

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.

## PROSPECTUS

**Initial Public Offering**

**September 23, 2009**



### **SUNSTONE U.S. OPPORTUNITY (NO. 2) REALTY TRUST** (the "Trust")

### **SUNSTONE U.S. (NO. 2) L.P.** (the "Investment LP")

(collectively with the Trust called the "Issuers")

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

**Except as otherwise stated in the Prospectus, all dollar amounts, including the price per Trust Unit, are stated in U.S. dollars.**

This Prospectus qualifies the distribution of up to 40,000 units of the Trust (each a "Trust Unit") at a price of \$1,250 per Trust Unit (the "Offering Price"). **Purchasers are required to acquire a minimum of ten Trust Units.** Additional subscriptions may be made of single Trust Units. Trust Units cannot be purchased or held by "non-residents" of Canada, as defined in the Tax Act.

	Price to Public <sup>(1)</sup>	Agents' Commission <sup>(2)</sup>	Proceeds to Issuer <sup>(3)</sup>
<b>Per Trust Unit</b>			
Per Trust Unit <sup>(3)</sup>	\$1,250	\$100	\$1,150
<b>Minimum Offering<sup>(4)</sup></b>			
4,000 Trust Units <sup>(3)</sup>	\$5,000,000	\$400,000	\$4,600,000
<b>Maximum Offering</b>			
40,000 Trust Units <sup>(3)</sup>	\$50,000,000	\$4,000,000	\$46,000,000

<sup>(1)</sup> The Offering Price was determined by negotiation between the Lead Agent and the Trust. No third-party valuation was obtained.

<sup>(2)</sup> 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"). In consideration of ongoing services provided to the Issuers by the Agents and sub-agents, and as a further incentive to the Agents, the Property GP has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Property GP in respect of its Incentive Management Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Trust Units. As well, the Property GP 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 the Property GP pursuant to the General Partner Services Agreement. Such trailer fee will only be paid by the Property GP to the Agents if it is collected by the Property GP.

The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Trust Units. Pursuant to the Cost Sharing and Recovery Agreements the Agents' Commission and expenses incurred with respect to the Offering will be borne entirely by the Property LP (refer to "Plan of Distribution – Agency Agreement" and "Agency Agreement – Incentive Payment to Agents").

(3) Before deduction of the balance of the expenses of the Offering estimated at \$225,000 to \$400,000.

Unless an amendment to the Final Prospectus (herein defined) is filed and the British Columbia Securities Commission, as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, "*Passport System*", has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the Receipt for the Final Prospectus. If an amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the receipt for such amendment, unless a further amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the further amendment. In any case, the total period of distribution must not end more than 180 days from the date of the Receipt for the Final Prospectus.

**This is a "blind pool" Offering. Although the Issuers expect that the available net proceeds of the Offering will be applied by the Property LP in the purchase of one or more Properties, the specific Properties in which the Property LP will invest have not yet been determined. In any event, if the maximum Offering of 40,000 Trust Units is sold, the Issuers expect that the Property LP 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 the Property GP), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 4,000 Trust Units is sold, the Issuers expect that the Property LP 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 the Property GP), and to the creation of working capital reserves and reserves for renovations and upgrades.**

**There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".**

**As at the date of this Prospectus, the Trust and the Investment LP do not have any of their securities listed or quoted, have not applied to list or quote any of their securities, and do not intend to apply to list or quote any of their securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America including the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.**

**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 Trust Units is appropriate only for Purchasers who have the capacity to absorb a loss of some or all of their investment.**

**The cumulative, non-compounded Minimum Return of 8% per annum payable to limited partners of the Property LP, which will ultimately form part of the distributions available from the Trust to Trust Unitholders, is a preferred return, but is not guaranteed and may not be paid on a current basis in each year or at all. However, such return will be paid prior to payment of the Incentive Management Interest to the Property GP.**

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

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

The return on an investment in the Trust 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 Trust intends to distribute its available

cash to the holders of Trust Units, such cash distributions may be reduced or suspended. The ability of the Trust to make cash distributions and the actual amount distributed will depend on the operations of the Properties acquired by the Property LP with the proceeds from its issuance of Property LP Units, 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 may decline if the Trust is unable to meet its 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 Trust Unitholders (refer to “Risk Factors” for a more complete discussion of these risks and their potential consequences).**

Subject to the qualifications and assumptions discussed under the heading “Canadian Federal Income Tax Considerations”, the Trust Units will, on the date of closing, be qualified for investment by RRSPs and similar Plans. If the Trust ceases to qualify as a mutual fund trust, a Trust Unit will cease to be a qualified investment for RRSPs and similar Plans. Adverse tax consequences will generally apply to a Plan, and/or an annuitant or holder thereunder, if the Plan acquires or holds property that is not a qualified investment for the Plan, or in respect of a TFSA, it acquires or holds property that is a prohibited investment (refer to “Canadian Federal Income Tax Considerations”).

The after-tax return from an investment in Trust Units to Trust 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 Trust (portions of which distributions may be fully or partially taxable or may be tax deferred). Subject to the SIFT Measures (as defined herein) and various other tax considerations (refer to “Canadian Federal Income Tax Considerations” and “U.S. Federal Income Tax Considerations”), income (i.e. return on capital) is generally taxed in the hands of a Trust Unitholder as ordinary income, capital gains, or dividends. Amounts in excess of the income of the Trust that are paid or payable by the Trust to a Trust Unitholder (i.e. return of capital) are generally non-taxable to a Trust Unitholder (but reduce the Trust Unitholder’s adjusted cost base in the Trust Unit 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 Trust can reduce its taxable income by claiming available non-cash deductions such as capital cost allowances. Distributions in excess of current and accumulated earnings and profits and U.S. adjusted tax basis of the Trust Units may, however, trigger U.S. income tax. Reference should be made to “Canadian Federal Income Tax Considerations” and “U.S. Federal Income Tax Considerations” below.

Sunstone U.S. (No. 2) L.P. (the “Investment LP”) and Sunstone Realty Advisors (Delaware) No. 2 Inc. (the “Investment GP”) are each incorporated or otherwise organized under the laws of a foreign jurisdiction. Although each of the Investment LP and the Investment GP has appointed Clark Wilson LLP, 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1, as its agent for service of process in British Columbia, it may not be possible for investors to enforce judgements obtained in Canada against the Investment LP or Investment GP.

Bryan Kerns, a director of the Investment GP, resides outside of Canada. Although Mr. Kerns has appointed Clark Wilson LLP, 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1, as his agent for service of process in British Columbia, it may not be possible for investors to enforce judgments obtained in Canada against Mr. Kerns.

The directors of the Trustee, the Investment GP, the Property GP and Sunstone are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates (refer to “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 Trust Units offered hereunder are offered on a “commercially reasonable best efforts” basis in each of the provinces of Canada until November 30, 2009 by Dundee Securities Corporation, as lead agent, Raymond James Ltd., Canaccord Capital Corporation, Sora Group Wealth Advisors Inc., Blackmont Capital Inc., GMP Securities L.P., HSBC Securities Inc. and MGI Securities Inc., subject to: (a) prior sale, if, as and when issued and delivered by the Trust 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 Issuers; 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 Trust Units offered hereunder.

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

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## FORWARD-LOOKING STATEMENTS

This Prospectus includes statements with respect to the Issuers, including their business operations and strategy, and financial performance and condition, which may constitute forward-looking information, future oriented financial information, or financial outlooks (collectively, “forward-looking information”) within the meaning of Canadian securities laws. Forward-looking information may relate to this Prospectus, the Issuers’ future outlook and anticipated events or results and, in some cases, can be identified by terminology such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe” or “continue”, or the negative thereof, or other similar expressions concerning matters that are not historical facts. These statements generally can be identified by the use of forward-looking words.

Forward-looking information in this Prospectus includes, but is not limited in any manner to:

- (a) statements with respect to the current state of the U.S. economy and real estate markets and the expectation that economic recovery will lead to increases in the demand for and values of real estate properties in the targeted markets,
- (b) the stated expectation that properties will be available for acquisition at prices which provide an initial annual return on the unlevered purchase price of approximately 7% to 8% and that mortgage financing will be available at annual interest rates of between 5% and 5<sup>1</sup>/<sub>2</sub> %, and the stated intention to utilize mortgage financing of up to a 70% loan-to value ratio;
- (c) the stated intention to use the gross proceeds from the Offering to acquire a portfolio of REIT-eligible properties in the United States;
- (d) the stated intention to distribute distributable cash quarterly; and
- (e) the expectation that the Issuers will satisfy the requirements stipulated by the Tax Act and Code to qualify as a mutual fund trust and REIT, respectively.

Although management of the Issuers believe 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 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”).

Investors are cautioned against placing undue reliance on forward-looking statements.

The Issuers will report in their quarterly Management Discussion and Analysis on any events or circumstances which occurred during the relevant period which are reasonably likely to cause actual results to differ materially from material forward-looking statements contained in this Prospectus.

## 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.*

### **Sunstone U.S. Opportunity (No. 2) Realty Trust**

Sunstone U.S. Opportunity (No. 2) Realty Trust (the “Trust”) is an unincorporated, open-ended investment trust formed under and governed by the laws of the Province of British Columbia and resident in Canada. The Trust was established for the purposes of indirectly acquiring, owning and operating a diversified portfolio of revenue-producing real estate properties in the United States.

Sunstone Realty Advisors Inc. (“Sunstone”) is a Vancouver-based company engaged in the identification, acquisition, ownership and operation of revenue-producing real estate properties. Sunstone’s principals, Darren Latoski and Steve Evans, have a successful track record of identifying undervalued and underperforming properties; acquiring such properties; and enhancing value through refurbishment, repositioning and re-tenanting.

Sunstone has identified a number of regions in the U.S. as regions in which investors can take advantage of current economic circumstances, which Sunstone believes have created attractive investment opportunities for revenue-producing real estate properties. The tightening of credit markets in the U.S. over the past 24 months, arising in part as a result of the collapse of the “sub-prime” mortgage market, coupled with a general worldwide economic slowdown, have caused an erosion of real estate prices in many areas of the U.S. Sunstone has created the Trust to take advantage of these opportunities in order to generate positive investment returns over a medium to long-term investment horizon.

The Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of Investment LP Units. The Investment LP will invest the proceeds from the issuance of Investment LP Units in the acquisition of an equal number of Property LP Units. The Property LP will invest the proceeds from the issuance of the Property LP Units in the Properties (refer to the Investment Structure chart on page 2). As a result, an investment in Trust Units will be an indirect investment in the acquisition, ownership and operation of the Properties and the Minimum Return and other returns on and of capital payable to limited partners holding Property LP Units will ultimately flow through to Trust Unitholders.

### **Investment Highlights and Strategy**

Sunstone has established the Trust for the purpose of investing in U.S. revenue-producing properties including multifamily apartment, retail, office and industrial real estate properties, as it believes that current market conditions in the U.S. continue to offer an opportunity to strategically acquire under-performing properties.

#### *U.S. Property Market Focus*

Sunstone has targeted the “Sunbelt” regions of the U.S. for investment due to underlying economic fundamentals which Sunstone believes provide attractive buying opportunities:

- *Nascent Economic Recovery Provides Investment Opportunities* – There has been a dramatic erosion of real estate values in the United States over the past two years, as a result of the economic fallout from the subprime mortgage crisis, the overall tightening of U.S. and global credit markets, and a world-wide economic slowdown. In response to the economic downturn, the U.S. federal government and governments in other countries have injected unprecedented levels of liquidity into the financial system and have taken various other actions designed to stabilize the economy. Sunstone believes that such stimuli have resulted in generally improved economic conditions in North America and in the U.S. in particular, since the first half of 2009, and that timing is favourable for investment in underperforming properties.



- *Tightening of Credit Markets Favours Those With Capital* – The tightening of lending standards and a reduction in overall lending capacity among banks and other institutional lenders globally, have combined to create difficult conditions for securing acquisition financing on favourable terms, or at all. This has reduced the number of investors and other participants in the real estate market.
- *Strong Population Growth in U.S. Sunbelt Regions* – Sunstone has targeted several markets in the “Sunbelt” regions of the U.S. for investment in revenue-producing real estate properties. Despite current economic concerns, population growth in the U.S. continues at the rate of nearly 1% annually, with much of the growth concentrated in the Southwestern and Southeastern portions of the country, in which Sunstone will target property acquisitions. Sunstone expects that new immigrants to the U.S. will first seek out rental housing rather than buying homes, increasing demand for rental housing, supporting the multifamily residential property market which is one of the sectors targeted by Sunstone for investment.
- *Constraints on New Construction* – Sunstone expects that another result of tightening credit markets will be a decrease in the construction of new revenue-producing properties, thereby increasing demand for lease premises in existing properties and leading to increasing occupancy rates.
- *Abundance of Revenue-Producing Property Supply* – The U.S. revenue-producing property sector is vast and there is an abundance of revenue-producing property supply. Sunstone expects that current economic circumstances should result in many owners being required to sell their properties in order to repay financing or repatriate capital for other properties or businesses. Sunstone believes there will be significant opportunities to acquire high quality revenue-producing property assets at attractive valuations and to further enhance their value through asset refurbishment and re-positioning in the marketplace.

#### *Focus on Newer Properties*

Sunstone will focus on the acquisition of existing revenue-producing properties which were constructed in 1980 or later, in order to reduce capital expenditures on replacement and repairs of the Properties. Given the size and scope of the U.S. real estate market and the revenue-producing property sector in particular, Sunstone believes limiting its focus to newer properties will not act to limit the investment opportunities which are available. Due to the challenging economic conditions in the U.S. currently, Sunstone expects there will be a decrease in new construction of revenue-producing properties, fuelling an increasing demand for existing revenue-producing properties.

#### *Geographic Focus on the U.S. “Sunbelt” Regions*

Sunstone will focus on the acquisition of Properties in the “Sunbelt” regions of the U.S., primarily in the Southwestern and Southeastern areas of the United States. States such as California, Arizona, Nevada, Texas, Georgia and Florida have experienced strong population growth rates (4%, 17%, 18%, 10%, 12% and 9% respectively) over the last five years that are above the national average and this is expected to continue, creating additional demand for revenue-producing properties. These same six states accounted for 47% of the nation’s population growth from 2006 to 2007. These same regions have relatively high concentrations of sub-prime mortgages which Sunstone believes enhances the environment for opportunistic investments in revenue-producing properties. Sunstone believes that increased levels of “forced selling” by current owners should result in opportunistic valuations being obtained by it on purchased properties.

#### *Experienced Management Team with a Strong Track Record of Creating Value*

Through the General Partner Services Agreement between the Property LP and the Property GP, investors will have the benefit of Sunstone’s experienced real estate management team with a breadth of experience in all facets of real estate, including acquisitions, asset management, property management, lease administration and finance. Darren Latoski and Steve Evans are co-founders, directors and senior officers of Sunstone and have an extensive track record of successful property investments. Over the past 20 years, they have been involved in the acquisition, and/or development of over CDN\$737 million in Canadian real estate properties and over \$225 million in U.S. real estate properties. Included among such properties are 55 properties acquired in Canada since 2004 by various

Sunstone Opportunity Funds having an aggregate acquisition cost of over CDN\$479 million and three properties acquired indirectly by Sunstone U.S. Opportunity Realty Trust having an acquisition cost of \$46,650,000. Messrs Latoski and Evans have also established a series of Sunstone Opportunity Funds annually from 2003 to 2008, which have raised an aggregate of CDN\$208,666,250 in equity financing for Canadian real estate and \$35,675,000 in equity financing for U.S. real estate.

#### *Attractive U.S. Dollar Based Investment*

The Offering Price for Trust Units is denominated in U.S. dollars. With the Canadian dollar trading close to its 40 year high in relation to the U.S. dollar, Sunstone believes that this is an opportune time for Canadian investors to invest in a U.S. dollar denominated security.

#### *Alignment of Interests Between Management and Trust Unitholders*

Sunstone believes that individual investors should have the same opportunities as institutions, pension funds and high net worth individuals with respect to real estate investing. With this in mind, an investment in Trust Units has been structured to align the interests of Sunstone (through the Property GP) with those of the Trust Unitholders. Accordingly, Trust Unitholders are entitled, by way of the Trust's interests in the Investment LP and the Property LP, to the cumulative Minimum Return before any amount is paid to the Property GP on account of the Incentive Management Interest. In addition, in the event of any capital transaction in respect of the Properties, including a sale or a refinancing of the Properties, the Property GP will be entitled to receive any unpaid Incentive Management Interest only after 100% of the Net Equity has been returned to the limited partners holding Property LP Units, and such limited partners have received full payment of the Minimum Return (refer to "Description of the Securities Distributed – The Property LP").

#### *Prudent Use of Financial Leverage*

The current real estate debt financing market offers long-term debt financing at attractive interest rates which the Property LP intends to fully utilize in order to increase its return on equity. Sunstone expects that Properties will be available for acquisition at prices which provide an initial annual return on the unlevered purchase price of approximately 7% to 8%, while long-term mortgage financing will be available at annual interest rates of between 5% and 5<sup>1</sup>/<sub>2</sub> %, providing positive financial leverage upon acquisition. As well, the Property GP will target the overall loan-to-value ratio of the Mortgage Loans at not more than 70% of the purchase price of the Properties as a whole, plus the amount of any property improvement reserve account approved by the Lenders. Further, the Lender's recourse under each Mortgage Loan is expected to be limited to the Property secured in respect of the Mortgage Loan, thereby insulating other Properties from recourse in the event that one Property suffers financial distress.

### **Structure of the Offering**

The Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of Investment LP Units. The Investment LP will invest the proceeds from the issuance of Investment LP Units in the acquisition of an equal number of Property LP Units. The Property LP will invest the proceeds from the issuance of the Property LP Units in the Properties. As a result, an investment in Trust Units will be an indirect investment in the acquisition, ownership and operation of the Properties and the Minimum Return and other returns on and of capital payable to limited partners holding Property LP Units will ultimately flow through to Trust Unitholders.

#### *The Trust*

The securities being distributed pursuant to this Prospectus are units of the Trust ("Trust Units"). The Offering consists of a minimum of 4,000 Trust Units and a maximum of 40,000 Trust Units, at a price of \$1,250 per Trust Unit (refer to "Plan of Distribution"). **Purchasers are required to acquire a minimum of ten Trust Units.** Additional subscriptions may be made of single Trust Units. Trust Units cannot be purchased or held by "non-residents" of Canada, as defined in the Tax Act.

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

- (a) acquiring Investment LP Units;
- (b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Trust Unitholders;
- (c) investing its funds in property and acquiring, holding, maintaining, improving, leasing or managing real property (or interests in real property) that is capital property of the Trust; and
- (d) in connection with the undertaking set out above, reinvesting income and gains of the Trust and taking other actions besides the mere protection and preservation of the Trust Property.

The principal business of the Trust will be to issue Trust Units and to acquire and hold Investment LP Units.

### ***The Investment LP***

The Investment LP is a limited partnership formed pursuant to and governed by the laws of Delaware and created by the Investment LP Agreement. It will make an election pursuant to the Internal Revenue Code (“Code”) to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and it intends to make an election to be treated as a real estate investment trust (“REIT”) pursuant to the Code and to take the necessary steps to qualify as a REIT pursuant to the Code. The Investment LP was established, among other things, to:

- (a) acquire Property LP Units; and
- (b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Investment LP and making distributions to the holders of the Investment LP Units.

The principal business of the Investment LP will be to issue Investment LP Units and to acquire and hold Property LP Units.

Subject to the right of the limited partners of the Investment LP holding Class B Units to receive an annual percentage return, cumulative but not compounded, calculated on their net equity in the Investment LP (the “Class B Minimum Return”) at an expected rate of 12.5% per annum, and to such limited partners’ right to the repayment of their capital in the Investment LP in priority to the limited partners holding Investment LP Units, all funds received by the Investment LP from the Property LP will be paid 99.99% to the limited partners holding Investment LP Units (refer to “Description of the Securities Distributed – The Investment LP”).

### ***The Property LP***

The Property GP is a company engaged in identifying investment opportunities in revenue-producing real estate located in the U.S. In order to take advantage of such investment opportunities, the Property GP has established the Property LP pursuant to the laws of Nevada for the purposes of owning and operating a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or proportionate interests in such Properties). The principal business of the Property LP will be to issue Property LP Units, to invest the proceeds from such issuance in the Properties, and to own and operate such Properties. In order to accommodate the expected requirements of Lenders and to segregate any risks of ownership between Properties, the Property GP intends to have each of the Properties owned by a separate underlying limited partnership established and owned by the Property LP.

### ***Distributions of Distributable Cash from Operations and Proceeds from Capital Transactions***

The Trust, through its investment in Investment LP Units, will indirectly be a limited partner in the Property LP. Limited partners holding Property LP Units will be entitled to receive from Distributable Cash a minimum return of 8% per annum, cumulative but not compounded, calculated on their Net Equity in the Property LP (the “Minimum Return”) and, after payment to the Property GP of the Incentive Management Interest, 80% of the balance of Distributable Cash. The net proceeds from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds, after payment of current obligations of the Property LP and the retention of reserves and the payment of any Disposition Fees, will be used to pay the outstanding Minimum Return, to repay the limited partners’ Net Equity, and to pay to the Property GP the Incentive Management Interest. The balance of any such proceeds will be paid 80% to the limited partners holding Property LP Units and 20% to the Property GP (refer to “Description of the Securities Distributed – The Property LP”).

As a result of the Trust’s indirect investment in Property LP Units, the amounts payable to limited partners holding Property LP Units in respect of the Minimum Return and other distributions of Distributable Cash and Net Equity will ultimately be distributed to Trust Unitholders.

### **Investment Objectives**

The Property LP’s primary investment objectives are as follows:

- (a) to own a diversified portfolio of high quality, REIT-eligible, revenue-producing properties in the U.S., with positive cash flow;
- (b) to provide quarterly cash flow distributions upon full investment of the net proceeds allocated to the purchase price of Properties; and
- (c) to enhance the potential for long-term growth of capital through value-added enhancements to the Properties and organic growth in rental rates, combined with an overall reduction in capitalization rates.

### **Guidelines for Property Acquisitions**

The net proceeds of the offering of Trust Units will be used by the Property LP in the acquisition of Properties in accordance with the following general guidelines:

- (a) assuming all 40,000 Trust 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 Property LP pursuant to the Cost Sharing and Recovery Agreement – Property LP on account of the Agents’ Commission and the expenses of this Offering) will be applied by the Property LP to the acquisition of any one Property;
- (b) in the event that less than 40,000 Trust Units are issued, it may be necessary for the Property LP to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (c) below, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property);
- (c) upon purchase, each Property would be expected to generate a positive return on the Property LP’s invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The Property GP will be able to waive this minimum requirement for Properties which the Property GP believes provide unique value added opportunities through replacement of management, re-leasing or similar initiatives; and

- (d) the Property LP intends to acquire properties which are eligible for investment by a REIT and which produce REIT-eligible income. To the extent that the Property LP intends to acquire an interest in a property which is not eligible for investment by a REIT, a taxable subsidiary of the Property LP (which will be a taxable REIT subsidiary of the Investment LP for U.S. federal income tax purposes) will be established to acquire such property.

### **General Partner Services Agreement**

Pursuant to the General Partner Services Agreement between the Property LP and the Property GP, the Property GP has agreed to provide certain services relating to the Property LP and the Properties, including structuring this Offering, structuring the Trust, the Investment LP and the Property LP, liaising with legal and tax counsel, overseeing the preparation and filing of this Prospectus, and preparing annual financial reports for the Trust Unitholders.

In consideration of providing such services, the Property GP 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 annual amount equal to 1.5% of the Net Asset Value, payable monthly on the last day of each month during the term of the General Partner Services Agreement in an amount equal to 0.125% of the Net Asset Value at the beginning of each such month.

In order to ensure that the General Partner is not limited in exercising its discretion in determining the acquisition and disposition of Properties, there are no formal provisions in the General Partner Services Agreement limiting the payment of the acquisition and disposition fees based on the period of time for which the investments are held. Payment of the Incentive Management Interest to the Property GP and the Property GP's receipt of a share of the cash flow and gains from the Property GP are both dependent upon the Properties generating returns in excess of the Minimum Return, thereby providing an incentive to the Property GP to invest in properties by purchase or otherwise and to generate returns from gross rents or capital transactions such as refinancing or sales of Properties in favourable market conditions.

### **Cost Sharing and Recovery Agreements**

Pursuant to the Cost Sharing and Recovery Agreement – Investment LP and the Cost Sharing and Recovery Agreement – Property LP, the Property LP will ultimately bear all costs and expenses in respect of this Offering. Therefore, all proceeds of this Offering, net of expenses, will ultimately be invested in the Property LP in the purchase, ownership and operation of the Properties, and in the payment of the costs shown in the table in “Item 5 Use of Proceeds – The Property LP”.

### **Plan of Distribution**

There will be no closing unless a minimum of 4,000 Trust 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 Trust 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. Unless an amendment to the Final Prospectus (herein defined) is filed and the British Columbia Securities Commission, as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, “Passport System”, has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the Receipt for the Final Prospectus. If an amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the receipt for such amendment, unless a further amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the further amendment. In any case, the total period of distribution must not end more than 180 days from the date of the Receipt for the Final Prospectus.

Sales commissions (the “Agents’ Commission”) will be paid to the Agents at a rate equal to 8% of the gross proceeds of the Offering. Pursuant to the Cost Sharing and Recovery Agreements the Agents’ Commission and

expenses will be ultimately borne entirely by the Property LP as a cost of issuing Property LP Units. In consideration of ongoing services provided by the Agents and sub-agents to the Issuers, and as a further incentive to the Agents or any sub-agents, the Property GP has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Property GP in respect of its Incentive Management Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Trust Units, such assignment to be made on a basis determined by the Property GP. As well, the Property GP will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the Asset Management Fee paid to the Property GP pursuant to the General Partner Services Agreement. Such trailer fee will only be paid by the Property GP to the Agents if it is collected by the Property GP. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Trust Units (refer to “Plan of Distribution” and “Agency Agreement – Incentive Payment to Agents”).

### **Use of Proceeds**

Assuming that the maximum Offering of 40,000 Trust Units is sold, the gross proceeds to the Trust will be \$50,000,000. The Trust will use these proceeds to buy an equal number of Investment LP Units and the Investment LP will use the proceeds from the issuance of Investment LP Units to buy an equal number of Property LP Units. The Trust may also temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Trust Unitholders.

The Property LP will use the gross proceeds from the issuance of Property LP Units, plus estimated Mortgage Loans in the aggregate principal amount of \$93,882,353 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 \$134,117,647; pay due diligence, documentation and financing costs relating to the purchase of such Properties of \$2,011,765; create reserves for renovation and upgrading of such Properties of \$670,588; create reasonable working capital reserves for such Properties of \$670,588; and pay the Financing Fee of \$2,011,765 (refer to “Use of Proceeds”).

Assuming that the minimum Offering of 4,000 Trust Units is sold, the gross proceeds to the Trust will be \$5,000,000. The Trust will use these proceeds to buy an equal number of Investment LP Units and the Investment LP will use the proceeds from the issuance of Investment LP Units to buy an equal number of Property LP Units. The Property LP will use the gross proceeds from the issuance of Property LP Units, plus estimated Mortgage Loans in the aggregate principal amount of \$9,007,363 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 \$12,867,647; pay due diligence, documentation and financing costs relating to the purchase of such Properties of \$193,015; create reserves for renovation and upgrading of such Properties of \$64,338; create reasonable working capital reserves for such Properties of \$64,338; and pay the Financing Fee of \$193,015 (refer to “Use of Proceeds”).

There is no maximum time period for the full investment of the net proceeds of the Offering in Properties and the timing of such investment will depend upon the Property GP’s identification of Properties meeting its criteria for acquisition. Pending their investment in the acquisition of Properties, the proceeds from the issuance of Trust Units and other funds not fully invested in Properties from time to time will be held in cash and bank deposits.

### **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 Property LP Unit Value of the Property LP Units indirectly held by the Trust through the Investment LP on the last day of the most recent calendar quarter that ends prior to the redemption date; plus
- (ii) the aggregate value of cash, working capital or other assets of the Investment LP on the redemption date, other than Property LP Units the value of which is accounted for under (b)(i) above; plus
- (iii) the aggregate value of the cash, working capital, or other assets of the Trust on the redemption date, other than Investment LP Units the value of which is accounted for under (b)(i) and (ii) above; less
- (iv) the aggregate value of the liabilities of the Trust and the Investment LP on the redemption date; less
- (v) the aggregate value on the redemption date of any interest in the Investment LP other than Investment LP Units held by the Trust,

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 Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$100,000;
- (b) the total amount payable by the 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; and
- (c) 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 (c) above preclude the payment of the redemption price in cash (and the 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 any of the following methods to be selected by the 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; or
- (c) a distribution *in specie* to the Trust Unitholder of a number of Investment LP Units with an aggregate value (having regard to the Property LP Unit Value at that time) equal to the aggregate redemption price of the Trust Units tendered for redemption, which number of Investment LP Units is expected (in the event that the Trust's only property consists of Investment LP Units and the Trust has no liabilities) to be equal to the number of Trust Units tendered for redemption.

## Management

The directors of the Trustee are Robert King and James Redekop. The sole officer of the Trustee is Darren Latoski, President. The directors and officers of the Investment GP and the Property GP are Steve Evans and Bryan Kerns (refer to “Directors and Officers”).

## Risk Factors

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

*This is a Blind Pool Offering* – The net proceeds of the Offering will ultimately be invested in the acquisition by the Property LP 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 Property LP, 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 the Sunstone group of companies and its principals, Darren Latoski and Steve Evans.

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

*Less than Full Offering* – There can be no assurance that more than the minimum Offering will be sold.

*Risks of Real Estate Ownership* – An investment in Trust Units is an indirect investment in U.S. real estate through the Trust’s indirect interest in the Property LP and the Properties acquired by the Property LP. 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 Property LP will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties on commercially acceptable terms or at all. There is also no assurance that any Mortgage Loans, if obtained, will be renewed when they mature. In the absence of mortgage financing, the number of Properties which the Property LP will be able to purchase will decrease and the return from the ownership of Properties (and ultimately the return on an investment in Trust Units) will be reduced.

The operation of the Properties may not generate sufficient funds to make the payments of principal and interest due on the 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 Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Property LP’s cost of borrowing.
- (c) *Environmental Matters* – Under various environmental and ecological laws, the Property LP and/or its subsidiaries 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 Property LP’s ability to sell such a Property or to borrow using the Property as collateral, and could potentially also result in claims against the Property LP by private parties.
- (d) *Uninsured Losses* – The Property GP will, under the terms of the Property LP Agreement, arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned through the Property LP 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* – In certain cases, the Property GP 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 Property LP will compete for suitable U.S. real property investments with other individuals, corporations, real estate investment trusts and similar vehicles, and institutions which are presently seeking or which may seek in the future real property investments similar to those sought by the Property LP. 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 Mortgage Loans or to fund changes in any variable rates of interest charged in respect of such loans.
- (h) *Fluctuations in Capitalization Rates* – As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.
- (i) *Joint Ventures* - The Property LP may invest in or be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the Property LP's control over the Properties and ability to sell its interest in a Property within a reasonable time frame.

*Reliance on Assumptions* – The Trust's business plan and investment strategy have been formulated based on Sunstone's analysis and expectations regarding recent economic developments in the United States, the future recovery of U.S. real estate markets generally and in the "Sunbelt" regions, and the U.S. to Canadian dollar exchange rate. Such analysis may be incorrect and such expectations may not be realized, in which event the Minimum Return may not be achieved by the Property LP.

*No Maximum Time for Investment of Net Proceeds* - There is no maximum time period for the full investment of the net proceeds of the Offering in Properties and the timing of such investment will depend upon the Property GP's identification of Properties meeting its criteria for acquisition. There is a risk that the Property LP may not invest all proceeds of the Offering in Properties and not be able to generate sufficient funds to pay the Minimum Return.

*Similar Management Groups for Various Sunstone Entities* – The limited partnerships, real estate investment trusts and other entities established by Sunstone since 2004 generally share the same management team. As a result, possible conflicts may arise in terms of the allocation of potential property investments between such entities. Such conflicts are minimized by (a) Sunstone taking steps to ensure that funds available to one entity for investment are fully allocated before another similar entity raises proceeds for investment and (b) entities which have unallocated funds for investment being established for the acquisition of different classes of real estate or of properties in different jurisdictions.

*Liability of Trust Unitholders* – There is a risk that a Trust Unitholder could be held personally liable for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust). The Trust Declaration provides that no Trust 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 Trust or the Trustee (to the extent that claims are not satisfied by the Trust). In any event, the Trust Declaration requires the Trustee to ensure that any written contract or commitment of the Trust includes 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 Trust of the redemption price of Trust Units will reduce the amount of cash available to the Trust for the payment of distributions to the holders of Trust 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 by the Trust is limited to \$100,000 in each calendar quarter and is also limited in any twelve month period to 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) *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, Debt Security or an Investment LP Unit. Trust Notes and Debt Securities are payable over a term of five years or less with annual interest at the Canada Five-Year Yield. Trust Notes, Debt Securities and Investment LP Units received as a result of redemptions of Trust Units may not be liquid. Further, they generally will not be qualified investments for Plans and may be prohibited investments for TFSA's, which will generally give rise to adverse consequences to a Plan and the annuitant or holder thereunder, including the redeeming Trust Unitholder or Plan annuitant or holder 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 should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Trust Units.

*Currency Exchange Rate Risk* – The Offering Price for Trust Units is denominated in U.S. dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. Although investors are Canadian residents, an investment in Trust Units is required to be made in U.S. dollars and the Property LP and its affiliates will conduct business in the U.S. Consequently, any income and gains will be earned and any expenses and losses will be incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in Trust Units and the return on the original investment, when expressed in Canadian dollars, may be greater or less than that determined only with reference to U.S. dollars. Accordingly, investors are subject to currency exchange rate risk.

*Tax Matters* – The tax treatment of investment and real estate activities and of the Trust has a material effect on the advisability of an investment in the Trust Units and reference should be made to the discussion under the headings “Canadian Federal Income Tax Considerations” and “U.S. Federal Income Tax Considerations”. For example, if the Trust does not qualify or ceases to qualify as a “mutual fund trust” under the Tax Act, adverse consequences may arise, including the Trust becoming liable to pay certain additional tax liabilities, resulting in less cash being available for distributions, and the Trust Units not being or ceasing to be qualified investments for Plans, with the result that a Plan and/or its annuitant or holder will generally become subject to additional tax or penalties or may be otherwise adversely affected. Further, the Trust and Investment LP may be exposed to the new tax imposed by the SIFT Measures (as defined herein).

