;
- (b) to pay unpaid fees and expenses of the Mortgage Fund Trustee; and
- (c) to redeem from the Mortgage Fund Property the Fund Units, on a pro rata basis from the Fund Unitholders.

***Meetings of Unitholders and Resolutions***

The Mortgage Fund Trustee may, at any time, convene a meeting of the Fund Unitholders and will be required to convene a meeting on receipt of a request in writing of Fund Unitholders holding, in aggregate, 15% or more of the Fund Units outstanding. Any matter to be considered at a meeting of Fund Unitholders, other than certain matters requiring the approval of Fund Unitholders by Special Resolution, will require the approval of Fund Unitholders by an Ordinary Resolution. A quorum for any meeting convened to consider such matter will consist of two or more Fund Unitholders present in person or by proxy and representing not less than 10% of the Fund Units outstanding on the record date. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Fund Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days later, selected by the Mortgage Fund Trustee and notice will be given to the Fund Unitholders of such adjourned meeting. The Fund Unitholders present at any adjourned meeting will constitute a quorum.

Each Fund Unitholder is entitled to one vote per Fund Unit held.

The following matters require approval by Ordinary Resolution and shall be deemed approved, consented to or confirmed, as the case may be, upon the adoption of such Ordinary Resolution:

- (a) matters relating to the administration of the Mortgage Fund for which the approval of the Fund Unitholders is required by policies of the securities regulatory authorities in effect from time to time;
- (b) subject to the requirements for a Special Resolution, any matter or thing stated in the trust declaration to be required to be consented to or approved by the Fund Unitholders; and
- (c) any matter which the Mortgage Fund Trustee considers appropriate to present to the Fund Unitholders for their confirmation or approval.

Each of the following actions requires approval by Special Resolution, the terms of which shall specify the date upon which the proposed action shall be undertaken and the party who shall undertake the action:

- (a) the amendment of the Mortgage Fund Declaration (except as provided under “Amendments to the Mortgage Fund Declaration” below) or changes to the Mortgage Fund, including changes to the investment objectives of the Mortgage Fund;
- (b) the removal of the Mortgage Fund Trustee;
- (c) the appointment of a new trustee;
- (d) the termination of the Mortgage Fund;
- (e) a reduction in the amount payable on any outstanding Fund Units upon liquidation of the Mortgage Fund;
- (f) an increase in the liability of any Fund Unitholders; or
- (g) the alteration or elimination of any voting rights pertaining to any outstanding Fund Units.

Notwithstanding the above or any other provision herein, no confirmation, consent or approval shall be sought or have any effect and no Fund Unitholders shall be permitted to effect, confirm, consent to or approve, in any manner whatsoever, where the same increases the obligations of or reduces the compensation payable to or protection provided to the Mortgage Fund Trustee, except with the prior written consent of the Mortgage Fund Trustee.

### ***Termination of the Mortgage Fund***

The Mortgage Fund Trustee may at any time terminate and dissolve the Mortgage Fund by giving written notice to each of the then Fund Unitholders of its intention to terminate the Mortgage Fund at least ninety (90) days before the date on which the Mortgage Fund is to be terminated. Upon termination, the net assets of the Mortgage Fund will be distributed to the Fund Unitholders on a pro rata basis. Prior to the termination date, the Mortgage Fund Trustee will convert the assets of the Mortgage Fund to cash. After payment of the liabilities of the Mortgage Fund, each Fund Unitholder registered as such at the close of business on the date fixed as the termination date will be entitled to receive from the Mortgage Fund Trustee his proportionate share of the value of the Mortgage Fund in accordance with the number of Fund Units which he then holds.

### ***Amendments to the Mortgage Fund Declaration***

Subject to the restrictions described in “Meetings of Unitholders and Resolutions”, any provision of the Mortgage Fund Declaration may be amended, deleted, expanded or varied by the Mortgage Fund Trustee, if the amendment is, in the opinion of counsel, not a material change which adversely affects the pecuniary value of the interest of any Fund Unitholders and does not relate to:

- (a) any material change in the position, authority or responsibility of the Mortgage Fund Trustee;
- (b) any change in the investment policy of the Mortgage Fund or to the Mortgage Fund Declaration, if such change is material or is otherwise required by the Mortgage Fund Declaration.

### ***Information and Reports***

After the end of each calendar quarter, the Mortgage Fund’s accountant prepared and reviewed financial statements will be distributed in accordance with applicable securities legislation. After the close of each calendar year, the Mortgage Fund’s audited financial statements and report will be forwarded to each Fund Unitholder on or before the following March 31. In addition, on or before March 31 in each calendar year, the Mortgage Fund will forward to each person who received a distribution at any time during the previous calendar year, tax reporting information in such a manner as will enable such person to report the income tax consequences of investment in Fund Units in the Fund Unitholder’s annual Canadian income tax return.

### ***Liability of Unitholders***

In circumstances where a material obligation of the Mortgage Fund is created, it is provided in the Mortgage Fund Declaration that the Mortgage Fund Trustee shall use its best efforts to have any such obligations modified so that there is no personal liability of Fund Unitholders. Further, the Mortgage Fund Trustee will cause the operations of the Mortgage Fund to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, as far as possible, any material risk of liability on the Fund Unitholders for claims against the Mortgage Fund.

As a general rule, in making investments for the Mortgage Fund, the Mortgage Fund Trustee contracts as principal; and therefore, subject to contract, the Mortgage Fund Trustee is liable for all obligations incurred in carrying out such investments for the Mortgage Fund. However, in cases where the Mortgage Fund Trustee is unable to obtain written agreement that a material obligation assumed by the Mortgage Fund is not binding upon the Fund Unitholders personally there is a risk that if the claims made in respect thereof are to be satisfied by the Mortgage Fund, a Fund Unitholder will be held personally liable for the obligations of the Mortgage Fund. In case of claims made against the Mortgage Fund which do not arise out of contracts, for example, claims for taxes or claims in tort, personal liability may also arise against Fund Unitholders. Such risks are limited since, as indicated above, the Mortgage Fund intends to limit its investments to the Senior Mortgage Loan.

### ***Redemption***

A Fund Unitholder holding Fund Units wishing to redeem the whole or any part of his or her Fund Units (a "Redemption") may deliver a notice of such desire (the "Redemption Notice") to the Mortgage Fund Trustee at any time. Upon receipt by the Mortgage Fund of the Redemption Notice, the Fund Unitholder shall thereafter cease to have any rights with respect to the Fund Units tendered for redemption (other than to receive the redemption payment therefor) including the right to receive any distributions thereon that are declared payable to the Fund Unitholders of record on a date that is subsequent to the day of receipt by the Mortgage Fund of the Redemption Notice. Trust Units shall be considered to be tendered for redemption on the date that the Mortgage Fund has, to the satisfaction of the Mortgage Fund Trustee, received the Redemption Notice and further documents or evidence the Mortgage Fund Trustee may reasonably require with respect to the identity, capacity or authority of the person giving the Redemption Notice.

Subject to applicable laws and the conditions listed below, the Mortgage Fund will redeem the Mortgage Fund Units specified in such Redemption Notice. The price per Fund Unit payable upon redemption will be equal to either:

- (a) where the Fund Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Fund Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Fund Units on the redemption date; or
- (b) where the Fund Units are not listed on a stock exchange or similar market, (i) 95% of the aggregate principal amount of the Mortgage Loan on the redemption date; plus (ii) the aggregate value of the cash and other working capital assets of the Mortgage Fund; less (iii) the aggregate value of the Mortgage Fund's liabilities on the redemption date (including the aggregate amount of any Fund Notes outstanding), divided by the number of outstanding Fund Units on the redemption date.

The redemption price per Fund Unit multiplied by the number of Fund Units tendered for redemption will be paid to a Fund Unitholder by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the Fund Units were tendered for redemption, provided that:

- (a) the total amount payable by the Mortgage Fund by cash payment in respect of the redemption of Fund Units for that calendar quarter will not exceed \$50,000;
- (b) the total amount payable by the Mortgage Fund by cash payment in respect of the redemption of Fund Units in any twelve month period ending at the end of that calendar quarter will not exceed 3/4 of 1% of the aggregate subscription price of all Fund Units that were issued and outstanding at the start of such twelve month period;



- (c) after such payment the ratio of the aggregate principal amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of outstanding Trust Units would not be less than 4:1;
- (d) in the event that the Fund Units are listed on a stock exchange or similar market, the normal trading of the Fund Units is not suspended or halted on any stock exchange on which the Fund Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

If any of the conditions in paragraphs (a) to (d) above preclude the payment of the redemption price in cash (and the Fund Trustee does not, in its sole discretion, waive such limitation in respect of all Fund Units tendered for redemption in any particular calendar quarter), the redemption price shall be paid and satisfied by way of either of the following methods selected by the Fund Trustee using its sole discretion:

- (a) the issuance and delivery of a number of Fund Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Fund Unit multiplied by the number of Fund Units tendered for redemption; or
- (b) a distribution *in specie* to the Fund Unitholder of a number of Debt Securities (each in the principal amount of \$100), having an aggregate principal amount equal to the redemption price per Unit multiplied by the number of Fund Units tendered for redemption.

Fund Units will be redeemed according to the order in which Redemption Notices are received.

Fund Notes or Redemption Notes received as a result of redemptions of Fund Units may not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant under a Plan, including the redeeming Unitholder becoming subject to a penalty tax or having its tax exempt status revoked depending on the circumstances. Accordingly, Purchasers which are Plans should consult their own tax advisors before deciding to exercise the redemption rights attached to the Fund Units.

### ***Forced Redemption Upon Non-Residency***

At no time may non-residents of Canada be the beneficial owners of Fund Units. If a Fund Unitholder becomes a non-resident of Canada or otherwise becomes a “designated beneficiary” as defined in section 210 of the Tax Act (and as defined in proposed subsection 210(1) of the Tax Act), the Mortgage Fund Trustee may in its discretion, either forthwith redeem all or a part of the Fund Units held by such Fund Unitholder, or by written notice require the Fund Unitholder to, within thirty (30) days, transfer the Fund Units to a transferee who is not a “designated beneficiary” as defined in section 210 of the Tax Act. The redemption proceeds payable for each Fund Unit to be redeemed will be equal to 85% of the lesser of the Subscription Price and the amount payable to a redeeming Fund Unitholder in the event of a Redemption of a Fund Unit, determined on the day on which the Mortgage Fund Trustee issues the redemption notice.

### ***Powers and Responsibilities of the Mortgage Fund Trustee***

The Mortgage Fund Trustee has exclusive authority to manage the operations and affairs of the Mortgage Fund and to make all decisions regarding the business of the Mortgage Fund, and has authority to bind the Mortgage Fund. The powers, authorities and responsibilities of the Mortgage Fund Trustee are limited to those expressly set forth in the Mortgage Fund Declaration. The Mortgage Fund Trustee is responsible for managing the business and administration of the Mortgage Fund and the conduct of the affairs of the Mortgage Fund, including without limitation:

- (a) holding Mortgage Fund Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Mortgage Fund Property (as such term is defined in the Mortgage Fund Declaration);
- (b) ensuring that the Net Subscription Proceeds are invested in the Mortgage Loan as described in Item 3.2;
- (c) borrowing money as necessary to pay distributions to Fund Unitholders, and encumbering Mortgage Fund Property in respect thereof;
- (d) paying properly incurred expenses out of Mortgage Fund Property;
- (e) depositing monies from time to time forming part of the Mortgage Fund Property in accounts;
- (f) possessing and exercising rights, powers and privileges appertaining to ownership of or interest in Mortgage Fund Property;
- (g) holding legal title to Mortgage Fund Property;
- (h) appointing the accountants of and registrar and transfer agent for the Mortgage Fund;
- (i) appointing the bankers of the Mortgage Fund;
- (j) ensuring compliance with applicable securities legislation;
- (k) preparing and filing or causing to be prepared and filed all requisite returns, reports and filings;
- (l) monitoring the listing or trading of the Fund Units on a stock exchange or other market;
- (m) monitoring the Mortgage Fund's tax status as a "mutual fund trust" and, if applicable, a "real estate investment trust" within the meaning of the Tax Act;
- (n) providing all requisite office accommodation and associated facilities;
- (o) providing or causing to be provided to the Mortgage Fund all other administrative and other services and facilities required by the Mortgage Fund; and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Mortgage Fund;
- (p) prescribing any instrument provided for or contemplated by the Mortgage Fund Declaration; and
- (q) remitting distributions,

all subject to the terms and conditions set out in the Mortgage Fund Declaration. The Mortgage Fund Declaration provides that the Mortgage Fund Trustee may engage or employ persons in connection with the Mortgage Fund and pay to them compensation out of Mortgage Fund Property and may delegate its powers, authorities and duties.

The Mortgage Fund Trustee or any successor trustee may resign upon 60 days' notice to Fund Unitholders, or may be removed by a Special Resolution of the Fund Unitholders by notice to the Mortgage Fund Trustee not less than sixty (60) days prior to the date that such removal is to take effect, provided a successor trustee is appointed or the Mortgage Fund is terminated. In the event that the Mortgage Fund Trustee resigns or is removed or becomes incapable of acting or if for any cause a vacancy shall occur in the office of the Mortgage Fund Trustee, a successor trustee shall forthwith be appointed by the Fund Unitholders by Special Resolution to fill such vacancy. Forthwith following such appointment of a successor trustee, the Mortgage Fund Trustee shall execute and deliver such documents as such successor trustee may require for the conveyance of any property of the Mortgage Fund held in the Mortgage Fund Trustee's name, shall account to the successor trustee for all property of the Mortgage Fund which the Mortgage Fund Trustee holds as trustee and shall thereupon be discharged as trustee.

The Mortgage Fund Declaration provides that the Mortgage Fund Trustee will be indemnified out of the Mortgage Fund Property in respect of any civil, criminal or administrative action or proceeding to which it, any of its officers or directors, or any officer or director of any of its affiliates, is made a party by reason of being or having been a Mortgage Fund Trustee or officer or director of the Mortgage Fund Trustee, and/or in respect of any and all taxes, penalties or interest in respect of unpaid taxes or other governmental charges imposed upon such parties as a result of the exercise of his or her powers or duties under the Mortgage Fund Declaration. However, any such party will not be indemnified in respect of unpaid taxes or other governmental charges that result from his or her failure to act honestly and in good faith with a view to the best interests of the Mortgage Fund, or as a result of his or her failure to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where such party did not have reasonable grounds for believing that his or her conduct was lawful.

In addition, the Mortgage Fund Declaration contains other customary provisions limiting the liability of the Mortgage Fund Trustee and indemnifying the Mortgage Fund Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Mortgage Fund Trustee will not receive fees from the Mortgage Fund for acting as trustee of the Mortgage Fund, and will be reimbursed by the Mortgage Fund for all expenses and liabilities which are properly incurred by the Mortgage Fund Trustee in connection with the activities of the Mortgage Fund. The Mortgage Fund Trustee may dispose of any Mortgage Fund Property on such terms as the Mortgage Fund Trustee may in its sole discretion determine for the purpose of paying any obligations imposed on the Mortgage Fund or for repaying any loan hereby authorized.

The Mortgage Fund Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Mortgage Fund and to exercise the degree of care, diligence and skill that a reasonably prudent professional manager would exercise in comparable circumstances.

### ***Rights of Unitholders***

A Fund Unitholder has substantially all of the same protections, rights and remedies as a shareholder would have under the CBCA, except as described herein. Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Mortgage Fund Declaration for the Mortgage Fund. For example, Fund Unitholders are entitled to exercise voting rights in respect of their Fund Units in a manner comparable to shareholders of a CBCA corporation, and provisions relating to the calling and holding of meetings of Fund Unitholders included in the Mortgage Fund Declaration are comparable to those of the CBCA. Unlike shareholders of a CBCA corporation, Fund Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Mortgage Fund.