From the perspective of U.S. federal income tax (and without limiting the generality of the foregoing), the Investment LP is not currently qualified as a REIT for U.S. federal income tax purposes and it may fail to meet the requirements to qualify as a REIT, which will require the Investment LP to pay additional taxes and which could reduce funds available to make distributions to the Trust Unitholders. Even if the Investment LP becomes qualified as a REIT for U.S. federal income tax purposes, it may be subject to other tax liabilities that reduce its cash flow and its ability to make distributions to the Trust. For example, if the Investment LP (through the Property LP) sells property, other than foreclosure property, that it holds primarily for sale in the ordinary course of business, the gain recognized would be subject to a 100% “prohibited transaction” tax. Furthermore, future legislative, judicial or administrative changes to Canadian and U.S. federal income tax laws could affect the tax implications to the Property LP, the Investment LP, the Trust and the Trust Unitholders.

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

### **Summary Financial Information**

Included in this Prospectus are audited financial statements of Sunstone U.S. Opportunity (No. 2) Realty Trust for the period from formation on August 12, 2009 to August 20, 2009 and audited financial statements of Sunstone U.S. (No. 2) L.P. for the period from formation on August 18, 2009 to August 20, 2009.

**U.S. Currency**

**Except as otherwise stated in this Prospectus, all amounts are stated in U.S. dollars.**

## GLOSSARY OF TERMS

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

- (a) **“Agency Agreement”** means an agreement dated as of September 23, 2009 among the Trustee, for itself and on behalf of the Trust as its trustee; the Investment GP, for itself and on behalf of the Investment LP as its general partner; the Property GP, for itself and on behalf of the Property LP as its general partner; Sunstone, and the Agents;
- (b) **“Agents”** means, collectively, the Lead Agent, Raymond James Ltd., Canaccord Capital Corporation, Sora Group Wealth Advisors Inc., Blackmont Capital Inc., GMP Securities L.P., HSBC Securities Inc. and MGI Securities Inc.;
- (c) **“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 General Partner 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 General Partner Services Agreement, the payment of which was waived by the Property GP, payable within 30 days of the presentation by the Property GP of an invoice therefore;
- (d) **“Business Day”** means any day which is not a Saturday, Sunday or statutory holiday in the Province of British Columbia;
- (e) **“Canada Five-Year Yield”** means on any date 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 the Trustee;
- (f) **“CBCA”** means the *Business Corporations Act* (Canada), as amended from time to time;
- (g) **“Class B Units”** means Class B limited partnership units of the Investment LP;
- (h) **“Code”** means the United States Internal Revenue Code of 1986, as amended from time to time;
- (i) **“Cost Sharing and Recovery Agreement – Investment LP”** means an agreement dated as of August 21, 2009 between the Trust and the Investment LP pursuant to which the Investment LP has agreed to bear all of the costs of this Offering incurred by the Trust, as a cost of issuing Investment LP Units;
- (j) **“Cost Sharing and Recovery Agreement – Property LP”** means an agreement dated as of August 21, 2009 between the Investment LP and the Property LP pursuant to which the Property LP has agreed to bear all of the costs of this Offering incurred by the Investment LP, as a cost of issuing Property LP Units;
- (k) **“Cost Sharing and Recovery Agreements”** means, collectively, the Cost Sharing and Recovery Agreement – Investment LP and the Cost Sharing and Recovery Agreement – Property LP;
- (l) **“Debt Securities”** means debt securities of any subsidiary of the Trust that may be created and issued from time to time, 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 payable to the Property GP by the Property LP pursuant to the General Partner Services Agreement in consideration of the Property GP negotiating and finalizing the sale of such Property on behalf of the Property LP;

- (n) **“Distributable Cash”** means, for any period, an amount equal to the Gross Rents, less the Operating Expenses, less any other costs or expenses payable by the Property LP, and less reasonable reserves determined by the Property GP to be necessary to operate such Property or the affairs of the Property LP in a prudent and businesslike manner, but does not include Extraordinary Distributions.
- (o) **“Extraordinary Distributions”** means distributions to the partners of the Property LP arising from or related to funds received by the Property LP on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a refinancing or a sale of a Property, after deduction of any Disposition Fee, but excluding distributions of Distributable Cash.
- (p) **“Final Prospectus”** means the final version of this Prospectus which will be filed by the Issuers with the securities commissions or other securities regulatory authorities in the Qualifying Provinces and Territories;
- (q) **“Financing Fee”** means a fee payable to the Property GP by the Property LP pursuant to the General Partner Services Agreement for financing services, in an amount equal to 1.5% of the gross purchase price of a Property and payable to the Property GP upon the completion of the purchase of each Property;
- (r) **“General Partner Services Agreement”** means an agreement dated as of August 21, 2009 between the Property LP and the Property GP pursuant to which the Property GP has agreed to provide certain services relating to the Properties;
- (s) **“Gross Rents”** means, for any period, all rental and other income from the Properties (including interest income earned on any such monies prior to their distribution) but excluding therefrom security deposits and advance rents, unless and until applied, tenant incentive payments or allowances, tenant expense recoveries, net proceeds from refinancing, and net proceeds from sale;
- (t) **“Incentive Management Interest”** means an allocation and distribution to be made, subject to the payment of the Minimum Return, to the Property GP from the Property LP in an amount equal to 20/80ths of the total payments made to the date of such allocation and distribution to limited partners holding Property LP Units in respect of the Minimum Return, thereby providing the Property GP with a 20% share of the total amounts allocated and distributed to the limited partners and the Property GP by the Property LP up to such date;
- (u) **“Investment GP”** means Sunstone Realty Advisors (Delaware) No. 2 Inc., a Delaware corporation;
- (v) **“Investment LP”** means Sunstone U.S. (No. 2) L.P., a Delaware limited partnership established by the Trust and the Investment GP pursuant to the laws of Delaware and the Investment LP Agreement, which will make an election pursuant to the Code to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and which intends to make an election to be treated as a REIT pursuant to Section 856 to 859 of the Code;
- (w) **“Investment LP Agreement”** means the agreement establishing the Investment LP made as of August 18, 2009 between the Trust and the Investment GP;
- (x) **“Investment LP Units”** means Class A limited partnership units of the Investment LP;
- (y) **“Issuers”** means, collectively, Sunstone U.S. Opportunity (No. 2) Realty Trust and Sunstone U.S. (No. 2) L.P.;
- (z) **“Lead Agent”** means Dundee Securities Corporation;
- (aa) **“Lender”** means a lender and mortgagee of any of the Mortgage Loans;

- (bb) **“Minimum Return”** means a minimum return to the limited partners holding Property LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners’ Net Equity in the Property LP, which amount represents a cumulative preferential entitlement of the limited partners holding Property LP Units to distributions and allocations of Distributable Cash, Extraordinary Distributions, net income and taxable income of the Property LP in priority to any allocations or distributions of the Incentive Management Interest to the Property GP;
- (cc) **“Mortgage Loans”** means one or more mortgages, charges, pledges, hypothecs, liens, security interests or other encumbrances of any kind or nature whatsoever of the Properties to be granted by the Property LP (or, if a Property is held by a subsidiary or nominee entity on behalf of the Property LP, 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;
- (dd) **“Net Asset Value”** means the greater of: (a) the total cash proceeds from this Offering; and (b) the total purchase price of the Properties including all fees and expenses and cash reserves, less the outstanding Mortgage Loans;
- (ee) **“Net Equity”** means the cash paid by a limited partner holding Property LP Units in respect of such Property LP Units, being \$1,250 per Property LP Unit, less the aggregate of any Extraordinary Distributions;
- (ff) **“Offering”** means the offering of a minimum of 4,000 Trust Units at a price of \$1,250 per Trust Unit for gross proceeds of \$5,000,000 and a maximum of 40,000 Trust Units at a price of \$1,250 per Trust Unit for gross proceeds of \$50,000,000.
- (gg) **“Offering Price”** means \$1,250 per Trust Unit;
- (hh) **“Operating Expenses”** means all amounts paid or payable on account of expenses in the operation of the Properties, determined in accordance with U.S. generally accepted accounting principles;
- (ii) **“Ordinary Resolution”** means a resolution of the Trust Unitholders, the holders of Investment LP Units or the limited partners holding Property LP Units, as the case may be, approved by not less than 50% of the votes cast by those persons who vote in person or by proxy at a duly convened meeting of Trust, Investment LP or Property LP, as the case may be, or a written resolution signed by the Trust Unitholders, the holders of Investment LP Units or the limited partners holding Property LP Units, as the case may be, entitled, in the aggregate, to not less than 50% of the aggregate number of votes of those persons;
- (jj) **“Plans”** means RRSPs, RESPs, TFSAs, registered retirement income funds and deferred profit sharing plans, as those phrases are defined in the Tax Act, and **“Plan”** means any of them;
- (kk) **“Properties”** means the lands and premises located in the United States or interests therein to be purchased, owned and operated by the Property LP;
- (ll) **“Property”** means one of the Properties;
- (mm) **“Property GP”** means Sunstone U.S. Opportunity (No. 2) LLC, a Nevada limited liability company and the general partner of the Property LP;
- (nn) **“Property LP”** means Sunstone U.S. Opportunity (No. 2) Limited Partnership, a Nevada limited partnership established by the Investment LP and the Property GP pursuant to the laws of Nevada and the Property LP Agreement for the identification, acquisition, ownership and operation of the Properties;
- (oo) **“Property LP Agreement”** means the agreement establishing the Property LP made as of August 21, 2009 between the Investment LP and the Property GP;

- (pp) **“Property LP Unit Value”** means, on any particular date:
- (i) the aggregate value of the real estate assets of the Property LP on the last day of the most recent calendar quarter that ends prior to such date; plus
  - (ii) the aggregate value of the cash and other working capital assets of the Property LP on such date; less
  - (iii) the aggregate of:
    - (A) the aggregate value of the Property LP’s liabilities on such date (including the aggregate amount of the Mortgage Loans outstanding on such date);
    - (B) the amount to which the Property GP would be entitled under the Property LP Agreement (to the extent not taken into account in (iii)(A) above) if the Property LP was terminated and liquidated on such date; and
    - (C) the amount which would be payable to the Property GP (other than amounts included in (iii)(A) above) if the General Partner Services Agreement was terminated on such date,divided by the number of outstanding Property LP Units on such date;
- (qq) **“Property LP Units”** means limited partnership units of the Property LP;
- (rr) **“Prospectus”** means this prospectus and any amendments hereto;
- (ss) **“Purchaser”** means a purchaser of Trust Units;
- (tt) **“Qualifying Provinces and Territories”** means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island, the Yukon, Northwest Territories, and Nunavut;
- (uu) **“Receipt”** means a receipt for the Final Prospectus issued by the British Columbia Securities Commission as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, *“Passport System”*;
- (vv) **“Related Party”** means, with reference to the Trust, the Investment LP or the Property LP, any of the following: (1) any person who participates in the management of any of the Trust, the Investment LP, the Property LP or the Trustee; (2) any person who participates in the management of a Property; (3) a promoter or an affiliate of a promoter; (4) 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 (5) any director or officer of a person mentioned in (1), (2), (3) or (4), as well as the persons with whom he or she is associated;
- (ww) **“RESPs”** means registered education savings plans as defined in the Tax Act;
- (xx) **“REIT”** means a real estate investment trust pursuant to the Code or to the Tax Act, or both, as the context may require;
- (yy) **“RRSPs”** means registered retirement savings plans as defined in the Tax Act;
- (zz) **“Securities”** means the Trust Units;
- (aaa) **“Special Resolution”** means a resolution approved by not less than 75% of the votes cast by those Trust Unitholders, holders of Investment LP Units or limited partners holding Property LP Units, as the case may be, who vote in person or by proxy at a duly convened meeting of Trust Unitholders, holders of Investment

LP Units or limited partners holding Property LP Units, as the case may be, or a written resolution signed by Trust Unitholders, holders of Investment LP Units or limited partners holding Property LP Units, as the case may be, entitled, in the aggregate, to not less than 75% of the aggregate number of votes of the such persons;

- (bbb) **“Sunstone”** means Sunstone Realty Advisors Inc., a private, closely-held British Columbia company, and the promoter of this Offering;
- (ccc) **“Sunstone (2004) LP”** means Sunstone Opportunity Fund (2004) Limited Partnership, a British Columbia limited partnership;
- (ddd) **“Sunstone (2005) LP”** means Sunstone Opportunity Fund (2005) Limited Partnership, a British Columbia limited partnership;
- (eee) **“Sunstone (2006) LP”** means Sunstone Opportunity Fund (2006) Limited Partnership, a British Columbia limited partnership;
- (fff) **“Sunstone (2007) Co-Ownership”** means the co-ownership established by Sunstone Opportunity (2007) Realty Trust and Sunstone Investments (2007) Inc. as co-owners pursuant to a Co-ownership Agreement made as of September 4, 2007;
- (ggg) **“Sunstone (2008) LP”** means Sunstone Opportunity Fund (2008) Limited Partnership, a British Columbia limited partnership;
- (hhh) **“Sunstone LP”** means Sunstone Opportunity Fund Limited Partnership, a British Columbia limited partnership;
- (iii) **“Sunstone U.S. (2008) L.P.”** means Sunstone U.S. (2008) L.P., a Delaware Limited Partnership;
- (jjj) **“Tax Act”** means the *Income Tax Act* (Canada), as amended from time to time;
- (kkk) **“TFSAs”** means tax-free savings accounts as defined in the Tax Act;
- (lll) **“Trust”** means Sunstone U.S. Opportunity (No. 2) Realty Trust, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;
- (mmm) **“Trust Declaration”** means the Declaration of Trust establishing the Trust made as of August 12, 2009 among the Trustee, Sunstone as settlor, and all persons who become holders of Trust Units as provided therein, as amended by an agreement dated September 18, 2009;
- (nnn) **“Trust Note”** means promissory notes of the Trust that may be created and issued from time to time, that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Trust’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (ooo) **“Trust Property”** means all of the property and assets of the Trust held in trust by the Trustee pursuant to the Trust Declaration;
- (ppp) **“Trustee”** means Sunstone U.S. Realty Services (No. 2) Inc., a private, closely-held British Columbia corporation;
- (qqq) **“Trust Unit”** means a redeemable unit of beneficial interest in the Trust;
- (rrr) **“Trust Unitholder”** means a holder of record of any Trust Unit.



## **1. CORPORATE STRUCTURE**

### **1.1 Name and Incorporation**

#### ***The Trust***

The Trust is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Trust was formed by a Declaration of Trust made August 12, 2009 among the Trustee, Sunstone as settlor, and all persons who become holders of Trust Units as provided therein.

The trustee of the Trust is Sunstone U.S. Realty Services (No. 2) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on August 12, 2009 under incorporation number BC0858852. The head office and address for service of the Trust and the Trustee is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. The Trustee's registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

#### ***The Investment LP***

The Investment LP is a limited partnership formed pursuant to and governed by the laws of Delaware by the filing of a Certificate of Limited Partnership under the *Delaware Revised Uniform Limited Partnership Act* on August 18, 2009 under No. 090787487-4721755. The head office and address for service of the Investment LP is located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The Investment LP's registered and records office is located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The Investment LP will make an election pursuant to the Code to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and intends to make an election to be treated as a REIT pursuant to the Code and to take the necessary steps to qualify as a REIT pursuant to the Code.

The general partner of the Investment LP is Sunstone Realty Advisors (Delaware) No. 2 Inc., which was incorporated pursuant to the *Delaware General Corporation Law* on August 18, 2009 under file number 090787483-4721749. The head office and address for service of the Investment GP is located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The Investment GP's registered and records office is located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904.

#### ***The Property LP***

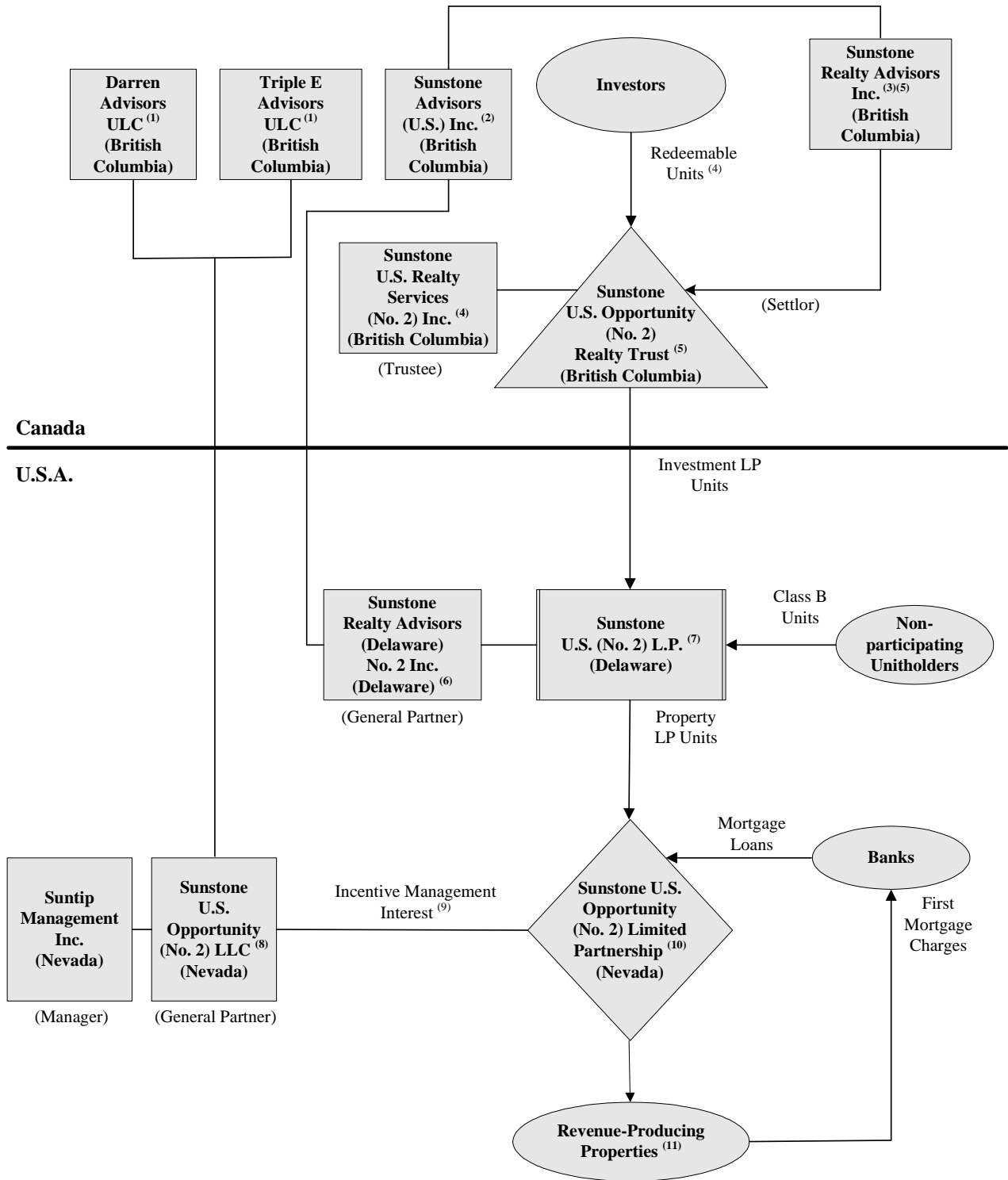
The Property LP is a limited partnership formed pursuant to and governed by the laws of Nevada by the filing of a Certificate of Limited Partnership under Chapter 87A of the Nevada Revised Statutes on August 21, 2009 under No. E0452382009-3. The head office and address for service of the Property LP is located at 6529 Preston Rd., Suite 100 Plano, Texas. The Property LP's registered and records office is located at 6529 Preston Rd., Suite 100 Plano, Texas.

The general partner of the Property LP is Sunstone U.S. Opportunity (No. 2) LLC, a limited liability company formed pursuant to and governed by the laws of Nevada by the filing of Articles of Organization under Chapter 86 of the Nevada Revised Statutes on August 21, 2009 under No. E0452292009-2. The head office and address for service of the Property GP is located at 6529 Preston Rd., Suite 100 Plano, Texas. The Property GP's registered and records office is located at 6529 Preston Rd., Suite 100 Plano, Texas. The manager of the Property GP is Suntip Management Inc., a Nevada corporation, the directors of which are Steve Evans and Bryan Kerns, each of whom indirectly owns 50% of Suntip Management Inc.'s issued shares.

### **1.2 Intercorporate Relationships**

The following chart sets forth the relationships among the Trust, the Trustee, the Investment LP, the Investment GP, the Property LP and the Property GP. The chart also illustrates the means by which funds invested by the public under this Prospectus flow through to the Property LP and are invested by the Property LP in the Properties.

## INVESTMENT STRUCTURE



- (1) *Each of Darren Advisors ULC and Triple E Advisors ULC is a member of Sunstone U.S. Opportunity (No. 2) LLC and has a 50% interest therein. Darren Advisors ULC is a British Columbia unlimited liability company. Darren Latoski is the sole director, officer and shareholder of Darren Advisors ULC. Triple E Advisors ULC is a British Columbia unlimited liability company. Steve Evans is the sole director, officer and shareholder of Triple E Advisors ULC.*
- (2) *Sunstone Advisors (U.S.) Inc. is a British Columbia company. Sunstone is the sole shareholder of Sunstone Advisors (U.S.) Inc. Darren Latoski and Steve Evans are directors and officers of Sunstone Advisors (U.S.) Inc.*
- (3) *Sunstone Realty Advisors Inc. (“Sunstone”) is a British Columbia company. Darren Latoski and Steve Evans are directors and officers of Sunstone. Each of Messrs Latoski and Evans is indirectly a 50% shareholder of Sunstone.*
- (4) *Sunstone U.S. Realty Services (No. 2) Inc. (the Trustee) is a British Columbia company, the shareholders of which are Redekop Holdings Inc. and King Pacific Capital Corp. Robert King and James Redekop are the directors of the Trustee and Darren Latoski is the sole officer of the Trustee.*
- (5) *Sunstone, as settlor of the Trust, has made a capital contribution of \$10 to the Trust, which comprises the initial property of the Trust. Sunstone has no further obligation to contribute capital to the Trust. Sunstone is entitled to receive the return of its \$10 capital contributions upon the first closing of Trust Units. The terms and conditions attaching to each Trust Unit are summarized in “Description of the Securities Distributed – The Trust”.*
- (6) *Sunstone Realty Advisors (Delaware) No. 2 Inc. (the Investment GP) is a Delaware corporation, the shareholder of which is Sunstone Advisors (U.S.) Inc. and the directors and officers of which are Steve Evans and Bryan Kerns.*
- (7) *The Trust will invest the gross proceeds received from the issuance of Trust Units in the acquisition of an equal number of Investment LP Units at a price of \$1,250 per Investment LP Unit. The terms and conditions attaching to each Investment LP Unit are summarized in “Description of the Securities Distributed – The Investment LP”. In order to satisfy Code requirements to be treated as a REIT, the Investment LP will issue its Class B Units to between 100 and 125 U.S. resident investors, for gross proceeds of between \$100,000 and \$125,000. The terms and conditions attaching to each Class B Unit of the Investment LP are summarized in “Description of the Securities Distributed – The Investment LP”.*
- (8) *Sunstone U.S. Opportunity (No. 2) LLC (the Property GP) is a Nevada limited liability corporation, the sole members of which are Darren Advisors ULC and Triple E Advisors ULC. The manager of Sunstone U.S. Opportunity (No. 2) LLC is Suntip Management Inc., a Nevada corporation, the directors of which are Steve Evans and Bryan Kerns, each of whom indirectly owns 50% of Suntip Management Inc.’s issued shares.*
- (9) *The Property GP has made a capital contribution of \$10 to the Property LP, and has no further obligation to contribute capital. The Property GP is entitled to receive its Incentive Management Interest (refer to “Description of the Securities Distributed – The Property LP”). The Property GP has also agreed to provide certain services to the Property LP pursuant to the General Partner Services Agreement, as described in more detail under the heading “Management Agreement”.*
- (10) *The Investment LP will invest the gross proceeds received from the issuance of Investment LP Units in the acquisition of an equal number of Property LP Units at a price of \$1,250 per Property LP Unit. The terms and conditions attaching to each Property LP Unit are summarized in “Description of the Securities Distributed – The Property LP”.*

- (11) *In order to accommodate the expected requirements of Lenders and to segregate any risks of ownership between Properties, the Property GP intends to have each of the Properties owned by a single purpose entity. These entities are expected to be limited partnerships established in the United States, the sole limited partner of which will be the Property LP, and which will be controlled by the Property GP.*

## **2. BUSINESS AND INVESTMENT STRATEGY**

Sunstone has established the Trust for the purpose of investing in U.S. revenue-producing properties including multifamily apartment, retail, office and industrial real estate properties.

During the decade leading up to 2008, U.S. real estate valuations significantly increased for a variety of reasons, including: high growth rates in net operating income; a significant increase in the number of lenders and the creation of conduit loans and commercial mortgage-backed securities; the availability of high loan-to-value ratio mortgage financing; a low interest rate environment; and a strong interest and confidence in real estate investments from a broad investor base. Over the past two years, a significant correction in real estate values has taken place. The commercial mortgage-backed security market has collapsed. As a result of such collapse and of the subprime mortgage crisis, mortgage financing that had been readily available from banks, insurance companies, finance companies and fund managers is now in limited supply and is difficult to secure, as those entities tighten their lending standards and seek to minimize their exposure due to the dramatic re-pricing of real estate properties and the continuing uncertainty in the real estate market. Economic recession has resulted in growing vacancies in retail, office and industrial properties and a reduction in net operating incomes from real estate assets.

Sunstone intends to capitalize from the recent uncertainty and the current capital void for real estate assets by establishing a diversified real estate portfolio designed to produce attractive returns throughout a variety of market conditions and economic cycles. As was the case with Sunstone U.S. (2008) L.P., Sunstone continues to believe that current market conditions in the U.S. have created a unique buying opportunity for Sunstone to use its expertise to strategically acquire under-performing revenue-producing real estate assets and to upgrade and reposition them in their respective markets, thereby increasing their underlying values.

Sunstone has identified a number of regions in the Southwestern and Southeastern U.S. where opportunities exist to take advantage of the current real estate market conditions through the Trust. Sunstone believes that by acquiring underperforming properties and enhancing their value through refurbishment, repositioning and re-tenanting, the Trust can earn enhanced risk-adjusted investment returns in the form of income and capital appreciation over a period of five to seven years.

### ***Recent Developments in the United States***

The U.S. economy went into recession in December, 2007, which has had a significant adverse impact on financial market conditions in the U.S. and globally. Substantial downward pressure on real estate values has led to a deleveraging of the global financial system. As a result, numerous properties nationwide are in various stages of distress. Lenders have tightened their lending standards, reduced their credit spreads and overall lending capacity and, in some cases, have liquidated their lending positions. All of these factors have combined to create difficult conditions for securing financing on favourable terms or, in some cases, at all.

In an effort to stem the fallout from current market conditions, the U.S. and other countries have injected unprecedented levels of liquidity into the financial system and have taken various other actions designed to stabilize financial asset valuations, increase investor confidence, restore stability to the financial sector and support the flow of credit and other capital into the broader economy. Some of the stimulus programs introduced in the U.S. include:

- Housing and Economic Recovery Act of 2008;
- The Temporary Guarantee Program for Money Market Funds;
- The Emergency Economic Stabilization Act of 2008 and the Troubled Asset Relief Program (TARP);

- The Term Asset-backed Securities Loan Facility (TALF);
- The Capital Assistance Program and the Bank Stress Tests; and
- The Public-Private Investment Program (PPIP).

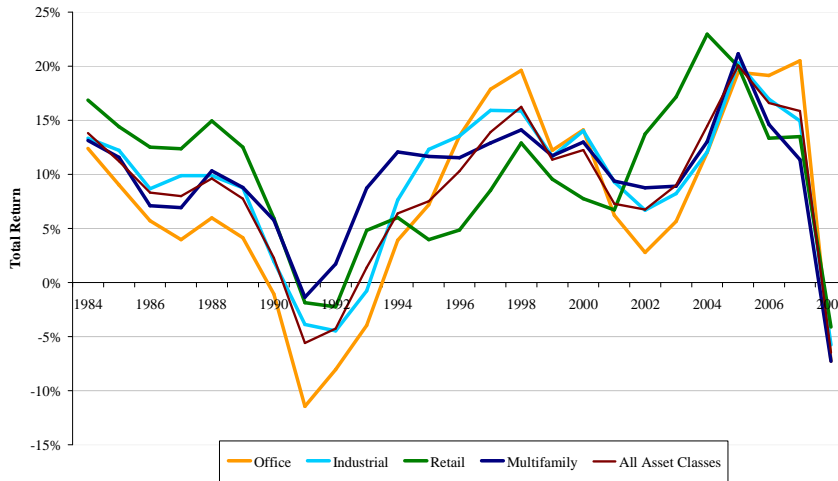
Sunstone believes that economic conditions have generally improved in North America, and in the U.S. in particular, since the first half of 2009. Several indicators point to U.S. market stabilization. Notably, the sales of existing homes rose 3.6% from May, 2009 to June, 2009, which is the highest rate of increase since October, 2008. U.S. indicators also point to a reduced rate of deterioration in the labor market and improved business and consumer confidence since the beginning of 2009. In June, 2009, the International Monetary Fund revised its U.S. GDP estimate for 2010 upwards from 0% to 0.75% and reduced its estimate of the 2009 decline in U.S. GDP from 2.8% to 2.6%, providing further evidence of U.S. economic recovery and increasing global confidence in the U.S. market.

Despite recent optimism, the recovery is still nascent. The housing market, which was a key contributor to the financial crisis, has not rebounded significantly and U.S. financial markets, while mounting a strong recovery from their March, 2009 lows, remain volatile. Uncertainty remains, although it appears that investor and consumer confidence is being restored. Sunstone believes that going forward, although economic conditions remain challenging, the pace of deterioration will continue to lessen and markets will stabilize and commence toward recovery and that this is an opportune time for strategic property investments.

**Target Property Criteria**

The Property LP will target properties in select cities within the Southwestern and Southeastern regions of the U.S. Sunstone plans to focus on key markets which have historically generated consistent levels of return on investment (ROI) and have exhibited stable property market fundamentals (for example, low vacancy rates). In addition, Sunstone expects current weakness in U.S. real estate markets, combined with uncertainty regarding the timing of a U.S. economic recovery, to result in continued lower demand for U.S. real estate among traditional investors, which conditions provide attractive acquisition opportunities for medium- to long-term investors such as Sunstone.

**U.S. Total Annual Returns by Real Estate Class**



Source: NCREIF

	Office	Industrial	Retail	Multifamily	All Asset Classes
Mean	7.3%	9.2%	9.9%	9.6%	8.6%
Max	20.5%	20.3%	23.0%	21.2%	20.1%
Min	(11.5%)	(5.8%)	(7.3%)	(7.3%)	(6.5%)

### *Focus on Newer Properties*

Sunstone will focus on the acquisition of revenue-producing properties which were constructed in 1980 or later, in order to reduce potential capital expenditures on replacement and repairs of the Properties. Given the size and scope of the U.S. real estate market, Sunstone believes that limiting its focus to newer properties will not limit the investment opportunities available to the Trust. Due to the current challenging economic conditions in the U.S., Sunstone expects there will be a continued decrease in new construction of revenue-producing properties, fuelling increasing demand for leased premises in rental properties, thereby increasing occupancy rates.

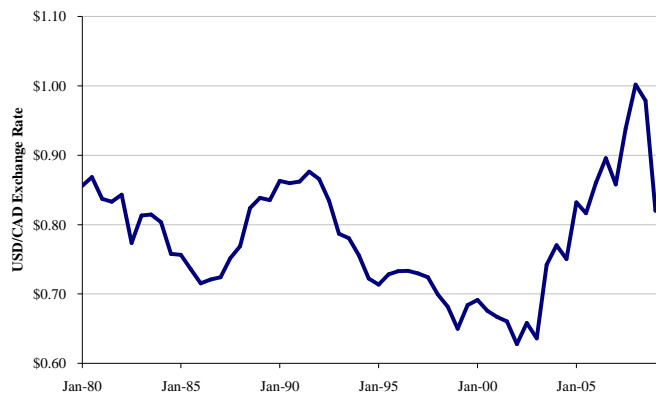
### *Geographic Focus on the U.S. “Sunbelt” Regions*

Sunstone will focus on the acquisition of Properties in the “Sunbelt” regions of the U.S., primarily in the Southwestern and Southeastern areas of the U.S. States such as California, Arizona, Nevada, Texas, Georgia and Florida have experienced strong population growth rates (4%, 17%, 18%, 10%, 12% and 9%, respectively) over the last five years that are well above the national average and are expected to continue, creating additional demand for all property classes. These same five states accounted for 47% of the nation’s population growth from 2006 to 2007. Additionally, these same regions have relatively high concentrations of subprime mortgages, which Sunstone believes enhances the environment for strategic investments in undervalued revenue-producing properties. Sunstone believes that increased levels of “forced selling” by current owners should result in opportunistic valuations being obtained by it on purchased properties.

### *Attractive U.S. Dollar Based Investment*

The Offering Price for Trust Units is denominated in U.S. dollars. With the Canadian dollar trading near its 40 year high in relation to the U.S. dollar, Sunstone believes that this is an opportune time for Canadian investors to invest in a U.S. dollar denominated security. In September 2007, the Canadian dollar reached parity with the U.S. dollar for the first time since November 1976. As of August 26, 2009, the Canadian dollar was trading at \$0.9109. In contrast, on January 18, 2002, the Canadian dollar was trading at \$0.6202. The significant appreciation in the Canadian dollar has resulted in U.S.-based properties becoming very favourably priced for Canadian investors.

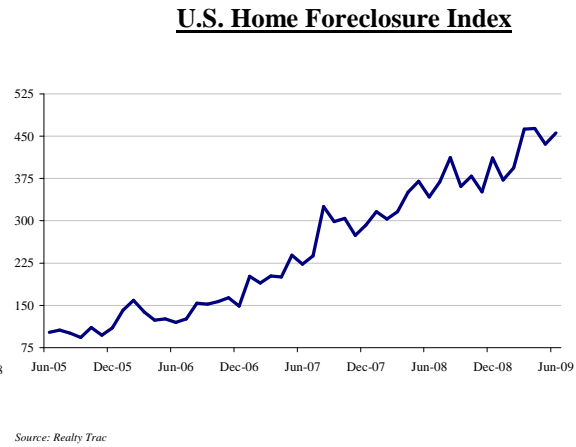
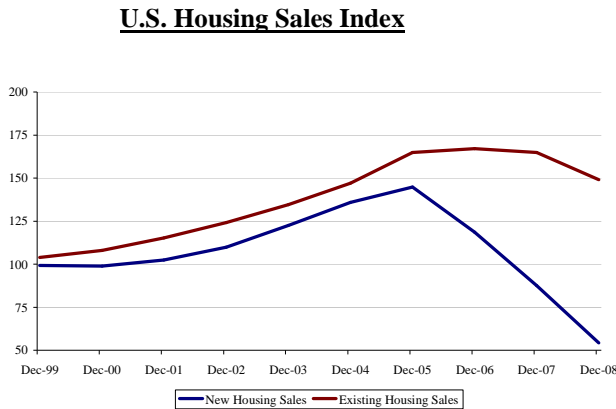
### **Historical USD/CAD Exchange Rate**



Source: Bloomberg Financial Markets

### ***The Multifamily Apartment Property Market in the United States***

Over the past two years, the sale of existing housing in the United States has slowed and the sale of new housing has fallen dramatically. During the same period, U.S. home foreclosures have increased significantly.



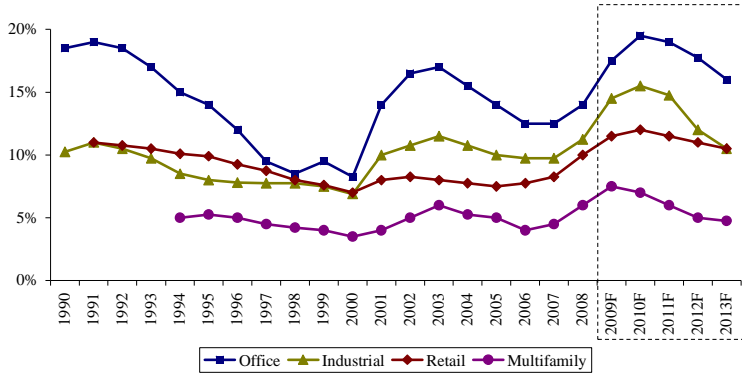
As a result, Sunstone expects that there will be an increasing demand for rental housing, limited construction of new housing supply, an increase in the number of multifamily apartment properties becoming available for sale and a reduction in the number of qualified potential buyers. Many of the states which Sunstone is targeting have relatively high concentrations of subprime mortgages and excess condominium supplies, which Sunstone believes will offer opportunities to acquire assets at attractive capitalization rates that are higher than the national multifamily apartment property average. Sunstone believes that as market conditions recover, the positive long-term economic fundamentals of these geographic areas over the next five to seven years will result in strong job growth and positive net migration which will (a) result in the absorption of any current excess supply; (b) generate above-average growth in net operating income; and (c) result in modest capitalization rate compression over the term of ownership. As a result, Sunstone expects that it will generate higher than average yields and capital appreciation for investors over the next five to seven years in the residential real estate market.

### ***The Office and Industrial Property Market in the United States***

As the broader economy remains in a recession, Sunstone expects the U.S. office and industrial real estate markets to continue to experience further degradation of operating fundamentals, including lower occupancy and rental rates. Historically, office and industrial real estate fundamentals have tended to lag behind the broader economy. Primary determinants of revenue for office and industrial real estate properties include occupancy and rental rate levels, which are most heavily influenced by business expansion plans and new supply of property. At the end of an economic expansion, the overhang of new development in conjunction with a decrease in demand for leased space often puts additional downward pressure on real estate fundamentals as economic activity slows. Conversely, businesses often wait until they are certain of an economic recovery before expanding their operations or payrolls. As a result, tenant decisions affecting leasing of space and occupancy become a derivative of the health of the employment market and real estate performance is often a lagging indicator.

Sunstone believes that the office and industrial real estate markets in the U.S. generally entered the current economic slowdown in relatively strong condition, as there was limited new supply added since the 2001 economic recession due to moderate job growth, high construction costs and supply overhang. Despite the relatively restrained new supply in most office and industrial real estate asset classes, the drastic decline in consumer spending and high unemployment rates may have more dramatic negative effects on real estate demand fundamentals during the current economic cycle. Since office and industrial real estate fundamentals tend to lag behind the broader economy, office and industrial real estate cash flows and values in the U.S. may continue to erode and may, on average, not stabilize until after a recovery in the broader economy, as illustrated in the chart below which assumes an economic improvement forthcoming.

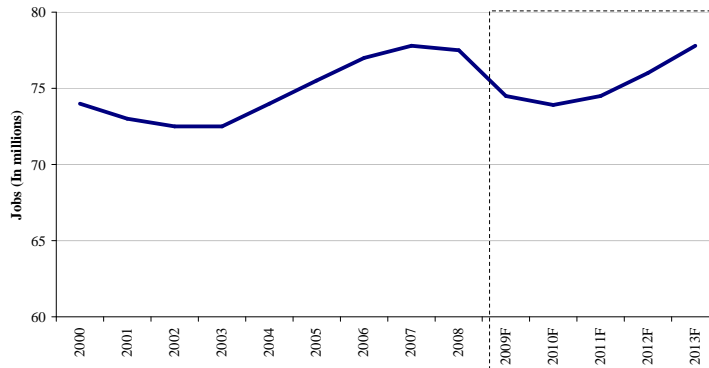
**U.S. Historical and Projected Vacancy Rates by Sector**



Source: CBRE, Torto Wheaton Research

Sunstone believes that the current conditions in the office and industrial property market represent a rare environment whereby the Trust may acquire properties at substantial discounts to their intrinsic value and enhance their value through refurbishment, repositioning and re-tenanting to produce superior ROI. The following chart indicates that the U.S. office and industrial market is on the verge of recovery driven by employment gains in the services sector as the broader economy rebounds:

**U.S. Total Employment**

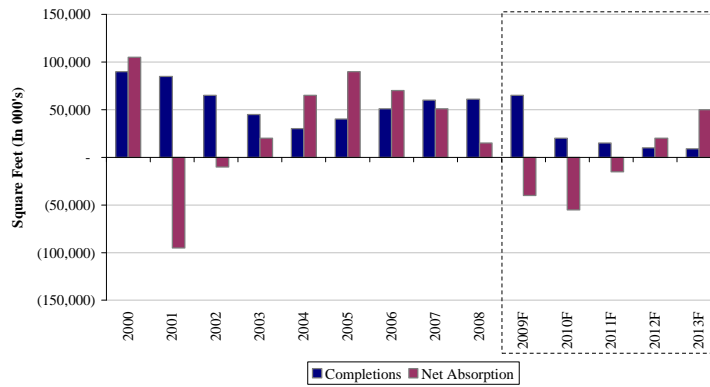


Source: TWR Outlook, Spring 2009



Office market vacancy is expected to peak in 2010 but afterwards, net absorption is expected to rebound.

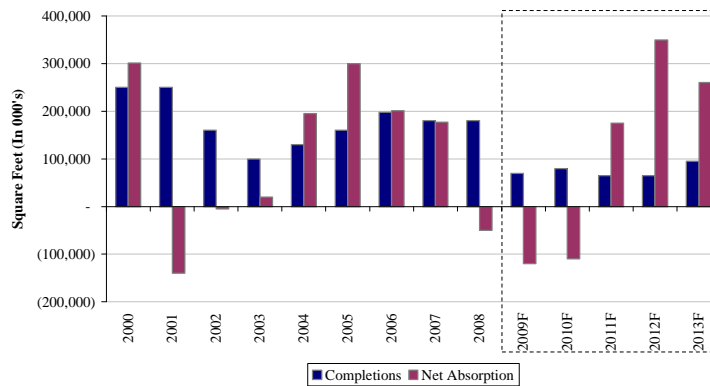
### U.S. Office Cycle



Source: TWR Office Outlook, Spring 2009

The industrial market, while currently facing challenging conditions particularly in the automobile sector, is expected to make significant gains in 2011 driven by distribution and demand for global logistics.

### U.S. Industrial Cycle



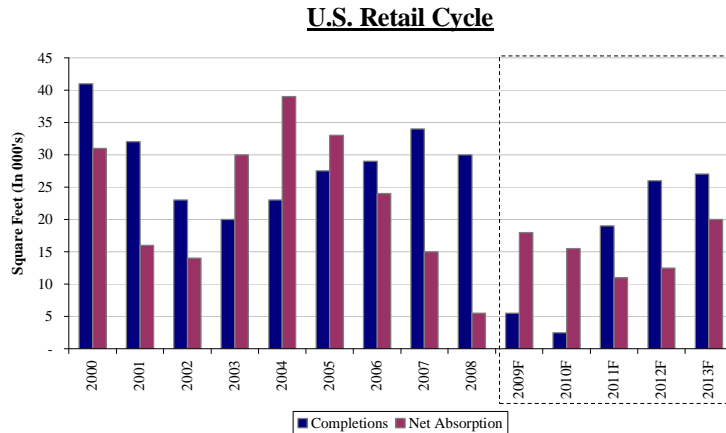
Source: TWR Industrial Outlook, Spring 2009

### ***The Retail Market in the United States***

The retail real estate market has been deeply affected by the current recession. Consumer confidence has been impacted by rising unemployment which has resulted in lower spending levels and led to tenant bankruptcies. Prominent retail bankruptcies since the start of the recession include Circuit City, Linens & Things, The Sharper Image, Whitehall Jewelers, Mervyn's, Bombay, and Steve & Barry's. These and other retail bankruptcies have resulted in millions of square feet of leased retail space being returned to the market (either in the form of vacancies or sublease space) and a multiyear high for retail vacancy rates. Furthermore, General Growth Properties, the second largest shopping centre operator in the U.S., filed for Chapter 11 bankruptcy protection on April 16, 2009 and is currently restructuring.

Sunstone believes that the current upheaval in the retail real estate market represents a unique opportunity to acquire select discounted properties which will be brought to the market for sale. Sunstone expects that owners with weaker balance sheets and a backlog of maturing mortgages will need to divest properties in order to raise funds in the face of challenging refinancing conditions. The Trust will seek to opportunistically acquire retail properties at attractive prices with promising revenue-producing potential.

Sunstone further believes that the retail sector is beginning to recover from the recession. The retail sector has some inherent defensiveness to economic cycles, due to such factors as tenant diversification and the presence of grocery and consumer-staple retailers, and is positioned to further benefit from an improving economic environment which will encourage the absorption of existing vacant space and lead to increases in net operating income from retail properties. The chart below indicates that net absorption of retail real estate is expected to remain positive for the next 5 year period with new completions rising markedly beginning in 2011:



Source: TWR Retail Outlook, Spring 2009

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

The Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of Investment LP Units. The Investment LP will invest the proceeds from the issuance of Investment LP Units in the acquisition of an equal number of Property LP Units. The Property LP will invest the proceeds from the issuance of the Property LP Units in the Properties. As a result, an investment in Trust Units will be an indirect investment in the acquisition, ownership and operation of the Properties and the Minimum Return and other returns on and of capital payable to limited partners holding Property LP Units will ultimately flow through to Trust Unitholders.

#### 3.1 Business of the Trust

The Trust has been established for the purposes of issuing Trust Units and investing in the Investment LP Units. The Trust may also temporarily hold cash for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Trust Unitholders. The principal business of the Trust will be to issue Trust Units and to invest in the Investment LP Units.

The Trust's long-term objective is to earn income and gains from the Trust's indirect interest in the Properties held through the Investment LP Units and owned by the Property LP, being a portfolio of high quality revenue-producing properties in the U.S. 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 Mortgage Loan or a sale of a Property.

#### 3.2 Business of the Investment LP

The Investment LP has been established for the purposes of issuing Investment LP Units and investing in the Property LP Units. The Investment LP will also temporarily hold cash for the purposes of paying the expenses and liabilities of the Investment LP and making distributions to the holders of Investment LP Units. The

principal business of the Investment LP will be to issue Investment LP Units and to invest in the Property LP Units.

The Investment LP's long-term objective is to earn returns from the Investment LP's indirect interest in the Properties held through the Property LP Units and owned by the Property LP, being a portfolio of high quality, REIT-eligible revenue-producing properties in the U.S., and to make distributions to the holders of Investment LP Units.

### **3.3 Business of the Property LP**

The Property LP has been established for the purposes of owning and operating a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or interests in such properties). The principal business of the Property LP will be to issue Property LP Units and to acquire and hold the Properties. To satisfy lender requirements and ensure that Property-level loans are not cross-collateralized, Properties will be owned by separate underlying limited partnerships established and owned by the Property LP.

The Property LP's long-term objective is to earn income from its investment in the Properties and to distribute such income to holders of the Property LP Units in accordance with the terms of the Property LP Agreement.

### **3.4 The Properties**

The Property LP intends to invest the proceeds realized from the issuance of Property LP Units and from Mortgage Loans in high quality, REIT-eligible revenue-producing properties in the U.S. The Property LP intends to concentrate on identifying properties for possible acquisition primarily in states such as California, Arizona, Texas, Georgia and Florida, which have experienced strong population growth, and to manage and reposition the Properties with the view to preserving capital and providing quarterly cash returns. The Property LP will focus on purchasing Properties which, in the opinion of the Property GP, are currently operating below their full income-producing potential.

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 Sunstone or its subsidiaries with arm's length third party vendors, which will be assigned by Sunstone and such subsidiaries to the Property LP at no cost other than reimbursement of any deposits (some of which may be refundable to the Property LP) and due diligence and/or financing expenses paid by Sunstone prior to such assignment.

The Property GP will have a detailed inspection report prepared by an independent inspection firm for each property that is proposed for acquisition through the Property LP, and will have any such property appraised by a qualified appraiser.

#### ***Investment Objectives***

The Property LP's primary investment objectives are as follows:

- (a) to own a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S., with positive cash flow;
- (b) to provide quarterly cash flow distributions upon full investment of the net proceeds allocated to the purchase price of Properties; and
- (c) to enhance the potential for long-term growth of capital through organic growth in rental rates, combined with an overall reduction in capitalization rates.

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

The net proceeds of the offering of Trust Units will be used by the Property LP in the acquisition of Properties in accordance with the following general guidelines:

- (a) assuming all 40,000 Trust 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 Property LP pursuant to the Cost Sharing and Recovery Agreements on account of the Agents' Commission and the expenses of this Offering) will be applied to the acquisition by the Property LP of any one Property;
- (b) in the event that less than 40,000 Trust Units are issued, it may be necessary for the Property LP to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (c) below, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property);
- (c) upon purchase, each Property would be expected to generate a positive return on the Property LP's invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The Property GP will be able to waive this minimum requirement for Properties which the Property GP believes provide unique value added opportunities through replacement of management, re-leasing or similar initiatives; and
- (d) the Property LP intends to acquire properties which are eligible for investment by a REIT and which produce REIT-eligible income. To the extent that the Property LP intends to acquire an interest in a property which is not eligible for investment by a REIT, a taxable subsidiary of the Property LP will be established to acquire such property.

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

The Property GP 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 Trust Units has been structured to align the interests of the Property GP with those of the Trust Unitholders. Accordingly, Trust Unitholders are entitled, by way of the Trust's interests in the Investment LP and the Property LP, to the cumulative Minimum Return before any amount is paid to the Property GP on account of the Incentive Management Interest. In addition, in the event of any capital transaction in respect of the Properties, including a sale or a refinancing of the Properties, the Property GP will be entitled to receive any unpaid Incentive Management Interest only after all of the Net Equity has been returned to the limited partners holding Property LP Units, and the limited partners have received full payment of the Minimum Return (refer to "Description of the Securities Distributed – The Property LP").

### ***Mortgage Loans***

The Property GP intends to have the Property LP finance a part of the purchase price of the Properties by way of Mortgage Loans from third party Lenders. The Property GP will target an overall loan-to-value ratio (of mortgage loans) of not more than 70% of the purchase price of the Properties, plus the amount of any property improvement reserve account approved by the Lenders. However, if deemed appropriate by the Property GP, having regard to all of the circumstances including the potential value of the Properties identified for investment, the Property GP may cause the overall loan-to-value ratio of the Mortgage Loans to exceed this threshold.

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

The operating cash flows and revenues from the Properties will be applied by the Property LP to the payment of Operating Expenses, the provision of reasonable reserves for working capital, renovations and upgrades, and the

payment of interest and annual principal payments on the Mortgage Loans. After payment of such amounts, subject to the right of the limited partners holding Property LP Units to receive the Minimum Return and the Property GP's right to receive the Incentive Management Interest, cash distributions and income of the Property LP will be allocated 80% to the limited partners holding Property LP Units and 20% to the Property GP.

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

In order to accommodate the expected requirements of Lenders and to segregate any risks of ownership between Properties, the Property GP intends to have each of the Properties owned by a single purpose entity. These entities are expected to be limited partnerships established in the United States, the sole limited partner of which will be the Property LP, and which will be controlled by the Property GP.

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

The Property GP intends to engage third party property managers for the ongoing day-to-day management of the operation of the Properties and intends to structure each third party property management contract with a performance bonus, such that the manager will be rewarded for increases in operating income that the manager achieves from a Property, thereby aligning the interests of the manager with that of the Property LP. The Property GP 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.

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

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

The Trust was established on August 12, 2009 for the purpose of indirectly owning and operating interests in a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or proportionate interests in such properties). Its principal business will be to issue Trust Units and acquire, own and operate an interest in the Properties through the Property LP. The Trust does not have an operating history.

To date, the Property GP has not identified any Properties for potential investment by the Property LP. Assuming that the maximum Offering of 40,000 Trust Units is sold, the Property GP intends that approximately \$45,600,000 of the net proceeds received by the Trust from the issuance of Trust Units will be applied to the purchase price of as yet unidentified Properties and applicable costs and fees. If only the minimum Offering of 4,000 Trust Units is sold, the Property GP intends that approximately \$4,375,000 of the net proceeds received by the Trust from the issuance of Trust Units will be applied to the purchase price of one or more as yet identified Properties and applicable costs and fees.

If the maximum Offering is sold, the general guidelines that the Property GP has established for the Property LP 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. In the event that less than the maximum Offering is sold, it may be necessary for the Property LP to apply more than 40% of the net proceeds to the acquisition of any one Property, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property), if the number of Trust Units sold is at or close to the minimum Offering of 4,000 Trust Units.

### **4.2 Significant Acquisitions**

None of the Trust, the Investment LP nor the Property LP has made any property acquisitions or dispositions to date.

### 4.3 Milestones

The Trust proposes to pursue the business objectives set forth under the heading “Development of the Businesses of the Issuers” in accordance with the following schedule:

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Complete the Offering	October 31, 2009	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 Trust will pay to the Agents the Agents’ Commission in an amount equal to 8% of the subscription price of Trust Units. Such amount ultimately will be borne entirely by the Property LP pursuant to the Cost Sharing and Recovery Agreements (as a cost of issuing the Property LP Units).

<sup>(2)</sup> The Trust has 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 Trust 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 ultimately will be borne entirely by the Property LP pursuant to the Cost Sharing and Recovery Agreements (as a cost of issuing the Property LP Units).

### *Investment in Properties*

The Property LP proposes to pursue the business objectives set forth under the heading “Development of the Businesses of the Issuers ” 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	December 31, 2010 <sup>(1)</sup>	Purchase Price	\$12,867,647	\$134,117,647
		Due diligence, documentation and financing costs <sup>(2)</sup>	\$193,015	\$2,011,765
		Reserve for renovations and upgrades	\$64,338	\$670,588
		Working capital reserve	\$64,338	\$670,588
		Financing Fee	\$193,015	\$2,011,765
		<b>Subtotal</b>	<b>\$13,382,353</b>	<b>\$139,482,353</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.

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

## 5. USE OF PROCEEDS

### *Trust and Investment LP*

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

<i>Trust</i>	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(2)</sup>
Subscription price for Trust Units	\$5,000,000	\$50,000,000
Investment by Trust in Investment LP Units <sup>(3)</sup>	\$5,000,000	\$50,000,000

<i>Investment LP</i>	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(2)</sup>
Subscription price for Investment LP Units	\$5,000,000	\$50,000,000
Investment by Investment LP in Property LP Units <sup>(4)(5)</sup>	\$5,000,000	\$50,000,000

(1) There will be no closing unless a minimum of 4,000 Trust 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 Trust Units.

(3) The gross proceeds raised by the Trust from the issuance of the Trust Units will be invested in an equal number of Investment LP Units.

(4) The gross proceeds raised by the Investment LP from the issuance of Investment LP Units will be invested in an equal number of Property LP Units.

(5) Pursuant to the Cost Sharing and Recovery Agreements, the Property LP ultimately will bear all costs and expenses incurred in respect of the Offering, including the Agents' Commission, fees 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.

### *The Property LP*

The Property LP intends to use the gross proceeds from the issuance of Property LP Units and from the Mortgage Loans as follows:

		Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(1)</sup>
A.	Proceeds from issuance of Property LP Units	\$5,000,000	\$50,000,000
B	Mortgage Loans <sup>(2)</sup>	9,007,363	93,882,353
C	<b>Total Sources of Funds: C = A + B</b>	<b>\$14,007,363</b>	<b>\$143,882,353</b>

<b>Use of Funds</b>		
Purchase Price of the Properties <sup>(3)</sup>	\$12,867,647	\$134,117,647
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, due diligence and financing costs) <sup>(7)</sup>	193,015	2,011,765
Creation of reserve for renovation and upgrading of Properties <sup>(8)</sup>	64,338	670,588
Creation of reasonable working capital reserves for the Properties <sup>(9)</sup>	64,338	670,588
Financing Fee <sup>(10)</sup>	193,015	2,011,765
<b>Total</b>	<b>\$14,007,353</b>	<b>\$143,882,353</b>

- (1) The minimum Offering is 4,000 Trust Units and the maximum Offering is 40,000 Trust Units.
- (2) The Property GP intends to have the Property LP finance a part of the purchase price of the Properties by way of Mortgage Loans from third party Lenders. The amounts and Lenders of such Mortgage Loan have not yet been identified and the amount shown above is an estimate only.
- (3) The purchase price of Properties shown is an estimate only, and may not be the actual aggregate price payable pursuant to the agreements of purchase and sale to be made between the Property LP and arm's-length third party vendors, or to be made between Sunstone (or its subsidiaries) and arm's-length third party vendors and assigned to the Property LP by Sunstone (or such subsidiaries).
- (4) The Trust will pay to the Agents a commission and fee equal to 8% of the subscription price of Trust Units. Such amount ultimately will be borne by the Property LP pursuant to the Cost Sharing and Recovery Agreements.
- (5) The Trust has 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 Trust 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 ultimately will be borne by the Property LP pursuant to the Cost Sharing and Recovery Agreements.
- (6) Pursuant to the Cost Sharing and Recovery Agreements, the Property LP has agreed to bear all costs and expenses incurred in respect of the Offering, including the Agents' Commission, fees and expenses and the other expenses of the Offering.
- (7) The amount incurred in respect of the purchase of Properties by the Property LP 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 Property GP may undertake a refurbishment program with respect to 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 Property GP will establish working capital reserves for the Property LP, 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 Property GP will be paid a Financing Fee equal to 1.5% of the gross purchase price of each Property for the provision of certain financial services to the Property LP.

The proceeds will also be used from time to time by the Property LP to make refundable and non-refundable deposits on account of the purchase price of Properties, to pay mortgage application fees and to pay property due diligence and inspection costs. These payments and costs will include amounts paid to arm's-length third parties and all out-of-pocket costs incurred by the Property GP in the conduct of property inspection and due diligence. Some Properties in respect of which non-refundable deposits, mortgage application fees and property due diligence and inspection costs are paid may not be acquired by the Property LP, resulting in a possible loss of such deposits, fees and/or costs.



There is no maximum time period for the full investment of the net proceeds of the Offering in Properties and the timing of such investment will depend upon the Property GP's identification of Properties meeting its criteria for acquisition. Pending their investment in the acquisition of Properties, the proceeds from the issuance of Trust Units and other funds not fully invested in Properties from time to time will be held in cash and bank deposits.

In determining what would constitute "reasonable reserves" for renovation and upgrading and working capital reserves for such Properties, the Property GP will review a comprehensive third party due diligence report that will be produced for each Property. The amount of a renovation and upgrading reserve for a given Property will be assessed by the Property GP 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. For the purposes of this Prospectus, the Property GP has estimated that a reasonable reserve for renovation and upgrading of the Properties is 1% of the purchase price of the Properties.

In determining how much of a working capital reserve would be reasonable for a given Property, the Property GP 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 Trust Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$134,117,647; if the minimum Offering of 4,000 Trust Units is sold, the estimated aggregate purchase price of, as yet unidentified, Properties is \$12,867,647. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$670,588, and the targeted working capital reserves in the event of a minimum Offering is \$64,338. However, for any given Property, the Property GP 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**

### ***Trust***

The audited financial statements of the Trust for the period from the date of its formation to August 20, 2009 are included in this Prospectus. The Trust was only recently formed and capitalized with nominal capital. As the Trust has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

### ***Investment LP***

The audited financial statements of the Investment LP for the period from the date of its formation to August 20, 2009 are included in this Prospectus. The Investment LP was only recently formed and capitalized with nominal capital. As the Investment LP 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**

Neither the Trust nor the Investment LP has had any earnings to date, and neither currently has any outstanding long-term debt. The Property LP has not had any earnings to date, and currently has no outstanding long-term debt. It is anticipated that upon the acquisition of the Properties, the Property LP will incur Mortgage Loans in the aggregate principal amount of up to \$93,882,353, assuming the maximum Offering is sold.

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

The Issuers are offering a minimum of 4,000 Trust Units and a maximum of 40,000 Trust Units, at a purchase price of \$1,250 per Trust Unit. Purchasers are required to acquire a minimum of ten Trust Units. Additional subscriptions may be made of single Trust Unit.

## 8.1 Trust Units

The rights and obligations of the Trust Unitholders are governed by the Declaration of Trust for the Trust made August 12, 2009 among the Trustee, Sunstone as settlor, and all persons who become holders of Trust Units as provided therein, as amended by way of an Amendment Agreement dated September 18, 2009. The following is a summary of certain material provisions of the Trust Declaration. **This summary does not purport to be complete and reference should be to the Trust Declaration itself, a copy of which is available from the Trustee.**

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

### *Trust Units*

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest. 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 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 Trust. On termination, the Trust Unitholders of record are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust (refer to "Termination of the Trust").

### *Distributions*

The Trust will distribute to each Trust Unitholder cash flow realized from its investment in Investment LP Units (being the distributable cash flow received by the Investment LP and generated by the Properties owned and operated through the Property LP) for each quarter in which such amounts are realized. Subject to the foregoing, the Trust intends to declare distributions on a quarterly basis 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.

Each distribution declared pursuant to the Trust Declaration constitutes a binding obligation of the 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 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 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 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 Trust, other than:

- (a) income and taxable capital gains of the Trust arising on or in connection with an *in specie* redemption of Trust Units which are paid or payable by the Trust to redeeming Trust Unitholders;
- (b) capital gains, which may be offset by capital losses carried forward from prior years or, if not so offset, the tax on which is recoverable by the Trust;

- (c) income, 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 Trust for the taxation year otherwise distributed or made payable to the Trust Unitholders during such year.

The Trustee may designate for tax purposes any income or capital gains realized by the Trust as a result of the redemption of Trust Units (including any income or capital gains realized by the Trust on an *in specie* redemption of Trust Units) as being paid to the redeeming Trust Unitholders, with the result that the taxable portion of such gains and income may generally be deductible by the Trust.

Distributions payable to Trust Unitholders pursuant to the Trust Declaration shall be deemed to be distributions of income of the Trust (including dividends), net realized taxable capital gains of the Trust, foreign source income, Trust capital or other items in such amounts as the Trustee, in its absolute discretion determines and shall be so designated, where required, and 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 Trust shall include the non-taxable portion of the capital gains of the Trust which are included in such distribution.

If, on a Distribution Payment Date, the Trust does not have cash in an amount sufficient to pay the cash distribution to be made on such Distribution Payment Date, the 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 Trustee is unable to, or determines that it is not in the best interests of, the 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 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 \$1,250 per Trust Unit) having a value equal to the cash shortfall. If the Trustee determines that the value of a Trust Unit is materially different than \$1,250, 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 Trustee will 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 Trust***

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

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

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

The 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. 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 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 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 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 Trust Declaration (except as provided under “Amendments to the Trust Declaration” below) or changes to the Trust, including changes to the investment objectives of the Trust;
- (b) the removal of the Trustee;
- (c) the appointment of a new trustee;
- (d) the termination of the Trust;
- (e) a reduction in the amount payable on any outstanding Trust Units upon liquidation of the 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 Trustee, except with the prior written consent of the Trustee.

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

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

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

Subject to the restrictions described in “Meetings of Trust Unitholders and Resolutions”, any provision of the Trust Declaration may be amended, deleted, expanded or varied by the 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 Trustee;
- (b) any change in the investment policy of the Trust or to the Trust Declaration, if such change is material or is otherwise required by the Trust Declaration.

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

After the end of each calendar quarter, the 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 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 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 Trust Unitholders***

In circumstances where a material obligation of the Trust is created, it is provided in the Trust Declaration that the Trustee will have any such obligations modified so that there is no personal liability of Trust Unitholders. Further, the Trustee will cause the operations of the 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 Trust.

As a general rule, the Trustee making investments for the Trust contracts as principal and therefore, subject to contract, the Trustee is liable for all obligations incurred in carrying out such investments for the Trust. However, in cases where the Trustee is unable to obtain written agreement that a material obligation assumed by the 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 Trust, a Trust Unitholder may be held personally liable for the obligations of the Trust, provided that pursuant to the Trust Declaration such liability is limited to the Trust Units held by such Trust Unitholders. In case of claims made against the 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 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 Trustee of the Redemption Notice. Trust Units shall be considered to be tendered for redemption on the date that the Trustee has, to the satisfaction of the Trustee, received the Redemption Notice and further documents or evidence the 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 Trust will redeem the 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 Property LP Unit Value of the Property LP Units indirectly held by the Trust through the Investment LP on the last day of the most recent calendar quarter that ends prior to the redemption date; plus
  - (ii) the aggregate value of cash, working capital or other assets of the Investment LP on the redemption date, other than Property LP Units the value of which is accounted for under (b)(i) above; plus
  - (iii) the aggregate value of cash, working capital, or other assets of the Trust on the redemption date, other than Investment LP Units the value of which is accounted for under (b)(i) and (ii) above; less
  - (iv) the aggregate value of the liabilities of the Trust and the Investment LP on the redemption date; less
  - (v) the aggregate value on the redemption date of any interest in the Investment LP other than Investment LP Units held by the Trust,

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 Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$100,000;
- (b) the total amount payable by the 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; and
- (c) 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 (c) above preclude the payment of the redemption price in cash (and the 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 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; or
- (c) a distribution *in specie* to the Trust Unitholder of a number of Investment LP Units with an aggregate value (having regard to the Property LP Unit Value at that time) equal to the aggregate redemption price of the Trust Units tendered for redemption, which number of Investment LP Units is expected (in the event that the Trust's only property consists of Investment LP Units and the Trust has no liabilities) to be equal to 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 received as a result of redemptions of Trust Units will generally not be qualified investments or may be prohibited investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant or holder under a Plan, including the redeeming Trust 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 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 Trustee issues the redemption notice.

***No Concentration of Ownership***

Pursuant to the Trust Declaration, no one individual or his or her family may directly or indirectly acquire more than ten percent (10%) of the Trust Units.

***Powers and Responsibilities of the Trustee***

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

- (a) holding Trust Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Trust Property (as such term is defined in the Trust Declaration);
- (b) ensuring that the gross subscription proceeds are invested in Investment LP Units;
- (c) borrowing money as necessary to pay distributions to Trust Unitholders, and encumbering Trust Property in respect thereof;
- (d) paying properly incurred expenses out of Trust Property;

- (e) depositing monies from time to time forming part of the Trust Property in accounts;
- (f) possessing and exercising rights, powers and privileges appertaining to ownership of or interest in Trust Property;
- (g) holding legal title to Trust Property;
- (h) reinvesting income and gains of the Trust and to take other actions besides the mere protection and preservation of the Trust Property;
- (i) appointing the accountants of the Trust;
- (j) appointing the bankers of the Trust;
- (k) ensuring compliance with applicable securities legislation;
- (l) preparing and filing or causing to be prepared and filed all requisite returns, reports and filings;
- (m) monitoring the listing or trading of the Trust Units on a stock exchange or other market;
- (n) monitoring the Trust's tax status as a "mutual fund trust" and, if applicable, a "real estate investment trust" within the meaning of the Tax Act;
- (o) providing all requisite office accommodation and associated facilities;
- (p) providing or causing to be provided to the Trust all other administrative and other services and facilities required by the Trust; and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Trust;
- (q) prescribing any instrument provided for or contemplated by the Trust Declaration; and
- (r) remitting distributions,

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

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

The Trust Declaration provides that the Trustee will be indemnified out of the 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 Trustee or officer or director of the 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 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 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 Trust Declaration contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

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

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

### ***Rights of Trust 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 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 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 Trust. The matters in respect of which Trust Unitholder approval is required under the 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 Trustee rather than the Trust Unitholders. Trust 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 all of its property, or a going private transaction). As an alternative, Trust Unitholders seeking to terminate their investment in the Trust are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the 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 Trust Declaration which permit the winding-up of the 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 Trust Declaration does not include comparable rights.

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

## **8.2 The Investment LP**

The rights and obligations of the Investment GP and the parties holding Investment LP Units are governed by the limited partnership agreement made August 18, 2009 establishing the Investment LP among the Investment GP,

the Trust as the initial limited partner and all persons who subsequently become limited partners of the Investment LP holding Investment LP Units. The following is a summary of certain material provisions of the Investment LP Agreement. **This summary does not purport to be complete and reference should be to the Investment LP Agreement itself, a copy of which is available from the Investment GP.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Investment LP Agreement.**

### ***Capital in the Investment LP***

The capital of the Investment LP consists of an unlimited number of Investment LP units (“Investment LP Units”), 1,000 Class B units (“Class B Units”), and the interest held by the Investment GP. The Investment GP has made a capital contribution of \$10 to the Investment LP and has no further obligation to contribute capital. As the initial limited partner, the Trust has made a capital contribution of \$10 to the Investment LP, which contribution will be repaid upon the subscription for the first Investment LP Units. The Trust will contribute to the Investment LP \$1,250 in capital per Investment LP Unit purchased.

Pursuant to the Code, in order to qualify as a REIT the Investment LP must be beneficially owned by at least 100 persons. In order to meet this test, the Investment LP, on or before January 30, 2010, will issue Class B Units to between 100 and 125 persons, for a subscription price of \$1,000 per Class B Unit. Limited partners holding Class B Units will contribute \$1,000 in capital per Class B Unit purchased. Limited partners holding Class B Units will earn an annual percentage return, cumulative but not compounded, calculated on their net equity in the Investment LP (the “Class B Minimum Return”), which annual rate will be established by the Investment GP upon the issuance of the Class B Units, but is expected to be in the range of 12.5% per annum. Such annual return will be paid to the holders of the Class B Units in priority to the distribution of cash flow to the Trust, as the holder of the Investment LP Units, and Investment GP.