The matters in respect of which Fund Unitholder approval is required under the Mortgage Fund Declaration are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. The appointment of auditors is reserved to the Mortgage Fund Trustee rather than the Unitholders. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, the sale of all or substantially or of its property, or a going private transaction). As an alternative, Fund Unitholders seeking to terminate their investment in the Mortgage Fund are entitled to receive, subject to certain conditions and limitations, their pro rata share of the Mortgage Fund's net assets through the exercise of the redemption rights described above under "Redemption". Fund Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties.

Shareholders of a CBCA corporation may apply to a court to order the liquidation and dissolution of the corporation in certain circumstances, whereas Fund Unitholders may rely only on the general provisions of the Mortgage Fund Declaration which permit the winding up of the Mortgage Fund with the approval of a Special Resolution of the Fund Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Mortgage Fund Declaration does not include comparable rights.

#### ***Administration of the Mortgage Fund***

Sunstone Management will act as the administrator of the Mortgage Fund pursuant to the terms of the Services Agreement.

**The foregoing is a summary only of certain of the material provisions of the Mortgage Fund Declaration. For a complete understanding of all of the provisions of the Mortgage Fund Declaration Agreement, reference should be made to the Mortgage Fund Declaration itself, a copy of which is available from the Mortgage Fund Trustee.**

### **8.3 The Co-Ownership**

The rights and obligations of the Realty Trust and Sunstone Investments as co-owners of the Properties are governed by the Co-Ownership Agreement made September 4, 2007 between the Realty Trust and Sunstone Investments. The following is a summary of certain material provisions of the Co-Ownership Agreement. **This summary does not purport to be complete and reference should be to the Co-Ownership Agreement itself, a copy of which is available from Sunstone Investments.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Co-Ownership Agreement.**

#### ***Co-Ownership Interests***

Sunstone Investments and the Realty Trusts will have undivided beneficial interests in the Properties as co-owners. Their respective co-ownership interests will be defined and governed by the terms of the Co-Ownership Agreement.

The Realty Trust will have a Priority Co-Ownership Interest in and to all Properties that are subject to the Co-Ownership Agreement, which shall entitle the Realty Trust to a portion of the cash flows, revenues and proceeds from such Properties, after satisfaction of liabilities incurred in respect of such Properties, in priority to Sunstone Investment's Subordinate Return, in an amount equal to the aggregate of:

- (a) the Minimum Return (being a minimum return of 8% per annum, cumulative but not compounded, calculated on the Realty Trust's Net Equity in the Properties owned and operated by the Co-Ownership); and
- (b) after payment of the Subordinate Return to Sunstone Investments, 80% of the balance of the cash flows, revenues and proceeds

Under the Co-Ownership Agreement, the Realty Trust's Priority Co-Ownership Interest will also require the Realty Trust to bear all liabilities and costs in excess of the Subordinate Net Equity (being \$1,000 and other contributions, if any, made by Sunstone Investments), which liabilities and costs shall be recoverable by the Realty Trust out of revenues in priority to any returns being allocated or distributed to either the Realty Trust or Sunstone Investments.

Sunstone Investments will have a Subordinate Co-Ownership Interest in and to all Properties that are subject to the Co-Ownership Agreement, which shall entitle Sunstone Investments to a portion of the cash flows, revenues and proceeds from such Properties, after satisfaction of liabilities incurred in respect of such Properties and subject to the Realty Trust's Minimum Return, in an amount equal to the aggregate of:

- (a) the Subordinate Return (being an amount equal to 20/80ths of the total Minimum Return realized by the Realty Trust to the date the Subordinate Return is received); and
- (b) 20% of the balance of the cash flows, revenues and proceeds.

### ***Cash Flow from Operations***

In each fiscal year of the Co-Ownership (being a calendar year), all cash flow and revenue from operations of the Properties in that year will be first allocated to the Realty Trust (and, if applicable, Sunstone Investments) for payment of all Current Liabilities, including all current principal and interest payments under the Senior Mortgage Loans, and for the creation of reasonable working capital and capital improvement reserves as determined by Sunstone Investments and the Realty Trust.

Cash flow and revenues arising from the ordinary course of operations of the Properties, after satisfaction of Current Liabilities which are then due and payable at such time, will be allocated and distributed as follows:

- (a) firstly, the Realty Trust will be entitled to the amount of the Minimum Return. Sunstone Investments will not be entitled to receive or be allocated cash flow, proceeds of sale, or surplus proceeds from refinancing until the Minimum Return has been allocated and realized by the Realty Trust. The Minimum Return will be calculated on a non-compounded, cumulative basis such that in the years when the Minimum Return is not available from cash flow and revenues, it will accumulate and be allocated from cash flow and revenues in subsequent years;
- (b) secondly, Sunstone Investments will be entitled to the Subordinate Return, being an amount equal to 20/80ths (to the date of such allocation and distribution) of the total

Minimum Return allocated and realized by the Realty Trust to that date, thereby providing Sunstone Investments with a 20% subordinated co-ownership interest in the total amounts of cash flow and revenues from the Properties having regard to amounts allocated and distributed to the Realty Trust through the Co-Ownership up to that date; and

- (c) thirdly, the balance will be allocated as to 80% to the Realty Trust and 20% to Sunstone Investments.

***Net Proceeds from Refinancings, Sale or other Capital Transactions***

All proceeds received from any capital transaction in respect of the Properties, after the creation of a reasonable reserve as determined by Sunstone Investments, will be allocated as follows:

- (a) in the event of a sale of a Property, to pay any costs involved in the sale, including the Disposition Fee payable to Sunstone Management, and to pay all Other Indebtedness of the Realty Trust (and, if applicable, Sunstone Investments) including any loans incurred by the Realty Trust (and, if applicable, Sunstone Investments), plus accrued interest, and all amounts required to discharge any Senior Mortgage Loans or encumbrances registered against the Property;
- (b) to pay all Current Liabilities of the Realty Trust (and, if applicable, Sunstone Investments) to the extent then payable, including without limitation, the Asset Management Fee payable under the Services Agreement;
- (c) if the Realty Trust has not realized cumulative cash allocations from the Properties equal to the Minimum Return, to allocate to the Realty Trust until it has received the full Minimum Return;
- (d) to the Realty Trust until the Realty Trust has received a return in full of the Realty Trust's Net Equity;
- (e) if Sunstone Investments has not realized cumulative cash allocations from the Properties equal to the Subordinate Return, to allocate to Sunstone Investments until it has received the full Subordinate Return ;
- (f) the balance will be distributed 80% to the Realty Trust and 20% to Sunstone Investments.

In accordance with the policies of the Autorité des marchés financiers, the Realty Trust Declaration provides that the Realty Trust, either directly or through the Co-Ownership, may only sell its Priority Co-Ownership Interest in the Properties, or all of or part of a Property, to a Related Party if the price paid is not less than the market value of such interest or of such Property, as determined by an independent valuator. No commission is payable to any Related Party in connection with such sales.

***Distributions upon Wind-up, etc.***

Upon the termination of the Co-Ownership Agreement, the assets and property held in Co-Ownership will be liquidated and the proceeds of dissolution will be distributed in the following ownership interests and order:

- (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 Sunstone Management, and to pay Other Indebtedness of the Realty Trust (and, if applicable, Sunstone Investments) including any loans incurred by the Realty Trust (and, if applicable, Sunstone Investments), plus accrued interest, and all amounts required to discharge any Senior Mortgage Loans or encumbrances registered against the Properties;
- (b) to pay all expenses incurred in the termination of the Co-Ownership;
- (c) to pay all of the Current Liabilities of the Realty Trust (and, if applicable, Sunstone Investments) on account of the Co-Ownership;
- (d) to establish such reserves as the Realty Trust and Sunstone Investments consider necessary;
- (e) if the Realty Trust has not realized cumulative cash allocations from the Properties equal to the Minimum Return, to allocate to the Realty Trust until it has received the full Minimum Return;
- (f) to the Realty Trust until the Realty Trust has received a return in full of the Realty Trust's Net Equity;
- (g) if Sunstone Investments has not realized cumulative cash allocations from the Properties equal to the Subordinate Return, to allocate to Sunstone Investments until it has received the full Subordinate Return; and
- (h) to allocate any balance then remaining 80% to the Realty Trust and 20% to Sunstone Investments.

***Management and Control of the Co-Ownership***

Under the terms of the Co-Ownership Agreement, the Realty Trust and Sunstone Investments will jointly manage, control, administer and operate the activities of the Co-Ownership and the Properties. However, under the Services Agreement, Sunstone Investments and the Realty Trust have agreed to delegate to Sunstone Management the power and authority to manage, control, administer and operate the activities of the Co-Ownership, except for certain matters being subject to the approval of the Realty Trust and Sunstone Investments.

The Realty Trust or Sunstone Investments may upon 60 days' written notice to Sunstone Management, terminate Sunstone Management without cause, and may remove Sunstone Management for cause, if such cause is not remedied after reasonable notice from the Realty Trust. In either such case, the Realty Trust and Sunstone Investments will assume control and management of the Co-Ownership's activities and the Properties or will appoint a replacement manager.

**The foregoing is a summary only of certain of the material provisions of the Co-Ownership Agreement. For a complete understanding of all of the provisions of the Co-Ownership Agreement, reference should be made to the Co-Ownership Agreement itself, a copy of which is available from the Realty Trustee.**

#### **8.4 The Mortgage Loan**

The Mortgage Fund will advance up to \$40,000,000 to the Realty Trust by way of Mortgage Loan. The Mortgage Loan will bear interest at a fixed, simple rate of 8.1% per annum. Interest will be paid quarterly in arrears on the 15th days of each of January, April, July and October commencing on January 15, 2008 in respect of interest accrued during the immediately preceding calendar quarter.

The Mortgage Loan has a term of approximately five years, maturing October 31, 2012 whereupon all principal and accrued interest will become due and payable. The term of the Mortgage Loan may be extended by way of the favourable vote of Fund Unitholders.

The Realty Trust and the Mortgage Fund will enter into the Mortgage Loan Agreement in respect of the Mortgage Loan, which shall be secured by the Fund Mortgage on the beneficial ownership of the Properties. Pursuant to the Mortgage Loan Agreement, the Realty Trust will issue a promissory note to evidence the advance of the Mortgage Loan. Upon the initial advance of the Mortgage Loan, the Mortgage Loan will be secured by way of a general security agreement executed by the Realty Trust in favour of the Mortgage Fund. Upon the purchase of each Property by the Co-Ownership, the Realty Trust will grant to the Mortgage Fund a mortgage on each Property (being a Fund Mortgage), which shall be subordinate to the mortgage and other security instruments securing the Senior Mortgage Loans, and which may, in certain circumstances, not be registered on title held by the nominee and bare trustee registered on title to the Property. The general security agreement and each Fund Mortgage on the Property will be subject to the prior charge of the Senior Mortgage Loans.

Pursuant to the terms of the Mortgage Loan Agreement, the Realty Trust may grant one or more additional mortgages to additional Lenders to secure financing used in the purchase, ownership and operation of Properties or to secure financing used in the development of capital properties as income-producing real estate for long-term investment. In such case, the Fund Mortgage will be subsequent in priority to two or more mortgages and will be a third or subsequent mortgage.

#### **8.5 Subscription**

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

- (a) irrevocably authorizes and directs the Agents to provide certain information to the Realty Trustee and the Mortgage Fund Trustee, 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 Agents, and covenants to provide such information to the Agents;
- (b) acknowledges that he, she or it, as the case may be, is bound by the terms of the Realty Trust Declaration and is liable for all obligations of a Trust Unitholder;
- (c) agrees to be bound as a party to the Mortgage Fund Declaration and is liable for all obligations of a Fund Unitholder;
- (d) makes representations and warranties, including without limitation, the respective representations and warranties set out in the Realty Trust Declaration and the Mortgage Fund Declaration;



- (e) irrevocably nominates, constitutes and appoints the Realty Trustee as the Purchaser's true and lawful attorney and agent with the full power and authority as set out in the Realty Trust Declaration; and
- (f) irrevocably nominates, constitutes and appoints the Mortgage Fund Trustee as the Purchaser's true and lawful attorney and agent with full power and authority as set out in the Mortgage Fund Declaration.

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 Trust Unitholder and a Fund Unitholder upon the amendment of the record of Trust Unitholders and Fund Unitholders maintained by the Realty Trustee and Mortgage Fund Trustee, respectively. If a subscription is withdrawn, in the time permitted for rescission pursuant to applicable securities laws, or is not accepted, all documents will be returned to the Purchaser within 15 days following such withdrawal or rejection.

## 9. SHARE AND LOAN CAPITAL

### 9.1 Existing and Proposed Share Capital

#### *Realty Trust*

The following table summarizes information about outstanding securities of the Realty Trust:

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 10, 2007	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by SRAI as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)
Trust Units	unlimited	Nil	4,000 (\$1,000,000) <sup>(1)</sup>	40,000 (\$10,000,000) <sup>(1)</sup>

<sup>(1)</sup> Gross proceeds before issuance costs. Issuance costs will be borne by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement.

#### *Mortgage Fund*

The following table summarizes information about outstanding securities of the Mortgage Fund:

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 10, 2007	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by SRAI as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 10, 2007	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Fund Units	unlimited	Nil	4,000 (\$4,000,000) <sup>(1)</sup>	40,000 (\$40,000,000) <sup>(1)</sup>

<sup>(1)</sup> Gross proceeds before issuance costs. Issuance costs will be borne by the Realty Trust pursuant to the Cost Sharing and Recovery Agreement.

## 9.2 Long-Term Debt

### *Realty Trust and Mortgage Fund*

Neither the Realty Trust nor Mortgage Fund has any long-term debt.

The Realty Trust intends to borrow funds by way of the Mortgage Loan. Assuming all 40,000 Units are sold pursuant to this Offering, the Mortgage Loan will be in the principal amount of \$40,000,000.

The Realty Trust also intends to finance a part of the purchase price of the Properties by way of Senior Mortgage Loans from third party Lenders. Sunstone Investments will target the overall loan to value ratio of the Senior 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. Such loans will generally be for terms of three to seven years, with fixed interest rates calculated with reference to the interest rate on a government bond with a similar term, plus an amount determined in accordance with market factors. The Senior Mortgage Loans will be secured by mortgages registered on the Properties in respect of which the loans were advanced, and will have priority over the repayment of the Mortgage Loan and the return of capital to the Realty Trust.

## 10. PRIOR SALES

There have been no prior sales of the Trust Units or Fund Units offered under this Prospectus.

## 11. PRINCIPAL SECURITYHOLDERS

### *Realty Trust and Mortgage Fund*

After giving effect to the Offering, to the best of the knowledge of the directors and officers of the Realty Trustee and the Mortgage Fund Trustee, no persons will own, directly or indirectly, or exercise control or direction over Trust Units or Fund Units carrying more than 10% of the votes attached to all of the issued and outstanding Trust Units and Fund Units.

**12. DIRECTORS AND OFFICERS**

**12.1 Name, Address, Occupation and Security Holding**

***Realty Trustee and Mortgage Fund Trustee***

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

Name, Age, Municipality of Residence and Position Held with Realty Trustee and Mortgage Fund Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Realty Trustee and Mortgage Fund Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Robert W. King Age 41 Vancouver, BC Secretary and Director	President of King Pacific Capital Corporation, a financial services company involved in mortgage finance and real estate investment, from January 1994 to present. Director of Wall Financial Corporation, a real estate investment and development company, from March 2005 to present. Director of PlanetOut Inc., an online media company, from February 2004 to present. Trustee of WesternOne Equity Income Fund, a fund established to acquire privately-owned small and mid-market businesses, June 2006 to present. Trustee of Pure Industrial Real Estate Trust, a fund established to acquire industrial properties in Canada, June 2007 to present.	Director of Mortgage Fund Trustee since July 27, 2007.  Director of Realty Trustee since August 17, 2007.	500 common shares <sup>(1)</sup>	50%	50%

Name, Age, Municipality of Residence and Position Held with Realty Trustee and Mortgage Fund Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Realty Trustee and Mortgage Fund Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
James Redekop Age 47 Mt. Lehman, BC Director	President of Redekop Holdings Inc. from March 1996 to present. Redekop Holdings Inc. is a personal holding company with interests in real estate development and construction projects.	Director of Mortgage Fund Trustee since July 27, 2007.  Director of Realty Trustee since August 17, 2007.	500 common shares <sup>(2)</sup>	50%	50%
Darren Latoski Age 38 Vancouver, BC President	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Realty Advisors (Canada) Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren Developments Inc., a personal holding, investment and management company from September 1989 to present; Trustee of WesternOne Equity Income Fund and President and CEO of WesternOne Equity GP Inc., which were established to acquire privately-owned small and mid-market businesses, June 2006 to present; Trustee of Pure Industrial Real Estate Trust, a fund established to acquire industrial properties in Canada, June 2007 to present; Vice President of Macluan Capital Corporation from December 1997 to February 2001.	President of Mortgage Fund Trustee since July 27, 2007.  President of Realty Trustee since August 17, 2007.	none	n/a	n/a

<sup>(1)</sup> These shares are owned by King Pacific Capital Corporation, of which Mr. King is the sole director, officer and shareholder.

- (2) These shares are owned by Redekop Holdings Inc., of which Mr. Redekop is the sole director, officer and shareholder.
- (3) The audit committee of the Realty Trustee and the Mortgage Fund Trustee will be comprised of Mr. King and Mr. Redekop.

### **Personal Profiles**

**Robert W. King** – Mr. King is President of King Pacific Capital Corporation, a financial services company involved in mortgage finance and real estate investment. Mr. King is also a principal of Westbridge Capital Group, a full-service commercial mortgage brokerage company. From August 1992 to January 1996 Mr. King was employed by Jagger Grierson Financial Corporation as a commercial mortgage broker. From March, 2005, Mr. King has served on the Board of Directors of Wall Financial Corporation, a real estate investment and development company whose shares are listed for trading on the Toronto Stock Exchange. From December 2002 to July 2007, Mr. King served on the Board of Directors of Prescient NeuroPharma Inc., a company whose shares are listed for trading on the TSX Venture Exchange. Since February 2004, Mr. King has also served on the Board of Directors of PlanetOut Inc., an online media company whose shares are listed for trading on the Nasdaq Stock Market. Mr. King earned his M.B.A. from Dalhousie University in 1992 and a Bachelor of Arts from the University of British Columbia in 1989.

**James Redekop** - Since leaving the single family home construction industry in 1986, Mr. Redekop has been involved in multi-family housing and commercial construction and development in British Columbia, primarily through special-purpose private companies held through Redekop Holdings Inc., Mr. Redekop's holding company. His primary focus has been with residential wood-frame condominium and townhouse projects. Over the past eighteen years, he has acted as General Contractor or Project Manager on 36 multi-family developments ranging from the 58 unit Valhalla townhouse site in Whistler, British Columbia, to the 151 unit Tiffany Shores development on the shores of the Fraser River in New Westminster, British Columbia, and, more recently, two 50 unit condominium projects in the Kitsilano neighbourhood of Vancouver, British Columbia.

Mr. Redekop was also co-owner and co-developer on 14 of the 36 projects referred to above, gaining valuable experience in the housing industry. Together with partners, he has retained 5 of the 36 buildings as rental properties.

**Darren Latoski** – Mr. Latoski's profile is set out below under the heading "Sunstone Management and Sunstone Investments".

### ***Sunstone Management and Sunstone Investments***

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

Name, Age, Municipality of Residence and Position Held	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 Age 38 Vancouver, BC President and Director	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Realty Advisors (Canada) Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren Developments Inc., a personal holding, investment and management company from September 1989 to present; Trustee of WesternOne Equity Income Fund and President and CEO of WesternOne Equity GP Inc., which were established to acquire privately-owned small and mid-market businesses, June 2006 to present; Trustee of Pure Industrial Real Estate Trust, a fund established to acquire industrial properties in Canada, June 2007 to present; Vice President of Macluan Capital Corporation from December 1997 to February 2001.	President and Director since July 27, 2007. <sup>(1)</sup>	500 common shares <sup>(2)</sup>	50%	50%

Name, Age, Municipality of Residence and Position Held	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
Steve Evans Age 43 North Vancouver, BC Secretary and Director	Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Sunstone Realty Advisors (Canada) 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; Director of WesternOne Equity GP Inc., a company established to acquire privately-owned small and mid-market businesses, June 2006 to present; Trustee of Pure Industrial Real Estate Trust, a fund established to acquire industrial properties in Canada, June 2007 to present.	Secretary and Director since July 27, 2007. <sup>(3)</sup>	500 common shares <sup>(4)</sup>	50%	50%

(1) Mr. Latoski is the President and director of both Sunstone Management and Sunstone Investments as of the date shown.

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

(3) Mr. Evans is Secretary and director of both Sunstone Management and Sunstone Investments as of the date shown.

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

***Previous Real Estate Experience***

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.

***Sunstone LP***

Messrs. Evans and Latoski are the founders and equal owners of SRAI. SRAI organized Sunstone LP, which in March and April, 2004, raised total cash proceeds from its joint offering with SRAI Capital Corp., of \$15,425,000. Sunstone LP acquired, owned, operated and has subsequently sold Langley Crossing in Langley, British Columbia; the Westhill Centre in Nanaimo, British Columbia; and a one-half interest in Cascade Plaza in Banff, Alberta.

Sunstone LP acquired Langley Crossing in two components, consisting of an \$18,000,000 acquisition of the main retail centre, which comprises six single-storey retail buildings and one two-storey office building with a net rentable area of 98,219 square feet. At the same time, Sunstone LP acquired the RONA store at Langley Crossing for \$3,300,000, which consists of a 30,500 square foot retail “big box” store. By uniting the ownership of the two properties comprising Langley Crossing under single ownership, Sunstone LP expected to be better able to efficiently manage the property and to have an enhanced opportunity for value enhancement. Sunstone LP sold the two properties comprising Langley Crossing on September 19, 2005 for \$29,000,000.

Sunstone LP acquired the Westhill Centre on September 30, 2004 for a purchase price of \$3,040,000 plus standard closing costs and adjustments. The property was built in 1998 and is well-situated on a major four lane arterial traffic route. Westhill Centre is near the 31 acre Westhill Community development and the Nanaimo General Hospital. It is a neighbourhood retail and office centre, comprised of 34,294 square feet of rental area, with an overall site area of 146,066 square feet. Sunstone LP sold The Westhill Centre on September 29, 2005 for \$3,550,000.

Sunstone LP acquired a 50% interest in Cascade Plaza on August 3, 2004 for an effective purchase price of \$19,850,000. Cascade Plaza is comprised of a 107,848 square feet, enclosed urban shopping centre, an 88,830 square feet enclosed parking garage and thirty two residential apartments in 18,908 square feet. The centre is the dominant retail and office complex in Banff with three floors of retail space and one floor of office space evenly distributed around a spacious atrium style enclosed shopping mall. The thirty two residential apartments are on three floors above the retail component and the 254 car garage is in an attached six level, above ground, heated and enclosed structure. Sunstone LP sold its 50% interest in Cascade Plaza on September 30, 2005 for an effective price of \$25,500,000.

Having sold all of its assets and distributed all income and gains to its partners, Sunstone LP was dissolved on July 25, 2006.

***Sunstone (2004) LP***

Further, SRAI organized Sunstone (2004) LP, which in November and December, 2004, raised total cash proceeds from its joint offering with SRAI Capital Corp., of \$13,075,000. Sunstone (2004) LP acquired and currently owns Drumheller Shopping Centre, in Drumheller, Alberta; Torquay Village Shopping Plaza, in Victoria, British Columbia; Scott Town Plaza shopping centre, in Surrey, British Columbia; and Halton Hills Shopping Plaza, in Georgetown, Ontario. It also acquired and subsequently sold a concrete warehouse located in Port Coquitlam, British Columbia, West Willow Shopping Centre, in Langley, British Columbia, and the Northland Office Building in Calgary, Alberta.

On December 30, 2004, Sunstone (2004) LP acquired 1425 Kebet Way in Port Coquitlam, British Columbia, for a purchase price of \$3,765,187 plus standard closing costs and adjustments. Sunstone



(2004) LP funded the acquisition with cash and a \$2,823,890 new first mortgage on the property in favour of Canadian Western Bank. The property is located in the Meridian Industrial Park in Port Coquitlam, British Columbia and is a 47,693 square feet concrete warehouse that was constructed in 1993, with an overall site area of 2.18 acres. On May 6, 2005 Sunstone (2004) LP sold the 1425 Kebet Way property for the sale price of \$4,570,000.

On March 17, 2005, Sunstone (2004) LP acquired West Willow Shopping Centre for a purchase price of \$9,750,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$7,312,500 new first mortgage on the property in favour of Coast Capital Savings Credit Union. West Willow Shopping Centre is a 70,074 square feet shopping centre located in the Willowbrook shopping district of Langley, British Columbia. The Willowbrook area is increasingly becoming a regional town centre, and is considered to have a strong drawing power, bringing traffic from the surrounding areas of White Rock, and South Surrey. On July 28, 2006, Sunstone (2004) LP sold West Willow Shopping Centre for \$14,200,000.

On May 30, 2005, Sunstone (2004) LP acquired Scott Town Plaza for a purchase price of \$8,000,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$6,000,000 new first mortgage on the property in favour of Coast Capital Savings. Scott Town Plaza is a 56,781 square feet shopping centre located in the district of Surrey, British Columbia, one of the fastest growing cities in Canada.

On May 27, 2005, Sunstone (2004) LP acquired Halton Hills Shopping Plaza for a purchase price of \$8,650,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a blended \$6,750,000 mortgage on the property in favour of GMAC Commercial Mortgage and vendor financing. Halton Hills Shopping Plaza is a grocery anchored, 70,228 square feet, open neighbourhood centre and is situated in the highly visible and heavily traveled commercial area of Georgetown, Ontario. Halton Hills is increasingly becoming a regional town centre and is considered to have strong drawing power, bringing traffic from the surrounding areas of both Brampton and Burlington.

On July 15, 2005, Sunstone (2004) LP acquired Drumheller Shopping Centre for a purchase price of \$2,335,000, plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$1,751,000 new first mortgage on the property in favour of Canadian Western Bank, bearing an interest rate of 4.79% per annum and maturing in July 2010. Drumheller Shopping Centre is a 10,537 square feet shopping centre located north east of Calgary, in Drumheller, Alberta. Drumheller Shopping Centre is located in the new "South Side" business district. Sunstone (2004) LP has entered into an agreement to sell Drumheller Shopping Centre for a sale price of \$2,930,000. The sale is scheduled to complete on September 17, 2007.

On July 15, 2005, Sunstone (2004) LP acquired Torquay Village Plaza for a purchase price of \$3,350,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a blended \$2,525,000 first mortgage on the property in favour of Standard Life and vendor financing. Torquay Village Plaza is a 14,634 square feet, single-storey shopping plaza, located in Victoria, British Columbia. On August 29, 2007, Sunstone (2004) LP sold Torquay Village Plaza for a price of \$4,850,000.

On October 28, 2005, Sunstone (2004) LP acquired the Northland Building in Calgary, Alberta for a purchase price of \$4,925,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$3,693,750 first mortgage on the property in favour of Citizens Bank of Canada bearing an interest rate of 5.09% per annum and maturing in October, 2010. The Northland Building is a three building office complex, located at 9705 Horton Road SW in Calgary, having a total of 54,581 square feet of rentable area. Sunstone (2004) LP sold the Northland Building on August 15, 2007

for a price of \$8,533,500 less standard closing costs and adjustments, including third party real estate commission. The remaining balance of the first mortgage on the property has been discharged.

***Sunstone (2005) LP***

SRAI also organized Sunstone (2005) LP, which in October and November, 2005, raised total cash proceeds from its joint offering with SRAI Capital Corp., of \$45,000,000. Sunstone (2005) LP has acquired and currently owns an undivided 50% interest in Pickering Annex, in Pickering, Ontario and in two parcels adjacent to the Pickering Annex; River City Centre, in Saskatoon, Saskatchewan; Sherwood Forrest Village, in Mississauga, Ontario; Midpark Court office building, in Calgary, Alberta; and an undivided 50% interest in Northumberland Mall, in Cobourg, Ontario. Sunstone (2005) LP also acquired and subsequently sold the Westview Office Building, in Calgary Alberta; a single-tenant industrial building in Montreal, Quebec; a portfolio of 10 single-tenant industrial buildings located in the Provinces of British Columbia, Alberta, Ontario and Quebec and a single-tenant industrial building in Winnipeg, Manitoba, and has entered into an agreement to sell the office building located at 4243 Glanford Avenue, Victoria, British Columbia.

On December 30, 2005, Sunstone (2005) LP acquired the Westview Building for a purchase price of \$3,300,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new first mortgage on the property in favour of Citizens Bank, maturing in May, 2011, having an interest rate of 5.48%. The property is located ten minutes from downtown Calgary, in close proximity to the Calgary International Airport, near the major interchange of Deerfoot Trail and 32nd Avenue NE. It is a 33,512 square feet multi-tenant concrete office building. On August 15, 2007, Sunstone (2005) LP completed the sale of the Westview Building for a price of \$5,800,000.

On January 9, 2006, Sunstone (2005) LP acquired a single-tenant industrial building located at 1505 Dickson Street, Montreal, Quebec, for a purchase price of \$11,900,000 plus standard closing costs and adjustments. (the "Mabe Property") Sunstone (2005) LP funded the acquisition with cash and a new \$8,550,000 mortgage on the property in favour of RBC Commercial Mortgages, bearing interest at the rate of 5.677% per annum and maturing in 2016. The building, which is located on an eight acre property, is comprised of 149,085 square feet of warehouse space, 4,695 square feet of office space and 10,904 square feet of retail showroom space, for a total net rentable area of 164,308 square feet. The building is leased under a long term lease to Camco Inc. Sunstone (2005) LP completed the sale of 1505 Dickson Street, Montreal, Quebec on August 22, 2007 to Pure Industrial Real Estate Trust for a price of \$13,375,000. See "Pure Industrial Real Estate Trust".

On March 29, 2006, Sunstone (2005) LP acquired an undivided 50% joint venture interest in the Pickering Annex in Pickering, Ontario, for a purchase price of \$17,675,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$13,200,000 mortgage in favour of GE Commercial Finance, which matures in 2008 and is structured to permit additional draws for the purpose of funding renovations and repositioning of the property. Pickering Annex is a 237,000 square feet retail shopping centre situated in a strong retail district, and benefits from excellent exposure and access to Highway 401 and Brock Road. Major tenants include Staples Business Depot, Penningtons and Extreme Fitness, and national and local retailers specializing in home décor such as Coast/Interhome Furniture, Amish Furniture and Kitchen Stuff. The property is adjacent to a major regional retail centre with tenants including Wal-Mart, Sam's Club and Canadian Tire.