### ***Proportionate Share***

For the purposes of the Investment LP Agreement, the Proportionate Share of the Investment GP and the individual limited partners holding Investment LP Units is equal to the capital contributed by each divided by the aggregate capital received by the Investment LP from the Investment GP and such limited partners. The Proportionate Share of the individual limited partners holding Class B Units is equal to the capital contributed by each such limited partner divided by the aggregate capital received by the Investment LP from the limited partners holding Class B Units.

### ***Allocation of Net Income and Net Losses***

Net income and net losses of the Investment LP will be allocated (except for U.S. federal income tax purposes) among the Investment GP and limited partners of the Investment LP on the following basis:

- (a) first, limited partners holding Class B Units shall be allocated the Class B Minimum Return, calculated and accumulated on a non-compounded basis, in priority to any allocations or distributions to the limited partners holding Investment LP Units or the Investment GP. The annual percentage rate of the Class B Minimum Return shall be determined in the sole discretion of the Investment GP upon the issuance of the Class B Units, but is expected to be in the range of 12.5%;
- (b) secondly, 0.01% of the balance of net income or net losses will be allocated to the Investment GP to a maximum of \$100 per annum; and
- (c) thirdly, the balance of net income or net losses will be allocated to the limited partners holding Investment LP Units, *pro rata*.

### ***Cash Flow Distributions***

To the extent cash flow permits, the Investment LP will pay and distribute an amount equal to all cash flow from its investment in Property LP Units in that year after payment of all current obligations of the Investment LP. Cash flow will be distributed as follows:

- (a) an amount equal to the accrued and unpaid Minimum Return as of such date shall be distributed to the limited partners of the Investment LP holding Class B Units Partners, as a class, *pro rata* in proportion to each such limited partners' respective Proportionate Shares and in accordance with the terms of the Investment LP Agreement; and
- (b) provided that the full cumulative distributions on all outstanding Class B Units have been declared and paid by the Investment LP or declared and a sum sufficient for the payment thereof is set apart for payment by the Investment LP for all past distribution periods in accordance with the terms of the Investment LP Agreement, cash flow will be distributed on a quarterly basis:
  - (i) 0.01% to the Investment GP, to a maximum of \$100 per annum; and
  - (ii) 99.99% to the limited partners holding Investment LP Units *pro rata* as a class.

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

Upon the liquidation, dissolution or wind-up of the Investment LP, the assets of the Investment LP will be liquidated and the proceeds thereof will be distributed as follows:

- (a) first, to pay all expenses incurred in the winding-up of the Investment LP;
- (b) secondly, to pay all of the liabilities of the Investment LP, including any loans or advances made by its limited partners and any amounts owing to the Investment GP in respect of costs and expenses owing to it;
- (c) thirdly, to establish such reserves as the Investment GP considers necessary;
- (d) fourthly, to pay to the limited partners holding Class B Units, as a class, the sum of:
  - (i) any accrued and unpaid Class B Minimum Return, determined as of such date;
  - (ii) if applicable, any Redemption Premium (defined below) and
  - (iii) the net equity contributed by such limited partners, *pro rata*, in proportion to their respective Proportionate Shares; and
- (e) fifthly, the balance to the Investment GP and the limited partners holding Investment LP Units as a class, *pro rata* in proportion to their respective Proportionate Shares.

Alternatively, subject to the rights of the holders of the Class B Units to receive the Class B Minimum Return and the payment of any Redemption Premium, the limited partners holding Investment LP Units may approve by Special Resolution distributions of all assets of the Investment LP *in specie* in which event the Investment GP and each limited partner holding Investment LP Units shall, subject to the provisions of the Investment LP Agreement, be entitled to receive an undivided interest in each and every asset of the Investment LP in accordance with such limited partner's Proportionate Share as of the date of dissolution or sale.

### ***Additional Distributions***

The Investment LP may also make additional distributions during the year, as the Investment GP may determine, if necessary to meet the REIT annual distribution requirements. Consent dividends, being distributions of taxable income without a corresponding payment of cash, may also be made, as the Investment GP may determine, if necessary to meet the REIT annual distribution requirements.

### ***Additional Capital Contributions***

No limited partner of the Investment LP is required to make additional capital contributions to the Investment LP over and above the purchase price paid for such limited partner's units.

### ***Management and Control of the Investment LP***

The Investment GP shall have continuing exclusive authority over the management of the Investment LP, the conduct of its affairs, and the management and disposition of the property of the Investment LP, except for certain limited matters being subject to votes of the limited partners holding Investment LP Units. No limited partner holding Investment LP Units nor any limited partner holding Class B Units is permitted to take part in the management of the business of the Investment LP. The Investment GP has unlimited liability for the debts, liabilities and obligations of the Investment LP. A limited partner holding Investment LP Units will not be liable for any debts, liabilities or obligations of the Investment LP in excess of such limited partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such limited partner's Investment LP Units, provided such limited partner does not take part in the control or management of the business of the Investment LP.

### ***Removal of the Investment GP***

The limited partners holding Investment LP Units may, by Special Resolution and upon 60 days written notice to the Investment GP, remove the Investment GP without cause, and may remove the Investment GP for cause, if such cause is not remedied after reasonable notice from the limited partners holding Investment LP Units. In either such case, the limited partners holding Investment LP Units will appoint, concurrently with the removal, a replacement general partner to assume all of the responsibilities and obligations of the removed general partner, and the removed general partner will be released of its liabilities under the Investment LP Agreement and indemnified for any damages and expenses with respect to events which occur in relation to the Investment LP after the appointment of the new general partner.

The removal and replacement of the Investment GP will not dissolve the Investment LP, and the business of the Investment LP will be continued by the new general partner.

### ***Voting***

Each Investment LP Unit has attached to it the right to exercise one vote at meetings of the Investment LP. Certain powers, relating generally to the existence and fundamental powers of the Investment LP, are specified in the Investment LP Agreement to be exercisable only by way of a Special Resolution passed by the limited partners holding Investment LP Units. Class B Units do not have the right to exercise any votes at meetings of the Investment LP.

### ***Assignment of Units and Minimum Distribution Requirements***

Investment LP Units may be assigned and transferred in writing without restriction and no such transfer or assignment shall require any approval or consent from the Investment GP or any other limited partner of the Investment LP. However, the transferor must comply with the applicable securities legislation. Further, the transferee must agree to assume the obligations of the transferor that pertain to the Investment LP Units transferred and to paid such costs, expenses and disbursements, including legal fees, as are reasonably incurred by the Investment LP by reason of the transfer. A transferee of an Investment LP Unit will not become a limited

partner in respect of that Investment LP Unit until all filings and recordings required by law to validly effect a transfer have been duly made.

Notwithstanding the foregoing, if any assignment or transfer of an Investment LP Unit results in: (1) the outstanding Investment LP Units being beneficially owned (as provided in Section 856(a) of the Code) by less than 100 persons (determined without reference to any rules of attribution); (2) the Investment LP being "closely held" within the meaning of Section 856(h) of the Code; or (3) the Investment LP otherwise failing to qualify as a REIT under the Code, such assignment or transfer will be void *ab initio*, and the intended assignee or transferee shall acquire no rights in such Investment LP Units. The Investment GP shall not admit any such assignee or transferee of an Investment LP Unit as a limited partner in the Investment LP.

Further, the Investment LP Agreement contains so-called "excess share" provisions pursuant to which Investment LP Units, the existing ownership or transfer of which causes or will cause the Investment LP to violate certain ownership restrictions set out in the Code, will be transferred by operation of law to a charitable trust established for such purpose, retroactive to the date of such ownership or transfer.

### ***Description of Class B Units***

***Priority.*** Each Class B Unit is entitled to a liquidation preference (the "Liquidation Preference") of \$1,000 per Class B Unit, subject to adjustment as described under "Liquidation" below (the "Liquidation Value"). With respect to distributions, including the distribution of the Investment LP's assets upon dissolution, liquidation, or winding-up, the Class B Units will be senior to all other classes and series of units of the Investment LP, whether such class or series is now existing or is created in the future, to the extent of the aggregate Liquidation Value and all accrued but unpaid distributions and any Redemption Premium (defined below) on the Class B Units. Holders of the Class B Units will not, however, participate in any appreciation in the value of the Investment LP.

***Distributions.*** Distributions on each Class B Unit will accrue on a daily basis at an annual rate to be determined by the Investment GP, but which is expected to be in the range of 12.5%. Distributions will accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Investment LP legally available for the payment of distributions. Such distributions shall be cumulative such that all accrued and unpaid distributions shall be fully paid or declared with funds irrevocably set apart before any dividend, distribution or payment may be made to holders of Investment LP Units. If at any time the Investment LP pays less than the total amount of distributions then accrued with respect to the Class B Units, such payment will be distributed ratably among the holders of the Class B Units on the basis of the number of Class B Units owned by each such holder. Distributions on the Class B Units will be payable semi-annually on June 30 and December 31 of each year. The first dividend on the Class B Units is expected to be paid on June 30, 2010.

***Voting.*** Except to the extent required by the *Delaware Revised Uniform Limited Partnership Act* or other applicable law, limited partners holding Class B Units will not be entitled to vote at meetings of the limited partners of the Investment LP.

***Redemption.*** The outstanding Class B Units are subject to redemption at any time by notice of such redemption on a date selected by the Investment LP for such redemption (the "Redemption Date"). If the Investment LP elects to cause the redemption of the Class B Units, each Class B Unit will be redeemed for a price, payable in cash on the Redemption Date, equal to 100% of such unit's Liquidation Value, plus all accrued and unpaid dividends to the Redemption Date, plus a redemption premium (the "Redemption Premium") as follows: (1) until December 31, 2011, \$200; (2) from January 1, 2012 to December 31, 2012, \$150; (3) from January 1, 2013 to December 31, 2013, \$100; (4) from January 1, 2014 to December 31, 2014, \$50 and thereafter, no Redemption Premium. From and after the close of business on the Redemption Date, all dividends on the outstanding Class B Units will cease to accrue, such units will no longer be deemed to be outstanding, and all rights of the holders of such units (except the right to receive the redemption price for such units from the Investment LP) will cease.

***Liquidation.*** In the event of any dissolution, liquidation, or winding-up of the Investment LP (a "Liquidation Event"), limited partners holding Class B Units will be entitled to receive *pro rata* in cash out of the assets of the Investment LP available therefor, before any distribution of the assets may be made to the holders of Investment

LP Units, an amount equal to the Liquidation Value, plus any cumulative dividends (and any interest thereon), plus, if applicable, the Redemption Premium described above. Upon payment of such amount, the holders of the Class B Units will have no other rights or claims to any of the remaining assets of the Investment LP either upon distribution of such assets or upon dissolution, liquidation, or winding-up.

If upon any Liquidation Event the available assets of the Investment LP are insufficient to pay the full amount of the Liquidation Preference on all outstanding Class B Units, the limited partners holding Investment LP Units shall contribute back to the Investment LP any distributions or other payments received from the Investment LP in connection with a Liquidation Event to the extent necessary to enable the Investment LP to pay all sums payable to the limited partners holding Class B Units pursuant to the Investment LP Agreement. If, notwithstanding the funds received from the limited partners holding Investment LP Units, the available assets of the Investment LP are still insufficient to pay the full amount payable with respect to all outstanding Class B Units, then the limited partners holding Class B Units shall share ratably in any distribution of assets in proportion to the full Liquidation Preference to which they would otherwise be respectively entitled.

The Investment GP, in its sole discretion, may elect not to pay the limited partners holding Class B Units the sums due immediately upon a Liquidation Event but instead may choose to first distribute such amounts as may be due to the limited partners holding Investment LP Units and the Investment GP pursuant to the Investment LP Agreement. If the Investment GP elects to exercise this option, the Investment GP shall first establish a reserve in an amount equal to 200% of all amounts owed to the limited partners holding Class B Units pursuant to the Investment LP Agreement. In the event that the sum held in the reserve is insufficient to pay all amounts owed to the limited partners holding Class B Units, the limited partners holding Investment LP Units and the Investment GP shall contribute back to the Investment LP any distributions or other payments received from the Investment LP in connection with a Liquidation Event to the extent necessary to enable the Investment LP to pay all sums payable to the limited partners holding Class B Units.

A consolidation or merger of the Investment LP with one or more entities, a sale or transfer of all or substantially all of the Investment LP's assets, or an exchange of the units of the Investment LP for equity interests of another entity shall not be deemed a dissolution, liquidation, or winding-up of the Investment LP.

*Conversion.* Each Class B Unit is not convertible into units of any other class or series.

*Restrictions on Transfer.* The Class B Units have not been, and will not be, registered (or qualified) under the *United States Securities Act of 1933*. Accordingly, such Class B Units may not be offered, sold, transferred or delivered, directly or indirectly, unless such units are registered under the *United States Securities Act of 1933* and any other applicable state securities laws, or an exemption from registration under the *United States Securities Act of 1933* and any other applicable state securities laws is available.

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

### **8.3 The Property LP**

The rights and obligations of the Property GP and the limited partners holding Property LP Units are governed by the limited partnership agreement made August 21, 2009 among the Property GP, the Investment LP as the initial limited partner and all persons who subscribe for Property LP Units establishing the Property LP. The following is a summary of certain material provisions of the Property LP Agreement. **This summary does not purport to be complete and reference should be to the Property LP Agreement itself, a copy of which is available from the Property GP.**

**Capitalized terms in this summary which are not defined in this Prospectus are defined in the Property LP Agreement.**

### ***Capital in the Property LP***

The capital of the Property LP consists of an unlimited number of Property LP Units, plus the interest held by the Property GP as general partner. The Property GP has made a capital contribution of \$10 to the Property LP and has no further obligation to contribute capital. Limited partners will contribute to the Property LP \$1,250 in capital per Property LP Unit purchased.

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

In each fiscal year of the Property LP, the Property LP will pay and distribute an amount equal to all cash flow from operations of the Properties in that year after payment of all current obligations relating to the Properties, including all current principal and interest payments under the Mortgage Loans and after the creation of reasonable working capital and capital improvement reserves as determined by the Property GP. Cash flow arising from the ordinary course of operations of the Properties will be distributed as follows:

- (a) first, the limited partners will be paid the amount of the Minimum Return. The Property GP will not be entitled to share in cash flow, proceeds of sale, and surplus proceeds from refinancing until the Minimum Return has been paid. 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, it will accumulate and be paid from cash flow in subsequent years;
- (b) second, the Property GP will be paid the Incentive Management Interest (being an amount equal to 20/80ths of the total payments made to the date of such allocation and distribution to limited partners in respect of the Minimum Return to that date, thereby providing the Property GP with a 20% share of the total amounts distributed by the Property LP to all partners up to that date); and
- (c) third, the balance will be paid out as to 80% to the limited partners and 20% to the Property GP.

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

All net proceeds received by the Property LP from any capital transaction in respect of the Properties, after the payment of any Disposition Fee and the creation of a reasonable reserve as determined by the Property GP, will be allocated and distributed on the following basis:

- (a) first,
  - (i) if the limited partners have not received repayment in full of their Net Equity, to the limited partners in the amount of their unpaid Net Equity;
  - (ii) if the limited partners have not received payment in full of the Minimum Return, to the limited partners in the amount of their unpaid Minimum Return;
- (b) second, if the Property GP has not received payment in full of the Incentive Management Interest, to the Property GP in the amount of its unpaid Incentive Management Interest plus, to the extent that the amount distributed to the limited partners (other than as a return of Net Equity) exceeds the Minimum Return, the Property GP shall be paid an amount equal to 20/80ths of such excess; and
- (c) third, the balance will be distributed 80% to the limited partners and 20% to the Property GP.

### ***Allocation of Income and Losses for Tax and Accounting Purposes***

For tax and accounting purposes, losses for each fiscal year of the Property LP will be allocated first to the limited partners to the extent of their equity accounts (being their Net Equity less prior loss allocations and distributions plus prior income allocations and contributions). For tax and accounting purposes, net income for each fiscal year of the Property LP will be allocated to the limited partners and the Property GP in the same manner and in the same priorities in which cash flow from operations and distributions of net proceeds from refinancings, sale or other capital transactions are ultimately distributed to such partners (excluding returns of capital and repayments of loans), subject to adjustments for prior loss allocations and such other adjustments as necessary to be made on a cumulative basis and subject to adjustments necessary to meet the U.S. federal income tax standards.

### ***Additional Capital Contributions***

No limited partner is required to make additional capital contributions to the Property LP over and above the purchase price paid for such limited partner's Property LP Units.

### ***Partner Loans***

If the Property LP requires additional funding, the Property GP may request that one or more limited partners voluntarily loan funds to the Property LP. If a limited partner elects to make a loan to the Property LP, the Property LP will be required to repay such loan, together with interest thereon, in priority to any distributions of Distributable Cash or Extraordinary Distributions.

### ***Distributions Upon Wind-up, etc.***

Upon the liquidation, dissolution or wind-up of the Property LP, the Property GP will be entitled to receive any amounts due to it on account of costs and expenses incurred on behalf of the Property LP, and the Property GP will be entitled to a return of its capital contribution of \$10. Thereafter:

- (a) the limited partners will be entitled to payment of (i) the amount, if any, of their cumulative Minimum Return which remains unpaid, and then (ii) the amount of Net Equity provided by the limited partners, to the extent that such Net Equity has not been repaid to them;
- (b) the Property GP will be entitled to payment of the amount, if any, of the Incentive Management Interest which remains unpaid; and
- (c) the balance will be paid as to 80% to the limited partners and 20% to the Property GP.

### ***Management and Control of the Property LP***

Under the terms of the Property LP Agreement, the Property GP is given full power and authority to manage, control, administer and operate the business of the Property LP, except for certain matters being subject to votes of the limited partners. No limited partner is permitted to take part in the management of the business of the Property LP. The Property GP has unlimited liability for the debts, liabilities and obligations of the Property LP. A limited partner will not be liable for any debts, liabilities or obligations of the Property LP in excess of such limited partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such limited partner's Property LP Units, provided such limited partner does not take part in the control or management of the business of the Property LP.

### ***Removal of the General Partner***

The limited partners may, by Special Resolution and upon 60 days written notice to the Property GP, remove the Property GP as general partner of the Property LP without cause, and may remove the Property GP as general partner of the Property LP for cause, if such cause is not remedied after reasonable notice from the limited partners.



In either such case, the limited partners will appoint, concurrently with the removal, a replacement general partner to assume all of the responsibilities and obligations of the Property GP, and the Property GP will be released of its liabilities under the Property LP Agreement and indemnified for any damages and expenses with respect to events which occur in relation to the Property LP after the appointment of the new general partner.

In the event of the removal of the Property GP as general partner of the Property LP, the Property LP may terminate the General Partner Services Agreement and any other agreements made between the Property LP and the Property GP or a Related Party, upon the payment by the Property LP to the Property GP or such Related Party of the amount stated in such agreement to be payable upon termination or, in the absence thereof, a reasonable termination compensation. Upon termination of the General Partner Services Agreement, the Property LP will be responsible for the payment to the Property GP of any and all fees payable under that Agreement, and all expenses incurred and paid by the Property GP, up to the date immediately prior to the date of termination. As well, the Property LP will purchase from the former general partner its interest in the Property LP for a price equal to the fair market value thereof.

The removal and replacement of the Property GP will not dissolve the Property LP, and the business of the Property LP will be continued by the new general partner.

### ***Voting***

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

### ***Joint Ventures and other Ownership Structures***

The Property LP may invest a portion of the net proceeds from the issuance of Property LP Units in the joint ventures, partnerships, or other similar investment vehicles, through which the Property LP will join with a third party investor which has a combination of investment capital, local knowledge or experience in the marketplace in which a Property is located, in order to broaden the number of Properties in which the Property LP has an interest and enhance the return on the Property LP's capital and the investor's yield.

### ***Financial Information***

The Property GP has agreed under the Property LP Agreement to distribute a copy of audited annual financial statements to each limited partner within ninety (90) days after the end of each fiscal year of the Property LP, and to provide each limited partner with annual income tax information for each fiscal year by March 31 of the following year to facilitate the declaration by each limited partner of his, her or its share of the Property LP's income. All financial statements will be prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis, and will contain a breakdown of any expenses for which Related Parties have been reimbursed. The Property GP will also provide interim financial and management reports regarding the affairs of the Property LP on a semi-annual basis.

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

## **8.4 Subscription**

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

- (a) irrevocably authorizes and directs the Agents to provide certain information to the 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 Trust Declaration and is liable for all obligations of a Trust Unitholder;
- (c) makes representations and warranties, including without limitation, the respective representations and warranties set out in the Trust Declaration; and
- (d) irrevocably nominates, constitutes and appoints the Trustee as the Purchaser's true and lawful attorney and agent with the full power and authority as set out in the Trust 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 upon the amendment of the record of Trust Unitholders maintained by the Trustee. 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. CAPITALIZATION

### 9.1 Existing and Proposed Capitalization

#### *Trust*

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at August 28, 2009	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by Sunstone as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)
Trust Units	unlimited	Nil	4,000 (\$5,000,000) <sup>(1)</sup>	40,000 (\$50,000,000) <sup>(1)</sup>

<sup>(1)</sup> Gross proceeds before issuance costs. Issuance costs will be borne by the Property LP pursuant to the Cost Sharing and Recovery Agreements. Assuming that all 40,000 Trust Units are sold pursuant to this Offering the issuance costs will be \$4,400,000. Assuming that the minimum Offering of 4,000 Trust Units is sold, the issuance costs will be \$625,000.

### 9.2 Long-Term Debt

Neither the Trust nor the Investment LP has had any earnings to date, and neither currently has any outstanding long-term debt. The Property LP has not had any earnings to date, and currently has no outstanding long-term debt. It is anticipated that upon the acquisition of the Properties, the Property LP will incur Mortgage Loans in the aggregate principal amount of up to \$93,882,353. The Property GP will target an overall loan-to-value ratio (of mortgage loans) of not more than 70% of the purchase price of the Properties, plus the amount of any property improvement reserve account approved by the Lenders. However, if deemed appropriate by the Property GP, having regard to all of the circumstances including the potential value of the Properties identified for investment, the Property GP may cause the overall loan-to-value ratio of the Mortgage Loans to exceed this threshold. 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 Mortgage Loans will be secured by mortgages registered on the Properties in respect of which the loans were advanced.

**10. PRIOR SALES**

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

**11. PRINCIPAL SECURITY HOLDERS**

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

**12. DIRECTORS AND OFFICERS**

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

*Trustee*

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

Name, Age, Municipality of Residence and Position Held with Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the 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 <sup>(3)</sup> Age 43 Vancouver, BC 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. Trustee of WesternOne Equity Income Fund, June 2006 to present. Trustee of Pure Industrial Real Estate Trust, June 2007 to present. Director and Secretary of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present;	Director of Trustee since August 12, 2009.	500 common shares <sup>(1)</sup>	50%	50%

Name, Age, Municipality of Residence and Position Held with Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
	Director and Secretary of SRAI Realty Services (2008) Inc. and SRAI Mortgage Fund (2008) Inc., April 18, 2008 to present.				
James Redekop Age 48 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 and Secretary of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present; Director and Secretary of SRAI Realty Services (2008) Inc. and SRAI Mortgage Fund (2008) Inc., April 18, 2008 to present.	Director of Trustee since August 12, 2009.	500 common shares <sup>(2)</sup>	50%	50%
Darren Latoski <sup>(3)</sup> Age 40 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., June 2006 to present; Trustee of Pure Industrial Real Estate Trust, June 2007 to present. President of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present;	President of Trustee since August 12, 2009.	none	n/a	n/a

Name, Age, Municipality of Residence and Position Held with Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
	President of SRAI Realty Services (2008) Inc. and SRAI Mortgage Fund (2008) Inc., April 18, 2008 to present				

- (1) 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 Trustee will be comprised of Mr. King and Mr. Latoski.

### 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. 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, since March, 2005. 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 numerous multi-family developments.

**Darren Latoski** – Mr. Latoski’s profile is set out below under the heading “Previous Real Estate Experience of Messrs Latoski and Evans”.

### *The Investment GP*

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

Name, Age, Municipality of Residence and Position Held	Principal Occupation	Periods Served as a Director	Securities of Investment GP Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering

Name, Age, Municipality of Residence and Position Held	Principal Occupation	Periods Served as a Director	Securities of Investment GP Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Steve Evans <sup>(2)</sup> Age 45 North Vancouver, BC President 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; Director of WesternOne Equity GP Inc., June 2006 to present; Trustee of Pure Industrial Real Estate Trust, June 2007 to present; Trustee of IAT Air Cargo Facilities Income Fund, September 15, 2008 to present.	President and Director of the Investment GP since August 18, 2009.	50 common shares <sup>(1)</sup>	50%	50%
Bryan Kerns <sup>(2)</sup> Age 48 Dallas, Texas Secretary and Director	President and owner, Tipton Group, Inc. 1997 to present.	Secretary and Director of the Investment GP since August 18, 2009.	Nil	Nil	Nil

(1) These shares are owned by Sunstone Advisors (U.S.) Inc., of which Mr. Evans is a director and officer. The shares of Sunstone Advisors (U.S.) Inc. are owned by Sunstone, in which Mr. Evans and his family have an indirect 50% interest.

(2) The audit committee of the Investment GP will be comprised of Mr. Evans and Mr. Kerns.

**Steve Evans** – Mr. Evans’ profile is set out below under the heading “Previous Real Estate Experience of Messrs Latoski and Evans”.

**Bryan Kerns** – Mr. Kerns is the President of Tipton Group, Inc., a Dallas, Texas based property management firm which manages a portfolio of properties in Texas and Oklahoma. Mr. Kerns has been active in the field of property management since 1977, and has been employed by Tipton Group, Inc. in senior executive positions since 1989. In 1997, Mr. Kerns purchased Tipton Group, Inc. and has served as its President since such time. As such, his responsibilities include personnel recruiting and supervision, resident and tenant relations, construction management, lease negotiations and the preparation of long-range plans for owners and asset managers. He has extensive experience in the acquisition and management of multifamily and commercial properties in Texas and Oklahoma.

Mr. Kerns holds the designation Certified Property Manager from the Institute of Real Estate Management (IREM). He has earned Certified Instructor Status for the National Apartment Association (NAA) and has taught various Certified Apartment Manager (CAM) and Certified Apartment Property Supervisor (CAPS) courses.

***Previous Real Estate Experience of Messrs Latoski and Evans***

As disclosed below, the principals of Sunstone, 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**

Sunstone organized Sunstone LP, which in March and April 2004 raised total cash proceeds from its joint offering with SRAI Capital Corp. of CDN\$15,425,000. The proceeds from that offering were invested in the acquisition, ownership, operation and disposition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Langley Crossing	Langley, BC	128,719	\$21,300,000	Apr-04	Rona, Earls, Chuck-E-Cheese, BDO Dunwoody	\$29,000,000	Sep-05
Cascade Plaza - 50% interest	Banff, AB	107,848	\$19,850,000	Aug-04	The Gap, United Colors of Benetton, Second Cup, Alberta Treasury Branches, Old Spaghetti Factory	\$25,500,000	Sep-05
Westhill Centre	Nanaimo, BC	34,294	\$3,040,000	Sep-04	Tim Hortons	\$3,500,000	Sep-05
<b>Total Purchase Price</b>			<b>\$44,190,000</b>		<b>Total Sale Price</b>	<b>\$58,000,000</b>	

Note: All amounts shown in this table are in Canadian dollars.

Having sold all of its assets and distributed all income and gains to its partners, Sunstone LP was dissolved on July 25, 2006. Investors owning limited partnership units of Sunstone LP and Series A Debentures of SRAI Capital Corp. received an annual, pre-tax cash return on investment, on an unaudited basis, of approximately 36% per annum (Refer to “Risk Factors – Non-GAAP Measures”).

**Sunstone (2004) LP**

Sunstone organized Sunstone (2004) LP, which in November and December 2004 raised total cash proceeds from its joint offering with SRAI Capital Corp., of CDN\$13,075,000. The proceeds from that offering were invested in the acquisition, ownership, operation and disposition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
1425 Kebet Way	Port Coquitlam, BC	47,693	\$3,765,187	Jan-05	Single industrial tenant	\$4,570,000	May-05
West Willow Shopping Centre	Langley, BC	70,074	\$9,750,000	Mar-05	Fairway Market, Fanny’s Fabrics, Baskin Robbins, Mail Boxes Etc.	\$14,200,000	Jul-06
Scott Town Plaza	Surrey, BC	56,781	\$8,000,000	May-05	Pharmasave, Buy-Rite Foods	\$9,710,000	Nov-07

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Halton Hills Shopping Plaza	Halton Hills, ON	70,228	\$8,650,000	May-05	Food Basics, TD Canada Trust, Dollarama	N/A	N/A
Drumheller Shopping Centre	Drumheller, AB	10,537	\$2,335,000	Jul-05	A&W, Alberta Treasury Branches, VHQ Entertainment	\$2,930,000	Sep-07
Torquay Village	Victoria, BC	14,634	\$3,350,000	Jul-05	Edward Jones, Domino's Pizza, General Paint	\$4,850,000	Aug-07
Northland Building	Calgary, AB	54,581	\$4,925,000	Oct-05	Multiple office tenants	\$8,533,500	Aug-07
<b>Total Purchase Price</b>			<b>\$40,775,187</b>				

Note: All amounts shown in this table are in Canadian dollars.

Sunstone (2004) LP continues to own one asset. To date, investors owning limited partnership units of Sunstone (2004) LP and Series B Debentures of SRAI Capital Corp. have received repayment in full of their subscription price and have received an annual, pre-tax cash return on investment, on an unaudited basis, of approximately 8.4% per annum. As all of the investors' subscription prices have been repaid in full, the proceeds from the ultimate disposition of the remaining asset of Sunstone (2004) LP will represent an additional return on investment (Refer to "Risk Factors – Non-GAAP Measures").

#### Sunstone (2005) LP

Sunstone also organized Sunstone (2005) LP, which in October and November 2005 raised total cash proceeds from its joint offering with SRAI Capital Corp. of CDN\$45,000,000. The proceeds from that offering have been invested in the acquisition, ownership, operation and in some cases disposition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Westview Building	Calgary, AB	34,453	\$3,300,000	Dec-05	Multiple office tenants	\$5,800,000	Jun-07
Camco Distribution Centre	Montreal, QC	164,308	\$11,900,000	Mar-06	Mabe Canada Inc.	\$13,375,000	Aug-07
Pickering Ridge – 50% interest	Pickering, ON	237,000	\$17,675,000	Mar-06	Coast/Interhome Furniture, Kitchen Stuff, Pennington's, Extreme Fitness	N/A	N/A
DeBoers (Pickering) – 50% interest	Pickering, ON	34,543	\$2,150,000	Sep-06	DeBoers	N/A	N/A
Pickering land – 50% interest	Pickering, ON	9 acres	\$2,400,000	Dec-06	N/A	N/A	N/A
River City Centre	Saskatoon, SK	160,389	\$22,900,000	Mar-06	Sears Home, Staples, Sport Mart	\$27,250,000	June-08
7470 Vantage Way	Delta, BC	56,988	\$5,417,763	Mar-06	RSAC Canada Ltd.	\$6,430,000	Aug-07
13325 Comber Way	Surrey, BC	36,368	\$2,976,425	Mar-06	RSAC Canada Ltd.	\$3,600,000	Aug-07



Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
7805-51st Street SE	Calgary, AB	30,082	\$2,384,007	Mar-06	RSAC Canada Ltd.	\$3,250,000	Aug-07
1390-17th Street SE	Calgary, AB	44,429	\$1,404,605	Mar-06	RSAC Canada Ltd.	\$2,135,000	Aug-07
1401-17th Street SE	Calgary, AB	39,182	\$1,659,727	Mar-06	RSAC Canada Ltd.	\$2,135,000	Aug-07
75 Golden Drive	Coquitlam, BC	19,427	\$1,719,925	Mar-06	RSAC Canada Ltd.	\$2,000,000	Aug-07
9203-35th Avenue	Edmonton, AB	15,788	\$1,309,054	Mar-06	Blackfoot Pressure Systems	\$2,160,000	Aug-07
8055 Esquesing Line	Milton, ON	30,291	\$2,293,233	Mar-06	RSAC Canada Ltd.	\$2,560,000	Aug-07
1960 & 1970 Rue le Chatelier	Laval, QC	31,187	\$2,185,260	Mar-06	RSAC Canada Ltd.	\$2,500,000	Aug-06
333 De Baets Street	Winnipeg, MB	32,000	\$2,600,000	Aug-06	RSAC Canada Ltd.	\$2,700,000	Aug-07
Sherwood Forest Shopping Village	Mississauga, ON	43,274	\$9,550,000	Jul-06	Starbucks, LCBO Vintages, Edward Jones	N/A	N/A
Midpark Court	Calgary, AB	23,334	\$3,850,000	Jul-06	Multiple office tenants	N/A	N/A
Northumberland Mall – 50% interest	Cobourg, ON	349,287	\$19,075,000	Aug-06	Mark’s Work Warehouse, Bootlegger, Boston Pizza, Scotia Bank	N/A	N/A
4243 Glanford Ave	Victoria, BC	38,332	\$5,500,000	Nov-06	Multiple office tenants	\$6,900,000	Aug-07
<b>Total Purchase Price</b>			<b>\$122,250,000</b>				

Note: All amounts shown in this table are in Canadian dollars.

Sunstone (2005) LP continues to own six assets. To date, investors owning limited partnership units of Sunstone (2005) LP and Series C Debentures of SRAI Capital Corp. have received repayment of approximately 56% of their subscription price and have received an annual, pre-tax cash return on investment, on an unaudited basis, of approximately 8.6% per annum. The foregoing pre-tax cash return is calculated to June 30, 2009, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the six properties currently owned by Sunstone (2005) LP (Refer to “Risk Factors – Non-GAAP Measures”).