On March 30, 2006, Sunstone (2005) LP acquired River City Centre, in Saskatoon, Saskatchewan, for a purchase price of \$22,900,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$17,175,000 mortgage in favour of Sun Life Assurance Company of

Canada, which bears interest at the rate of 5.35% per annum and matures in 2011. River City Centre is a 160,389 square feet retail shopping centre situated at the north end of Saskatoon.

On March 31, 2006, Sunstone (2005) LP acquired the Team Tube/Encore Metals portfolio of ten single tenant industrial properties located in Coquitlam, Delta and Surrey, British Columbia; Calgary (three buildings) and Edmonton, Alberta; Milton, Ontario; and Laval, Quebec (two buildings). The purchase price for the portfolio acquired was \$21,350,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$14,300,000 mortgage in favour of Citizens Bank of Canada, bearing interest at the rate of 5.50% per annum and maturing in 2011. On September 6, 2006, Sunstone (2005) LP completed the sale of the two buildings in Laval, Quebec, for a sale price of \$2,500,000. On August 22, 2007, Sunstone (2005) LP completed the sale of the remaining eight properties in the Team Tube/Encore Metals portfolio to Pure Industrial Real Estate Trust for an aggregate price of \$24,270,000, for aggregate sale proceeds from the 10 properties comprising the portfolio of \$26,770,000. See "Pure Industrial Real Estate Trust".

On July 4, 2006, Sunstone (2005) LP acquired Sherwood Forrest Village in Mississauga, Ontario, for the purchase price of \$9,550,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$7,000,000 mortgage in favour of bcIMC Fixed Term Fund Limited Partnership bearing interest at the rate of 5.76% per annum and maturing in 2012. Sherwood Forrest Village is located at 1900 Dundas Street West, and comprises a 43,274 square feet community retail centre. The location is close to the major intersection of Erin Mills Parkway and Dundas Street West, just north of the Queen Elizabeth Parkway, and is part of an affluent neighbourhood. Tenants include Starbucks, LCBO Vintages, Edward Jones, and a variety of restaurants, boutique clothing stores and offices.

On July 21, 2006, Sunstone (2005) LP acquired Midpark Court, a 23,334 square feet office building in Calgary, Alberta, for the purchase price of \$3,500,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$2,885,000 mortgage in favour of Citizens Bank of Canada, bearing interest at the rate of 5.97% per annum and maturing in 2011. The property is located in the South Office District of Calgary, on the MacLeod Trail commercial corridor.

On July 28, 2006, Sunstone (2005) LP acquired a single-tenant industrial building located at 333 De Baets Street, Winnipeg, Manitoba for a purchase price of \$2,600,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new \$1,742,000 mortgage in favour of bcIMC Fixed Term Fund Limited Partnership, bearing interest at the rate of 5.5% per annum and maturing in 2011. The property is located on an approximately three acre parcel in the Saint Boniface Industrial Park and is comprised of approximately 31,500 square feet of rentable area, being approximately 30,000 square feet of warehouse space and 1,500 square feet of offices. On August 22, 2007, Sunstone (2005) LP completed the sale of 333 De Baets Street, Winnipeg, Manitoba to Pure Industrial real Estate Trust for a price of \$2,700,000. See "Pure Industrial Real Estate Trust".

On July 31, 2006, Sunstone (2005) LP acquired a fifty percent joint venture interest in Northumberland Mall, in Cobourg, Ontario, for a purchase price of \$19,075,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a 50% share of the proceeds from a first mortgage in favour of Merrill Lynch Capital Canada Inc in the aggregate principal amount of \$28,612,500. The mortgage matures in 2007 and is a variable rate mortgage. Northumberland Mall is situated at 1035-1045 and 1111 Elgin Street West, Cobourg, Ontario, in a strong retail district and benefits from convenient access to Highway 401. It is a 349,287 square foot community shopping centre situated on 31.15 acres, and is anchored by Zellers, Sears and A&P's Save-A-Centre. The remainder of the centre is comprised of national, regional and local tenants including Mark's Work Warehouse,

Bootlegger, Boston Pizza and Scotia Bank. The centre is adjacent to Wal-Mart, Canadian Tire and Staples Business Depot stores, which draw customers to the centre.

On September 12, 2006, the joint venture established for the purchase of the Pickering Annex in Pickering, Ontario (see above), acquired the "DeBoers Property", a property adjacent to the Pickering Annex for a purchase price of \$4,300,000, of which Sunstone (2005) LP's 50% share was \$2,150,000. The acquisition was funded with cash and an increase of \$3,225,000 (Sunstone (2005) LP's share was \$16,512,500) in the existing mortgage loan for the property from GE Commercial Finance. The adjacent property acquired by the joint venture comprises a single tenant building of approximately 34,500 square feet, which is leased to DeBoers Furniture.

On November 30, 2006, Sunstone (2005) LP completed the acquisition of 4243 Glanford Avenue, Victoria, British Columbia, for a purchase price of \$5,500,000 plus standard closing costs and adjustments. Sunstone (2005) LP funded the acquisition with cash and a new first mortgage of the property in the amount of \$3,546,000. 4243 Glanford Avenue is a 38,332 square feet three storey office building located in the Royal Oak Industrial Park in Victoria, British Columbia. The property is located adjacent to the Pat Bay Highway, providing tenants with convenient access to downtown Victoria, the Victoria airport and the Swartz Bay ferry terminal. On August 31, 2007, Sunstone (2005) LP sold 4243 Glanford Avenue for a price of \$6,900,000.

On December 15, 2006, Sunstone (2005) LP acquired a fifty percent joint venture interest in vacant land adjacent to the Pickering Annex. Sunstone (2005) LP's share of the purchase price was \$2,400,000 plus standard closing costs and adjustments. Sunstone (2005) LP intends to develop the vacant land and to combine it with the previously acquired Pickering Annex and DeBoers Property, to create a larger, united centre with increased retail premises and market exposure.

### ***Sunstone (2006) LP***

SRAI also organized Sunstone (2006) LP, which in October, 2006, raised total cash proceeds from its joint offering with SRAI Capital Corp. of \$50,000,000. Sunstone (2006) LP has acquired and currently owns Newton Crossing in Surrey, British Columbia; Evergreen Centre, in Sooke, British Columbia; Maple Park Shopping Centre in Quesnel, British Columbia; Millwoods Mainstreet Mall in Edmonton, Alberta; Cariboo Mall, in 100 Mile House, British Columbia; Terrace Shopping Centre, in Terrace, British Columbia; Smithers Mall, Smithers, British Columbia; an industrial building in Delta, British Columbia; Starlite Centre in Regina, Saskatchewan; and Polson Place Mall in Vernon, British Columbia.

On December 15, 2006, Sunstone (2006) LP acquired Newton Crossing in Surrey, British Columbia, for a purchase price of \$6,600,000 plus standard closing costs and adjustments. Newton Crossing is a commercial retail and office plaza well located on the southwest corner of King George Highway and 72<sup>nd</sup> Avenue in the Newton neighbourhood of the City of Surrey. The centre is comprised of four single and two-storey buildings, with an overall site area of 3.978 acres. Significant tenants of Newton Crossing including CIBC, the BC Ministry for Children and Family Development, MacDonald Realtors and Curves.

On February 28, 2007, Sunstone (2006) LP completed the acquisition of three retail shopping centres in British Columbia and Alberta for an aggregate purchase price of \$40,054,400 plus standard closing costs and adjustments. Evergreen Centre, in Sooke, British Columbia is a 67,156 square feet open style community retail centre. Its major tenants include Western Foods, Shoppers Drug Mart, Royal Bank, BC Liquor Store and a free-standing A&W Restaurant. Maple Park Shopping Centre in Quesnel, British Columbia, is a 140,000 square foot community shopping centre located on Highway 97. Sunstone acquired a 90% interest in Maple Park Shopping Centre, with the remaining 10% being owned by

multiple partners. Millwoods Mainstreet Mall in Edmonton, Alberta, is a 142,685 square feet multi-building, food store-anchored shopping centre situated in the Millwoods area of southeast Edmonton. Its major tenant is a 34,000 square feet IGA Garden Market. Other tenants include the Bank of Montreal, Rogers Video, Tim Hortons and Wendy's restaurant.

On March 30, 2007, Sunstone (2006) LP acquired three further retail shopping centres in British Columbia for an aggregate purchase price of \$6,290,000 plus standard closing costs and adjustments. Cariboo Mall, in 100 Mile House, British Columbia, is a 39,708 square feet enclosed community mall located on 3.44 acre site on Highway 97. The centre is "shadow" anchored by an adjacent Safeway store and includes Pharmasave, True Value Hardware and Bargain Shop among its tenants. Terrace Shopping Centre, in Terrace, British Columbia, is a 19,728 square feet neighbourhood mall situated on Lakelse Avenue, the main commercial street in Terrace. The centre is "shadow" anchored by an adjacent Safeway and a newly opened Shoppers Drug Mart. The centre's tenants include TD Canada Trust and Dollar Store With More. Smithers Mall is a 43,741 square feet enclosed community mall situated in the town of Smithers, in the Bulkely Valley region of northwest British Columbia.

On March 30, 2007, the Partnership also completed the acquisition of 788 Caldew Street, Delta, British Columbia for a purchase price of \$3,900,000 plus standard closing costs and adjustments. 788 Caldew Street is a 56,624 square feet industrial building located on a 2.671 acre site, including 48,624 square feet of warehouse space and 5,600 square feet of offices.

On May 18, 2007, Sunstone (2006) LP acquired Starlite Centre in Regina, Saskatchewan, for a purchase price of \$5,321,500 plus standard closing costs and adjustments. Sunstone (2006) LP funded the acquisition with cash and a new mortgage of \$4,250,000. Starlite Centre is a 26,869 square feet multi-tenant retail plaza located on 2.52 acres. Its surrounding neighbourhood is active with development in big box format retail, retail strip centres, restaurants and food stores. The major tenants of Starlite Centre include KFC and Nevada Bob's Golf. The centre is also in close proximity to Wal-Mart to the east and Costco to the west.

On May 31, 2007, Sunstone (2006) LP acquired Polson Place Mall in Vernon, British Columbia, for the price of \$12,500,000 plus standard closing costs and adjustments. Sunstone (2006) LP funded the acquisition with cash and a new mortgage in the amount of \$9,375,000. Polson Place Mall is located on Highway 6 in Vernon, British Columbia, and is a single storey enclosed mall. The overall site area is 9.86 acres with a leasable area of 116,016 square feet. The centre is located on the east side of Vernon. Prior to completing the purchase of Polson Place Mall, Sunstone (2006) LP negotiated a lease for a new 15,000 square feet Shoppers Drug Mart store, pursuant to which the tenant will build out a new store which it expects to be open for business in September, 2007.

On June 27, 2007, Sunstone (2006) LP completed the acquisition of an undivided beneficial interest in 65 Grand Marshall Drive located in Toronto, Ontario, for \$3,400,000 plus standard closing costs and adjustments. Sunstone (2006) LP funded the acquisition with cash and a new mortgage in the amount of \$2,500,000. 65 Grand Marshall is a 15,965 square foot single tenant industrial building located on 2.69 acres of land. The property is well located for industrial and commercial uses within the Rouge Employment District, which has excellent transportation access to Highway 401 as well as Highway 407 and 48. The property is also located adjacent to a retail power centre and auto dealership campus which may indicate possible re-development potential. The current tenant is the Province of Ontario's Ministry of Transportation.

Sunstone (2006) LP has entered into an agreement to acquire an undivided beneficial interest in Les Galeries Kirkland located in Montreal, Quebec, for \$12,100,000. Les Galeries Kirkland is a neighbourhood shopping centre of 85,862 square feet that includes 54,610 square feet of retail space on

the ground floor and 31,252 square feet of office space on the second floor. The shopping centre is well located on St-Charles Boulevard at the intersection of Barry Street, which is a major commercial artery. Completion of the purchase of les Galeries Kirkland is scheduled for mid September, 2007.

### ***Pure Industrial Real Estate Trust***

Messrs. Evans are two of the six trustees of Pure Industrial Real Estate Trust (“PIRET”), an unincorporated, open-ended investment trust established for the purposes of acquiring, owning and operating a diversified portfolio of income producing industrial properties in both primary and secondary markets across Canada. PIRET focuses exclusively on investing in industrial properties and as of the date hereof is the only publicly-traded vehicle in Canada that offers investors exclusive exposure to Canada’s industrial real property assets. Sunstone Industrial Advisors Inc., a private company controlled by Darren Developments Inc. and Triple E Ventures Inc., which are in turn private companies controlled by Darren Latoski and Steve Evans, will be the asset manager of PIRET. On August 22, 2007, PIRET completed an initial public offering of units for gross proceeds of \$19 million. In conjunction with the offering, Sunstone Industrial Investments Inc. also purchased 250,000 subordinated units for additional gross proceeds of \$1 million for aggregate gross proceeds to PIRET of \$20 million. The net proceeds of the offering were used to acquire from Sunstone 2005 LP an initial portfolio of properties consisting of the Team Tube Properties and the Mabe Property described above under “Sunstone 2005 LP”.

### ***Personal Profiles***

**Darren Latoski** - As President and indirect 50% owner of the shares in SRAI, Mr. Latoski participated in the negotiation and acquisition of property interests by Sunstone LP totaling \$44,190,000, by Sunstone (2004) LP totaling \$40,775,187, and by Sunstone (2005) LP totaling \$111,750,000 and by Sunstone (2006) LP totaling \$74,665,500, all as detailed above. He continues his active role in the management of the business of SRAI, with a focus on enhancing the value of the assets of Sunstone (2004) LP, Sunstone (2005) LP and Sunstone (2006) LP. As President and the indirect owner of one-third of the shares in CPGI, Mr. Latoski participated in the negotiation and acquisition by CIRE LP of property interests totaling \$41,500,000, as detailed above. He continues an active role in the management of the business of CPGI.

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 the State of 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 Chief Operating Officer and indirect 50% owner of the shares in SRAI, Mr. Evans participated in the negotiation and acquisition of Sunstone LP totaling \$44,190,000, by Sunstone (2004) LP totaling \$40,775,187, and by Sunstone (2005) LP totaling \$121,800,000, and by Sunstone (2006) LP totaling \$74,665,500, all as detailed above. He continues his active role in the management of the business of SRAI, with a focus on enhancing the value of the assets of Sunstone (2004) LP, Sunstone (2005) LP and Sunstone (2006) LP. As Chief Operating Officer and the indirect owner of one-third of the shares in CPGI, Mr. Evans participated in the negotiation and acquisition by CIRE LP of property interests totaling \$41,500,000, as detailed above. He continues an active role in the management of the business of CPGI.

From June, 1987, to September, 2001, Mr. Evans was Vice President of England Securities Ltd., a real estate investment, development and management company. 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 totalling 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 totalling in excess of \$200,000,000.

## **12.2 Corporate Bankruptcies**

Robert King, a director and officer of the Realty Trustee and the Mortgage Fund Trustee, served as a director of Redekop Properties Inc. ("RPI") from March 1997 to June 2001. RPI was formerly listed on the Toronto Stock Exchange. On December 4, 2000, RPI and certain affiliated companies applied for and were granted a protective order under the *Companies' Creditors Arrangement Act* (Canada). On February 9, 2001, RPI and an affiliated company, applied for, and received a stay order under the *Companies' Creditors Arrangement Act* (Canada). A monitor was appointed to monitor the business and financial affairs of RPI while the stay order remained in effect.

On March 2, 2001, the British Columbia Supreme Court dismissed an application by RPI and its affiliates for an order entitling RPI to file a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada). In dismissing the application, the Court withdrew the protective order previously granted to RPI and its affiliates.

On or about March 5, 2001, Montreal Trust Company of Canada filed a Notice of Intention to Enforce Security against RPI under the *Bankruptcy and Insolvency Act* (Canada). Mr. King resigned from the board of directors of RPI prior to the commencement of proceedings under the *Bankruptcy and Insolvency Act* (Canada).

## **12.3 Penalties or Sanctions (Directors and Officers)**

Robert King, a director and officer of the Realty Trustee and the Mortgage Fund Trustee, held common shares in the capital of Prescient Neuropharma Inc. at the time he became a director of that company in December, 2002. Through inadvertence, Mr. King did not file an insider report disclosing such shareholdings. Accordingly, Mr. King was sanctioned by the British Columbia Securities Commission and received a \$100 fine, which has been paid.

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

Sunstone Investments is owned by companies controlled by Steve Evans and Darren Latoski. Sunstone Investments will earn the Subordinate Return from the Co-Ownership. As well, pursuant to the Services Agreement, Sunstone Management will be receiving various fees and payments from the Co-Ownership in respect of the acquisition and disposition of Properties and will be participating in the profits of the Co-Ownership.

Subject to the foregoing, neither of Steve Evans and Darren Latoski is 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 Realty Trust, the Trust Unitholders, the Mortgage Fund or the Fund Unitholders for profits made in such other activities. The Realty Trustee and the Mortgage Fund Trustee will engage in no activities other than acting as trustees of the Realty Trust and the Mortgage Fund, respectively.

Steve Evans and Darren Latoski have agreed with PIRET that they will not be engaged, either directly or indirectly, for their own account or on behalf of parties other than PIRET, in real estate investments relating to industrial properties, except: (i) in the case of certain “sidecar” funds, to which PIRET would advance funds; (ii) in a case where the acquisition committee of PIRET has elected to not acquire or invest in such industrial property; and (iii) where Messrs Evans and Latoski are no longer Trustees and their asset management agreement with PIRET has been terminated or assigned.

## **12.5 Insurance Coverage for Directors and Officers and Indemnification**

The Realty Trust will obtain or cause to be obtained a policy of insurance for the directors and officers of each of the Realty Trustee and the Mortgage Fund Trustee. The initial aggregate limit of liability applicable to the insured directors and officers will be \$10,000,000. Under the policy, each entity will have reimbursement coverage to the extent that it has indemnified the directors and officers. The policy will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the Realty Trustee or the Mortgage Fund Trustee and their respective directors and officers. In addition, the Realty Trustee and the Mortgage Fund Trustee will indemnify their respective directors and officers from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office.

## **13. EXECUTIVE COMPENSATION**

### **13.1 Compensation**

#### ***Realty Trustee***

For the period from formation on September 4, 2007 to September 10, 2007, no compensation was paid by the Realty Trustee to any of the following executive officers: Darren Latoski, President; and Robert King, Secretary. The Realty Trustee does not intend to pay any compensation to such executive officers in the future.

#### ***Mortgage Fund Trustee***

For the period from formation on September 4, 2007 to September 10, 2007, no compensation was paid by the Mortgage Fund Trustee to any of the following executive officers: Darren Latoski, President; and Robert



King, Secretary. The Mortgage Fund Trustee does not intend to pay any compensation to such executive officers in the future.

## **13.2 Management Agreements**

### ***Services Agreement***

Under the Services Agreement, Sunstone Management has agreed to provide the following services to the Realty Trust and Sunstone Investments, in Co-Ownership, for which it will be paid the fees set out below:

- (a) structure the Co-Ownership and this Offering, structure the ownership of each of the Properties, arrange for the Senior Mortgage Loans in respect of the Properties, and arrange for the provision of any guarantees required in connection with the Senior Mortgage Loans, for which Sunstone Management 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 Sunstone Management 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 Sunstone Management may determine, for which Sunstone Management will be paid the Disposition Fee for 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 Realty Trust and Sunstone Investments through the Co-Ownership in co-ownership or joint venture with a third party will be proportionate to such interest in the Property held through the Co-Ownership;
- (c) oversee and supervise property management of the Properties, establish appropriate legal and accounting systems for the Co-Ownership, report to the Realty Trust and Sunstone Investments on an ongoing basis, liaise with the Lenders of the Senior Mortgage Loans, and provide overall management, financial and business planning, in respect of which Sunstone Management will be paid the Asset Management Fee (payable monthly in arrears) equal to 1.5% of the Net Asset Value, plus GST if applicable;
- (d) preparing annual financial reports on the Properties and arrange for an audit of such annual financial reports, together with financial reports; and
- (e) oversee the preparation of this Prospectus, the offering and sale of Units, and the completion of all matters related to the closing of subscriptions on behalf of the Issuers. In addition, Sunstone Management will be entitled to be reimbursed for any deposits paid and for all out-of-pocket expenses incurred by Sunstone Management 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.

### ***Administration Agreement***

Under the Administration Agreement, Sunstone Management has agreed to provide to the Realty Trust and the Mortgage Fund general administrative services, including:

- (a) establishing and maintaining bank accounts on behalf of the Realty Trust and the Mortgage Fund;
- (b) receiving distributions from the Realty Trust and the Mortgage Fund and processing cash flow distributions to Unitholders;
- (c) establishing appropriate legal and accounting systems for the proper control of the Realty Trust and Mortgage Fund;
- (d) collecting and mailing financial and other reports and all other notices given by the Issuers to Unitholders;
- (e) attending to all arrangements necessary for meetings of the Unitholders;
- (f) responding to all inquiries by Unitholders;
- (g) providing Unitholders with detailed statements for income tax purposes;
- (h) distributing any excess funds;
- (i) ensuring that any regulatory or legislative matters affecting the Realty Trust or Mortgage Fund are dealt with in a timely manner; and
- (j) performing such other administrative duties as a reasonably prudent administrative manager would provide in the same or comparable circumstances and such other administrative duties as the Realty Trust and Mortgage Fund may reasonably request from time to time.

Under the Administration Agreement, Sunstone Management will be paid a fee equal to \$10 per annum plus out-of-pocket expenses incurred by Sunstone Management in completing any of the above duties.

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

Neither the Realty Trust nor the Mortgage Fund has a long-term incentive plan and has made no awards under any such plan in the period from the date of its formation to the date of this Prospectus.

### **13.4 Option/SAR Grants**

Neither the Realty Trust nor the Mortgage Fund has issued or intends to issue options to purchase securities.

### **13.5 Compensation Committee**

Neither the Realty Trust nor the Mortgage Fund has a compensation committee.

### **13.6 Indebtedness of Directors and Executive Officers**

None of the directors or executive officers of the Realty Trustee, the Fund Trustee, Sunstone Investments, nor Sunstone Management is indebted to any of the Realty Trustee, the Fund Trustee, Sunstone Investments or Sunstone Management.

## **14. PLAN OF DISTRIBUTION**

### **14.1 Maximum Offering**

SRAI will co-ordinate through the Agents, by this Prospectus, the offer to sell to the public in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edward Island on a continuing basis, up to a maximum of 40,000 Units at a price of \$1,250 per Unit until December 15, 2007. Each Unit consists of one Trust Unit having a price of \$250 and one Fund Unit at a price of \$1,000 per Fund Unit. Units may only be acquired in blocks of ten Units.

### **14.2 Minimum Offering**

**There will be no closing unless a minimum of 4,000 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 Agents, 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 Agents.**

### **14.3 Agency Agreement**

Pursuant to an Agency Agreement made as of ♦, 2007 between the Realty Trust, the Mortgage Fund, Sunstone Investments and Sunstone Management, SRAI and the Agents, the Agents have agreed to offer the Units for sale on a “commercially reasonable best efforts” basis until December 15, 2007 or such later date as may be agreed by the Agents, in consideration of the Agents’ Commission equal to 8% of the aggregate purchase price of the Trust Units and the Fund Units sold under the Offering.

The Agents reserve 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 Agents pursuant to the Agency Agreement.

As a further incentive to the Agents or sub-agents, Sunstone Investments has agreed to pay to the Agents an amount equal to 25% of any amounts realized by Sunstone Investments in respect of its Subordinate Co-Ownership Interest. The Agents may assign all or part of their entitlements to sub-agents effecting sales of Units, such assignment to be made on a basis determined by Sunstone Investments. As well, Sunstone Management has agreed to pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the Asset Management Fee paid to Sunstone Management pursuant to the Services Agreement. However, such trailer fee will only be paid by Sunstone Management to the Agents, if it is collected by Sunstone Management. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units.

The Issuers 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 Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. The Realty Trust will bear all of these expenses pursuant to the Cost Sharing and Recovery Agreement.

The obligations of the Agents under the Agency Agreement may be terminated at any time at the Lead 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 Lead 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 Agents do 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.

The price to the public of Trust Units and Fund Units was determined by negotiation between the Lead Agent, the Realty Trust and the Mortgage Fund. No third-party valuation was obtained.

Registration and transfers of Trust Units and Fund Units 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 Trust Units and the Fund 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. 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 Trust Units and Fund Units will not have the right to receive physical certificates evidencing their ownership of such securities.

Registration and transfers of the Trust Units and the Fund Units will be effected by Realty Trust as transfer agent.

#### **14.4 Potential Agent Conflict**

SRAI may be considered to be a connected issuer of one of the Agents, Sora Group Wealth Advisors Inc. ("SGWA"), because Darren Latoski and Steve Evans, own in aggregate 3.4% of the outstanding shares in the capital of SGWA. SGWA was not involved in the decision by the Issuers to offer the Units pursuant to this Prospectus nor in the determination of the terms of the Offering. The Offering was not required, suggested or consented to by SGWA. Except to the extent that SGWA may receive a portion of the sales fees payable to Agents as a result of sales of Units by SGWA, proceeds from the Offering will not be applied for the benefit of SGWA.

### **15. CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

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

In the view of KPMG LLP ("KPMG"), in its capacity as tax advisor to the Issuers, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a Unitholder who acquires Units pursuant to this Offering and who, for purposes of the Income Tax Act (Canada) (the "Tax Act") and at all relevant times, is resident in Canada for the purposes of the Tax Act, deals at arm's length and is not affiliated with the Issuers and hold the Units as capital property. Generally, the Units will be considered to be capital property to a Unitholder provided such units are not held in the course of carrying on a business and have not been acquired in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital

property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Unitholders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a Unitholder that is a “financial institution” for purposes of the “mark-to-market” rules, a “specified financial institution”, or a Unitholder, an interest in which is a “tax shelter investment” (all as defined in the Tax Act). This summary does not address the tax considerations of a Unitholder borrowing money to acquire Units. All such Unitholders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of the Units acquired pursuant to this Offering. This summary describes certain principal Canadian federal income tax considerations based on the application of specific provisions of the Tax Act to the transactions described in the Prospectus, and does not address any tax consequences which could arise as a result of any potential application of the general anti-avoidance rule of subsection 245(2) of the Tax Act to any particular transaction or series of transactions.

This summary is based on the facts set out in this Prospectus and in a certificate provided to KPMG by the Issuers and Sunstone Management. This summary is also based upon the provisions of the Tax Act and the regulations (the “Regulations”) thereunder in force as of the date hereof, including Bill C-52 which became law on June 22, 2007, and on KPMG’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”). This summary takes into account all specific proposals to amend the Tax Act and the Regulations thereunder which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. There can be no assurance that these proposals will be enacted in their current form or at all, or that the CRA will not change its administrative and assessing practices.

This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action. There can be no assurances that such changes, if made, might not be retroactive. This summary also does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in this Prospectus.

**This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units. The income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the particular circumstances applicable to each holder thereof. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Units. The Issuers have not obtained, nor sought, an advance tax ruling from the CRA in respect of this Offering. Prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences of an investment in Units based on their particular circumstances.**

## **Tax Status of the Issuers**

### *Qualification as “Mutual Fund Trusts”*

This summary assumes that the Issuers will both qualify as “mutual fund trusts” as defined in the Tax Act on completion of the Offering of Units hereunder, and will thereafter continuously qualify as mutual fund trusts at all relevant times. This summary assumes that the Issuers will both elect to be deemed to be mutual fund trusts from the date each is established. If the Issuers do not qualify or cease to qualify as mutual fund trusts, the income tax considerations described below would be materially different from those described in this summary, and in particular adverse consequences may arise including that (i) the Issuers may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the Issuers would be reduced and Unitholders may otherwise be adversely

affected), and, (ii) unless at such time, the Units are listed on a prescribed stock exchange, the Units will not be qualified investments for Plans (with the result that a Plan or its annuitants may become liable to pay additional tax or penalties or may be otherwise adversely affected).

To qualify as a mutual fund trust at any particular time: (i) the Issuers must be unit trusts (as defined in the Tax Act) resident in Canada; (ii) the Issuers must not reasonably be considered to be established or maintained primarily for the benefit of non-residents of Canada; (iii) the Trust Units and Fund Units must have conditions requiring the Realty Trust and the Mortgage Fund, respectively, to accept at the demand of a Unitholder and at prices determined and payable in accordance with the conditions, the surrender of the Trust Units and Fund Units that are fully paid (or alternatively the Trust Units or Fund Units must be listed on a prescribed stock exchange and the Realty Trust or the Mortgage Fund, as the case may be, must meet certain income and asset tests under the Tax Act applicable to unit trusts having non-redeemable units); (iv) the only undertaking of the Issuers must be limited to the investing of funds in property (other than real property or an interest in real property), or the acquiring, holding, maintaining, improving, leasing or managing of real property (or an interest in real property) that is capital property of the Issuers, or any combination of such activities; and (v) each of the Issuers must comply with certain prescribed requirements (the “minimum distribution requirements”) including that the Trust Units and Fund Units be qualified for distribution to the public and that at all relevant times there must be no fewer than 150 beneficiaries of each of the Realty Trust and of the Mortgage Fund, each of whom holds at least one block of Trust Units and Fund Units having an aggregate fair market value of not less than \$500 each (for these purposes, if the fair market value of a unit is more than \$100, a block of units means 10 units).

#### *Qualification as “Real Estate Investment Trusts”*

Bill C-52, which became law on June 22, 2007 (being deemed to have come into force on October 31, 2006), implements certain amendments to the Tax Act (the “SIFT Measures”) that change the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships, and their investors.

The SIFT Measures apply to any publicly-listed or traded trust or partnership that is a specified investment flow-through entity (a “SIFT”) and its investors. Certain distributions attributable to a SIFT’s “non-portfolio earnings” will not be deductible in computing a SIFT’s income (the “non-deductible distributions amount”), and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. For those purposes, “non-portfolio earnings” generally includes income (other than certain dividends) from, or capital gains realized on, “non-portfolio properties”. Generally, distributions paid by a SIFT as returns of capital will not be subject to this tax. The non-deductible distributions amount will also be included in the income of the Unitholder for the purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, which dividend will be eligible for the enhanced gross-up and dividend tax credit where paid to an individual resident in Canada. Subject to a four-year transitional period for entities whose units were listed or traded on October 31, 2006, the SIFT Measures apply commencing in the 2007 taxation year. If the Issuers are subject to the SIFT Measures, this transitional period would not be available as the Trust Units and Fund Units were not listed or traded on October 31, 2006.

The SIFT Measures do not, however, apply to certain trusts that qualify as “real estate investment trusts” or “REITs” (the “REIT Exception”). To qualify for the REIT Exception in a particular taxation year,

- (a) the REIT must not, at any time in the taxation year, hold any “non-portfolio property” other than “qualified REIT property” (which includes real or immovable property situated in Canada);

- (b) not less than 95% of the REIT's revenues for the taxation year must be derived from (i) rent from real or immovable properties, (ii) interest, (iii) capital gains from dispositions of real or immovable properties, (iv) dividends, and (v) royalties;
- (c) not less than 75% of the REIT's revenues for the taxation year must be derived from (i) rent from real or immovable properties situated in Canada, (ii) interest from mortgages or hypothecs on real or immovable properties situated in Canada, and (iii) capital gains from dispositions of real or immovable properties situated in Canada; and
- (d) the REIT must, at all times throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain debt or other obligations of governments in Canada having a total fair market value that is not less than 75% of the REIT's equity value.