#### Sunstone (2006) LP

Sunstone also organized Sunstone (2006) LP, which in October 2006 raised total cash proceeds from its joint offering with Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Mortgage Fund of CDN\$50,000,000. The proceeds from that offering have been invested in the acquisition, ownership and operation of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
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Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Newton Crossing	Surrey, BC	48,966	\$6,600,000	Dec-06	CIBC, Government of BC, Macdonald Realty	\$10,150,000	Oct-08
Maple Park Shopping Centre – 90% interest	Quesnel, BC	140,000	\$2,884,500	Feb-07	Dollarama	N/A	N/A
Millwoods Mainstreet Mall	Edmonton, AB	142,865	\$29,000,000	Feb-07	IGA Garden Market, Bank of Montreal, Rogers Video, Tim Hortons, Wendy's	N/A	N/A
Evergreen Centre	Sooke, BC	67,156	\$8,170,000	Feb-07	Western Foods, Shoppers Drug Mart, Royal Bank, BC Liquor Store, A&W	N/A	N/A
Smithers Mall	Smithers, BC	43,741	\$1,760,000	Mar-07	Zellers Select, Bank of Nova Scotia	N/A	N/A
Terrace Shopping Centre	Terrace, BC	19,728	\$2,360,000	Mar-07	TD Canada Trust, Dollar Store With More	N/A	N/A
Cariboo Mall	100 Mile House, BC	39,708	\$2,170,000	Mar-07	Pharmasave, True Value Hardware, Bargain Shop	N/A	N/A
788 Caldew Street	Delta, BC	56,624	\$3,900,000	Mar-07	Single industrial tenant	\$5,000,000	Apr 08
Starlite Centre	Regina, SK	26,869	\$5,321,500	May-07	KFC, Nevada Bob's Golf	N/A	N/A
Polson Place	Vernon, BC	116,016	\$12,500,000	May-07	Shoppers Drug Mart, Galaxy Theatre, Royal Bank	N/A	N/A
Grand Marshall	Toronto, ON	15,965	\$3,400,000	Jun-07	Province of Ontario's Ministry of Transportation	N/A	N/A
Galleries Kirkland	Montreal, QC	85,862	\$12,100,000	Aug-07	Nevada Bob's Golf, TD Bank	N/A	N/A
City Gate Centre	Chilliwack, BC	46,163	\$16,466,086	Dec-07	HSBC, Envision Credit Union, Liquor Depot, Blockbuster, Dakota's Restaurant	N/A	N/A
Place des Quatre-Bourgeois - 47.5% interest	Sainte-Foy, QC	245,028	\$11,597,125	Feb 08	Winners, Jean Coutu, IGA, Reitmans, Stitches, Source by Circuit City, Rogers	N/A	N/A
<b>Total Purchase Price</b>			<b>\$118,229,211</b>				

Note: All amounts shown in this table are in Canadian dollars.

Sunstone (2006) LP continues to own 12 assets. To date, investors owning limited partnership units of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Mortgage Fund have received repayment of approximately 3% of their subscription price and have received an annual, pre-tax cash return on investment, on

an unaudited basis, of approximately 7.8% per annum. The foregoing pre-tax cash return is calculated to June 30, 2009, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the 12 properties currently owned by Sunstone (2006) LP (Refer to “Risk Factors – Non-GAAP Measures”).

### Sunstone (2007) Co-Ownership

Sunstone also organized Sunstone Opportunity (2007) Realty Trust, which in October 2007 raised total cash proceeds from its joint offering with Sunstone Opportunity (2007) Mortgage Fund of CDN\$55,000,000. Such funds have been contributed by Sunstone Opportunity (2007) Realty Trust to the Sunstone (2007) Co-Ownership and have been used in the acquisition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Timmins Square - 35% interest	Chilliwack, BC	391,410	\$18,550,000	Dec-07	Sears, Zellers, Winners, SportChek, No Frills grocery store	N/A	N/A
Health Plus	Calgary, AB	31,655	\$8,600,000	June 08	Rexall and medical users	N/A	N/A
Confederation Mall - 70% interest	Saskatoon, SK	329,127	\$19,670,000	Sep 08	Safeway, Canadian Tire, Bank of Montreal, Scotiabank, government liquor store	N/A	N/A
7600 Vantage Way	Delta, BC	73,396	\$8,700,000	Sep-08	Tristar Industries Ltd.	N/A	N/A
Orchard Gardens Plaza – 50% interest	Kelowna, BC	43,988	\$3,200,000	Oct 08	Blockbuster Video, Swiss Chalet, Nevada Bobs	N/A	N/A
838 Fort Street	Victoria, BC	19,234	\$3,300,000	Oct-08	Custom House, Nexient Learning, Alarmpoint Systems and Three Point Properties	N/A	N/A
Golden Acres	Calgary, AB	57,559	\$10,475,000	Jun-09	Pizza Hut, Swiss Chalet, Mr. Sub, CitiFinancial and Daily Liquor.	N/A	N/A
845 Marine Drive (development property)	North Vancouver, BC	88,751	\$33,200,000 <sup>(1)</sup>	Mar-09	Thrifty Foods and Bed, Bath & Beyond	N/A	N/A
<b>Total Purchase Price</b>			<b>\$105,695,000</b>				

<sup>(1)</sup> Amount shown includes purchase price of land plus construction mortgage financing

Note: All amounts shown in this table are in Canadian dollars.

Sunstone (2007) Co-Ownership continues to own all eight of the assets which it has acquired, one of which is being developed as an income-producing property of Sunstone (2007) Co-Ownership. Given the early stage of the development of Sunstone (2007) Co-Ownership’s property portfolio, none of the subscription price paid by investors in Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund has been repaid to investors and investment returns have yet to reach normalized levels. To date, investors owning units of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund have

received an annual, pre-tax cash return on investment, on an unaudited basis, calculated as of June 30, 2009, of approximately 5.6% per annum (Refer to “Risk Factors – Non-GAAP Measures”).

#### **Sunstone U.S. (2008) L.P.**

Sunstone also organized Sunstone U.S. Opportunity Realty Trust, which in June, 2008 raised total cash proceeds from its joint offering with Sunstone U.S. (2008) L.P. of \$35,675,000. Such funds have been contributed by Sunstone U.S. Opportunity Realty Trust to the Sunstone U.S. (2008) L.P. and then to Sunstone U.S. Opportunity Fund Limited Partnership and have been used in the acquisition of the following properties:

<b>Property</b>	<b>Location</b>	<b>Area</b>	<b>Purchase Price</b>	<b>Purchase Date</b>	<b>Major Tenants</b>	<b>Sale Price</b>	<b>Sale Date</b>
The Livingston	Plano, TX	213,838	\$18,350,000	May-09	Multifamily Residential	N/A	N/A
Fountainwood Apartments	Euless, TX	228,900	\$15,200,000	May-09	Multifamily Residential	N/A	N/A
Windsong Apartment Homes	Dallas, TX	172,172	\$13,100,000	Oct-08	Multifamily Residential	N/A	N/A
<b>Total Purchase Price</b>			<b>\$46,650,000</b>				

Sunstone U.S. (2008) L.P. is in the process of finalizing the acquisition of its property portfolio. Given the early stage of the development of such portfolio, none of the subscription price paid by investors in Sunstone U.S. (2008) L.P. has been repaid to investors and investment returns have yet to reach normalized levels. To date, investors owning units of Sunstone U.S. Opportunity Realty Trust have received an annual, pre-tax cash return on investment, on an unaudited basis, calculated as of June 30, 2009, of approximately 2.0% per annum (Refer to “Risk Factors – Non-GAAP Measures”).

#### **Sunstone (2008) LP**

Sunstone also organized Sunstone (2008) LP, which in November and December, 2008 raised total cash proceeds from its joint offering with Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund of CDN\$30,166,250. The proceeds from that offering have been invested in the acquisition, ownership and operation of the following properties:

<b>Property</b>	<b>Location</b>	<b>Area</b>	<b>Purchase Price</b>	<b>Purchase Date</b>	<b>Major Tenants</b>	<b>Sale Price</b>	<b>Sale Date</b>
Crowfoot Corner	Calgary, AB	51,002	\$22,000,000	Jul-09	Boston Pizza, Wendy's and UPS.	N/A	N/A
Crowfoot Village	Calgary, AB	63,128	\$23,000,000	Jul-09	Starbucks, KFC and Mac's.	N/A	N/A
2626 12th St NE	Calgary, AB	43,426	\$2,150,000	Jul-09	Purchased Vacant	N/A	N/A
<b>Total Purchase Price</b>			<b>\$47,150,000\$</b>				

Note: All amounts shown in this table are in Canadian dollars.

Sunstone (2008) LP has approximately CDN \$5 million in funds which are not yet allocated to the purchase of Canadian properties. Sunstone (2008) LP is in the process of finalizing the acquisition of its property portfolio. Given the early stage of the development of such portfolio, none of the subscription price paid by investors in Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund has been repaid to

investors and investment returns have yet to reach normalized levels. To date, investors owning units of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund have received an annual, pre-tax cash return on investment, on an unaudited basis, calculated as of June 30, 2009, of approximately 3.4% per annum (Refer to “Risk Factors – Non-GAAP Measures”).

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

Messrs. Evans and Latoski 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, is the asset manager of PIRET. In August and September, 2007, PIRET completed an initial public offering of units and the issuance of units pursuant to the exercise of an over-allotment option in favour of the selling agents, which resulted in aggregate gross proceeds to PIRET of CDN\$22,315,789. In December, 2007 and January, 2008, PIRET completed a follow-on offering of its units and the issuance of units pursuant to the exercise of an over-allotment option in favour of the selling agents, which resulted in aggregate gross proceeds to PIRET of CDN\$8,459,799. The net proceeds of such offerings were used to acquire an aggregate of 18 industrial properties.

### **Allocation of Properties to Active Investment Entities**

Each of the investment entities described above has been established by Sunstone for a distinct purpose. For instance, Sunstone (2007) Co-Ownership and Sunstone (2008) LP were established for investment in Canadian properties, Sunstone U.S. (2008) L.P. and the Investment LP were established for investment in U.S. properties, and PIRET was established for investment in income-producing industrial properties in Canada. Although each of these entities has similar management groups, properties are allocated among them in accordance with their distinct investment purposes.

### **Personal Profiles**

**Darren Latoski** - As President and indirect 50% owner of the shares in Sunstone, Mr. Latoski participated in the negotiation and acquisition of property interests by Sunstone LP totaling CDN\$44,190,000, by Sunstone (2004) LP totaling CDN\$40,775,187, by Sunstone (2005) LP totaling CDN\$122,250,000 by Sunstone (2006) LP totaling CDN\$118,229,211, by Sunstone (2007) Co-Ownership totaling CDN\$105,695,000, by Sunstone U.S. (2008) L.P. totaling USD\$46,650,000; and by Sunstone (2008) LP totaling CDN\$47,150,000, all as detailed above. He continues his active role in the management of the business of Sunstone, with a focus on enhancing the value of the assets owned by such entities. As President and the indirect owner of one-third of the shares in Churchill Property Group Inc. (“CPGI”), Mr. Latoski participated in the negotiation and acquisition by Churchill Institutional Real Estate Limited Partnership of property interests totaling CDN\$41,500,000. He continues an active role in the management of the business of CPGI.

**Steve Evans** – As Chief Operating Officer and indirect 50% owner of the shares in Sunstone, Mr. Evans participated in the negotiation and acquisition of property interests by Sunstone LP totaling CDN\$44,190,000, by Sunstone (2004) LP totaling CDN\$40,775,187, by Sunstone (2005) LP totaling CDN\$122,250,000 by Sunstone (2006) LP totaling CDN\$118,229,211, by Sunstone (2007) Co-Ownership totaling CDN\$105,695,000, by Sunstone U.S. (2008) L.P. totaling USD\$46,650,000; and by Sunstone (2008) LP totaling CDN\$47,150,000, all as detailed above. He continues his active role in the management of the business of Sunstone, with a focus on enhancing the value of the assets owned by such entities. 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 Churchill Institutional Real Estate Limited Partnership of property interests totaling CDN\$41,500,000. He continues an active role in the management of the business of CPGI.

For 14 years up to 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. 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 numerous projects in order to re-capitalize various limited partnerships.

## **12.2 Corporate Bankruptcies**

Robert King, a director 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 Potential Conflicts of Interest (Directors and Officers)**

The Property GP is owned indirectly and controlled by Steve Evans and Darren Latoski. The Property GP will earn the Incentive Management Interest from the Property LP. As well, pursuant to the General Partner Services Agreement, the Property GP will be receiving various fees and payments from the Property LP in respect of the acquisition and disposition of Properties and will be participating in the profits of the Property LP.

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 Trust or the Unitholders for profits made in such other activities. The Trustee will engage in no activities other than acting as trustee of the Trust.

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

The Trust, Investment GP and the Property GP will obtain or cause to be obtained a policy or policies of insurance for the directors and officers of the Trustee, the Investment GP and the Property GP, respectively. The initial aggregate limit of liability applicable to the insured directors and officers will be CDN\$10,000,000. Under such policy or policies, each entity will have reimbursement coverage to the extent that it has indemnified the directors and officers. The policy or policies will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the Trustee, Investment GP and the Property GP, and their directors and officers. In addition, the Trustee, Investment GP and the Property GP will each indemnify its 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**

### ***Trust and Trustee***

#### **Executive Compensation**

The Trustee is a newly incorporated entity and has not completed a financial year. For the period from formation on August 12, 2009 to August 28, 2009, no compensation was paid by the Trust to the Trustee or by the Trustee to its sole executive officer, Darren Latoski. The Trustee does not have a chief executive officer or chief financial officer nor any other executive officer whose total salary and bonus is expected to exceed \$150,000 during any financial year.

#### **Long Term Incentive Plan, Stock Appreciation Rights and Stock Option Grants**

The Trustee does not have a Long Term Incentive Plan pursuant to which cash or non-cash compensation has been paid or distributed to any director or officer. The Trustee does not have any Stock Appreciation Rights or Incentive Plans. The Trustee has not issued any stock options to its executive officers or directors.

#### **Pension Plan Benefits**

The Trustee does not have a pension plan for its executive officers or directors and does not intend to establish any pension plan for its executive officers or directors.

#### **Termination of Employment, Change in Responsibilities and Employment Contracts**

The Trustee has not entered into any employment contracts or arrangements with its executive officers or directors.

#### **Director Compensation**

The Trustee is a newly incorporated entity and has not completed a financial year. For the period from formation on August 12, 2009 to August 28, 2009, no compensation was paid by the Trustee to its directors, Robert King and James Redekop. The Trustee intends to pay its Directors annual compensation in the amount of \$12,500 per annum.

### ***Investment LP and Investment GP***

#### **Executive Compensation**

The Investment GP is a newly incorporated entity and has not completed a financial year. For the period from formation on August 12, 2009 to August 28, 2009, no compensation was paid by the Investment LP to the Investment GP or by the Investment GP to its executive officers. The Investment GP does not have a chief executive officer or chief financial officer nor any other executive officer whose total salary and bonus is expected to exceed \$150,000 during any financial year.

#### **Long Term Incentive Plan, Stock Appreciation Rights and Stock Option Grants**

The Investment GP does not have a Long Term Incentive Plan pursuant to which cash or non-cash compensation has been paid or distributed to any director or officer. The Investment GP does not have any Stock Appreciation Rights or Incentive Plans. The Investment GP has not issued any stock options to its executive officers or directors.

#### **Pension Plan Benefits**

The Investment GP does not have a pension plan for its executive officers or directors and does not intend to establish any pension plan for its executive officers or directors.

## **Termination of Employment, Change in Responsibilities and Employment Contracts**

The Investment GP has not entered into any employment contracts or arrangements with its executive officers or directors.

### **Director Compensation**

The Investment GP is a newly incorporated entity and has not completed a financial year. For the period from formation on August 12, 2009 to August 28, 2009, no compensation was paid by the Investment GP to its directors, Steve Evans and Bryan Kerns. The Investment GP does not intend to pay any compensation to its directors

## **13.2 Management Agreement**

### ***General Partner Services Agreement***

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

- (a) structure the Trust, Investment LP and Property LP and this Offering, liaise with legal and tax counsel, and oversee the preparation and filing of this Prospectus the offering and sale of Trust Units and the completion of all matters related to the closing of subscriptions on behalf of the Issuers;
- (b) provide overall management, financial and business planning for the Property LP;
- (c) establish appropriate legal and accounting systems for the proper control of the Properties;
- (d) maintain ongoing liaison with the Lenders of the Mortgage Loans and using best efforts to arrange a refinancing of the Mortgage Loans at the expiration of their terms and any subsequent refinancings;
- (e) conduct ongoing analysis of market conditions to monitor the Property LP's investment in the Properties;
- (f) when necessary or advisable, negotiate and complete the sale of a Property on such terms and conditions and at such time as the Property GP may determine; and
- (g) oversee and supervise property management of the Properties, establish appropriate legal and accounting systems for the Property LP, report to the Property LP on an ongoing basis, and provide overall management, financial and business planning.

In consideration of such services, the Property LP will pay the Property GP the Financing Fee, in an amount equal to 1.5% of the gross purchase price of each Property (or interest in a Property), the Asset Management Fee equal to 1.5% of the Net Asset Value and the Disposition Fee equal to 1.5% of the gross sales price of each Property sold. In addition, the Property GP will be entitled to be reimbursed for any deposits paid and for all out-of-pocket expenses incurred by the Property GP in completing any of the above duties.

In order to ensure that the General Partner is not limited in exercising its discretion in determining the acquisition and disposition of Properties, there are no formal provisions in the General Partner Services Agreement limiting the payment of the acquisition and disposition fees based on the period of time for which the investments are held. Payment of the Incentive Management Interest to the Property GP and the Property GP's receipt of a share of the cash flow and gains from the Property GP are both dependent upon the Properties generating returns in excess of the Minimum Return, thereby providing an incentive to the Property GP to invest in properties by purchase or otherwise and to generate returns from gross rents or capital transactions such as refinancing or sales of Properties in favourable market conditions.



### **13.3 Compensation Committee**

Neither the Trust nor the Investment LP has a compensation committee.

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

None of the directors or executive officers of the Trustee, the Investment GP or the Property GP is indebted to any of the Trustee, the Investment GP or the Property GP.

## **14. AUDIT COMMITTEE AND CORPORATE GOVERNANCE**

### **14.1 Audit Committee**

#### ***Trust and Trustee***

The audit committee of the Trustee will be comprised of Robert King and Darren Latoski. Mr. King is “independent” within the meaning of *National Instrument 52-110 – Audit Committees*. Both Messrs King and Latoski are financially literate within the meaning of applicable securities laws. See the biographies of Messrs King and Latoski above under “Directors and Officers - Trustee” for a description of the experience that is relevant to the performance of their responsibilities as audit committee members.

The audit committee will assist the Trustee in fulfilling its responsibilities of oversight and supervision of the Trust’s accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of its financial statements. In addition, the audit committee will be responsible for directing the auditors' examination of specific areas, for the selection of the Trust’s independent auditors and for the approval of all non-audit services for which its auditors may be engaged.

At no time since the establishment of the Trustee has the audit committee relied on the exemptions in Sections 2.4, 3.2, 3.3(2), 3.4, 3.5, 3.6, 3.8 or Part 8 of *National Instrument 52-110 – Audit Committees*. At no time since the establishment of the Trustee has a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the directors. The Audit Committee has not yet adopted specific policies and procedures for the engagement of non-audit services.

The Trust is newly established and has not yet had a fiscal year end. As a result, there have been no fees billed to the Trust by its auditors, KPMG LLP, in respect of the Trust’s last two fiscal years.

#### ***Investment LP and Investment GP***

The audit committee of the Investment GP will be comprised of Steve Evans and Bryan Kerns. Mr. Kerns is “independent” within the meaning of *National Instrument 52-110 – Audit Committees*. Both Messrs Evans and Kerns are financially literate within the meaning of applicable securities laws. See the biographies of Messrs Evans and Kerns above under “Directors and Officers – Investment GP” for a description of the experience that is relevant to the performance of their responsibilities as audit committee members.

The audit committee will assist the Investment GP in fulfilling its responsibilities of oversight and supervision of the Investment LP’s accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of its financial statements. In addition, the audit committee will be responsible for directing the auditors' examination of specific areas, for the selection of the Investment LP’s independent auditors and for the approval of all non-audit services for which its auditors may be engaged.

At no time since the establishment of the Investment GP has the audit committee relied on the exemptions in Sections 2.4, 3.2, 3.3(2), 3.4, 3.5, 3.6, 3.8 or Part 8 of *National Instrument 52-110 – Audit Committees*. At no time since the establishment of the Investment GP has a recommendation of the Audit Committee to nominate or

compensate an external auditor not adopted by the directors. The Audit Committee has not yet adopted specific policies and procedures for the engagement of non-audit services.

The Investment LP is newly established and has not yet had a fiscal year end. As a result, there have been no fees billed to the Investment LP by its auditors, KPMG LLP, in respect of the Investment LP's last two fiscal years.

## **14.2 Corporate Governance**

### ***Trust and Trustee***

Each of the directors of the Trustee, being Robert King and James Redekop, are independent within the meaning of applicable securities laws. There are no non-independent directors. Mr. King is also a director or trustee of the following reporting issuers: Wall Financial Corporation; WesternOne Equity Income Fund; the trustees of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund; the trustee of Sunstone U.S. Opportunity Realty Trust; Pure Industrial Real Estate Trust; the trustees of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund; the trustees of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Debenture Fund; SRAI Capital Corp., and the general partner of Sunstone Opportunity Fund (2005) Limited Partnership. Mr. Redekop is also a director of the following reporting issuers: the trustees of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund; the trustee of Sunstone U.S. Opportunity Realty Trust; Pure Industrial Real Estate Trust; the trustees of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund; the trustees of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Debenture Fund; SRAI Capital Corp., and the general partner of Sunstone Opportunity Fund (2005) Limited Partnership.

At each of the regularly scheduled meetings of the board, there will be an in-camera meeting at which any non-independent directors and management are not present. The board of directors of the Trustee has not yet appointed a chair of the board, but such chair will be required to be independent. The board of directors of the Trustee has not held any meetings since the establishment of the Trust.

The board of directors of the Trustee does not have a written mandate. Its role and responsibilities will be to direct all aspects of the business and affairs of the Trustee.

The board of directors of the Trustee has not appointed a chair nor developed written position descriptions for any committee chairs or the President. The board will delineate the roles and responsibilities of any chair of the board or of committee chairs by consensus among the directors from time to time.

New directors will attend a briefing with existing directors on all aspects of the nature and operation of the Trustee's business from senior management of the Trustee and the Investment GP. Directors will be afforded the opportunity to attend and participate in seminars and continuing education programs. Outside experts may be retained as appropriate to provide directors with ongoing education on ongoing and/or specific subject matters.

The board of directors of the Trustee has not yet adopted a written code of ethics for the directors, officers and employees of the Trustee. Directors who have or may be reasonably perceived to have a personal interest in a transaction or agreement being contemplated by the Trustee or the Trust are required to declare such interest at any meeting at which the matter is being considered and, where appropriate, leave the meeting during discussion and abstain from voting on such matter. The Trustee encourages and promotes a culture of ethical business conduct by expecting each director and officer to act in a manner that exemplifies ethical business conduct.

If and when a director resigns or is unwilling to stand for re-election as a director, the remaining director will identify potential candidates for nomination to the board, with a view to ensuring overall diversity of experience and skill.

No compensation is expected to be paid to the directors of the Trustee. The board does not have a compensation committee. The board has no committees other than the audit committee. The directors will be regularly assessed with respect to their effectiveness and contribution.

### ***Investment LP and Investment GP***

Bryan Kerns is an independent director of the Investment GP within the meaning of applicable securities laws. Steve Evans is not an independent director. Mr. Evans is also a director or trustee of the following reporting issuers: IAT Air Cargo Facilities Income Fund; the general partner of Sunstone U.S. (2008) L.P.; the general partner of Sunstone Opportunity Fund (2008) Limited Partnership; Pure Industrial Real Estate Trust; the general partner of Sunstone Opportunity Fund (2006) Limited Partnership; the general partner of Sunstone Opportunity Fund (2005) Limited Partnership; and the general partner of Sunstone Opportunity Fund (2004) Limited Partnership.

At each of the regularly scheduled meetings of the board, there will be an in-camera meeting at which any non-independent directors and management are not present. The board of directors of the Investment GP has not yet appointed a chair of the board, but such chair will be required to be independent. The board of directors of the Investment GP has not held any meetings since the establishment of the Investment LP.

The board of directors of the Investment GP does not have a written mandate. It's role and responsibilities will be to direct all aspects of the business and affairs of the Investment GP.

The board of directors of the Investment GP has not appointed a chair nor developed written position descriptions for any committee chairs or the President. The board will delineate the roles and responsibilities of any chair of the board or of committee chairs by consensus among the directors from time to time.

New directors will attend a briefing with existing directors on all aspects of the nature and operation of the Investment GP's business from senior management of the Investment GP. Directors will be afforded the opportunity to attend and participate in seminars and continuing education programs. Outside experts may be retained as appropriate to provide directors with ongoing education on ongoing and/or specific subject matters.

The board of directors of the Investment GP has not yet adopted a written code of ethics for the directors, officers and employees of the Investment GP. Directors who have or may be reasonably perceived to have a personal interest in a transaction or agreement being contemplated by the Investment GP or the Investment LP are required to declare such interest at any meeting at which the matter is being considered and, where appropriate, leave the meeting during discussion and abstain from voting on such matter. The Investment GP encourages and promotes a culture of ethical business conduct by expecting each director and officer to act in a manner that exemplifies ethical business conduct.

If and when a director resigns or is unwilling to stand for re-election as a director, the remaining director will identify potential candidates for nomination to the board, with a view to ensuring overall diversity of experience and skill.

No compensation is expected to be paid to the directors of the Investment GP. The board does not have a compensation committee. The board has no committees other than the audit committee. The directors will be regularly assessed with respect to their effectiveness and contribution.

## **15. PLAN OF DISTRIBUTION**

### **15.1 Maximum Offering**

Sunstone will co-ordinate through the Agents, by this Prospectus, the offer to sell to the public in each of the provinces of Canada on a continuing basis, up to a maximum of 40,000 Trust Units at a price of \$1,250 per Trust Unit until November 30, 2009. Purchasers are required to acquire a minimum of ten Trust Units.

## 15.2 Minimum Offering

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

Unless an amendment to the Final Prospectus (herein defined) is filed and the British Columbia Securities Commission, as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, “*Passport System*”, has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the Receipt for the Final Prospectus. If an amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the receipt for such amendment, unless a further amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the further amendment. In any case, the total period of distribution must not end more than 180 days from the date of the Receipt for the Final Prospectus.

## 15.3 Securities Not Listed

As at the date of this Prospectus, the Trust and the Investment LP do not have any of their securities listed or quoted, have not applied to list or quote any of their securities, and do not intend to apply to list or quote any of their securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America including the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.

## 15.4 Agency Agreement

Pursuant to an Agency Agreement made as of September 23, 2009 among the Trustee, for itself and on behalf of the Trust as its trustee, the Investment GP, for itself and on behalf of the Investment LP as its general partner, the Property GP, for itself and on behalf of the Property LP as its general partner, Sunstone, and the Agents, the Agents have agreed to offer the Trust Units for sale on a “commercially reasonable best efforts” basis until November 30, 2009 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 Trust 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.

### *Incentive Payments to Agents*

The Agents and sub-agents play an instrumental role to the Issuers over the course of the Trust Unitholders’ investment in Trust Units by assisting in maintaining the ongoing relationship between the Trust Unitholders and the Issuers, including assisting in coordinating update meetings for Trust Unitholders and disseminating other communications to Trust Unitholders. Given the relative illiquidity of an investment in the Trust Units, as compared to a listed security, the Issuers recognize the importance of maintaining ongoing communication with Trust Unitholders and the ongoing role which the Agents and sub-agents play in doing so.

In consideration of these services, and as a further incentive to the Agents or sub-agents, the Property GP has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Property GP in respect of its Incentive Management Interest. The Agents may assign all or part of their entitlements to sub-agents effecting sales of Trust Units, such assignment to be made on a basis determined by the Property GP. As well, the

Property GP 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 the Property GP pursuant to the General Partner Services Agreement. However, such trailer fee will only be paid by the Property GP to the Agents, if it is collected by the Property GP. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Trust Units.

The Issuers and Sunstone have also agreed to bear all expenses of or incidental to the issue, sale and delivery of the Trust 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 Property LP ultimately will bear all of these expenses pursuant to the Cost Sharing and Recovery Agreements.

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 Trust 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 was determined by negotiation between the Lead Agent and the Trust. No third-party valuation was obtained.

Registration and transfers of Trust Units will be effected only through the book entry only system administered by CDS. A book entry only certificate representing Trust 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 Trust Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Trust Units are purchased. Beneficial owners of Trust Units will not have the right to receive physical certificates evidencing their ownership of such securities.

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

## **16. 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 Trust, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a Trust Unitholder who acquires Trust Units pursuant to this Offering and who, for purposes of 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 holds the Trust Units as capital property. Generally, the Trust Units will be considered to be capital property to a Trust Unitholder provided such Trust 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 or concern in the nature of trade. Certain Trust Unitholders who might not otherwise be considered to hold their Trust 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 Trust Unitholders should consult their own tax advisors regarding their particular circumstances, as such election would affect the income tax treatment of dispositions by the Trust Unitholder of all of their Canadian securities.

This summary is not applicable to a Trust Unitholder that is a "financial institution" for purposes of the "mark-to-market" rules or a "specified financial institution", or a Trust 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 Trust

Unitholders borrowing money to acquire Trust Units. All such Trust Unitholders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of the Trust 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 in 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. This summary is also based upon the provisions of the Tax Act and the regulations thereunder (the “Regulations”) in force as of the date hereof 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) (the “Minister”) 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, U.S., State, or other foreign tax legislation or considerations, which may differ significantly from those discussed in this summary.**

**This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Trust Units. The income and other tax consequences of acquiring, holding or disposing of Trust Units will vary depending on the particular circumstances applicable to each Trust Unitholder. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Trust Units. The Trust has 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 Trust Units based on their particular circumstances.**

## **Tax Status of the Trust**

### *Qualification as a “Mutual Fund Trust”*

This summary assumes that the Trust will qualify as a “mutual fund trust” as defined in the Tax Act on completion of the Offering of Trust Units hereunder, and will thereafter continuously qualify as a mutual fund trust at all relevant times. This summary assumes that the Trust will elect to be deemed to be a mutual fund trust from the date it is established. If the Trust does not qualify or ceases to qualify as a mutual fund trust, 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 Trust may become subject to certain additional tax liabilities (with the result that the amount of cash available for distribution by the Trust would be reduced and Trust Unitholders may otherwise be adversely affected), and, (ii) unless at such time the Trust Units are listed on a prescribed stock exchange, the Trust Units will not be qualified investments for Plans (with the result that a Plan, its annuitant and/or its holder will generally become subject to additional tax or penalties or may be otherwise adversely affected).

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

#### *Qualification as a “Real Estate Investment Trust”*

On October 31, 2006, the Minister announced significant changes to the federal income taxation of publicly-listed or traded trusts and partnerships, and their investors, and subsequently introduced a series of legislative amendments which were enacted prior to the date hereof (the “SIFT Measures”). The SIFT Measures effectively tax certain income of a publicly-listed or traded trust or partnership that is distributed to its investors as if the income were earned through a taxable corporation and distributed to its notional shareholders as a dividend.

#### The SIFT Measures and the REIT Exception

The SIFT Measures apply to any “specified investment flow-through” (a “SIFT”) and its investors. A SIFT is generally a Canadian resident trust (“SIFT trust”) or partnership (“SIFT partnership”) investments in which are listed or traded on a stock exchange or other public market, and which holds “non-portfolio properties” (as defined in the Tax Act). The effect of the SIFT Measures is that SIFT trusts and SIFT partnerships would be subject to a special tax (“SIFT tax”) on their non-portfolio earnings where such earnings are distributed or allocated to investors of the trust or partnership.

Certain distributions attributable to a SIFT’s “non-portfolio earnings” (the “non-deductible distributions amount”) will not be deductible in computing the SIFT’s income. The SIFT trust will be subject to SIFT 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 taxable dividends) from, or capital gains realized on, “non-portfolio properties” in the taxation year. The non-deductible distributions amount will also be included in computing income of the Trust Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act.

The “non-portfolio earnings” (as previously described for a SIFT trust) of a SIFT partnership will not be allocable for tax purposes to the members of the partnership and the SIFT partnership will be subject to SIFT tax on such “taxable non-portfolio earnings” at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Also, the SIFT partnership will be deemed to have received a taxable dividend from a taxable Canadian corporation equal to the taxable non-portfolio earnings less the applicable SIFT tax, and such taxable dividend will be allocated to the members of the SIFT partnership and included in computing their income for purposes of the Tax Act, as described above in respect of unitholders of a SIFT trust.

Generally, distributions paid by a SIFT as returns of capital will not be subject to this tax.

The SIFT Measures do not, however, apply to a trust that qualifies as a “real estate investment trust” (“REIT”) (this exception is referred to as the “REIT Exception”). To qualify for the REIT Exception in a particular taxation year under the SIFT Measures:

- (a) the REIT must be resident in Canada throughout the taxation year;
- (b) the REIT must not, at any time in the taxation year, hold any “non-portfolio property” other than “qualified REIT property”;

- (c) 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;
- (d) not less than 75% of the REIT's revenues for the taxation year must be derived from (i) rent from real or immovable properties, (ii) interest from mortgages or hypothecs on real or immovable properties, and (iii) capital gains from dispositions of real or immovable properties; and
- (e) the REIT must, at all times throughout the taxation year, hold real or immovable properties, indebtedness of a Canadian corporation represented by a bankers' acceptance, money and certain cash equivalents, deposits with a credit union, as well as 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 (whether realized directly by the REIT or indirectly through a trust in which the REIT holds an interest) for services ancillary to, and customarily rendered or supplied with, the rental of real or immovable properties, but excludes certain other payments that would otherwise be considered rent. The REIT Exception also includes as "real or immovable property" or as "qualified REIT property" a security held by a REIT, if the security is a security of a trust that satisfies (or of another entity that would, if it were a trust, satisfy) the above noted conditions for the REIT Exception, or a security of a subject entity that, in general terms, either (i) holds only property that is ancillary to the REIT's rental activities or legal title to real or immovable property of the REIT or another subject entity all of the securities of which are held by the REIT, or (ii) derives all or substantially all of its revenues from certain management activities relating to real or immovable property of the REIT or an entity of which the REIT holds a share or an interest.

The SIFT Measures also do not apply to an "excluded subsidiary entity". For an entity (including a corporation, a trust or a partnership) to qualify as an excluded subsidiary entity in a particular taxation year under the SIFT Measures, certain requirements must be met throughout the year with respect to its equity. Specifically, none of the equity of the entity can at any time in the taxation year be (a) listed or traded on a stock exchange or other public market; nor (b) held by any person or partnership other than a REIT, a taxable Canadian corporation, a SIFT (determined without reference to the "grandfathering provision" with respect to SIFTs that existed prior to the effective date of the SIFT Measures), or an excluded subsidiary entity for the taxation year.

#### The SIFT Measures applied

The SIFT Measures implementing the new tax on SIFTs apply only to certain trusts or partnerships, the investments in which are listed or traded on a stock exchange or other public market. The Trust does not have immediate plans to list the Trust Units on any stock exchange for public trading. Should the Trust Units be in the future listed or traded on a stock exchange or other public market, the Trust expects to be able to satisfy the requirements to qualify for the REIT Exception to the SIFT Measures and the Trust intends to operate in such a manner so as to qualify as a REIT on a continuous basis in the future. The Trust's actual qualification as a REIT will depend upon meeting, through actual annual operating results, the various conditions imposed by the REIT Exception to the SIFT Measures.