For purposes of the REIT Exception, "real or immovable property" does not include depreciable property, other than certain real estate assets, property ancillary to the ownership or utilization of such real estate assets or leases in or leasehold interests in respect of land or such real estate assets. Also for these purposes, "rent from real or immovable properties" includes payment for services ancillary to, and customarily rendered or supplied with, the rental of real or immovable properties, but excludes certain other payments or receipts that would otherwise be considered rent. The REIT Exception also includes as "real or immovable property" or as "qualified REIT property" certain interests in subsidiaries or other entities that themselves satisfy the above noted conditions for the REIT Exception, or that, in general terms, either (i) hold only property that is ancillary to the REIT's rental activities or legal title to real property of the REIT, or (ii) derive substantially all of their revenues from certain management activities relating to real property of the REIT.

The SIFT Measures implementing the new tax on SIFTs apply only to certain trusts or partnerships investments in which are listed or traded on a stock exchange or other public market. The Issuers do not have any current plans to list the Trust Units, the Fund Units, or the Mortgage Loan, or interests therein, on any stock exchange for public trading. Furthermore, should either the Trust Units or the Fund Units be in the future listed or traded on a stock exchange or other public market, the Issuers expect to be able to satisfy the requirements to qualify for the REIT Exception to the SIFT Measures, as enacted, and the Issuers intend to operate in such a manner so as to qualify as REITs on a continuous basis in the future. The Issuers' actual qualification as REITs will depend upon their ability to meet and their meeting, through actual annual operating results, the various REIT conditions imposed by the REIT Exception to the SIFT Measures. The balance of this summary assumes that, in the event any of the Trust Units, the Fund Units or the Mortgage Loan are listed or traded on a stock exchange or other public market, the Issuers will nonetheless qualify for the REIT Exception at all times. KPMG will not review the Issuers' compliance with the conditions for the REIT Exception. The Trust Declarations provide that the Issuers will each monitor the public listing or trading of their units or other securities and their status as REITs under the Tax Act (or proposed amendments thereto) (see "Summary of the Trust Declaration"). While the SIFT Measures and the REIT Exception are now law, there can be no assurances that the treatment of SIFTs and REITs under the Tax Act will not be changed, or that administrative and assessing practices of CRA will not develop, in a manner which adversely affects the Issuers or the Unitholders.

Should the Trust Units, the Fund Units or the Mortgage Loan be listed or traded on a stock exchange or public market, and should the Issuers not qualify or cease to qualify as REITs under the REIT Exception, the income tax considerations would be materially different from those described in this summary, and in particular the non-deductible distributions amount, as previously described, would be taxable to the Realty Trust or the Mortgage Fund, as the case may be, (with the result that the amount of cash available

for distribution by the Trust would be reduced) and such amount would also be included in the income of Unitholders for purposes of the Tax Act as taxable dividends.

## **Taxation of the Issuers**

### *Mortgage Fund*

The taxation year of the Mortgage Fund is the calendar year. In each taxation year, the Mortgage Fund will be subject to tax under Part I of the Act on its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the year to Fund Unitholders. An amount will be considered to be payable to a Fund Unitholder in a taxation year if it is paid to the Fund Unitholder in the year by the Mortgage Fund or if the Fund Unitholder is entitled in that year to enforce payment of the amount.

The Mortgage Fund will generally be required to include in computing its income for a particular taxation year all interest on the Mortgage Loan that accrues to the Mortgage Fund to the end of the year, or that becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding year. The Mortgage Fund will not be subject to tax on any amount received as a repayment of principal in respect of the Mortgage Loan. The Mortgage Fund will also generally be required to include in computing its income for a particular taxation year any taxable capital gains arising from the disposition of property (including a disposition the Mortgage Loan), any interest income on cash balances, and generally any other income realized from the Mortgage Fund's investment activities. If the Mortgage Fund disposes all or part of the Mortgage Loan in a particular year it may generally be considered to receive a portion of the proceeds of disposition as accrued but unpaid interest, which will be required to be included in computing its income for purposes of the Tax Act in the year of disposition to the extent that it was not included in computing the Mortgage Fund's income in a previous year.

In computing its income for purposes of the Tax Act, the Mortgage Fund may generally deduct reasonable administrative costs, interest and other expenses of a current nature incurred by it for the purpose of earning income. The Mortgage Fund will be entitled to deduct reasonable expenses incurred by it in the course of issuing Fund Units on a five-year straight line basis (subject to pro-ration for short taxation years).

A distribution by the Mortgage Fund of Debt Securities or other property upon redemption of Fund Units will be, for tax purposes, treated as a disposition by the Mortgage Fund of the property so distributed for proceeds of disposition equal to its fair market value. The Mortgage Fund will realize a capital gain (or a capital loss) on the property so distributed to the extent that the proceeds of disposition of such property exceed (or are less than) the adjusted cost base of the property and any reasonable costs of disposition. The Mortgage Fund Declaration provides that the Mortgage Fund will designate for tax purposes any income or capital gains arising on or in connection with an *in specie* distribution on a redemption of Fund Units as being paid to the redeeming Fund Unitholder, with the result that the taxable portion of such gains and income will generally be deductible by the Mortgage Fund.

Under the Mortgage Fund Declaration, an amount equal to all of the income (including taxable capital gains) of the Mortgage Fund (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), plus the non-taxable portion of any net capital gain realized by the Mortgage Fund, but excluding:



- (a) income and capital gains arising on or in connection with an *in specie* distribution on the redemption of Fund Units which are paid or payable and designated by the Mortgage Fund to redeeming Fund Unitholders,
- (b) capital gains, the tax on which may be offset by capital losses, if any, carried forward from prior years or is recoverable by the Mortgage Fund, and
- (c) income, the tax on which may be offset by non-capital losses, if any, carried forward from prior years,

will be payable in the year to Fund Unitholders by way of cash distributions, subject to the qualifications described below.

The Mortgage Fund Declaration provides that to the extent cash of the Mortgage Fund is unavailable for cash distributions, and the income of the Mortgage Fund in a taxation year exceeds the cumulative cash distributions for that year, such excess income will be distributed to Fund Unitholders in the form of additional Fund Units. Income of the Mortgage Fund payable to Fund Unitholders, whether in cash, additional Fund Units or otherwise, will generally be deductible by the Mortgage Fund in computing its taxable income provided that the Mortgage Fund deducts such amount in computing its income.

Losses incurred by the Mortgage Fund in a particular taxation year cannot be allocated to Fund Unitholders, but may be deducted by the Mortgage Fund, in the case of non-capital losses, in the particular year and in the ensuing twenty taxation years and, in the case of capital losses, in the particular year and in any future taxation year to the extent of capital gains, in computing taxable income of the Mortgage Fund in accordance with, and subject to, applicable provisions of the Tax Act.

The Mortgage Fund will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based on the redemption of Fund Units during the year (the “capital gains refund”). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the Mortgage Fund’s tax liability for that taxation year arising in connection with the distribution of its property on the redemption of Fund Units. The Mortgage Fund Declaration provides that all or a portion of any income or taxable capital gain realized by the Mortgage Fund as a result of that redemption may, at the discretion of the Mortgage Fund Trustee, be treated as income or taxable capital gain paid to, and designated as income or taxable capital gain of, the redeeming Fund Unitholders, and thus generally deductible by the Mortgage Fund in computing its income. In addition, accrued interest on Debt Securities distributed to a redeeming Fund Unitholder may be treated as an amount paid to the Fund Unitholder and will generally be deductible by the Mortgage Fund.

#### *Realty Trust*

The taxation year of the Realty Trust is the calendar year. In each taxation year, the Realty Trust will be subject to tax under Part I of the Tax Act on its income for purposes of the Tax Act for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the year to Trust Unitholders. An amount will be considered to be payable to a Trust Unitholder in a taxation year if it is paid to the Trust Unitholder in the year by the Realty Trust or if the Trust Unitholder is entitled in that year to enforce payment of the amount.

The Realty Trust will generally be required to include in computing income for a particular taxation year its income realized from the rental of its rental properties, any taxable capital gains or recapture of capital cost allowance arising from dispositions of its properties, any interest income on cash balances, or

generally any other income realized from the Realty Trust's investment activities. In computing its income for purposes of the Tax Act, the Realty Trust may generally deduct reasonable administrative costs, interest and other expenses of a current nature incurred by it for the purpose of earning income. The Realty Trust will be entitled to deduct reasonable expenses incurred by it in the course of issuing Trust Units on a five-year straight line basis (subject to pro-ration for short taxation years).

A distribution by the Realty Trust of Debt Securities or other property upon redemption of Trust Units will be, for tax purposes, treated as a disposition by the Realty Trust of the property so distributed for proceeds of disposition equal to its fair market value. The Realty Trust will realize a capital gain (or a capital loss) on the property so distributed to the extent that the proceeds of disposition of such property exceed (or are less than) the adjusted cost base of the property and any reasonable costs of disposition. The Trust Declaration provides that the Realty Trust will designate for tax purposes any income or capital gains arising on or in connection with an *in specie* redemption of Trust Units as being paid to the redeeming Trust Unitholder, with the result that the taxable portion of such gains and income will generally be deductible by the Realty Trust.

Under the Realty Trust Declaration, an amount equal to all of the income (including taxable capital gains) of the Realty Trust (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), plus the non-taxable portion of any net capital gain realized by the Realty Trust, but excluding:

- (a) income and capital gains arising on or in connection with an *in specie* distribution on the redemption of Trust Units which are paid or payable and designated by the Realty Trust to redeeming Trust Unitholders,
- (b) capital gains, the tax on which may be offset by capital losses, if any, carried forward from prior years or is recoverable by the Realty Trust, and
- (c) income, the tax on which may be offset by non-capital losses, if any, carried forward from prior years,

will be payable in the year to Trust Unitholders, subject to the qualifications described below.

The Realty Trust Declaration provides that to the extent cash of the Realty Trust is unavailable for cash distributions, and the income of the Realty Trust in a taxation year exceeds the cumulative cash distributions for that year, such excess income will be distributed to Trust Unitholders in the form of additional Trust Units. Income of the Realty Trust payable to Trust Unitholders, whether in cash, additional Trust Units or otherwise, will generally be deductible by the Realty Trust in computing its taxable income provided that the Realty Trust deducts such amount in computing its income.

Losses incurred by the Realty Trust in a particular taxation year cannot be allocated to Trust Unitholders, but may be deducted by Realty Trust, in the case of non-capital losses, in the particular year and in the ensuing twenty taxation years and, in the case of capital losses, in the particular year and in any future taxation year to the extent of capital gains, in computing taxable income of the Realty Trust in accordance with, and subject to, applicable provisions of the Tax Act.

The Realty Trust will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based on the redemption of Trust Units during the year (the "capital gains refund"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the Realty Trust's tax liability for that taxation year arising in connection with the distribution of its property on the redemption of Trust Units. The Trust Declaration provides that all or a portion of any income or taxable

capital gain realized by the Realty Trust as a result of that redemption may, at the discretion of the Realty Trustee, be treated as income or taxable capital gain paid to, and designated as income or taxable capital gain of, the redeeming Trust Unitholders, and thus generally deductible by the Realty Trust in computing its income. In addition, accrued interest on Debt Securities distributed to a redeeming Trust Unitholder may be treated as an amount paid to the Trust Unitholder and will generally be deductible by the Realty Trust.

## **Taxation of Unitholders**

### *Distributions*

A Unitholder will generally be required to include in computing income for a particular taxation year the portion of the net income for purposes of the Tax Act of the Realty Trust and of the Mortgage Fund for a taxation year, including net realized taxable capital gains, that is paid or payable by the Realty Trust or by the Mortgage Fund to the Unitholder in the particular taxation year, whether that amount is received in cash, additional Units, or otherwise. Any loss of the Realty Trust or of the Mortgage Fund for purposes of the Tax Act cannot be allocated to Unitholders.

The non-taxable portion of any net realized capital gains of the Realty Trust or of the Mortgage Fund that is paid or payable to a Unitholder in a taxation year will not be required to be included in computing the Unitholder's income for the year and should not reduce the adjusted cost base of Trust Units or Fund Units held by the Unitholder. Any other amount paid or payable by the Realty Trust or the Mortgage Fund in that year (other than as proceeds of disposition) that is in excess of the respective trust's net income for that year will not generally be required to be included in the Unitholder's income for the year. However, where such an amount is paid or payable to a Unitholder, the Unitholder will be required to reduce the adjusted cost base of the Trust Units or of the Fund Units, as the case may be, by that amount. To the extent that the adjusted cost base of a Trust Unit or of a Fund Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Trust Unit or of the Fund Unit, as the case may be, to the Unitholder will immediately thereafter be nil.

The Mortgage Fund Declaration and the Realty Trust Declaration provide that net income and net taxable capital gains of each respective trust for purposes of the Tax Act will be allocated among the Unitholders of each trust in the same proportion as distributions received by them, unless the Trustees otherwise determine.

Provided that the Realty Trust and Mortgage Fund designate, to the extent permitted by the Tax Act, the portion of their taxable income distributed to Unitholders as may reasonably be considered to consist of net taxable capital gains of the particular trust, such designated amount will be deemed for purposes of the Tax Act to be received by Unitholders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. A Unitholder which is a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains.

### *Purchases of Units*

Since the net income of the Realty Trust and of the Mortgage Fund will be distributed on a monthly basis, a purchaser of a Unit may become taxable on a portion of the net income of the Realty Trust or the Mortgage Fund that is accrued or realized by the trusts in a month before the time the Unit was purchased but which was not paid or made payable to Unitholders until the end of the month and after the time the Unit was purchased. A similar result may apply on an annual basis in respect of a portion of capital gains accrued or realized by the Realty Trust or the Mortgage Fund in a year before the time the Unit was

purchased but which is paid or made payable to Unitholders at year end and after the time the Unit was purchased.

### *Dispositions of Units*

On the disposition or deemed disposition of a particular Unit, a Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of such particular Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the Realty Trust or the Mortgage Fund that is otherwise required to be included in the Unitholder's income, including any capital gain realized by the Realty Trust or the Mortgage Fund in connection with a redemption which has been designated by the Realty Trust or the Mortgage Fund to the redeeming Unitholder. The taxation of capital gains and capital losses is described below.

The adjusted cost base of a Unit to a Unitholder will include the amount paid by the Unitholder for the Unit, subject to certain adjustments. The Issuers and the Lead Agent have negotiated an allocation of the subscription price for a Unit between the price to the public for Trust Units and the price to the public for Fund Units, and the Issuers believe such allocation has been made on a reasonable basis. There are no assurances CRA will accept this allocation. Provided that the allocation of the subscription price between the Trust Units and the Fund Units is reasonable, the cost to a Unitholder for purposes of the Tax Act of each Trust Unit and of each Fund Unit acquired pursuant to this Offering will be equal to the price to the public for each such unit as set out in this Offering. The cost to a Unitholder of additional Trust Units or of additional Fund Units received in lieu of a cash distribution of income (including net capital gains) will be the amount of income (including the applicable non-taxable portion of net capital gains) distributed by the issue of those respective units. For the purpose of determining the adjusted cost base to a Trust Unitholder of Trust Units, when a Trust Unit is acquired, the cost of the newly acquired Trust Unit must be averaged with the adjusted cost base of all of the Trust Units owned by the Trust Unitholder as capital property immediately before that acquisition. Similarly, for the purpose of determining the adjusted cost base to a Fund Unitholder of Fund Units, when a Fund Unit is acquired, the cost of the newly acquired Fund Unit must be averaged with the adjusted cost base of all of the Fund Units owned by the Fund Unitholder as capital property immediately before that acquisition. The non-taxable portion of distributions (other than the non-taxable portion of any net capital gains) received on a Trust Unit or on a Fund Unit will generally reduce the adjusted cost base of the respective unit.