Even if the Trust fails to meet the REIT Exception, the Trust should not have "non-portfolio earnings" that will be subject to tax under the SIFT Measures provided that the Investment LP and its subsidiary partnerships (the "Sunstone US Limited Partnerships") are not "Canadian resident partnerships". A "Canadian resident partnership" generally means a partnership (a) all of the members of which are resident in Canada, (b) that is formed under the laws of a province in Canada, or (c) that would, if it were a corporation, be resident in Canada (including a partnership that has its "central management and control" in Canada). In this regard, the Sunstone US Limited Partnerships will not be formed under the laws of a province of Canada, nor will all the partners of such partnerships be residents of Canada (the general partners of the Sunstone US Limited Partnerships are, or



are expected to be, resident in the US and not in Canada). In addition, Sunstone believes that the Sunstone US Limited Partnerships will be managed and operated in such a manner that their central management and control will be located in the U.S., such that if these partnerships were to be considered corporations they would not be considered resident in Canada. However, the actual status of the Sunstone US Limited Partnerships as partnerships that are not “Canadian resident partnerships” will depend upon maintaining central management and control outside of Canada.

The SIFT Measures may, subject to certain exceptions, also apply directly to a Canadian resident partnership where investments in the partnership are listed or traded on a stock exchange or other public market. Where the SIFT Measures apply to a partnership, the partnership will be subject to tax on its taxable non-portfolio earnings as previously described. The Sunstone US Limited Partnerships do not have immediate plans to list or trade the Investment LP Units or any other partnership interests on any stock exchange or other public market. Should investments in the Investment LP or any other Sunstone US Limited Partnerships be in the future listed or traded on a stock exchange or other public market, Sunstone expects that the Sunstone US Limited Partnerships will in any event be managed and operated so as to not be considered “Canadian resident partnerships” for purposes of the SIFT Measures, as described in the preceding paragraph.

The balance of this summary assumes that, in the event the Trust Units are listed or traded on a stock exchange or other public market, the Trust will nonetheless qualify for the REIT Exception at all times or the Sunstone US Limited Partnerships will not be Canadian resident partnerships for purposes of the SIFT Measures. The balance of this summary further assumes that, in the event any of the Investment LP Units or any other securities or investments in any Sunstone US Limited Partnerships are listed or traded on a stock exchange or other public market, such partnerships will not be Canadian resident partnerships for purposes of the SIFT Measures.

KPMG will not review the Trust’s compliance with conditions for the REIT Exception nor the Sunstone US Limited Partnerships’ residency, including central management and control. The Trust Declaration and the Investment LP Agreement provide that the Issuers will monitor compliance with such requirements. 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 or assessing practices of CRA will not develop, in a manner which adversely affects the Issuers or Trust Unitholders.

Should the Trust Units or the Investment LP Units be listed or traded on a stock exchange or public market, and should the Trust not qualify or cease to qualify as a REIT under the REIT Exceptions, or should any of the Sunstone US Limited Partnerships cease to maintain residency, including central management and control, outside of Canada, the income tax considerations could be materially different from those described in this summary. In particular the non-deductible distributions amount of the Trust or the taxable non-portfolio earnings of the Sunstone US Limited Partnerships, as previously described, could be taxable to the Trust or to the Sunstone US Limited Partnerships, respectively (with the result that the amount of cash available for distribution by the Trust would be reduced), and such amount could also, depending on the circumstances, be included in the income of Trust Unitholders for purposes of the Tax Act as taxable dividends.

## **Taxation of the Issuers**

### *Taxation of the Trust*

The taxation year of the Trust is the calendar year. In each taxation year, the 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 Trust or if the Trust Unitholder is entitled in that year to enforce payment of the amount.

The Trust will generally be required to include in computing income for a particular taxation year its allocated share of the income or loss of the Investment LP for the fiscal period of the Investment LP ending on or before the year-end of the Trust. The Trust’s ability to deduct any losses allocated to it by the Investment LP will be limited by certain rules under the Tax Act. The Trust may also realize a capital gain or loss on the disposition or

deemed disposition of Investment LP Units (including from any distribution in specie of Investment LP Units), from the disposition of foreign currency or upon the allocation of a capital gain or loss from the Investment LP, as described below under “Taxation of the Sunstone US Limited Partnerships”. Also, as described under “Taxation of the Sunstone US Limited Partnerships” below, cash flow distributed by the Investment LP to the Trust will be generally received free from tax, except to the extent that such distributions reduce the adjusted cost base of Investment LP Units held by the Trust to a negative amount at the end of a fiscal year of the Investment LP.

In computing its income for purposes of the Tax Act, the 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 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-ratio for short taxation years), to the extent such costs are not reimbursed under the Cost Sharing and Recovery Agreement.

A distribution by the Trust of Debt Securities, Investment LP Units or other property upon redemption of Trust Units will be, for tax purposes, treated as a disposition by the Trust of the property so distributed for proceeds of disposition equal to its fair market value. The 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 Trust may 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 may generally be deductible by the Trust. If Debt Securities with accrued interest thereon are distributed to a redeeming Trust Unitholder, the amount of accrued interest will in the first instance be included in income of the Trust; however, the amount thereof would then be treated as an amount paid to the Trust Unitholder and thereby generally be deductible by the Trust, resulting in no net inclusion in the income of the Trust.

Under the Trust Declaration, an amount equal to all of the income (including taxable capital gains) of the 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 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 Trust to redeeming Trust Unitholders,
- (b) capital gains, which may be offset by capital losses, if any, carried forward from prior years or, if not so offset, the tax on which is recoverable by the Trust, and
- (c) income, 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 Trust Declaration provides that, to the extent cash of the Trust is unavailable for cash distributions, and the income of the 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 or otherwise. Income of the Trust payable to Trust Unitholders, whether in cash, additional Trust Units or otherwise, will generally be deductible by the Trust in computing its taxable income.

Losses incurred by the Trust in a particular taxation year cannot be allocated to Trust Unitholders, but may be deducted by the 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 Trust in accordance with, and subject to, applicable provisions of the Tax Act.

The 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 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 Trust as a result of that redemption may, at the discretion of the 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 Trust in computing its income.

#### *Taxation of the Sunstone US Limited Partnerships*

The Sunstone US Limited Partnerships are not subject to tax under the Tax Act. Each partner of the Investment LP (including the Trust) and each partner of the Property LP (including the Investment LP) is required to include in computing the partner’s income for a particular taxation year the partner’s share of the income or loss of underlying partnerships for their fiscal years ending in or on the partner’s taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. For this purpose, the income or loss of Sunstone US Limited Partnerships must be computed for each fiscal year as if Sunstone US Limited Partnerships were each separate persons resident in Canada, and will be required to be allocated to partners on the basis of their respective shares of that income or loss as provided for in the respective limited partnership agreements, subject to certain provisions of the Tax Act in that regard.

Generally, cash distributions to a limited partner, including the Trust, in excess of the limited partner’s share of the income and capital gains for a fiscal year will be treated for tax purposes as a return of capital, which is not required to be included in the limited partner’s income but will reduce the limited partner’s adjusted cost base of its partnership units. If, as a result, the limited partner’s adjusted cost base of its partnership units at the end of a fiscal year of the Investment LP or Property LP would otherwise be a negative amount, the limited partner will be deemed to realize a capital gain equal to such amount, and the adjusted cost base of its partnership units will be nil immediately thereafter.

If the Investment LP or Property LP incur losses for tax purposes, a limited partner, including the Trust, will be entitled to deduct in the computation of its income for purposes of the Tax Act its share of any such losses for any fiscal year to the extent of that limited partner’s “at-risk amount” in respect of the relevant partnership. In general, the “at-risk amount” of a limited partner in respect of a limited partnership for any taxation year will be the adjusted cost base of the limited partner’s partnership interest at the end of the year, plus any undistributed income allocated to the limited partner for the year, less any amount owing by the limited partner (or a person with whom the limited partner does not deal at arm’s length) to the limited partnership (or a person with whom the limited partnership does not deal at arm’s length), and less the amount of any benefit that the limited partner (or a person with whom the limited partner does not deal at arm’s length) is entitled to receive or obtain for the purpose of reducing, in whole or in part, any loss of the limited partner from the investment.

The income for purposes of the Tax Act of the Investment LP must include its income or loss allocation from the Property LP calculated in accordance with the Tax Act. In computing its income or loss, the Investment LP may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. Sunstone US Limited Partnerships may also deduct any expenses incurred by each of them in the course of the issuance of partnership units and arranging the Mortgage Loan on a five-year straight line basis (subject to pro-ration for short taxation years).

The income for purposes of the Tax Act of the Property LP must include its income realized from the rental of the Properties, any taxable capital gains or recapture of capital cost allowance arising from dispositions of the Properties that are capital property, as explained more fully below, and the entire amount of any gains from dispositions of Properties that are not considered capital property of the Property LP for purposes of the Tax Act. In computing its income or loss, the Property LP may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Property

LP may also deduct any expenses incurred by it in the course of the issuance of Property LP Units and arranging the Mortgage Loans on a five-year straight line basis (subject to pro-ration for short taxation years).

In computing its income or loss the Property LP may generally deduct a reasonable amount of interest paid in the year or (in the case of simple interest) payable in respect of the year pursuant to a legal obligation to pay interest on borrowed money used, and on amounts payable for property acquired, for the purpose of earning income from a business or property, including interest in respect of the Mortgage Loans. Compound interest is deductible only when actually paid. The Tax Act limits the deduction of interest expense and property taxes incurred in connection with vacant land and of interest expense and other soft costs attributable to the period of construction, renovation or alteration of a building, and instead requires such amounts to be added to the cost of land and building for tax purposes.

This summary assumes that the Property LP will hold its interest in the Properties as capital property and accordingly, in computing the income or loss of the Property LP, deductions may also be claimed in respect of “capital cost allowance” to the extent permitted under the Tax Act and the Regulations. Such deductions may not exceed the net income of the Investment LP from the operation of the Properties. Further, the deductions in respect of a Property will be restricted in the Property LP’s fiscal period in which the Property is acquired to one-half of the amount otherwise allowable (and will be subject to pro-ration for short taxation years). Subject to such restrictions and certain other exceptions, annual deductions will be allowed on a declining balance basis at a rate of 4% per annum on the “undepreciated capital cost” (generally, initial capital cost less prior capital cost allowance deductions) of each class of property which includes the buildings and their component parts, and at other rates applicable to the other classes of depreciable property.

On the sale or other disposition of all or some of the Properties, the Property LP must allocate the net proceeds of disposition (gross proceeds less costs of disposition) on a reasonable basis among each separate asset which comprises the properties sold. On dispositions of Properties that are capital properties for purposes of the Tax Act, a capital gain will be realized to the extent that the amount by which the net proceeds of disposition allocated to a particular depreciable property exceeds the capital cost of that property (no capital loss can be realized on depreciable property). A capital gain (or capital loss) will be realized to the extent that the amount by which the net proceeds of disposition allocated to a non-depreciable capital property exceeds (or is less than) its adjusted cost base. On a sale or other disposition, the lesser of the proceeds of disposition allocable to a particular class of depreciable capital property and the original cost of the property is deducted from the balance of the undepreciated capital cost of such class. If at the end of the taxation year of the Property LP the balance of any class is negative, the balance is included in computing income of the Property LP resulting in a recapture of previous capital cost allowance deductions. Where the Property LP has disposed of the last property of a particular class and there remains a positive balance of the undepreciated capital cost in that class at the end of the year, the Property LP may, subject to detailed rules of the Tax Act, be entitled to deduct the remaining positive balance as a terminal loss in computing its income.

## **Taxation of Trust Unitholders**

### *Distributions*

A Trust 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 Trust for a taxation year, including net realized taxable capital gains, that is paid or payable by the Trust to the Trust Unitholder in the particular taxation year, whether that amount is received in cash, additional Trust Units, or otherwise. Any loss of the Trust for purposes of the Tax Act cannot be allocated to Trust Unitholders.

The non-taxable portion of any net realized capital gains of the Trust that is paid or payable to a Trust Unitholder in a taxation year will not be required to be included in computing the Trust Unitholder’s income for the year and should not reduce the adjusted cost base of Trust Units held by the Trust Unitholder. Any other amount paid or payable by the Trust in that year (other than as proceeds of disposition) that is in excess of the Trust’s net income for that year will not generally be required to be included in the Trust Unitholder’s income for the year. However, where such an amount is paid or payable to a Trust Unitholder, the Trust Unitholder will be required to reduce the adjusted cost base of the Trust Units by that amount. To the extent that the adjusted cost base of a

Trust 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 to the Trust Unitholder will immediately thereafter be nil.

The Trust Declaration provides that net income and net taxable capital gains of the Trust for purposes of the Tax Act will be allocated among the Trust Unitholders in the same proportion as distributions received by them, unless the Trustee otherwise determines.

The Trust Declaration also provides that the Trust shall make the requisite designations permitted by the Tax Act such that the portion of net taxable capital gains of the Trust distributed to Trust Unitholders as may reasonably be considered to be part of the amount that was included in computing income of Trust Unitholders for purposes of the Tax Act will be deemed to be received by Trust Unitholders in the year as a taxable capital gain. Any such designated amount will be subject to the general rules relating to the taxation of capital gains described below. A Trust 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.

The Trust Declaration also provides that the Trust shall make the requisite designations permitted by the Tax Act such that the portion of the Trust's taxable income from a U.S. source distributed to Trust Unitholders as may reasonably be considered to be part of the amount that was included in computing the income of Trust Unitholders for purposes of the Tax Act will be deemed to be received by Trust Unitholders in the year as income from a U.S. source. For purposes of computing their entitlement to foreign tax credits under the Tax Act, Trust Unitholders shall also be deemed to have paid their proportionate share of any U.S. tax paid by the Trust on such U.S. source income (see "Foreign Tax Credits and Deductions" below).

#### *Purchases of Trust Units*

Since the net income of the Trust will be distributed on a quarterly basis, a purchaser of a Trust Unit may become taxable on a portion of the net income of the Trust that is accrued or realized by the Trust in a period before the time the Trust Unit was purchased but which was not paid or made payable to Trust Unitholders until the end of the period and after the time the Trust 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 Trust in a year before the time the Trust Unit was purchased but which is paid or made payable to Trust Unitholders at year end and after the time the Trust Unit was purchased.

#### *Dispositions of Trust Units*

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

The adjusted cost base of a Trust Unit to a Trust Unitholder will include the amount paid by the Trust Unitholder for the Trust Unit, subject to certain adjustments. The cost to a Trust Unitholder of additional Trust 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 Trust 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. The non-taxable portion of distributions (other than the non-taxable portion of any net capital gains) received on a Trust Unit will generally reduce the adjusted cost base of the Trust Unit.

Where Trust Units are redeemed and the redemption price is paid by the delivery of Debt Securities or Investment LP Units to the redeeming Trust Unitholder, the proceeds of disposition to the Trust Unitholder of the Trust Units will be equal to the fair market value of the Debt Securities or Investment LP Units so distributed less any income or capital gain realized by the Trust in connection with the redemption of those Trust Units, and which has been designated by the Trust to the Trust Unitholder. Where any income or capital gain realized by the Trust in connection with the distribution of Debt Securities or Investment LP Units on the redemption of Trust Units has been designated by the Trust to a redeeming Trust Unitholder, the Trust Unitholder will be required to include in computing the Trust Unitholder's income the income or taxable portion of the capital gain so designated.

Where Trust Units are redeemed and the redemption price is paid by the delivery of Debt Securities as described above, the redeeming Trust 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 Trust Unitholder that is designated as income to the Trust Unitholder by the Trust) in accordance with the provisions of the Tax Act. The cost of any Debt Securities distributed by the Trust to a Trust Unitholder upon redemption 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. Similarly, where Trust Units are redeemed and the redemption price is paid by the delivery of Investment LP Units as described above, a redeeming Trust Unitholder will be required to include in income the Trust Unitholder's allocable share of income of the Investment LP for tax purposes for the year that includes the redemption (and the Trust Unitholder's allocable share of income or loss of the Investment LP for all years during which the Trust Unitholder holds the LP Units), in accordance with the provisions of the Investment LP Agreement and the detailed rules of in the Tax Act in that regard. The cost of any LP Units distributed by the Trust to a Trust Unitholder upon a redemption of Trust Units will be equal to the fair market value of those LP Units at the time of the distribution.

Where Trust Units are redeemed and the redemption price is paid by the issuance to the redeeming Trust Unitholder of Trust Notes, the proceeds of disposition to the Trust Unitholder of Trust Units will be equal to the fair market value of the Trust Notes issued. The cost of the Trust Notes issued to a Trust Unitholder by the Trust upon redemption of Trust Units will be equal to the fair market value of the Trust Units disposed in exchange. The Trust Unitholder will thereafter be required to include in computing income for purposes of the Tax Act interest on the 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 Trust Unitholder on a disposition or deemed disposition of Trust Units and the amount of any net taxable capital gains designated by the Trust in respect of a Trust Unitholder must generally be included in the Trust 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 Trust. One-half of any capital loss realized by a Trust Unitholder on a disposition or deemed disposition of Trust Units generally may be deducted by the Trust Unitholder against taxable capital gains of the Trust Unitholder in the year of disposition, and to the extent such losses exceed such gains, in the three preceding taxation years or in any subsequent taxation year in accordance with the provisions of the Tax Act.

A Trust 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% 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.

#### *Foreign Tax Credits and Deductions*

To the extent the Investment LP withholds U.S. tax on distributions made for a year and the Trust pays (or makes payable) its income to Trust Unitholders for that year, an amount equal to the portion of the U.S. tax that is attributable for U.S. tax purposes to a particular Trust Unitholder may be deductible from such Trust Unitholder's Canadian income tax otherwise payable for that year (a "foreign tax credit"), or may be deductible in computing the Trust Unitholder's income for Canadian tax purposes for that year (a "foreign tax deduction"), as described in the ensuing paragraphs, provided however that in the case of U.S. tax withheld by the Investment

LP on a “REIT capital gains dividend” distribution made by the Investment LP (or on any other distributions made by the Investment LP which result in U.S. effectively connected income to the Trust for U.S. federal tax purposes), the Trust Unitholder also files a U.S. federal income tax return to establish the Trust Unitholders’ final U.S. income tax liability for the year.

The U.S. tax paid for a taxation year that is attributable for U.S. tax purposes to a particular Trust Unitholder described in the preceding paragraph and characterized as non-business income tax may be deductible as a foreign tax credit from the Trust Unitholder’s Canadian tax otherwise payable for that year as relates to non-business income from U.S. sources. For purposes of calculating the foreign tax credit, non-business income from U.S. sources may include taxable income of the Trust for purposes of the Tax Act that is from U.S. sources, is paid or payable by the Trust to the Trust Unitholder, is included in computing income of the Trust Unitholder for purposes of the Tax Act, and is designated by the Trust as U.S.-source income by filing requisite designations as permitted by the Tax Act. Where such designations are made, then for purposes of calculating the foreign tax credit (but not for calculating a foreign tax deduction) U.S. tax paid by a Trust Unitholder is deemed to also include a share of any U.S. taxes attributable for U.S. tax purposes to the Trust or the Investment LP. The amount deductible from Canadian tax otherwise payable as a foreign tax credit is limited to the portion of the Trust Unitholder’s Canadian income tax otherwise payable under the Tax Act which is attributable to income from U.S. non-business income sources. If the U.S. tax paid attributable to a Trust Unitholder exceeds the Trust Unitholder’s Canadian tax otherwise payable on U.S. non-business income for the year, such part of the excess amount in respect of income from property (which should include for these purposes income of the Trust that is paid or payable by the Trust to the Trust Unitholder and included in computing income of the Trust Unitholder for purposes of the Tax Act) may be deducted as a foreign tax deduction in computing a Trust Unitholder’s income from such source for purposes of the Tax Act. A Trust Unitholder’s ability to apply U.S. taxes in the foregoing manner may be affected where the Trust Unitholder has other U.S. source income or losses, has paid other U.S. taxes or has not filed a U.S. federal income tax return for the relevant taxation year. Investors should consult their own tax advisors regarding their ability to claim foreign tax credits or foreign tax deductions.

The foregoing mechanism for recognition of U.S. taxes for purposes of the Tax Act through foreign tax credits or foreign tax deductions does not apply to Trust Unitholders that are Plans. To the extent that an annuitant or a holder of a Plan that is a Trust Unitholder files a U.S. federal income tax return and receives a U.S. tax refund of (or claims a foreign tax credit or a foreign tax deduction for an amount in respect of) all or a portion of the amounts withheld by the Investment LP, the annuitant or the holder may in certain circumstances be required to include, in computing income for purposes of the Tax Act or to pay a tax on, an applicable portion of such amount of U.S. tax as a benefit or advantage received out of or under the Plan. Annuitants or holders of Trust Unitholders that are Plans should consult their own tax advisors in this regard.

#### *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 Trust Unitholder who is an individual or a trust (and therefore the exposure of such Trust Unitholder to liability for alternative minimum tax) must be increased by, among other things, any capital gains realized by such Trust Unitholder on the disposition of Trust Units and by any net income of the Trust that is paid or payable to such Trust 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 Trust qualifies as a mutual fund trust within the meaning of the Tax Act, the Trust Units will be “qualified investments” (as defined in the Tax Act and the Regulations) at that time for trusts governed by Plans.

Where Trust Units are qualified investments, Plans should generally not be taxable on any distributions on such Trust Units or on any gains realized on the disposition of such Trust Units. However, funds withdrawn from a Plan (other than a TFSA) will generally be taxable to the annuitant in the year of withdrawal.

Generally, if at any time the Trust does not qualify or ceases to qualify as a mutual fund trust, the Trust Units will not be, or will cease to be, qualified investments for Plans at that time. Debt Securities, Investment LP Units or Trust Notes that may be issued by the Trust to holders of Trust Units, on or in connection with redemption of Trust Units, will generally not be qualified investments for Plans. Where a Plan acquires a Debt Security, Investment LP Unit or Trust Note that is not a qualified investment, or acquires or holds a Trust Unit that is not, or that ceases to be, a qualified investment, adverse tax consequences will generally arise to the Plan and the annuitant or beneficiary thereunder or the holder thereof, including that the Plan and, in the case of a TFSA, the holder, may become subject to a penalty tax, the annuitant of the 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. In addition, in the case of a TFSA, where the TFSA acquires or holds a Trust Unit, Debt Security, Investment LP Unit, or Trust Note, that is a “prohibited investment” (as defined in the Tax Act) adverse tax consequences will generally arise to the holder of the TFSA, including that the holder may become subject to a penalty tax. The Trust Units, Debt Securities, Investment LP Units, and the Trust Notes should not be prohibited investments provided the holder of a TFSA does not hold a “significant interest” (as defined in the Tax Act) in and deals at arm’s length (within the meaning of the Tax Act) with the Trust and the Investment LP. In light of the foregoing, Plans that propose to invest in Trust Units should consult their own tax advisors before deciding to purchase Trust Units and again before deciding to exercise the redemption rights attached to such Trust Units.

## **17. U.S. FEDERAL INCOME TAX CONSIDERATIONS**

In the view of KPMG LLP, in its capacity as tax advisor to the Trust, the following is a general summary of the principal U.S. federal income tax considerations applicable to Non-U.S. Trust Unitholders (defined below) of the purchase, ownership and disposition of the Trust Units offered by the Prospectus. The principal U.S. federal income tax considerations to Investment LP concerning its qualification and taxation as a REIT for U.S. federal income tax purposes are also summarized in a general manner below.

Whether Investment LP qualifies as a REIT is dependent on whether it satisfies the various REIT requirements for each taxable year, including but not limited to certain organizational, operational, gross income, asset and distribution requirements (described generally below). The failure of Investment LP to qualify as a REIT without the benefits of certain REIT savings provisions in its first or in any subsequent taxable year may result in materially reduced distributions to Non-U.S. Trust Unitholders and U.S. federal income tax consequence that are not as described in this summary. Management has represented to KPMG that it intends that Investment LP will qualify as a REIT for each relevant taxable year. However, given the highly complex nature of the rules governing REITs and the possibility of future changes in its circumstances, no assurances can be given that Investment LP will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year.

This summary is directed only to prospective purchasers who purchase the Trust Units offered by this Prospectus and who are not United States persons under the Code (i.e., Non-U.S. Trust Unitholders, defined below).

This summary assumes that there are no sales of real estate, Investment LP units or Trust Units within one year of the respective property acquisitions.

The summary which follows does not deal with all aspects of U.S. federal income taxation that may be relevant to the specific circumstances of a particular Non-U.S. Trust Unitholder. The summary also does not cover all aspects of estate and gift taxation relevant to the specific circumstances of Non-U.S. Trust Unitholders. Likewise, this summary does not address the U.S. federal income tax consequences to Non-U.S. Trust Unitholders subject to special treatment, including but not limited to financial institutions, broker-dealers, insurance companies, tax-exempt organizations and trusts, except to the limited extent specifically provided. Finally, this summary does not address the U.S. federal income tax rules applicable to Trust Unitholders who are United States persons under the Code, nor does it address state income tax rules.

For purposes of this summary, a “Non-U.S. Trust Unitholder” means any Trust Unitholder that is not: (i) a U.S. citizen, U.S. permanent resident (green card holder) or individual resident in the United States; (ii) a corporation or other entity taxable as a corporation that is either created or organized under the laws of the United States or a political subdivision thereof or that is for other reasons treated as if were taxable as a corporation created or



organized under the laws of the United States; (iii) an estate, the income of which is subject to United States federal income tax regardless of the source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of its substantial decisions.

All Non-U.S. Trust Unitholders are assumed to be residents of Canada entitled to all relevant benefits of the 1980 U.S.-Canada Tax Convention, as amended (the "U.S.-Canada Treaty").

For purpose of this summary, references to "nonresident alien individuals" includes certain RRSPs, specifically those with Canadian resident annuitants which are organized as contractual arrangements or trusts and which are neither exempt from seizure by creditors of the annuitant nor spousal RRSPs. In addition references to "nonresident alien individuals" also includes TFSA's that are held by Canadian individuals and which are organized as contractual arrangements or trusts which are not exempt from seizure by creditors of the holder. The U.S. federal income tax treatment and classification of RRSPs and TFSA's are complex, are not free from doubt and are dependant upon the terms of the specific RRSP or TFSA. The commentary which follows assumes RRSPs and TFSA's are treated as either grantor trusts, or as investments of the individual annuitants/holders which are not separate entities from the individuals for U.S. federal income tax purposes. As such, the commentary assumes the individual annuitants/holders are treated as the owners of the RRSP's or the TFSA's assets for U.S. federal income tax purposes. There is, however, a risk that the U.S. tax authorities might take a different position regarding the U.S. tax treatment and classification of RRSPs or TFSA's from that taken in the summary which follows. In such event, the U.S. tax consequences may be different from those described below. Investors that are RRSPs or TFSA's should consult their own tax advisors as to the U.S. federal, state, and local income and other tax consequences to them as a result of their status either as an RRSP or as a TFSA.

**This summary is of a general nature only and does not consider all possible United States federal income tax considerations of an investment in Trust Units. This summary also does not consider state, local or non-U.S. tax consequences. This summary does not constitute an opinion to prospective Trust Unitholders and is not intended to be legal or tax advice to prospective purchasers of Trust Units.**

**No ruling has been sought from the U.S. Internal Revenue Service (the "IRS") on any aspect of this Offering.**

**This summary is based on the facts set out in this Prospectus and the facts, assumptions and representations set out in a representation letter provided to KPMG by the Issuers and by Sunstone. This summary is also based upon the relevant provisions of the Code (also referred to herein as "IRC"), the regulations under the Code, the U.S.-Canada Treaty, and the judicial and administrative interpretations and pronouncements thereof as currently in effect. These authorities are subject to change retroactively and/or prospectively and any such changes could affect the accuracy of the summary below.**

**Each investor should consult its own tax advisor as to the U.S. federal, state, and local income and other tax consequences to it of the purchase, ownership and disposition of the Trust Units in its own particular circumstances.**

**ANY TAX ADVICE IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN BY KPMG TO BE USED AND IT CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER. THE PROSPECTUS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION(S) OR MATTER(S) ADDRESSED IN THIS PROSPECTUS. ALL TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM THEIR INDEPENDENT TAX ADVISOR(S).**

## **I. Summary**

The discussion which follows is a general overview of the principal U.S. federal income tax matters to Non-U.S. Trust Unitholders and to Investment LP and does not constitute tax advice to any particular Trust Unitholder.

## Taxation of Trust and Trust Unitholders

### *Taxation of Trust*

A trust generally is defined for U.S. federal income tax purposes as an arrangement created either by will or by an *inter vivos* declaration whereby trustees take title to property for the purpose of protecting or conserving it for the beneficiaries under the ordinary rules applied in chancery or probate courts. Other arrangements, known as trusts for legal purposes, may not be classified as such for purposes of the Code if they are not limited to arrangements for protecting or conserving trust property for the trust's beneficiaries. For instance, a business or commercial trust that is created by the beneficiaries as a device to carry on a profit-making business which normally would have been carried on through a business organization generally is treated as a business entity that is either a corporation or a partnership under the Code.

A business entity that is not automatically classified as a corporation and that has at least two members may elect to be treated as either a partnership or as a corporation for U.S. federal income tax purposes. In general, a business entity that is organized in Canada is automatically classified as a corporation only: (1) if it is a corporation or a company; or (2) if it is a partnership and its units are publicly traded and certain other tests are also met.

The Trust is not publicly traded, it intends to be an eligible entity, and it intends to timely elect to be treated as a partnership for U.S. federal income tax purposes. The summary assumes the Trust will be so treated.

A business entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax. Rather, the distributive share of a partnership's income, gains, losses, deductions and credits is taken into account separately by each interest holder in the partnership.

The following discusses the principal U.S. federal income consequences of Trust distributions received by Non-U.S. Trust Unitholders, of dispositions by the Trust of interests in Investment LP and of dispositions by Non-U.S. Trust Unitholders of interests in the Trust. The summary assumes Investment LP qualifies as a REIT for U.S. federal income tax purposes.

### *U.S. Federal Income Taxation of Non-U.S. Trust Unitholders if Investment LP Qualifies as a REIT*

This section describes, in general terms, the U.S. federal income taxation to Non-U.S. Trust Unitholders of an investment in the Trust if Investment LP qualifies as a REIT. The rules governing the U.S. federal income taxation of Non-U.S. Trust Unitholders are complex. The following discussion does not address or consider all aspects of U.S. federal income tax of an investment in the Trust and does not consider state, local, or non-U.S. tax consequences.

**Prospective investors should consult their own tax advisors to determine the U.S. federal income tax consequences, state, local and other non-U.S. tax consequences, reporting and any other requirements applicable to their particular situations.**

A partner of a partnership, in determining its substantive U.S. tax liability, generally takes into account, separately, many items of income, gain, loss, credit or deduction derived by the partnership as if the partner realized such items directly.

A nonresident alien individual and a foreign corporation are generally subject to U.S. federal income tax on fixed or determinable, annual or periodic income ("FDAP") received from U.S. sources, including U.S. source dividends to the extent not effectively connected with the conduct of a U.S. trade or business, and on their income that is effectively connected with the conduct of a U.S. trade or business ("ECI"). U.S. source FDAP is generally subject to 30% U.S. tax applied to the gross amount (with no allowance for deductions) of FDAP ("FDAP Tax") unless a lower rate applies to the gross amount of FDAP under an applicable U.S. treaty. ECI is taxable at graduated rates, as described below, applied to taxable income (gross income less, in most cases, deductions).

The 30% tax on the gross amount of U.S. source FDAP payments to a nonresident alien individual or foreign corporation (including payments to foreign partnerships with foreign partners) generally is collected through the payor withholding at source, unless a lower rate applies under an applicable U.S. treaty (“section 1441 FDAP withholding”). Section 1441 FDAP withholding generally is required on payments of U.S. source FDAP to foreign partnerships with foreign partners.

A payment of U.S. source FDAP to a foreign partnership that will not withhold U.S. tax generally is subject to withholding of U.S. tax as if the payment was made directly to the partners, if the withholding agent can reliably associate a partner’s distributive share of the payment with documentation and other information that it receives from the foreign partnership. For example, a payment of U.S. source FDAP to a foreign partnership will be treated as made to partners if the information provided by the foreign partnership to the withholding agent includes specified identifying information for every partner in order to provide the U.S. withholding agent with sufficient information to enable it to allocate the payment among all partners, and to satisfy the U.S. withholding and reporting obligations with respect to the partners and their distributive shares of partnership income.

The taxable income of a nonresident alien individual or foreign corporation that is effectively connected with the conduct of a U.S. trade or business is subject to the same U.S. federal graduated rates of tax that apply to U.S. persons. Taxable income is computed by claiming deductions that are connected with the effectively connected gross income on a timely filed return. A nonresident alien individual or foreign corporation that derives ECI (including amounts received as a partner through a partnership) is generally required to make quarterly payments of estimated U.S. tax, and is required to file a U.S. federal income tax return. As discussed in more detail below, a U.S. or foreign partnership is generally required to withhold U.S. tax under IRC §1446 with respect to effectively connected taxable income (“ECTI”) of the partnership derived through the partnership by foreign persons who are partners in the U.S. or foreign partnership. Quarterly payments of IRC §1446 withholding tax generally are required to be deposited by a partnership and reported to partners when deposited. The partners generally may take into account these payments in determining whether they are required to make any additional estimated tax payments, and may claim these amounts as credits against their U.S. federal income tax liability. The partnership may be liable for failure to comply with the IRC §1446 withholding requirements, including failure to make timely quarterly payments, and failure to withhold the required amount (underwithholding).

Gain on the disposition of a U.S. real property interest (“USRPI”) (“USRPI gain”) recognized by a nonresident alien individual or foreign corporation (including an amount derived as a partner through a partnership) is treated as ECI and generally the taxable amount (gain reduced by deductions) is subject to U.S. federal income tax at graduated rates (“FIRPTA Tax”). FIRPTA Tax generally is not reduced under the U.S.-Canada Treaty. In addition, U.S. tax is generally required to be withheld at different rates, depending on the circumstances, under the FIRPTA rules. Generally, a transferee that acquires a USRPI from a foreign person is required to withhold and deposit with the IRS an amount equal to 10% of the amount realized by the foreign person that disposes of the USRPI (the transferor). In addition, other FIRPTA withholding tax rules (described below) apply in the case of certain distributions by REITs and dispositions of interests in REITs. These rules may require the REIT to withhold tax at a rate of up to 35%.