Where Fund Units or Trust Units are redeemed and the redemption price is paid by the delivery of Debt Securities to the redeeming Unitholder, the proceeds of disposition to the Unitholder of the Fund Units or of the Trust Units will be equal to the fair market value of the Debt Securities so distributed less any income or capital gain realized by the Mortgage Fund or the Realty Trust, as the case may be, in connection with the redemption of those Fund Units or Trust Units, and which has been designated by the Mortgage Fund or the Realty Trust to the Unitholder. Where any income or capital gain realized by the Mortgage Fund or the Realty Trust in connection with the distribution of Debt Securities on the redemption of Fund Units or of Trust Units, respectively, has been designated by the Mortgage Fund or the Realty Trust to a redeeming Unitholder, the Unitholder will be required to include in computing the Unitholder's income the income or taxable portion of the capital gain so designated. The redeeming Unitholder will be required to include in income any interest on Debt Securities acquired (including interest that accrued prior to the date of the acquisition of such Debt Securities by the Unitholder that is designated as income to the Unitholder by the Mortgage Fund or the Realty Trust) in accordance with the provisions of the Tax Act. The cost of any Debt Securities distributed by the Mortgage Fund or the Realty Trust to a Trust Unitholder upon a redemption of Fund Units or of Trust Units will be equal to the fair market value of those Debt Securities at the time of the distribution less any accrued interest on such Debt Securities. The Unitholder will thereafter be required to include in income interest on the Debt

Securities, in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest accrued to the date of the acquisition of Debt Securities by the Trust Unitholder, an offsetting deduction may be available.

Where Fund Units or Trust Units are redeemed and the redemption price is paid by the issuance to the redeeming Unitholder of Fund Notes or Trust Notes, the proceeds of disposition to the Unitholder of Fund Units or Trust Units, as the case may be, will be equal to the fair market value of the Fund Notes or the Trust Notes, as the case may be, issued. The cost of the Fund Notes or Trust Notes issued to a Unitholder by the Mortgage Fund or the Realty Trust upon a redemption of Fund Units or Trust Units will be equal to the fair market value of the Fund Units or Trust Units disposed in exchange. The Unitholder will thereafter be required to include in computing income for purposes of the Tax Act interest on the Fund Notes or Trust Notes, in accordance with the terms of such notes and the provisions of the Tax Act.

#### *Taxation of Capital Gains and Capital Losses*

One-half of any capital gain realized by a Unitholder on a disposition or deemed disposition of Fund Units or Trust Units and the amount of any net taxable capital gains designated by the Mortgage Fund or by the Realty Trust in respect of a Unitholder must generally be included in the Unitholder's income as a taxable capital gain in the taxation year in which the disposition occurs or in respect of which a net taxable capital gains designation is made by the Mortgage Fund or by the Realty Trust. One-half of any capital loss realized by a Unitholder on a disposition or deemed disposition of Fund Units or Trust Units generally may be deducted by the Unitholder against taxable capital gains of the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation year in accordance with the provisions of the Tax Act.

A Unitholder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % computed with reference to its “aggregate investment income” (as defined in the Tax Act) for the year, which includes amounts in respect of taxable capital gains.

#### *Alternative Minimum Tax*

The Tax Act provides for a special “alternative minimum tax” applicable to certain taxpayers including individuals and certain trusts, depending on the amount of their “adjusted taxable income”. In general terms, adjusted taxable income of a Unitholder who is an individual or a trust (and therefore the exposure of such Unitholder to liability for alternative minimum tax) must be increased by, among other things, any capital gains realized by such Unitholder on the disposition of Trust Units or of Fund Units and by any net income of the Realty Trust or of the Mortgage Fund that is paid or payable to such Unitholder and that has been designated as a taxable dividend or as a taxable capital gain.

#### **Eligibility for Investment**

Provided that at a particular time the Mortgage Fund and the Realty Trust qualify as mutual fund trusts within the meaning of the Tax Act, the Units will be “qualified investments” (as defined in the Tax Act and the Regulations) at that time for trusts governed by Plans. Accordingly, where Fund Units or Trust Units are qualified investments, Plans should generally not be taxable on any distributions on such Units or on any gains realized on the disposition of such Units. However, funds withdrawn from a Plan will generally be taxable to annuitants in the year of withdrawal.

Generally, if at any time the Mortgage Fund or the Realty Trust do not qualify or cease to qualify as mutual fund trusts, the Trust Units or Fund Units, as the case may be, will not be, or will cease to be,

qualified investments for Plans at that time. Debt Securities, Fund Notes or Trust Notes that may be issued by the Mortgage Fund or Realty Trust to holders of Units, on or in connection with a redemption of Fund Units or Trust Units, may not be qualified investments for Plans. Where a Plan acquires a Debt Security, Fund Note or Trust Note that is not a qualified investment, or acquires or holds a Trust Unit or Fund Unit that is not, or that ceases to be, a qualified investment, adverse tax consequences may arise to the Plan and the annuitant or beneficiary thereunder, including that the Plan may become subject to a penalty tax, the annuitant of such Plan may be deemed to have received income therefrom or, in the case of an RESP, the RESP may have its tax exempt status revoked. Accordingly, Plans that propose to invest in Units should consult their own tax advisors before deciding to purchase Units and again before deciding to exercise the redemption rights attached to such Units.

Where both a Plan and an annuitant of the Plan (or a person not dealing at arm's length to the Plan or annuitant) acquire Trust Units or Fund Units and the amount paid by the Plan to acquire Trust Units or Fund Units is different than their fair market values, then depending on the circumstances, an annuitant may be considered to have received a benefit or advantage out of or under the Plan or to have made a contribution to the Plan (which could cause adverse consequences such as amounts being taxable to the annuitant, special taxes being imposed, or certain Plans being deregistered). The Issuers and the Lead Agent have negotiated an allocation of the total subscription price for a Unit between the price to the public for Trust Units and the price to the public for Fund Units. The Issuers believe such allocation has been made on a reasonable basis to reflect fair market value of the respective securities. There are no assurances CRA will accept this allocation.

## **16. 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 Issuers' businesses, operating results and financial conditions could be seriously harmed and Purchasers may lose all of their investment. Risks affecting the Realty Trust will affect the ability to pay interest on the Mortgage Loan and make distributions on the Realty Units, which in turn will affect the ability of the Mortgage Fund and the Realty Trust to make distributions on the Fund Units and the Trust Units, respectively. 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 Sunstone Investments and Sunstone Management and their respective Management* – Although the Realty Trustee and the Mortgage Fund Trustee expect that the net proceeds of this Offering will be applied to the purchase of one or more Properties, the specific Properties in which the Realty Trust will invest have not yet been determined. In any event, if the maximum Offering of 40,000 Units is sold, the Realty Trust expects to apply approximately \$45,600,000 (i.e. approximately 91.2% 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 Sunstone Management 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 4,000 Units is sold, the Realty Trust expects to apply approximately \$4,375,000 (i.e. approximately 87.5% 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 Sunstone Management), 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 Realty Trust, the Trust Unitholders' return on their respective investments in the Trust Units will vary.

*Reliance on Management* – 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 Sunstone

Management and Sunstone Investments and their principals, Darren Latoski and Steve Evans. In particular, prospective purchasers will have to rely on the discretion and ability of Sunstone Investments 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 Sunstone Investments and Sunstone Management to successfully implement the Issuers' investment strategy will depend in large part on the continued employment of Messrs. Latoski and Evans. None of the Realty Trust, the Mortgage Fund, Sunstone Management or Sunstone Investments maintains key person life insurance for any of these named individuals. If Sunstone Investments or Sunstone Management loses the services of one or more of these individuals, the business, financial condition and results of operations of the Issuers may be materially adversely affected.

*No Market for Units* – There currently is no market whatsoever for the Units, or for the Trust Units or Fund Units comprised in the Units, and it is expected that there will be no market for the Units, Trust Units or Fund Units. Consequently, holders of such securities may not be able to sell them readily, and Units, Trust Units and Fund Units 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 the maximum Offering will be sold. If less than all of the 40,000 Units are sold pursuant to this Offering, then less than the maximum proceeds will be available to the Issuers and, consequently, their business development plans and prospects could be adversely affected, since fewer Properties will be purchased, owned and operated by the Realty Trust.

*Subsequent Priority of Fund Mortgage* – Generally, the Fund Mortgage and the amount outstanding under the Mortgage Loan will be subsequent in priority to the interests of the Lenders of the Senior Mortgage Loans granted by the Realty Trust and Sunstone Investments as co-owners under the Co-Ownership to secure financing used in the purchase, ownership and operation of Properties. However, pursuant to the terms of the Mortgage Loan Agreement, the Realty Trust may grant one or more further mortgages to Lenders to secure such proceeds or to secure financing used in the development of capital properties as income-producing real estate for long-term investment. In such cases, the Fund Mortgage will be subsequent in priority to two or more mortgages and will be a third or subsequent charge of the subject Property. Mortgages ranking subsequent to a first charge are generally considered a higher risk than a first position mortgage since they are subject to the interests of prior charge holders.

*Registration of Fund Mortgage only in certain circumstances* – The Fund Mortgage will be registered as a charge against title to the Properties only in certain circumstances.

*Risks of Real Estate Ownership* – Investment in real estate is subject to numerous risks, including the factors listed below and other events and factors which are beyond the control of the Issuers:

- (a) *Financing Risks* – There is no assurance that the Realty Trust will be able to obtain sufficient Senior Mortgage Loans to finance the acquisition of Properties, or, if available, that the Realty Trust will be able to obtain Senior Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Senior 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 Realty Trust is able to purchase will decrease and the projected return from the ownership of Properties will be reduced. Even if the Realty Trust is successful in obtaining adequate Senior Mortgage Loans, the Realty Trust may not be able to generate sufficient funds through the operation of the Properties to service the Senior Mortgage Loans. If a default occurs under any of the Senior Mortgage

Loans, one or more of the Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.

- (b) *Interest Rate Fluctuations* - The Senior Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Realty Trust's cost of borrowing.
- (c) *Potential Liability under Environmental Protection Legislation* – Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, the Realty Trust 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 Realty Trust's ability to sell such Property or to borrow using the Property as collateral, and could potentially also result in claims against the Realty Trust by private parties.
- (d) *Uninsured Losses* – The Realty Trust and Sunstone Investments will, under the terms of the Co-Ownership Agreement, 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 Realty Trust 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 Realty Trust could suffer a loss of capital invested and not realize any profits which might be anticipated from the disposition of such Properties.
- (e) *Reliance on Property Management* – None of the Realty Trustee, Sunstone Investments nor Sunstone Management will 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.
- (f) *Competition for Real Property Investments* – The Realty Trust competes for suitable real property investments with individuals, corporations, real estate investment trusts and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those sought by the Realty Trust. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments.
- (g) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Senior Mortgage Loans or to fund changes in the variable rates of interest charged in respect of such loans.

*Liability of Unitholders* – There is a risk that a Trust Unitholder or Fund Unitholder could be held personally liable for obligations in connection with the Realty Trust or Mortgage Fund, respectively (to the extent that claims are not satisfied by the Realty Trust or Mortgage Fund, as the case may be). The Realty Trust Declaration and the Mortgage Fund Declaration provide that no Unitholder shall be held to have any personal liability as such for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Realty Trust or Mortgage Fund or their respective Trustees (to the extent that claims are not satisfied by the Trust). In any event, each of the Realty Trust



Declaration, the Mortgage Fund Declaration and the Co-Ownership Agreement requires the respective Trustee and Sunstone Investments to ensure that any written contract or commitment of either the Realty Trust (including the Co-Ownership) or Mortgage Fund include an express limitation of liability except where not reasonably possible.

*Risks Associated with Redemptions*

- (a) *Use of Available Cash* - The payment in cash by the Realty Trust and Mortgage Fund, respectively, of the redemption price of Trust Units and Fund Units will reduce the amount of cash available to the Realty Trust and Mortgage Fund for the payment of distributions to the holders of Trust Units and Fund Units, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.
- (b) *Limitation on Payment of Redemption Price in Cash* – The total cash amount available for the payment of the redemption price of Trust Units or Fund Units by the Realty Trust and Mortgage Fund, respectively, is limited to \$50,000 in each calendar quarter and is limited in any twelve month period to 3/4 of 1% of the aggregate subscription price of all Trust Units or Fund Units, as the case may be that were issued and outstanding at the start of such twelve month period. Further, certain requirements must be satisfied with respect to the ratio of the aggregate amount outstanding in respect of the Mortgage Loan relative to the aggregate subscription price in respect of Trust Units or Fund Units in order for the redemption price to be paid in cash.
- (c) *Payment of Redemption Price in Kind* – As a result of the foregoing limitations, the redemption of Trust Units may be paid by way of a distribution of Trust Notes or Debt Securities and the redemption of Fund Units may be paid by a distribution of Fund Notes or Debt Securities. Trust Notes or Debt Securities received as a result of redemptions of Trust Units or Fund Units, may not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant under a Plan, including the redeeming Unitholder becoming subject to a penalty tax, the Plan annuitant being deemed to receive income from the Plan, or, in the case of an RESP, having the Plan's tax exempt status revoked. Accordingly, Plans that propose to invest in Trust Units or Fund Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such units.

*Risk Factors Relating to the Issuers' Tax Status*

If either the Mortgage Fund or the Realty Trust does not qualify or ceases to qualify as a “mutual fund trust” under the Tax Act, adverse consequences may arise including that: (i) the Mortgage Fund or the Realty Trust, as the case may be, may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the non-qualifying trust would be reduced and Unitholders may otherwise be adversely affected), and, (ii) the Trust Units or Fund Units, as the case may be, may not be or may cease to be qualified investments for Plans (with the result that a Plan or its annuitants may become liable to pay additional tax or penalties or may be otherwise adversely affected).

The exposure of the Mortgage Fund and the Realty Trust to the new tax on SIFTs imposed by the SIFT Measures will depend in part on whether or not the Fund Units and Trust Units will be listed or traded on a stock exchange or other public market, and in such case on the trusts' ability to qualify as “real estate investment trusts” under the REIT Exception. Where the Units are publicly-listed or traded, the qualification of the Mortgage Fund and the Realty Trust for the REIT Exception under the SIFT Measures will depend upon on their respective ability to meet and continue meeting, through actual annual operating results, the various REIT conditions imposed by the SIFT Measures. If the Fund Units or the Trust Units are listed or traded on a public market, and either the Realty Trust or Mortgage Fund does not

qualify or ceases to qualify as a “real estate investment trust” under the REIT Exception, adverse consequences could arise including that a non-deductible distributions amount would be taxable to the non-qualifying trust (with the result that the amount of cash available for distribution by the non-qualifying trust would be reduced and Unitholders may otherwise be adversely affected) and such amount would also be included in the income of Unitholders for purposes of the Tax Act as taxable dividends.

There can be no assurances that Canadian federal income tax laws respecting the treatment of mutual fund trusts, SIFTs, and real estate investment trusts will not be changed, or that administrative and assessing practices of CRA will not develop, in a manner which adversely affects either the Realty Trust or Mortgage Fund or the Unitholders.

#### *Other Tax Related Risk Factors*

The tax treatment of investment and real estate activities and of the Issuers has a material effect on the advisability of an investment in the Units. Refer to “Canadian Federal Income Tax Considerations”.