A distribution by a REIT to a foreign shareholder, to the extent attributable to the REIT’s USRPI gain, is generally treated as USRPI gain recognized directly by the shareholder. Amounts distributed to a partnership are taxable to its partners, based on each partner’s share of the partnership income, at rates generally applicable to ECI. In addition, the FIRPTA rules generally require a REIT to withhold U.S. tax at a rate of 35% from the REIT’s distribution of USRPI gain to a foreign person (“Section 1445(e)(6) FIRPTA Withholding Tax”) without regard to a foreign person’s ultimate tax liability, and the amount required to be withheld does not necessarily equal the foreign person’s U.S. tax liability with respect to the taxable amount of that distribution.

In addition to liability for regular federal income tax on ECI, a corporate Non-U.S. Trust Unitholder that receives income that is (or is treated as) ECI (including amounts received as a partner through a partnership) may also be subject to U.S. branch profits tax. The U.S. branch profits tax generally is imposed at a rate of 30%, subject to reduction under an applicable tax treaty. For a resident of Canada entitled to all benefits of the U.S.-Canada Treaty, the rate of U.S. branch profits tax generally is reduced to 5% on a corporation’s earnings attributable to a permanent establishment over a Cdn\$500,000 cumulative exemption amount. Under the U.S. –Canada Treaty the

reduced rate for the U.S. branch profits tax will not be available to corporate Non-U.S. Trust Unitholders effective January 1, 2010.

The following discussion applies to Non-U.S. Trust Unitholders whose income from their investment in Investment LP through the Trust, other than gains that are (or are treated as) from the disposition of USRPI (treated as ECI), is FDAP that is not effectively connected with the conduct of a U.S. trade or business.

#### *Ordinary REIT Dividends*

Distributions out of Investment LP's current or accumulated earnings and profits that are not attributable to gain from the sale or exchange of USRPI ("ordinary REIT dividends") generally are treated as U.S. source FDAP. Generally, the gross amount of ordinary REIT dividends is subject to U.S. tax and withholding at a rate of 30% with no allowance for deductions. Ordinary REIT dividends paid to the Non-U.S. Trust Unitholders through a foreign trust that is not a "fiscally transparent" entity under the laws of Canada for U.S. federal income tax purposes (but is treated as a partnership and thus a fiscally transparent entity for U.S. federal income tax purposes) are not generally entitled to treaty-reduced rates of tax and withholding that might apply if paid directly to the Non-U.S. Trust Unitholders. The 30% FDAP Tax generally applies to ordinary distributions made to nonresident alien individuals and to foreign corporations (including amounts derived by a foreign partner through a partnership).

A REIT, as a withholding agent, is generally required to withhold a 30% FDAP Tax on the gross amount of all ordinary REIT distributions that are not attributable to capital gains derived by the REIT and that are made indirectly to Non-U.S. Trust Unitholders through the Trust, including distributions that may later be determined to have been in excess of current and accumulated earnings and profits, unless an exception applies.

A foreign person (including a nonresident alien individual and a foreign corporation) that has sufficient proof of withholding generally may recover any excess withholding by filing a U.S. federal income tax return for the year in which the distribution is received no later than two years after the tax is withheld.

#### *REIT Distributions In Excess of Earnings and Profits*

A distribution to the Trust in excess of a REIT's earnings and profits is treated for substantive U.S. federal income tax purposes first as a non-taxable return of capital that reduces the Trust's basis in its REIT units (but not below zero) and then as gain from the disposition by the Trust of a USRPI. The amount of gain is generally computed at the Trust level and is included in the income of the Trust Unitholders in accordance with their respective distributive shares of the Trust's income.

A U.S. corporation that is or has been a U.S. real property holding corporation is generally required to withhold 10% federal income tax ("Section 1445(a) FIRPTA Withholding Tax") on the portion of certain distributions that is in excess of its earnings and profits. The withholding is imposed as if the portion of the distribution in excess of the corporation's earnings and profits were received in exchange for an interest in the corporation (e.g., such interests in Investment LP). A U.S. REIT (unlike other U.S. corporations) may not be required to withhold Section 1445(a) FIRPTA Withholding Tax on an amount designated by the REIT as a return of basis. However, any distribution from Investment LP to the Trust that is in excess of Investment LP's earnings and profits and the Trust's adjusted basis in its investment LP units is treated as gain from a disposition of a USRPI (e.g., an interest in Investment LP) by the Trust to which Section 1445(a) FIRPTA Withholding Tax generally must be withheld at a 10% rate by the Investment LP.

The portion of the Section 1445(a) FIRPTA Withholding Tax withheld by the REIT that is allocable to a particular Non-U.S. Trust Unitholder is not necessarily equal to the Non-U.S. Trust Unitholder's U.S. federal income tax liability. A Non-U.S. Trust Unitholder to whom a portion of such a distribution is allocated by the Trust must file a U.S. tax return without regard to whether FIRPTA Withholding Tax is withheld, and without regard to whether any amount withheld and allocable to that Non-U.S. Trust Unitholder exceeds or is less than the Non-U.S. Trust Unitholder's tax liability (see discussion below).

The Trust intends to file with the IRS an application for withholding certificates to eliminate the Section 1445(a) FIRPTA Withholding Tax that would otherwise be required on distributions to the Trust in excess of Investment LP's earnings and profits that are attributable to the Trust's adjusted tax basis in its Investment LP's units. If the application is not approved before the distribution is made, Investment LP may be required to withhold (but is not required to remit to the IRS) 10% of the distribution amount to the Trust. If the application is rejected, Investment LP will be required to remit to the IRS 10% of the distribution amount within 20 days. Any amount required to be withheld but not remitted to the IRS while an application for a withholding certificate is pending with the IRS will be distributed by Investment LP to the Trust upon receipt of an approved withholding certificate issued by the IRS, to the extent it exceeds the amount authorized to be withheld under the approved withholding certificate.

If Section 1445(a) FIRPTA Withholding Tax has been withheld by Investment LP with respect to the Trust and remitted to the IRS before the submission of an application for a withholding certificate (or otherwise before the IRS issues a withholding certificate), the IRS later issues a withholding certificate and the amount remitted to the IRS is greater than the amount required to be withheld under the withholding certificate, the Trust, as the relevant taxpayer, may apply to the IRS for an early refund of the over-withheld amount. No assurance can, however be given that the IRS will approve a withholding certificate application.

The Trust (as a partnership for U.S. federal income tax purposes) is also generally required under IRC §1446 to deduct and withhold tax ("Section 1446 Withholding Tax") quarterly with respect to the Non-U.S. Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of Investment LP units). The rate of Section 1446 Withholding Tax on ECTI that is attributable to gains on certain capital assets is generally 15% (or 25% in the case of depreciation recapture) of the allocable ECTI for nonresident individuals and 35% for foreign corporations. A non-publicly traded partnership such as the Trust must remit quarterly deposits of this Section 1446 Withholding Tax with respect to the partnership's ECTI by using Form 8813. The Trust must file an annual return of Section 1446 Withholding Tax using Form 8804 with a separate Form 8805 for each Non-U.S. Trust Unitholder in order to report the amount of Section 1446 Withholding Tax allocable to that Non-U.S. Trust Unitholder and for purposes of the Non-U.S. Trust Unitholder completing the required annual U.S. federal income tax return.

The amount of Section 1445(a) FIRPTA Withholding Tax withheld by Investment LP with respect to a distribution by Investment LP to the Trust that is treated as a gain from the Trust's disposition of Investment LP Units generally may be credited against the Trust's liability to withhold Section 1446 Withholding Tax on the Trust's ECTI, if Investment LP properly completes and files with the IRS a Form 8288-A that contains the Trust's U.S. taxpayer identification number, and the Trust attaches to its annual return the copy of Form 8288-A that the IRS will stamp and send to the Trust. There is no guarantee that the amount of Section 1445(a) FIRPTA Withholding Tax will fully satisfy the Trust's liability to withhold Section 1446 Withholding Tax.

The Trust will allocate among the Non-U.S. Trust Unitholders any Section 1445(a) FIRPTA Withholding Tax withheld from Investment LP distributions it receives in computing the Trust's Section 1446 Withholding Tax liability. It is then responsible for timely reporting to each Non-U.S. Trust Unitholder the amount of Section 1446 Withholding Tax withheld with respect to Non-U.S. Trust Unitholder so that the Non-U.S. Trust Unitholder may determine its liability (if any) to pay U.S. estimated tax.

A Non-U.S. Trust Unitholder is required to file annually a timely U.S. federal income tax return with respect to any ECI, and may, on that timely U.S. federal income tax return, claim as a credit against its U.S. federal income tax liability the amount of Section 1446 Withholding Tax (including the allocable amount of any Section 1445(a) FIRPTA Withholding Tax credit claimed by the Trust) withheld and remitted by the Trust, and annually reported to it by the Trust on Form 8805. Non-U.S. Trust Unitholders are required to file a U.S. federal income tax return (i.e., Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) to report their USRPI gain, without regard to whether amounts are withheld. A foreign person subject to withholding of U.S. tax generally may recover any excess withholdings by filing a U.S. income tax return for the year in which the distribution is made no later than two years after the tax is withheld. Non-U.S. Trust Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

A distribution by Investment LP in excess of the sum of its earnings and profits and the Trust's adjusted tax basis in its Investment LP units, is generally treated in a similar manner to a disposition by the Trust of its interest in Investment LP. The U.S. federal income tax treatment of gain from the disposition of an interest in Investment LP is discussed below.

### *REIT Capital Gain Dividends*

A REIT can distribute capital gain dividends, which are generally limited to the amount of the REIT's net capital gain for the year. Capital gain dividends are taxed in the hands of the recipient as gain from the sale or exchange of a capital asset held for more than 1 year (see "*Annual Distribution Requirements*" below). There are generally two types of capital gain dividends: (1) capital gain dividends attributable to a REIT's USRPI gains; and (2) capital gain dividends attributable to a REIT's non-USRPI gains. Assuming that Investment LP qualifies as a REIT, it does not anticipate paying capital gain dividends attributable to non-USRPI gains. Therefore, this portion of the commentary only addresses capital gain dividends attributable to USRPI gains.

A capital gain distribution by a REIT to a foreign person (including a nonresident alien individual or a foreign corporate shareholder) is generally treated as gain recognized by such foreign person on the disposition of a USRPI to the extent attributable to a gain recognized by the REIT on the disposition of a USRPI ("USRPI Dividend"). A USRPI Dividend is generally treated as ECI in the hands of the foreign shareholder, and is subject to FIRPTA Tax and Section 1445(e)(6) FIRPTA Withholding Tax. In general, the maximum U.S. tax rate for USRPI gains on certain capital assets for nonresident alien individuals is 15% (or 20% if after December 31, 2010, or 25% if attributable to certain depreciation recapture) of the allocable ECTI attributable to the net gain. In general, the maximum U.S. tax rate for USRPI gains for foreign corporations is 35% of the net gain. A corporate Non-U.S. Trust Unitholder that receives a USRPI Dividend through the Trust may also be subject to U.S. branch profits tax. U.S. branch profits tax is imposed in addition to regular federal income tax generally at the rate of 30% on a calculated amount (to the extent earnings are repatriated or are treated as repatriated from the United States), but is reduced to 5% of earnings attributable to a permanent establishment in excess of a Cdn\$500,000 cumulative exemption amount under the U.S.-Canada Treaty for certain residents of Canada. Under the U.S.-Canada Treaty the reduced rate for the U.S. branch profits tax would not be available to a corporate Non-U.S. Trust Unitholder effective January 1, 2010.

A REIT is generally required to withhold and remit to the IRS Section 1445(e)(6) FIRPTA Withholding Tax equal to 35% of the USRPI Dividend it pays to a foreign person. Thus, a capital gain distribution from Investment LP to the Trust that is attributable to Investment LP's disposition of a USRPI, and that is treated under IRC §897(h)(1) as gain from a disposition of a USRPI by the Trust, is generally subject to 35% Section 1445(e)(6) FIRPTA Withholding Tax.

Section 1445(e)(6) FIRPTA Withholding Tax may generally be reduced by applying for and obtaining a withholding certificate from the IRS. A foreign person (such as the Trust) that is generally subject to Section 1445(e)(6) FIRPTA Withholding Tax must obtain a U.S. tax identification number in order to apply for a withholding certificate. It may be possible to reduce the rate of withholding on USRPI Dividends paid to the Trust to 15% (or 20% if after December 31, 2010, or 25% if attributable to depreciation recapture) with respect to USRPI Dividends received by the Trust and allocable to nonresident alien individuals that are Non-U.S. Trust Unitholders. However, to secure the reduced rate of withholding, the Trust must request the IRS to issue a withholding certificate and such withholding certificate must be issued by the IRS. Regulations pursuant to IRC §1445(e)(6) have not yet been issued to address the circumstances in which the 15% (or 20% after December 31, 2010) rate of FIRPTA Withholding Tax may be available for USRPI Dividends. As such, no assurance can be given that the IRS will approve a withholding certificate application.

The Trust (as a partnership for U.S. federal income tax purposes) also is generally required under Section 1446 to deduct and withhold Section 1446 Withholding Tax quarterly with respect to the Non-U.S. Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of a USRPI). Section 1446 Withholding Tax on ECTI that is attributable to USRPI gains is generally 15% (or 20% after December 31, 2010) on the gains from certain capital assets (or 25% in the case of depreciation recapture) for nonresident individuals and 35% for foreign corporations. A non-publicly traded partnership such as the Trust must remit quarterly deposits of this Section 1446 Withholding Tax with respect to the partnership's ECTI by

using Form 8813. The Trust must file an annual return of Section 1446 Withholding Tax using Form 8804 with a separate Form 8805 for each Non-U.S. Trust Unitholder in order to report the amount of Section 1446 Withholding Tax allocable to that Non-U.S. Trust Unitholder.

The amount of Section 1445(e)(6) FIRPTA Withholding Tax withheld by a REIT with respect to a USRPI Dividend by the REIT to the Trust that is treated as a gain from the Trust's disposition of a USRPI may be credited against the Trust's liability to withhold Section 1446 Withholding Tax on the Trust's ECTI, if the REIT properly completes and files with the IRS a Form 8288-A that contains the Trust's U.S. taxpayer identification number, and the Trust attaches to its annual return the copy of Form 8288-A that the IRS will stamp and send to the Trust. There is no guarantee that the amount of Section 1445(e)(6) FIRPTA Withholding Tax withheld will fully satisfy the Trust's liability to withhold Section 1446 Withholding Tax.

The Trust will allocate among the Non-U.S. Trust Unitholders any Section 1445(e)(6) FIRPTA Withholding Tax imposed on USRPI Dividends it receives in computing the Trust's Section 1446 Withholding Tax liability. The Trust is then responsible for timely reporting to each Non-U.S. Trust Unitholder the amount of Section 1446 Withholding Tax withheld with respect to such Non-U.S. Trust Unitholder so that the Non-U.S. Trust Unitholder may determine its liability (if any) to pay U.S. estimated tax.

A Non-U.S. Trust Unitholder to whom the Trust allocates a portion of a USRPI Dividend paid by the REIT to the Trust is required to file a U.S. federal income tax return (i.e., Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations), with respect to such USRPI Dividend because the Non-U.S. Trust Unitholder is considered to be effectively connected with the conduct of a U.S. trade or business without regard to whether U.S. tax is withheld with respect to such USRPI Dividend. A foreign person subject to withholding of U.S. tax generally may recover any excess withholding by filing a U.S. federal income tax return for the year in which the distribution is made no later than two years after the tax is withheld. In addition, by filing within the two year period, the Non-U.S. Trust Unitholder can claim as a credit against its U.S. federal income tax liability the amount of Section 1446 Withholding Tax (including the allocable amount of any Section 1445(e)(6) FIRPTA Withholding Tax credit claimed by the Trust) withheld and remitted by the Trust, and reported on Form 8805. A Non-U.S. Trust Unitholder may take quarterly Section 1446 Withholding Tax by the Trust into account in determining the Non-U.S. Trust Unitholder's liability (if any) for U.S. estimated tax. Non-U.S. Trust Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

#### *Disposition of Investment LP Units*

Gain recognized by a nonresident alien individual and foreign corporation on the sale or exchange of interests in a corporation generally is not subject to U.S. federal income taxation unless the interests sold are USRPIs. Stock of a U.S. corporation is generally presumed to be a USRPI unless a foreign shareholder establishes that the stock is not a USRPI. It is expected that interests in Investment LP units will be USRPIs. Therefore, Non-U.S. Trust Unitholders will be subject to FIRPTA Tax and Section 1445(a) FIRPTA Withholding Tax on their distributive shares of gains recognized by the Trust on its disposition of units in Investment LP. In general, the maximum U.S. tax rate for USRPI gains for nonresident alien individuals and foreign corporations with respect to the disposition of a USRPI that is a capital asset is 15% (or 20% if after December 31, 2010, or 25% if related to certain depreciation recapture) and 35%, respectively, of the net gain recognized.

Section 1445(a) FIRPTA Withholding Tax will generally be required under IRC §1445(a) on a disposition of units in Investment LP by the Trust or on a redemption of the Investment LP units by Investment LP. The transferee is generally required to withhold and remit to the IRS 10% of the amount realized by a foreign transferor on the disposition. Generally, this 10% Section 1445(a) FIRPTA Withholding Tax may be reduced based on the appropriate facts if an application for a withholding certificate is timely filed requesting a reduction in withholding, for example, to the maximum applicable capital gains tax on the actual net gain, and the IRS approves the application and issues a withholding certificate. No assurance can be given that the IRS will approve a withholding certificate application. The maximum U.S. tax rate on USRPI gains attributable to capital assets for nonresident alien individuals and foreign corporations is generally 15% (or 20% if after December 31, 2010, or 25% if related to certain depreciation recapture) and 35%, respectively, of the net gain. Corporate Non-U.S. Trust Unitholders will not generally be subject to U.S. branch profits tax on their distributive shares of gain

from the sale or exchange by the Trust of Investment LP units or on a distribution in excess of the U.S. tax basis in the Investment LP units.

In addition to any Section 1445(a) FIRPTA Withholding Tax withheld and remitted to the IRS with respect to the Trust's sale or exchange, or redemption, of Investment LP Units, the Trust as a partnership for U.S. federal income tax purposes, generally is required under IRC §1446 to deduct and withhold Section 1446 Withholding Tax quarterly with respect to the Non-U.S. Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of Investment LP Units). Section 1446 Withholding Tax on ECTI attributable to USRPI gains attributable to certain capital assets is generally 15% (or 20% if after December 31, 2010, or 25% in the case of depreciation recapture) for nonresident individuals and 35% for foreign corporations. Using Form 8813, a non-publicly traded partnership such as the Trust must remit quarterly deposits of this Section 1446 Withholding Tax with respect to the partnership's ECTI. The Trust must then file an annual return of Section 1446 Withholding Tax using Form 8804 with a separate Form 8805 for each Non-U.S. Trust Unitholder in order to report the amount of Section 1446 Withholding Tax allocable to that Non-U.S. Trust Unitholder.

The amount of Section 1445(a) FIRPTA Withholding Tax withheld by the transferee on the Trust's disposition of Investment LP Units may be credited against the Trust's liability to withhold Section 1446 Withholding Tax on the Trust's ECTI, if the transferee properly completes and files with the IRS a Form 8288-A that contains the Trust's U.S. taxpayer identification number, and the Trust attaches to its annual return the copy of Form 8288-A that the IRS will stamp and send to the Trust. There is no guarantee that the amount of Section 1445(a) FIRPTA Withholding Tax withheld will fully satisfy the Trust's liability to withhold Section 1446 Withholding Tax.

The Trust will allocate among the Non-U.S. Trust Unitholders any Section 1445(a) FIRPTA Withholding Tax withheld in computing the Trust's Section 1446 Withholding Tax liability. The Trust will then be responsible for timely reporting to each Non-U.S. Trust Unitholder the amount of Section 1446 Withholding Tax withheld with respect to such Non-U.S. Trust Unitholder. A Non-U.S. Trust Unitholder may then determine its liability (if any) to pay U.S. estimated tax.

A Non-U.S. Trust Unitholder of the Trust to which the Trust allocates a portion of a gain on the Trust's disposition of Investment LP Units is required to file a U.S. federal income tax return (i.e., Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations), with respect to such gain because such gain is considered to be effectively connected with the conduct of a U.S. trade or business. Filing is required without regard to whether U.S. tax is withheld with respect to such amount. The U.S. federal income tax return must generally be filed no later than two years after the tax is withheld in order for any excess withholding tax to be recovered. In addition, by filing within the two year period, the Non-U.S. Trust Unitholder can claim as a credit against its U.S. federal income tax liability the amount of Section 1446 Withholding Tax (including the allocable amount of any Section 1445(e)(6) FIRPTA Withholding Tax credit claimed by the Trust) withheld and remitted by the Trust, and reported to it by the Trust on Form 8805. A Non-U.S. Trust Unitholder may take quarterly Section 1446 Withholding Tax by the Trust into account in determining the Non-U.S. Trust Unitholder's liability (if any) for U.S. estimated tax. Non-U.S. Trust Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

#### *Disposition of Trust Units*

The Trust Units generally will also be treated as USRPIs in determining the substantive U.S. tax liability of Non-U.S. Trust Unitholders to the extent the Trust's assets are attributable to the Investment LP units (assuming that the Investment LP units are the only USRPIs held directly or indirectly by the Trust). Consequently, gain of a Non-U.S. Trust Unitholder from a sale or exchange of the Trust Units or gain recognized on a distribution by the Trust in excess of the U.S. tax basis of the Trust Units will generally be subject to FIRPTA Tax as gain from the disposition of a USRPI in the manner described under the section entitled "*Disposition of Investment LP Units*". An exception to gain recognition may apply to certain distributions.

U.S. federal income tax withholding also may be required on a sale or exchange of Trust Units by a Non-U.S. Trust Unitholder, and may be required on the redemption by the Trust of a Non-U.S. Trust Unitholder's interest in the Trust. On the sale or exchange of a Trust Unit by a non-U.S. person, the transferee is generally required to



withhold and remit to the IRS 10% of the fair market value of the interest transferred, unless prior to the sale or exchange, the transferee receives a certification signed by an officer of the Trust under penalties or perjury no earlier than 30 days before the transfer that 50% or more of the value of the Trust's gross assets does not consist of USRPIs, or that 90% or more of the value of the Trust's gross assets does not consist of USRPIs plus cash and cash equivalents. This 10% FIRPTA Withholding Tax may be reduced with the appropriate facts if an application for a withholding certificate is timely filed with the IRS requesting a reduction in withholding (e.g., to the maximum applicable capital gains tax rate on the actual gain) and such withholding certificate is received from the IRS. No assurance can be given that the IRS will approve a withholding certificate application. As discussed above, the maximum U.S. tax rate on USRPI gains attributable to certain capital assets for nonresident alien individuals and foreign corporations is generally 15% (or 20% if after December 31, 2010, or 25% if related to depreciation recapture) and 35%, respectively, of the net gain. Corporate Non-U.S. Trust Unitholders will not be subject to U.S. branch profits tax on gain from the sale or exchange of Trust Units or on a distribution in excess of the U.S. tax basis in the Trust Units.

The amount withheld by the transferee may be credited against the Non-U.S. Trust Unitholder's U.S. federal income tax liability if the transferee properly completes and files with the IRS a Form 8288-A that contains the Non-U.S. Trust Unitholder's U.S. taxpayer identification number, and the Non-U.S. Trust Unitholder attaches to its annual return the copy of the Form 8288-A that the IRS will stamp and send to the Non-U.S. Trust Unitholder. Non-U.S. Trust Unitholders are required to file a U.S. federal income tax return to report any USRPI gain (i.e., Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations), without regard to whether amounts are withheld. The U.S. federal income tax returns must generally be filed no later than two years after the tax is withheld in order for any excess withholding to be recovered.

#### *Estate and Gift Tax*

Nonresident individuals for gift and estate tax purposes (referred to as non-domiciliary individuals) are subject to U.S. gift tax on gifts of real property and tangible personal property located within the U.S. unless a deduction or exclusion is available. Gifts of intangible property are generally not subject to the gift tax even if the intangibles are located in the U.S. (e.g., U.S. stocks and bonds).

A non-domiciliary individual is taxed at death on the fair market value of his or her gross estate, less certain deductions and exclusions. The gross estate of a non-domiciliary is limited to certain tangible and intangible property situated in the U.S. For example, stocks and bonds of U.S. corporations or real property located in the U.S. are included in a non-domiciliary individual's U.S. estate.

As explained above, it is assumed that the Trust should be classified as a foreign partnership and Investment LP should be classified as a U.S. corporation for federal tax purposes (including federal gift and estate tax purposes).

Thus, a gratuitous transfer of a partnership interest by a non-domiciliary during life will not be subject to U.S. gift tax as long as it is considered intangible personal property (regardless of where it is situated). The IRS has accepted (in at least one Private Letter Ruling) that an interest in a partnership should be treated as intangible personal property as long as the partnership is viewed as an entity separate from its owners (the entity theory) rather than merely a collection of underlying assets and businesses (the aggregate theory). Although there is no clear guidance on the aggregate versus entity characterization in the estate and gift tax arena and the IRS has placed this issue in the gift tax context on its "no-rule" list for a number of years, the IRS and the courts have historically applied the entity approach in various transfer tax decisions. Therefore, assuming the Non-U.S. Trust Unitholders (excluding RRSPs and TFSAs) are not domiciled in the U.S. for transfer tax purposes, it is likely (though far from certain) that their gratuitous transfers of Trust Units (which are assumed to be partnership interests for U.S. federal tax purposes) during life will constitute gifts of intangible personal property not subject to U.S. gift tax. The gift tax rules relating to partnership interests are complex and unsettled, and each Trust Unitholder should consult his or her own tax advisor for more specific information and advice regarding his or her own individual gift tax exposure before making a gift of a Trust Unit.

The transfer of a partnership interest (considered an interest in an entity as discussed above) by a non-domiciliary at death will not be subject to U.S. estate tax as long as it is not U.S.-situated. The situs of a

partnership interest for transfer tax purposes has not been judicially determined. Nor is this issue addressed in the Code. Although the Treasury regulations address the situs of intangible personal property in general, they do not address partnership interests specifically. Moreover, it is not clear whether the regulations are valid given the lack of a grant of power to the IRS to expand the Code's boundaries in such a manner. While arguments may be made that a partnership interest should be situated at the decedent's domicile, where the partnership's assets are located, where the partnership was created, or where the partnership's trade or business is located, the IRS has concluded that the situs of a partnership interest is generally determined according to "where the partnership business is carried on." As it is contemplated that substantially all of the Trust's activity will be holding an investment in Investment LP (which is assumed to be a U.S. corporation for U.S. federal tax purposes and which invests in U.S. real estate), the IRS would likely view the Trust as carrying on its business in the U.S. and being U.S. situated. Thus, while the law in this area is far from clear, it is likely (though far from certain) that transfers of Trust Units (which are treated as partnership interests for U.S. federal tax purposes) at the death of the non-domiciliary Non-U.S. Trust Unitholders (excluding RRSPs and TFSAAs) will constitute bequests of U.S. situated property subject to U.S. estate tax, with possible tax treaty relief. The estate tax rules relating to partnership interests are complex and unsettled, and each Trust Unitholder should consult his or her own tax advisor for more specific information and advice regarding his or her own individual estate tax exposure (and any potential relief under the U.S.-Canada Treaty) should such Trust Unitholder hold a Trust Unit until death.

### **Federal Income Taxation of Investment LP as a REIT**

Investment LP intends to elect to be a REIT commencing with its first taxable year. However, qualifying as a REIT depends on an entity meeting various REIT requirements each taxable year. As such, there is no assurance that Investment LP will qualify as a REIT. The failure of Investment LP to qualify as a REIT without the benefits of certain savings provisions in its first or in any subsequent taxable year may result in materially reduced distributions to Non-U.S. Trust Unitholders and U.S. federal income tax consequences that are not described in this summary.

The following describes the general REIT qualification rules and the significant U.S. federal income tax consequences to a business entity electing to be treated as a REIT.

The sections of the Code relating to qualification and operation as a REIT are highly technical and complex. The following discussion sets out, in very general terms, the material aspects of the Code sections that govern the U.S. federal income tax treatment of a REIT and its non-U.S. interest holders.

A business entity that qualifies and timely elects to be taxed as a REIT is not generally subject to U.S. federal income tax on its income and capital gains that it distributes to its interest holders each year. However, it would remain subject to U.S. federal income tax in certain circumstances.

For example:

- Undistributed taxable income (including undistributed net capital gains) will be taxed at the regular rates for corporations.
- A REIT may be subject to "alternative minimum tax" on items of tax preference.
- A REIT is subject to the highest corporate income tax rate on net income from a sale or other disposition of "foreclosure property" (i.e., generally property acquired through foreclosure or after default on a loan secured by the property or a lease of the property) held primarily for sale to customers in the ordinary course of business and on other non-qualifying income earned from foreclose property.
- A REIT is subject to a 100% tax on net income from "prohibited transactions". Prohibited transactions are generally sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

- A REIT is subject to a 100% tax on certain transactions with its taxable REIT subsidiaries if such transactions are not at “arm’s-length”, as defined.
- If a REIT fails to satisfy either the 75% or 95% gross income test (as discussed below) but has nonetheless maintained its qualification as a REIT because it has met certain other requirements, the REIT will be subject to a 100% tax on an amount equal to the greater of the amount by which it fails the 75% or 95% test multiplied by a fraction calculated to reflect the REIT’s profitability.
- If a REIT (1) fails to satisfy any of the REIT asset tests (as discussed below), other than a “*de minimis*” failure of the 5% or 10% REIT asset test as described more fully below, it may continue to qualify as a REIT if it meets certain other requirements and it pays a tax equal to the greater of \$50,000 or the highest corporate income tax rate multiplied by the net income from the non-qualifying assets for the period of time it failed to satisfy the asset tests; or (2) fails to satisfy REIT requirements other than the gross income and asset tests and meets certain other requirements, it will have to pay \$50,000 for each failure in order to remain a REIT.
- A REIT is subject to a 4% excise tax on the excess of the required distribution over the sum of amount distributed and amounts retained for which federal income tax was paid. The required distribution for this purpose is at least 85% of its ordinary income, 95% of its capital gain net income, and any undistributed amounts from prior periods.

### **Requirements for REIT Qualification**

To qualify as a REIT, a business entity must timely elect to be treated as a REIT and must meet certain organizational, operational, income, asset and distribution requirements, discussed in very general terms below.

#### *Organizational Requirements*

The IRC defines a REIT as a corporation, trust or association that:

1. is managed by one more trustees or directors;
2. issues transferable stock or transferable certificates as evidence of beneficial ownership;
3. would be taxed as a domestic corporation but for the REIT provisions of the Code;
4. is neither a financial institution nor an insurance company;
5. is beneficially owned by at least 100 persons (100 Shareholder Requirement);
6. not more than 50% of the value of its outstanding equity interests is owned, directly, indirectly or by attribution, by five or fewer “individuals” (as defined in the Code to include certain entities), during the last half of the taxable year (“Not-Closely Held Requirement”); and
7. satisfies the asset and income requirements, described below.

Conditions (1) to (4) described above must be met for the entire taxable year. The 100 Shareholder Requirement must be met for at least 335 days of a 12-month taxable year or for a proportionate number of days if the taxable year is less than 12 months. The Not-Closely Held Requirement is generally measured at the individual level through the application of constructive ownership rules. The 100 Shareholder Requirements, on the other hand, is generally measured at the actual shareholder level. Both the 100 Shareholder Requirements and the Not-Closely Held Requirements are waived for the first taxable year for which a REIT election is made.

Generally a partnership organized in the U.S., which has an objective to carry on business and which otherwise satisfies all of the REIT requirements may be eligible to make a REIT election. In that regard, a partnership may

satisfy the REIT requirement that it be managed by one or more trustees or directors if the partnership has the corporate characteristic of centralized management. Units in a partnership may also satisfy the transferability requirement if the Unitholder has the absolute right to assign his or her partnership interest to a new partner without the consent of another person and upon the assignment the new partner has all the rights and obligations of the former limited partner. Investment LP does not intend to seek a ruling from the IRS to confirm that it is eligible to become a REIT. Accordingly, no assurances can be given that the IRS will not challenge Investment LP's status as a REIT and that such status will not ultimately be upheld by the courts.

A REIT's taxable year must be the calendar year. As well, a REIT cannot have earnings and profits as of the close of any REIT taxable year, which were accumulated in any non-REIT taxable year. As discussed more fully below under "*Annual Distribution Requirements*", a REIT is required to make dividend distributions equal to at least 90% of REIT taxable income (determined without regard to net capital gain), plus 90% of the excess of net income from foreclosure property over the tax imposed on such income, less "excess non-cash income". A REIT is also required to maintain certain records pertinent to its qualified status.

#### *REIT Subsidiaries*

The separate existence of a qualified REIT subsidiary is disregarded for U.S. federal income tax purposes. All the assets, liabilities, income, deductions, and credits of a qualified REIT subsidiary are treated as though they are owned or earned directly by the REIT. A qualified REIT subsidiary is an entity that is treated as a corporation for U.S. federal income tax purposes if 100% of the stock of the entity is owned by the REIT. A "taxable REIT subsidiary" is not however, treated as a qualified REIT subsidiary.

A taxable REIT subsidiary is treated as a separate entity and is taxed as a regular corporation. A taxable REIT subsidiary is usually formed to earn nonqualified REIT income or to hold nonqualified REIT assets. A taxable REIT subsidiary is an entity in which the REIT directly or indirectly owns stock and for which a joint election is timely made by the REIT and by the subsidiary. Subsidiaries of a taxable REIT subsidiary that are more than 35% owned, directly or indirectly, by the taxable REIT subsidiary are treated as taxable REIT subsidiaries.

#### *REIT Partnerships*

For purposes of determining a REIT's qualified status, a REIT that is a partner in a partnership that has not elected to be treated as a corporation (and is not otherwise treated as a corporation for U.S. federal income tax purposes) is deemed to own its proportionate share of the assets of the partnership and is deemed to earn its proportionate share of the income of the partnership. The character of a partnership's assets and its gross income is retained in the hands of the REIT.

A partnership is not subject to U.S. federal income tax; instead, its partners are liable for U.S. federal income tax on their respective shares of the partnership income.

#### *Annual Income Requirements*

A REIT must meet the following two gross income, excluding gross income from prohibited transactions and certain hedging transactions, requirements annually:

1. At least 75% of the REIT's gross income, excluding gross income from prohibited transactions and certain hedging transactions, must be derived principally from:
  - rents from real property, as defined;
  - interest on obligations secured by mortgages on real property;
  - gain from the sale of real property that is not held primarily for sale;
  - income and gain derived from "foreclosure property" (as previously described);

- income from certain temporary investments (described below); and
  - certain other real estate-related income.
2. At least 95% of the REIT's gross income, excluding gross income from prohibited transactions and certain hedging transactions, must be income of a passive-type, including:
- income described in the 75% test, above;
  - dividends;
  - interest (whether or not secured by a mortgage); and
  - gain from the sale or disposition of stock or securities.