The after-tax return from an investment in Units to Unitholders who are subject to Canadian income tax can be made up of both a return on and a return of capital, and will depend, in part, on the composition for tax purposes of distributions paid by the Mortgage Fund and the Realty Trust, as the case may be (portions of which distributions may be fully or partially taxable or may be tax deferred). Subject to the SIFT Measures, income (i.e. return on capital) is generally taxed in the hands of a Unitholder as ordinary income, capital gains, or dividends. Amounts in excess of the income of the Mortgage Fund or the Realty Trust that are paid or payable by the Mortgage Fund or the Realty Trust, respectively, to a Unitholder (i.e. return of capital) are generally non-taxable to a Unitholder (but reduce the Unitholder’s adjusted cost base in the Fund Unit or the Trust Unit, as the case may be, for purposes of the Tax Act). The extent to which distributions will be tax deferred in the future will depend on the extent to which the Mortgage Fund and the Realty Trust can reduce their respective taxable income by claiming available non-cash deductions such as capital cost allowances. Unitholders are advised to consult their own tax advisers with respect to the implications of the foregoing in their own circumstances.

The Mortgage Fund Declaration and the Realty Trust Declaration provide that the Mortgage Trust and the Realty Trust shall, subject to the Mortgage Fund Trustee or the Realty Trust Trustee resolving otherwise, distribute to Unitholders in each year an amount of net income and net realized capital gains in order to eliminate the respective trust’s liability for tax under Part I of the Tax Act. Where the amount of net income and net realized capital gains of the Mortgage Fund or of the Realty Trust in a taxation year exceeds the cash available to the respective trust for distribution in the year, such excess net income and net realized capital gains may be distributed to Unitholders in the form of additional Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, notwithstanding that they do not directly receive a cash distribution.

There can be no assurance that income tax laws (or the judicial interpretation thereof or the administrative and assessing practices of CRA) and/or the treatment of “mutual fund trusts” or “real estate investment trusts” will not be changed in a manner which would adversely affect the Mortgage Fund, the Realty Trust or the Unitholders.

Investors should consult their own professional advisors as to the tax consequences to them of making an investment in, and of holding, Units offered herein.

**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 investment.**

## **17. 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.

## **18. LEGAL PROCEEDINGS**

There are no outstanding legal proceedings to which the Issuers are a party, nor are any such proceedings known to be contemplated.

## **19. AUDITORS**

The auditors of each of the Realty Trust and the Mortgage Fund are Davidson & Company of Suite 1200 - 609 Granville Street, Vancouver, British Columbia V7Y 1G6. As of September 10, 2007, the partners of Davidson & Company 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. REGISTRAR AND TRANSFER AGENT**

Pursuant to the Realty Trust Declaration, the Realty Trustee acts as the registrar and transfer agent for the Trust Units. Pursuant to the Mortgage Fund Declaration, the Mortgage Fund Trustee acts as the registrar and transfer agent for the Fund Units.

Registration and transfers of Trust Units and Fund 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. Refer to "Plan of Distribution".

## **21. MATERIAL CONTRACTS**

The following are the only material agreements, other than contracts entered into in the ordinary course of business, which any 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 910 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2.**

### **21.1 Particulars of Material Contracts**

1. ***Realty Trust Declaration*** – described in "Description of the Securities Distributed– Trust Units".
2. ***Mortgage Fund Declaration*** – described in "Description of the Securities Distributed – Fund Units".
3. ***Co-Ownership Agreement*** – described in "Description of Businesses of the Issuers – The Properties".
4. ***Mortgage Loan Agreement*** – described in "Description of Businesses of the Issuers – Second paragraph of Loan Agreement".

5. **General Security Agreement executed by the Realty Trust in favour of the Mortgage Fund** – described in “Description of Businesses of the Issuers – Mortgage Loan Agreement”.
6. **Services Agreement** – described in “Executive Compensation – Management Agreements”.
7. **Administration Agreement** – described in “Executive Compensation – Management Agreements”.
8. **Agency Agreement** – described in “Plan of Distribution – Agency Agreement”.
9. **Cost Sharing and Recovery Agreement** – an agreement dated as of September 4, 2007 between the Realty Trust and the Mortgage Fund pursuant to which the Realty Trust agreed to bear all of the costs of this Offering, and to reimburse the Mortgage Fund for any costs incurred in connection with the transactions described in this Offering.

## **21.2 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’ businesses, all of which may be inspected at the registered office of the Realty Trustee, the Mortgage Fund Trustee, 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.

## **22. 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 of an associate of the Issuers, or is a promoter of the or of any associate of the Issuers.

Certain legal matters in connection with this Offering will be passed upon by Clark Wilson LLP, on behalf of the Issuers, and by Miller Thomson LLP, on behalf of the Agents. As at September 10, 2007, partners and associates of Clark Wilson 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. As at September 10, 2007, partners and associates of Miller Thomson 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.

KPMG LLP has prepared the summary of principal Canadian federal income tax considerations set out under the heading “Canadian Federal Income Tax Considerations”. As at September 10, 2007, KPMG LLP beneficially owned, directly or indirectly, less than 1% in the outstanding securities of the Issuers and their respective associates and affiliates

## **23. PURCHASERS’ STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides Purchasers with the right to withdraw from an agreement to purchase securities within two Business Days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a Purchaser with remedies for rescission or, in some jurisdictions, damages if 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 of the applicable province. The Purchaser should refer to the securities legislation in the province in which the Purchaser resides for the particulars of these rights or consult with a legal advisor.

### **FINANCIAL STATEMENTS**

Please see next page.

## Auditors' Consent

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We have read the prospectus of Sunstone Opportunity (2007) Realty Trust (the "Realty Trust") and Sunstone Opportunity (2007) Mortgage Fund (the "Mortgage Fund") dated September 10, 2007 relating to the issue and sale of up to 40,000 units at a price of \$1,250 per unit. Each unit is comprised of one unit of the Realty Trust having a price of \$250, and one unit of the Mortgage Fund having a price of \$1,000. 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 trustee of the Realty Trust on the balance sheet of the Realty Trust as at September 5, 2007. Our report is dated September 6, 2007 (except as to Note 3 which is as of \_\_\_\_\_).

We also consent to the use in the above mentioned prospectus of our report to the trustee of the Mortgage Fund on the balance sheet of the Mortgage Fund as at September 5, 2007. Our report is dated September 6, 2007 (except as to Note 3 which is as of \_\_\_\_\_).

Yours truly,

Chartered Accountants  
Vancouver, British Columbia

\_\_\_\_\_, 2007

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**Sunstone Opportunity (2007) Realty Trust**  
**Financial Statements**  
*September 5, 2007*

To the Trustee of  
Sunstone Opportunity (2007) Realty Trust:

We have audited the balance sheet of Sunstone Opportunity (2007) Realty Trust as at September 5, 2007. This balance sheet is the responsibility of the Realty Trust's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this balance sheet presents fairly, in all material respects, the financial position of the Realty Trust as at September 5, 2007 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
Vancouver, British Columbia

September 6, 2007, except as to Note 3, which is as of \_\_\_\_\_, 2007

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**Sunstone Opportunity (2007) Realty Trust**  
**Balance Sheet**  
*As at September 5, 2007*

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**Assets**

**Current**

Cash

**10**

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**Unitholder equity**

Unitholder equity *(note 2)*

**10**

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**Subsequent events** *(note 3)*

**Approved on behalf of the Trustee**

\_\_\_\_\_

**Director**

\_\_\_\_\_

**Director**

# Sunstone Opportunity (2007) Realty Trust

## Notes to the Financial Statements

*For the period from September 4, 2007 to September 5, 2007*

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### 1. Incorporation and operations

Sunstone Opportunity (2007) Realty Trust (the “Realty Trust”) is an unincorporated, open-ended, investment trust created on September 4, 2007 by a declaration of trust governed by the laws of the Province of British Columbia. The Realty Trust is authorized to issue an unlimited number of redeemable Units of beneficial interest. Each holder of a Unit participates pro rata in any distribution of the Realty Trust. The Realty Trust was established for the purpose of owning and operating a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada, or interests in such properties, and for limited development of capital properties as income-producing real estate for long-term investment.

The Realty Trust is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the period, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to Trust Unitholders.

The Realty Trust intends to distribute all of its net income and net realized gains, if any, to Trust Unitholders, so that the Realty Trust will not be liable to pay income tax pursuant to the Tax Act during any period. If distributions to Trust Unitholders are in excess of the net income and net realized capital gains, if any, of the Realty Trust, it will generally result in a reduction in the adjusted cost base of the Trust Units to the Trust Unitholders.

There has been no activity in the Realty Trust between its formation on September 4, 2007, and September 5, 2007 except for the receipt of a capital contribution. Accordingly, no statement of operations, or cash flows for the period have been presented.

### 2. Unitholder equity

Unitholder equity represents the initial capital contribution of property to the Realty Trust made by Sunstone Realty Advisors Inc.

### 3. Subsequent events

The Realty Trust and the Mortgage Fund filed a prospectus dated September 10, 2007, for an initial public offering (the “Offering”) to sell a minimum of 4,000 Units up to a maximum of 40,000 Units at a price of \$1,250 per Unit. Each Unit will consist of one Unit of the Realty Trust at a price of \$250 and one Unit of the Mortgage Fund at a price of \$1,000.

The proceeds of the offering will be used by the Realty Trust in the acquisition, ownership and operation through the Co-Ownership of a diversified portfolio of high quality income-producing residential and/or commercial real estate properties in Canada (or interests in such properties) and for limited development of capital properties as income-producing real estate for long-term investment.

Pursuant to a Cost Sharing and Recovery Agreement, the Realty Trust has agreed to bear the costs and expenses incurred in respect of the Offering, including the agent’s commissions, fees and expenses.

95% of the aggregate net proceeds received from the Offering are expected to be invested by the Realty Trust in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by March 31, 2009. Otherwise, 20% of the portion not invested will be returned to Unitholders of the Realty Trust and 80% will be returned to the Unitholders of the Mortgage Fund.

**Sunstone Opportunity (2007) Mortgage Fund**  
**Financial Statements**  
*September 5, 2007*

To the Trustee of  
Sunstone Opportunity (2007) Mortgage Fund:

We have audited the balance sheet of Sunstone Opportunity (2007) Mortgage Fund as at September 5, 2007. This balance sheet is the responsibility of the Mortgage Fund's management. Our responsibility is to express an opinion on this financial statement 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 statement is 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, this balance sheet presents fairly, in all material respects, the financial position of the Mortgage Fund as at September 5, 2007 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
Vancouver, British Columbia

September 6, 2007, except as to Note 3, which is as of \_\_\_\_\_, 2007

# Sunstone Opportunity (2007) Mortgage Fund

## Balance Sheet

As at September 5, 2007

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### Assets

#### Current

Cash

10

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### Unitholder Equity

Unitholder equity (note 2)

10

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### Subsequent events (note3)

Approved on behalf of the Trustee

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# Sunstone Opportunity (2007) Mortgage Fund

## Notes to the Financial Statements

*For the period from September 4, 2007 to September 5, 2007*

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### 1. Incorporation and operations

Sunstone Opportunity (2007) Mortgage Fund (the "Mortgage Fund") is an unincorporated, open-ended, investment trust created on September 4, 2007 by a declaration of trust governed by the laws of the Province of British Columbia. The Mortgage Fund is authorized to issue an unlimited number of redeemable Units of beneficial interest. Each holder of a Unit participates pro rata in any distribution of the Mortgage Fund. The Mortgage Fund was established for the purpose of investing in and holding the mortgage loan with Sunstone Opportunity (2007) Realty Trust.

The Mortgage Fund is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the year to Fund Unitholders.

The Mortgage Fund intends to distribute all of its net income and net realized gains, if any, to Fund Unitholders, so that the Mortgage Fund will not be liable to pay income tax pursuant to the Tax Act during any year. If distributions to Fund Unitholders are in excess of the net income and net realized capital gains, if any, of the Mortgage Fund, it will generally result in a reduction in the adjusted cost base of the Fund Units to the Fund Unitholder.

There has been no activity in the Mortgage Fund between its formation on September 4, 2007, and September 5, 2007 except for the receipt of a capital contribution. Accordingly, no statement of operations, or cash flows for the period have been presented.

### 2. Unitholder equity

Unitholder equity represents the initial capital contribution of property to the Mortgage Fund made by Sunstone Realty Advisors Inc.

### 3. Subsequent events

The Realty Trust and the Mortgage Fund filed a prospectus dated September 10, 2007, for an initial public offering (the "Offering") to sell a minimum of 4,000 Units up to a maximum of 40,000 Units at a price of \$1,250 per Unit. Each Unit will consist of one Unit of the Realty Trust at a price of \$250 and one Unit of the Mortgage Fund at a price of \$1,000.

The proceeds of the Offering will be used by the Mortgage Fund invest in the Mortgage Loan to the Realty Trust.

Pursuant to a Cost Sharing and Recovery Agreement, the Realty Trust has agreed to bear the costs and expenses incurred in respect of the Offering, including the agent's commissions, fees and expenses.

95% of the aggregate net proceeds received from the Offering are expected to be invested by the Realty Trust in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by March 31, 2009. Otherwise, 80% of the portion not invested will be returned to the Unitholders of the Mortgage Fund and 20% will be returned to the Unitholders of the Realty Trust.

## **CERTIFICATE OF THE REALTY TRUST**

DATED: September 10, 2007

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), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

### **SUNSTONE OPPORTUNITY (2007) REALTY TRUST by its Trustee, SRAI Realty Services (2007) Inc.**

*“Darren Latoski”*  
Darren Latoski,  
President and  
Acting Chief Executive Officer

*“Robert King”*  
Robert King  
Secretary and  
Acting Chief Financial Officer

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

*“Robert King”*  
Robert King, Director

*“James Redekop”*  
James Redekop, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

*“Steve Evans”*  
Steve Evans, Secretary and Director

*“Darren Latoski”*  
Darren Latoski, President and Director

## **CERTIFICATE OF THE MORTGAGE FUND**

DATED: September 10, 2007

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), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

### **SUNSTONE OPPORTUNITY (2007) MORTGAGE FUND by its Trustee, SRAI Mortgage Fund (2007) Inc.**

*“Darren Latoski”*  
Darren Latoski,  
President and  
Acting Chief Executive Officer

*“Robert King”*  
Robert King  
Secretary and  
Acting Chief Financial Officer

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

*“Robert King”*  
Robert King, Director

*“James Redekop”*  
James Redekop, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

*“Darren Latoski”*  
Darren Latoski, President and Director

*“Steve Evans”*  
Steve Evans, Secretary and Director



## CERTIFICATE OF THE AGENTS

DATED: September 10, 2007

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), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

DUNDEE SECURITIES CORPORATION

*"BRETT A. WHELAN"*  
BRETT A. WHELAN

RAYMOND JAMES LTD.

*"J. GRAHAM FELL"*  
J. GRAHAM FELL

BIEBER SECURITIES INC.

*"CLAUDE TETRAULT"*  
CLAUDE TETRAULT

CANACCORD CAPITAL CORPORATION

*"BINA PATEL"*  
BINA PATEL

SORA GROUP WEALTH ADVISORS INC.

*"ROBERT ISAAC"*  
ROBERT ISAAC

BLACKMONT CAPITAL INC.

*"CHARLES PENNOCK"*  
CHARLES PENNOCK

LAURENTIAN BANK SECURITIES INC.

*"PIERRE GODBOUT"*  
PIERRE GODBOUT

MGI SECURITIES INC.

*"JOSEF VEJVODA"*  
JOSEF VEJVODA