*Certain Types of Income*

*Rents from Real Property:* Generally, "rents from real property" generally means the gross amounts received for the use of real property. "Rents from real property" includes:

1. rents from interests in real property;
2. charges for services customarily furnished or rendered (i.e., services customarily provided in the geographic area in connection with the rental of space for occupancy) in connection with the rental of real property, whether or not those charges are separately stated;
3. rent attributable to personal property that is leased in connection with a lease of real property provided that the rent attributable to personal property does not exceed 15% of the total rental amount; and
4. rents received from a taxable REIT subsidiary (which would otherwise be disqualified as related party rents), provided that certain conditions are satisfied.

"Rents from real property" does not include, among other categories of real property-related rental income,

1. any amount received or accrued that is based upon profits of any person either in whole or in part, directly or indirectly. However, an amount is not so excluded solely by being based on a fixed percentage or percentages of sales or if it is based on the net income of a tenant which derives substantially all of its income with respect to such property from subleasing of substantially all of such property, to the extent that the rents paid by the subtenants would qualify as rents from real property, if earned directly by the REIT;
2. any amounts received from a tenant that is directly or indirectly 10% owned (based on voting power or value for a corporate entity or assets or net profits for a non-corporate entity) by the REIT, except in certain cases for amounts received from a taxable REIT subsidiary; and
3. impermissible tenant service income.

Generally, impermissible tenant service income ("ITSI") means with respect to a property, any amount received or accrued directly or indirectly by the REIT for furnishing or rendering services to its tenants or for managing or operating the property. If the amount of ITSI described in the preceding sentence exceeds 1% of all amounts received or accrued directly or indirectly during the taxable year by the REIT with respect to such property, then all such amounts are treated as ITSI. However, if such services are rendered or furnished, or such management or operation is provided through (1) an "independent contractor" (as defined) from whom the REIT does not derive or receive any income; or (2) a taxable REIT subsidiary of the REIT, then such services, management or

operation is not treated as furnished, rendered or provided by the REIT. In addition, certain customary property management services may be provided directly by the REIT without causing amounts to be treated as ITSI.

*Property Held Primarily for Sale:* A REIT is subject to a 100% tax on its income from “prohibited transactions”. A prohibited transaction includes the sale of property held primarily for sale to customers in the ordinary course of business. Whether property is held primarily for sale to customers in the ordinary course of business depends on the facts and circumstances. However, a prohibited transaction is deemed not to include the sale of certain property if:

1. the REIT has owned the property (consisting of land and improvements) for two years or longer for the production of rental income;
2. the aggregate expenditures of a capital nature made by the REIT or its partner on the property during the two-year period prior to the sale do not exceed 30% of the property’s net selling price; and
3. the REIT either (a) makes no more than seven sales of property during the taxable year, or (b) the aggregate tax bases of the properties sold during the year does not exceed 10% of the aggregate tax bases of all the REIT’s assets, determined as of the beginning of the tax year, or (c) the fair market value of the properties sold during the taxable year does not exceed 10% of the fair market value of all of the REIT’s assets, determined as of the beginning of the tax year. If the REIT relies on the percentage of tax bases or fair market value test to avoid prohibited transaction treatment, then substantially all the marketing and development expenditures with respect to the property must be made through an independent contractor in a prescribed manner.

*Income from certain temporary investments:* Interest income on obligations not secured by real property and certain other investment income may qualify under the 75% gross income test if it is “qualified temporary investment income”. Qualified temporary investment is limited to certain investment income that is attributable to the temporary investment of new capital and is received or accrued during the one-year period beginning on the date the REIT receives such new capital. The same one-year period also limits the time such temporary investments are treated as real estate assets for asset testing purposes.

#### *Quarterly Asset Requirements*

At the end of each quarter, a REIT must meet certain asset requirements, generally as follows:

1. At least 75% of the value of the REIT’s gross assets must consist of real estate assets (which generally include qualified temporary investments, described above, interests in real property, interest in mortgages and shares in other REITs), cash, cash items, and government securities.
2. Not more than 25% of value of its total assets may consist of securities, other than government securities and securities that qualify as real estate assets.
3. Not more than 25% of the value of its total assets may consist of securities of taxable REIT subsidiaries (see below).
4. Not more than 5% of its total assets may consist of securities of one issuer (other than interests in taxable REIT subsidiaries, government securities and securities that qualify as real estate assets).
5. The REIT may not hold securities that make up more than 10% of total voting power or value of the outstanding securities of any one issuer (except for interests in taxable REIT subsidiaries, government securities, securities that qualify as real estate assets and, for 10% value limitation purposes, certain exempted securities).

A REIT that meets the asset tests at the close of any quarter will not lose its REIT status if it fails to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values of assets owned in the

immediately preceding quarter (including a failure caused solely by a change in the foreign currency exchange rate used to value a foreign asset). If, on the other hand, a REIT fails the asset test because of the acquisition of an asset, the failure can be cured by disposing of non-qualifying assets within 30 days after the close of the quarter. Under certain circumstances, a REIT may avoid REIT disqualification after the 30-day cure period by disposing of sufficient non-qualifying assets within six months of the last day of the quarter in which the REIT first identifies the violation and by taking certain other steps.

A REIT that fails to satisfy the REIT requirements, other than the gross income tests and the asset tests, may avoid REIT disqualification if such a failure is due to reasonable cause and not due to willful neglect and the REIT pays \$50,000 for each such failure.

A REIT that is disqualified as a REIT cannot generally again elect to become a REIT prior to the fifth taxable year beginning after the first taxable year for which the termination is effective unless it can establish the disqualification was due to reasonable cause and not due to willful neglect. A partnership that elects REIT status and which is later disqualified as a REIT becomes subject to U.S. income tax as a U.S. corporation.

#### *Annual Distribution Requirements*

A REIT is required annually to take a dividends paid deduction at least equal to the sum of (1) 90% of its taxable income (determined without regard to the deduction for dividend paid and by excluding any net capital gain); and (2) 90% of the excess of net income from foreclosure property over the tax imposed on such income, minus "excess non-cash income". Generally, a distribution is treated as a dividend that may qualify for a dividends paid deduction, only to the extent it is paid from current or accumulated earnings and profits of the REIT and provided it is not treated as a preferential dividend.

Generally, a dividend made during the taxable year is taken into account in the same year, for purposes of the dividend paid deduction. However, dividends paid in the immediately subsequent year are treated as if distributed on December 31 of the prior year if the dividends were declared in October, November or December of the preceding year, the dividends were payable to "stockholders" of record on a specified date in such a month, and the dividends were actually distributed during January of the immediately subsequent year.

A dividend is also taken into account if it is declared before the REIT timely files its federal income tax return for such year, it is actually paid in the 12-month period following the close of the prior year, it is paid not later than the first regular dividend payment after such declaration, and the REIT timely files an election. Finally, a REIT and its holders of common interest (i.e., consent stock) may agree to deem a dividend to occur if certain conditions are met and an election is timely filed.

A REIT may choose to treat certain dividends to be treated as designated capital gain dividends. A REIT may designate prior distributions as capital gain dividends in a written notice mailed to shareholders within 30 days of the close of the taxable year, or in its annual report for the taxable year. Capital gain dividends are generally limited to the amount of the REIT's net capital gain for the year. Capital gain dividends are taxed in the hands of the beneficiaries as a gain from the sale or exchange of a capital asset held for more than one year (see discussion entitled "*Taxation of Trust and Trust Unitholders*").

A REIT is subject to 4% excise tax if it fails to make timely distributions above a certain threshold (see discussion above).

#### *Records Maintenance*

A REIT is required to keep such records as are required in order to disclose the actual ownership of its outstanding equity interests. The actual owner of a REIT's outstanding equity interests is generally the person who is required to include the dividends received from the REIT in gross income for U.S. federal income tax purposes.

### *Other Applicable Rules*

A REIT is generally subject to all other provisions of the Code that apply to corporations except to the extent those provisions are inconsistent with the REIT rules. For example, but for the dividends paid deduction and certain modifications to the normal operating rules applicable to corporations, a REIT generally computes its taxable income in the same way as a U.S. corporation. As such, a REIT is entitled to deduct ordinary and necessary expenses, including fees, interest, depreciation and amortization computed under the rules of the Code and other amounts that are not properly treated as being on capital account. However, to be deductible, expenses must also meet the clear reflection of income, economic performance and certain other standards.

## **18. 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 Trust Units. If any of the following risks occur, or if others occur, the Issuers' business, operating results and financial condition could be seriously harmed and Purchasers may lose all of their investment. Risks affecting the Trust will affect the ability to make distributions on the Trust Units. 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 the Property GP and its Management* – Although the Trustee expects that the net proceeds of this Offering will be applied to the purchase of one or more Properties, the specific Properties in which the Trust will invest have not yet been determined. In any event, if the maximum Offering of 40,000 Trust Units is sold, the 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 the Property GP 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 Trust Units is sold, the 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 the Property GP), 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 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 the Property GP and its principals, Darren Latoski and Steve Evans. In particular, prospective purchasers will have to rely on the discretion and ability of the Property GP and its principals in determining the composition of the portfolio of Properties, and in negotiating the pricing and other terms of the agreements leading to the acquisition of Properties. The ability of the Property GP to successfully implement the Issuers' investment strategy will depend in large part on the continued employment of Messrs. Latoski and Evans. Neither of the Trust nor the Property GP maintains key person life insurance for any of these named individuals. If the Property GP 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 Trust Units* – There currently is no market whatsoever for the Trust Units and it is expected that there will be no market for the Trust Units. Consequently, holders of such securities may not be able to sell them readily, and Trust 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 Trust 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 more than the minimum Offering will be sold. If less than all of the 40,000 Trust 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 Property LP.



*Non-GAAP Measures* - The Issuers have disclosed the annual, unaudited, pre-tax cash return on investment for investments in Sunstone LP, Sunstone (2004) LP, Sunstone (2005) LP, Sunstone (2006) LP, Sunstone (2007) Co-Ownership, Sunstone U.S. (2008) LP and Sunstone (2008) LP. Such cash return does not have a standardized meaning prescribed by Generally Accepted Accounting Principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other issuers. There is no comparable measure calculated in accordance with GAAP. Sunstone uses such annual, unaudited, pre-tax cash returns to provide investors with an estimated guideline as to the investment returns received on its previous investment offerings. Investors are cautioned that historical returns on other Sunstone investment offerings and similar offerings by others are not predictive of the returns which may be achieved by Trust Unitholders from an investment in Trust Units.

*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 Trust will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties, or, if available, that the Trust will be able to obtain Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Mortgage Loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the Trust is able to purchase will decrease and the projected return from the ownership of Properties will be reduced. Even if the Trust is successful in obtaining adequate Mortgage Loans, the Trust may not be able to generate sufficient funds through the operation of the Properties to service the Mortgage Loans. If a default occurs under any of the Mortgage Loans, one or more of the Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.
- (b) *Interest Rate Fluctuations* - The Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the 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 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 Trust's ability to sell such Property or to borrow using the Property as collateral, and could potentially also result in claims against the Trust by private parties.
- (d) *Uninsured Losses* – The Property GP will, under the terms of the Property LP 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 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 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* – In certain cases, the Property GP will rely upon independent management companies to perform property management in respect of the Properties. 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 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 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 Mortgage Loans or to fund changes in the variable rates of interest charged in respect of such loans.
- (h) *Joint Ventures* - The Property LP may invest in or be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks, including, (i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with the Property LP's or take actions contrary to the Property LP's instructions or requests or to the Property LP's policies or objectives with respect to the Properties, (ii) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such Properties or repay the co-venturers'/partners' share of property debt guaranteed by the Property LP or for which the Property LP will be liable and/or result in the Property LP suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions, (iii) the risk that such co-venturers/ partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject the Property LP to liability, and (iv) the need to obtain coventurers'/ partners' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when the Property LP may not desire to sell but may be forced to do so because the Property LP does not have the cash to purchase the other party's interests. Such rights may also inhibit the Property LP's ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis the Property LP desires.

*Reliance on Assumptions* – The Trust's business plan and investment strategy have been formulated based on Sunstone's analysis and expectations regarding recent economic developments in the United States, the future recovery of U.S. real estate markets generally and in the "Sunbelt" regions, and the U.S. to Canadian dollar exchange rate. Such analysis may be incorrect and such expectations may not be realized, in which event the Minimum Return may not be achieved by the Property LP.

*No Maximum Time for Investment of Net Proceeds* - There is no maximum time period for the full investment of the net proceeds of the Offering in Properties and the timing of such investment will depend upon the Property GP's identification of Properties meeting its criteria for acquisition. There is a risk that the Property LP may not invest all proceeds of the Offering in Properties and not be able to generate sufficient funds to pay the Minimum Return.

*Liability of Trust Unitholders* – There is a risk that a Trust Unitholder could be held personally liable for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust). The Trust Declaration provides that no Trust 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 Trust or the Trustee (to the extent that claims are not satisfied by the Trust). In any event, each of the Trust Declaration and the Property LP Agreement requires the Trustee and the Property GP to ensure that any written contract or commitment of the Trust 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 Trust of the redemption price of Trust Units will reduce the amount of cash available to the Trust for the payment of distributions to the holders of Trust 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 by the Trust is limited to \$100,000 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 that were issued and outstanding at the start of such twelve month period.
- (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, Debt Security or an Investment LP Unit. Trust Notes and Debt Securities are payable over a term of five years or less with annual interest at the Canada Five-Year Yield. Trust Notes, Debt Securities and Investment LP Units received as a result of redemptions of Trust Units may not be liquid. Further, they will generally not be qualified investments or may be prohibited investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant or holder under a Plan, including the redeeming Trust Unitholder or Plan holder 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 should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Trust Units.

*Currency Exchange Rate Risk* – The Offering Price for Trust Units is denominated in U.S. dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. Although investors are Canadian residents, an investment in Trust Units is required to be made in U.S. dollars and the Property LP and its affiliates will conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale will be earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in Trust Units and the return on the original investment, when expressed in Canadian dollars, may be greater or less than that determined only with reference to U.S. dollars. Accordingly, investors are subject to currency exchange rate risk.

*Risk Factors Relating to the Issuers’ Canadian Tax Status* - If either the 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 Trust 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 Trust Unitholders may otherwise be adversely affected), and (ii) the Trust Units may not be or may cease to be qualified investments for Plans (with the result that a Plan, its annuitant and/or its holder will generally become subject to additional tax or penalties or may be otherwise adversely affected).

The exposure of the Issuers to the new tax on SIFTs imposed by the SIFT Measures will depend in part on whether or not the Trust Units or Investment LP 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 a REIT under the REIT Exception and the Investment LP’s ability to maintain central management and control outside of Canada. Where the Trust Units or the Investment LP Units are listed or traded on a stock exchange or public market, the Trust does not qualify or ceases to qualify as a REIT under the REIT Exception, or any of the Sunstone US Limited Partnerships cease to maintain residency, including central management and control, outside of Canada, adverse consequences could arise including that the non-deductible distributions amount or the taxable non-portfolio earnings, as previously described, could be taxable to the Trust or to the Sunstone US Limited Partnerships, 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, depending on the circumstances, be included in the income of Trust 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 REITs will not be changed, or that administrative and assessing practices of CRA will not develop, in a manner which adversely affects the Trust or Investment LP.

*Other Canadian Tax Related Risk Factors* - The tax treatment of investment and real estate activities of the Issuers have a material effect on the advisability of an investment in the Trust Units (refer to “Canadian Federal Income Tax Considerations”).

The after-tax return from an investment in Trust Units to Trust 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 Trust (portions of which distributions may be fully or partially taxable or may be tax-deferred). Subject to the SIFT Measures, income of the Trust distributed to a Trust Unitholder is generally taxed in the hands of the Trust Unitholder as ordinary income, capital gains, or dividends. Amounts in excess of the income of the Trust that are paid or payable by the Trust to a Trust Unitholder are generally non-taxable to a Trust Unitholder (but reduce the Trust Unitholder's adjusted cost base of the Trust Units 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 Trust can reduce its taxable income by claiming available non-cash deductions such as capital cost allowances. Trust Unitholders are advised to consult their own tax advisors with respect to the implications of the foregoing in their own circumstances.

The after-tax return from an investment in Trust Units to Trust Unitholders who are subject to Canadian income tax will also depend in part on Trust Unitholders' ability to recognize for tax purposes U.S. taxes paid by the Trust or by the Trust Unitholder through foreign tax credits or foreign tax deductions under the Tax Act (refer to "Canadian Federal Income Tax Considerations"). A Trust Unitholder's ability to recognize U.S. taxes through foreign tax credits or foreign tax deductions may be affected where the Trust Unitholder has other U.S. source income or losses, has paid other U.S. taxes or, in certain circumstances, has not filed a U.S. federal income tax return. Furthermore, foreign tax credits or foreign tax deductions will be dependant upon the Canadian federal and provincial and U.S. federal and state income tax rates that will prevail in future years to apply to applicable sources of income. Trust Unitholders are therefore advised to consult their own tax advisors in regards to foreign tax credits and foreign tax deductions.

The Trust Declaration provides that the Trust shall, subject to the Trustee resolving otherwise, distribute to Trust Unitholders in each year an amount of net income and net realized capital gains in order to eliminate the 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 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 Trust Unitholders in the form of additional Trust Units. Trust Unitholders will generally be required to include an amount equal to the fair market value of those Trust 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", SIFTS, or REITs will not be changed in a manner which would adversely affect the Trust Unitholders, including on a retroactive basis.

The rules governing the Canadian federal income taxation of Trust Unitholders are complex. The summary in "Canadian Federal Income Tax Considerations" does not address or consider all aspects of Canadian federal income tax of an investment in the Trust and does not consider provincial, territorial, U.S., State, or other foreign tax legislation or considerations. Prospective investors should consult their own professional advisors as to the tax consequences to them of making an investment in, and of holding, Trust Units offered herein.

#### *U.S. Tax-Related Risk Factors*

The tax treatment of investment and real estate activities and of the Trust has a material effect on the advisability of an investment in the Trust Units (refer to "U.S. Federal Income Tax Considerations").

For example, the Investment LP is not currently qualified as a REIT for U.S. federal income tax purposes and it may fail to meet the requirements to qualify as a REIT, which will require the Investment LP to pay additional taxes and which could reduce funds available to make distributions to the Trust Unitholders. A REIT that is disqualified as a REIT cannot generally again elect to become a REIT prior to the fifth taxable year beginning after the first taxable year for which the termination is effective. Even if the Investment LP becomes qualified as a REIT for U.S. federal income tax purposes, it may be subject to other tax liabilities that reduce its cash flow and its ability to make distributions to the Trust. For example, if the Investment LP (through the Property LP) sells property, other than foreclosure property, that it holds primarily for sale in the ordinary course of business, the gain recognized would be subject to a 100% "prohibited transaction" tax. Furthermore, future legislative,

judicial or administrative changes to U.S. federal income tax laws could affect the tax implications to the Property LP, the Investment LP, the Trust and the Trust Unitholders.

Given the highly complex nature of the rules governing REITs and the possibility of future changes in its circumstances, no assurances can be given that Investment LP will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year.

The Investment LP, the Trust and, in some cases, Trust Unitholders will be making withholding certificate applications to the IRS to request for a reduction in U.S. federal income tax withholdings that would otherwise apply to an amount that more closely resembles the actual tax liability. No assurance can be given that the IRS will approve a withholding certificate application.

Trust Unitholders to whom the Trust allocates U.S. ECI (including USRPI gains) are required to file a U.S. federal income tax return. Trust Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return (refer to “U.S. Federal Income Tax Considerations”).

A Trust Unitholder’s investment in the Trust Units might have U.S. gift and estate tax implications. The gift and estate tax rules are complex, and each Trust Unitholder should consult his or her own tax advisor to determine the U.S. gift and estate tax implications.

The rules governing the U.S. federal income taxation of Trust Unitholders are complex. The summary in “U.S. Federal Income Tax Considerations” does not address or consider all aspects of U.S. federal income tax of an investment in the Trust and does not consider state, local or non-U.S. tax consequences. Prospective investors should consult their own tax advisors to determine the U.S. federal income tax consequences, state, local and/or non-U.S. tax consequences, reporting and any other requirements applicable to their particular situations.

**For all of the aforesaid reasons and others set forth herein, the Trust Units involve a certain degree of risk. Any person considering the purchase of Trust 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 Trust Units. The Trust Units should only be purchased by persons who can afford to lose all of their investment.**

## **19. PROMOTER**

Sunstone may be considered to be the promoter of the Issuers by reason of its initiative in organizing the business of the Issuers and taking the steps necessary for the public distribution of the Trust Units. As at the date hereof, neither Sunstone nor any of its directors, officers or shareholders beneficially owns, controls or directs, directly or indirectly, any Trust Units. Other than dividends or the return of capital which may be received by Sunstone as a shareholder of the Investment GP, Sunstone is not entitled to the payment of any consideration, money, property, contracts, options or rights of any kind from the Issuers or any subsidiary of the Issuers.

## **20. LEGAL PROCEEDINGS**

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

## **21. INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Trust and the Investment LP were only recently formed and have not carried on any business to date. Neither Sunstone nor any of its directors, executive officers or shareholders, or any of their associates or affiliates has a material interest in any transaction carried out by the Trust, the Investment LP or their subsidiaries within the three years before the date of this Prospectus that has materially affected or is reasonably expected to materially affect the Trust or the Investment LP or any of their subsidiaries.

## 22. AUDITORS

The auditors of the Trust are KPMG LLP, of Vancouver, British Columbia.

## 23. REGISTRAR AND TRANSFER AGENT

Pursuant to the Trust Declaration, the Trustee acts as the registrar and transfer agent for the Trust Units. Registration and transfers of Trust Units will be effected only through the book-entry only system administered by CDS. A purchaser of Trust Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Trust Units are purchased (refer to “Plan of Distribution”).

## 24. MATERIAL CONTRACTS

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

### 24.1 Particulars of Material Contracts

1. *Trust Declaration* – described in “Description of the Securities Distributed– The Trust”.
2. *Investment LP Agreement* - described in “Description of Businesses of the Issuers – The Properties”.
3. *Property LP Agreement* – described in “Description of Businesses of the Issuers – The Properties”.
4. *General Partner Services Agreement* – described in “Executive Compensation – Management Agreement”.
5. *Agency Agreement* – described in “Plan of Distribution – Agency Agreement”.
6. *Cost Sharing and Recovery Agreement – Investment LP*– an agreement dated as of August 21, 2009 between the Trust and the Investment LP pursuant to which the Investment LP has agreed to bear all of the costs of this Offering incurred by the Trust, as a cost of issuing Investment LP Units;
7. *Cost Sharing and Recovery Agreement – Property LP*– an agreement dated as of August 21, 2009 between the Investment LP and the Property LP pursuant to which the Property LP has agreed to bear all of the costs of this Offering incurred by the Trust, as a cost of issuing Property LP Units; and
8. *Amendment Agreement* dated as of September 18, 2009 in respect of the Trust Declaration.

### 24.2 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’ business, all of which may be inspected at the registered office of the 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.

## 25. 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 August 28, 2009, 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 August 28, 2009, 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, in its capacity as tax advisor to the Trust, has prepared the summary of principal Canadian federal income tax considerations set out under the heading “Canadian Federal Income Tax Considerations” and the summary of principal U.S. federal income tax considerations set out under the heading “U.S. Federal Income Tax Considerations”. As at August 28, 2009, KPMG LLP beneficially owned, directly or indirectly, less than 1% in the outstanding securities of the Issuers and their respective associates and affiliates.

## **26. PURCHASERS’ STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories 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 such provinces and territories, 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 or territory. The Purchaser should refer to the securities legislation in the province or territory in which the Purchaser resides for the particulars of these rights or consult with a legal advisor.

## **27. FINANCIAL STATEMENTS**

## **AUDITORS' CONSENT**

To the Trustee of Sunstone U.S. Opportunity (No. 2) Realty Trust

We have read the prospectus of Sunstone U.S. Opportunity (No. 2) Realty Trust (the Trust) dated September 23, 2009 relating to the sale and issue of Units of the Trust. 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 Trust on the balance sheet of the Trust as at August 20, 2009 and our report to the General Partner of Sunstone U.S. (No. 2) L.P. (the Investment LP) on the balance sheet of the Investment LP as at August 20, 2009. Our report on the Trust is dated August 21, 2009, except for note 3 which is as of September 23, 2009. Our report on the Investment LP is dated August 21, 2009, except for note 4 which is as of September 23, 2009.

Chartered Accountants,

Vancouver, Canada  
September 23, 2009



Financial Statements  
(Expressed in United States dollars)

**SUNSTONE U.S. OPPORTUNITY (NO. 2)  
REALTY TRUST**

August 20, 2009

## **AUDITORS' REPORT**

To the Directors of Sunstone U.S. Realty Services (No. 2) Inc.  
in its capacity as Trustee of the Trust

We have audited the balance sheet of Sunstone U.S. Opportunity (No. 2) Realty Trust as at August 20, 2009. 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Trust as at August 20, 2009 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

August 21, 2009, except as to note 3  
which is as of September 23, 2009

**SUNSTONE U.S. OPPORTUNITY (NO. 2) REALTY TRUST**

Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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Assets

Cash \$ 10

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Unitholders' Equity

Units:

Authorized: Unlimited

Issued: 1 unit \$ 10

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See accompanying notes to financial statements.

Approved on behalf of the Trustee:

"Robert King"  
Robert King

Director

"Darren Latoski"  
Darren Latoski

Director

# SUNSTONE U.S. OPPORTUNITY (NO. 2) REALTY TRUST

Notes to Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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## 1. Incorporation and operations:

Sunstone U.S. Opportunity No. 2 Realty Trust (the Trust) is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated August 12, 2009 under, and governed by, the laws of the Province of British Columbia. The Trust will file an election pursuant to the U.S. Internal Revenue Code of 1986, as amended from time to time (Code) to be taxed as a partnership for U.S. federal income tax purposes, effective on the date of its formation.

The principal business of the Trust is to invest the proceeds from the issuance of Trust Units in the acquisition of units of Sunstone U.S. (No. 2) L.P. (the Investment LP). The Investment LP is to invest the proceeds from the issuance of Investment LP Units in the acquisition of Units of Sunstone U.S. Opportunity (No. 2) L.P. (the Property LP). The Property LP is to invest the proceeds from the issuance of Property LP Units in acquiring, owning and operating a diversified portfolio of revenue-producing real estate properties in the United States.

There has been no activity in the Trust between its formation on August 12, 2009 and August 20, 2009, except for the receipt of a capital contribution. Accordingly, no statement of operations or statement of cash flows for this period have been presented.

## 2. Unitholder's equity:

Unitholders' equity represents the initial capital contribution to the Trust made by Sunstone Realty Advisors Inc. The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest. Each trust unit entitles the trust unitholder to the same rights and obligations as any other trust unitholders 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 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 Trust. On termination, the trust unitholders of record are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

The Trust intends to make quarterly distributions to trust unitholders.

## **SUNSTONE U.S. OPPORTUNITY (NO. 2) REALTY TRUST**

Notes to Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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### **3. Subsequent event:**

The Trust, along with the Investment LP and Sunstone Realty Advisors Inc., entered into an Agency Agreement dated September 23, 2009 pursuant to which it filed a prospectus dated September 23, 2009 in each of the Provinces of Canada in connection with its Initial Public Offering (the Offering) to sell a minimum of 4,000 units and a maximum of 40,000 units of the Trust at a price of \$1,250 per unit. Costs relating to the Offering include agents' fees of \$100 per Unit.

The proceeds of the Offering will be used by the Trust to acquire units in the Investment LP.

Pursuant to the Cost Sharing and Recovery Agreement, the Property LP has agreed to bear the costs and expenses incurred in respect of the Offering, including agents' commissions, fees and expenses.

Financial Statements  
(Expressed in United States dollars)

**SUNSTONE U.S. (NO. 2) L.P.**

August 20, 2009

## **AUDITORS' REPORT**

To the Directors of Sunstone Realty Advisors (Delaware) No. 2 Inc.  
in its capacity as General Partner of the Limited Partnership

We have audited the balance sheet of Sunstone U.S. (No. 2) L.P. (the Investment LP) as at August 20, 2009. This financial statement is the responsibility of the Investment LP'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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Investment LP as at August 20, 2009 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

August 21, 2009, except as to note 4  
which is as of September 23, 2009

**SUNSTONE U.S. (NO. 2) L.P.**

Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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Assets

Cash \$ 20

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Partners' Capital

General Partner contribution (note 3) \$ 10

Initial Limited Partner contribution (note 3) 10

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\$ 20

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See accompanying notes to financial statements.

Approved on behalf of the General Partner:

"Steve Evans"  
Steve Evans

Director

"Bryan Kerns"  
Bryan Kerns

Director



## **SUNSTONE U.S. (NO. 2) L.P.**

Notes to Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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### **1. Incorporation and operations:**

Sunstone U.S. (No. 2) L.P. (the Investment LP) is a limited partnership formed pursuant to and governed by the laws of Delaware and created by the Investment LP Agreement. It will make an election pursuant to the U.S. Internal Revenue Code of 1986, as amended from time to time (Code) to be taxed as a corporation for U.S. federal income tax purposes effective on its formation date. It also intends to make an election to be treated as a real estate investment trust (REIT) pursuant to the Code and to take the necessary steps to qualify as a REIT pursuant to the Code. The Investment LP was established, among other things, to:

- (a) acquire limited partnership units in Sunstone U.S. Opportunity (No. 2) Limited Partnership (the Property LP); and
- (b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Investment LP and make distributions to the holders of the Investment LP Units.

The general partner of the Investment LP is Sunstone Realty Advisors (Delaware) No. 2 Inc. (the General Partner). The initial limited partner is Sunstone U.S. Opportunity (No. 2) Realty Trust (the Initial Limited Partner).

The principal business of the Investment LP will be to issue Investment LP units and to acquire and hold Units of the Property LP. The Property LP is to invest the proceeds from the issuance of Property LP Units in acquiring, owning and operating a diversified portfolio of revenue-producing real estate properties in the United States.

There has been no activity in the Investment LP between its formation on August 18, 2009 and August 20, 2009, except for issuance of one Investment Unit and one General Partner Unit. Accordingly, no statement of operations, or statement of cash flows for this period have been presented.

### **2. Significant accounting policies:**

The financial statement has been prepared in accordance with Canadian generally accepted accounting principles and includes the following significant accounting policies:

- (a) Basis of presentation:

The financial statement reflects the financial position of the Investment LP and does not include the assets, liabilities, revenues and expenses of the Partners.

- (b) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

## **SUNSTONE U.S. (NO. 2) L.P.**

Notes to Balance Sheet

(Expressed in United States dollars)

August 20, 2009

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### **2. Significant accounting policies (continued):**

(c) Allocation of net income or net loss:

Net income or loss of the Investment LP will be allocated first to the Limited Partners holding Class B Units at a percentage to be determined by the General Partner in its sole discretion upon the issuance of the Class B Units. The balance of net income or loss will be allocated 0.01% to the General Partner to a maximum of \$100 per annum and 99.99% to the Limited Partners holding Class A Units.

### **3. Partners' capital:**

The capital of the Investment LP consists of an unlimited number of Class A units, 1,000 Class B units, and the interest held by the General Partner. The General Partner has made a capital contribution of \$10 to the Investment LP and has no further obligation to contribute capital. The Initial Limited Partner has made a capital contribution of \$10 to the Investment LP, which contribution will be repaid upon subscription for the first units. The Initial Limited Partner will contribute to the Investment LP \$1,250 in capital per unit purchased. Limited Partners holding Class B units will contribute \$1,000 in capital per Class B unit purchased.

### **4. Subsequent events:**

The Investment LP, along with Sunstone U.S. Opportunity (No. 2) Realty Trust (the Trust) and Sunstone Realty Advisors Inc., entered into an Agency Agreement dated September 23, 2009 pursuant to which it filed a prospectus dated September 23, 2009 in each of the Provinces of Canada in connection with its 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. Costs relating to the Offering include agents' fees of \$100 per unit.

The proceeds of the Offering will be used by the Trust to acquire units in the Investment LP.

Pursuant to the Cost Sharing and Recovery Agreement, the Property LP has agreed to bear the costs and expenses incurred in respect of the Offering, including agents' commissions, fees and expenses.

Pursuant to an Agency Agreement, the Agents will receive commissions equal to 8% of the gross proceeds of the Offering. In addition, the Property GP has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Property GP in respect of its incentive management interest, and pay a trailer fee equal to 1/6th of the asset management fee paid to Property GP pursuant to the General Partner Services Agreement, only if the asset management fee is collected by the Property GP.

## **CERTIFICATE OF THE TRUST**

DATED: September 23, 2009

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador, and the Yukon, Northwest Territories, and Nunavut.

### **SUNSTONE U.S. OPPORTUNITY (NO. 2) REALTY TRUST by its Trustee, Sunstone U.S. Realty Services (No. 2) Inc.**

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

*“Robert King”*  
Robert King  
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 INVESTMENT LP**

DATED: September 23, 2009

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador, and the Yukon, Northwest Territories, and Nunavut.

**SUNSTONE U.S. (NO. 2) L.P.**  
**by its General Partner, Sunstone Realty Advisors (Delaware) No. 2 Inc.**

*“Steve Evans”*  
Steve Evans,  
President and  
Acting Chief Executive Officer

*“Bryan Kerns”*  
Bryan Kerns  
Secretary and  
Acting Chief Financial Officer

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

*“Steve Evans”*  
Steve Evans, Director

*“Bryan Kerns”*  
Bryan Kerns, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

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

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

## CERTIFICATE OF THE AGENTS

DATED: September 23, 2009

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador, and the Yukon, Northwest Territories, and Nunavut.

DUNDEE SECURITIES CORPORATION

*"ONORIO LUCHESE"*  
ONORIO LUCHESE

RAYMOND JAMES LTD.

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

CANACCORD CAPITAL CORPORATION

SORA GROUP WEALTH ADVISORS INC.

*"JUSTIN BOSA"*  
JUSTIN BOSA

*"ROBERT ISAAC"*  
ROBERT ISAAC

BLACKMONT CAPITAL INC.

*"CHARLES A.V. PENNOCK"*  
CHARLES A.V. PENNOCK

GMP SECURITIES L.P.

*"NEIL SELFE"*  
NEIL SELFE

HSBC SECURITIES INC.

*"BRENT LARKAN"*  
BRENT LARKAN

MGI SECURITIES INC.

*"JAMES ANDREWS"*  
JAMES ANDREWS