

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

Amended and Restated Prospectus dated September 20, 2005
as amended on October 17, 2005

Initial Public Offering



**SUNSTONE OPPORTUNITY FUND (2005)
LIMITED PARTNERSHIP**
(the "Limited Partnership")

SRAI CAPITAL CORP.
(the "Debenture Issuer")
(hereinafter collectively called the "Issuers")

Minimum: \$5,000,000 (400 Units)
Maximum: \$45,000,000 (3,600 Units)
\$12,500 per Unit
(the "Offering")

This Prospectus qualifies the distribution of up to 3,600 units (each a "Unit") at a price of \$12,500 per Unit. Each Unit is comprised of one unit of the Limited Partnership (an "LP Unit") having a price of \$2,500, and one Series C Debenture (a "Debenture") of the Debenture Issuer in the principal amount of \$10,000, maturing on October 31, 2010. The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2006.

	Price to Public ⁽¹⁾	Agents' Discounts or Commissions ⁽²⁾	Proceeds to Issuer ⁽³⁾
Per Unit			
Per LP Unit	\$2,500	\$200	\$2,300
Per Debenture ^{(4) (5)}	\$10,000	\$800	\$9,200
Minimum Offering⁽⁶⁾			
400 LP Units	\$1,000,000	\$80,000	\$920,000
400 Debentures ^{(4) (5)}	\$4,000,000	\$320,000	\$3,680,000
Maximum Offering			
3,600 LP Units	\$9,000,000	\$720,000	\$8,280,000
3,600 Debentures ^{(4) (5)}	\$36,000,000	\$2,880,000	\$33,120,000

⁽¹⁾ The price to the public was determined by negotiation between Dundee Securities Corporation, as Lead Agent, the Limited Partnership and the Debenture Issuer.

- (2) The promoter of this Offering, Sunstone Realty Advisors Inc., will co-ordinate the placement of the Units through the Agents and sub-agents in the various jurisdictions where the Units are offered for sale. Sales commissions 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 purchase price of the LP Units and the Debentures. As a further incentive to the Agents, the General Partner may assign up to 25% of its Incentive Management Interest to the Agents, which in turn may assign all or part of such interest to sub-agents effecting sales of Units. As well, the General Partner has agreed to pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. Such trailer fee will only be paid by the General Partner to the Agents, if it is collected by the General Partner. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units. (Refer to “Plan of Distribution – Agency Agreement” on page 44 herein for further particulars.)
- (3) Before deduction of the balance of the expenses of the Offering estimated at \$150,000 to \$300,000.
- (4) The proceeds raised by the Debenture Issuer from the issuance of Debentures will be loaned to the Limited Partnership by way of the Debenture Issuer Loan. (Refer to “Description of Business of the Issuers – Debenture Issuer Loan” on page 8 for further particulars on the Debenture Issuer Loan.) Therefore, all proceeds of this Offering, net of expenses, will ultimately be used by the Limited Partnership in the purchase, ownership and operation of the Properties (as hereinafter defined).
- (5) The Debentures will be qualified for investment by a registered retirement savings plan (“RRSP”) and similar plans under the income tax laws of Canada. (Refer to “Experts – Income Tax Consequences” on page 51 herein for further particulars.)
- (6) There will be no closing unless a minimum of 400 Units are sold not more than 90 days after the date of the receipt for the Final Prospectus (as hereinafter defined).

This is a blind pool Offering. Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been determined. In any event, if the maximum Offering of 3,600 Units is sold, the General Partner expects to cause the Limited Partnership to apply approximately \$41,100,000 (i.e. approximately 91.3% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner upon the closing of any Property acquisitions), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 400 Units is sold, the General Partner intends to cause the Limited Partnership to apply approximately \$4,450,000 (i.e. approximately 89% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), and to the creation of working capital reserves and reserves for renovations and upgrades.

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

An investment in the securities offered by this Prospectus must be considered speculative as the securities are subject to certain risk factors as set out under the heading “Risk Factors” on page 45 herein. An investment in Units is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

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

The Limited Partnership Agreement provides that the General Partner may, if authorized by special resolution of the Limited Partners, request that additional capital contributions be made by Limited Partners. Any calls for additional capital contributions must be justified and reasonable in the circumstances. (For more information, see the discussion under the heading “Risk Factors – Additional Contributions” at page 45 herein.)

Given the uncertainties involved in connection with predicting the Limited Partnership's annual earnings and debt servicing requirements, it is impossible to determine the amount of earnings that the Limited Partnership will require to attain an earnings coverage ratio of one-to-one. The Debenture Issuer was incorporated on March 4, 2003, and has had revenues of \$1,069,146 to June 30, 2005. The Debenture Issuer will require \$3,139,200 in earnings to attain an earnings coverage ratio of 1.09 to 1.00, based on the certain assumptions discussed in more detail under the heading "Earnings Coverage Ratios" on page 20 herein.

The directors of the General Partner and the Debenture Issuer are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates. (Refer to "Directors and Officers – Potential Conflicts of Interest (Directors and Officers)" on page 41 herein.)

While the LP Units should not constitute "tax shelter investments," the Promoter has nevertheless obtained a tax shelter identification number for the Limited Partnership. The tax shelter identification number is TS070730. The tax shelter identification number shall be included in any tax return filed by a Limited Partner. The issuance of an identification number by CRA is for administrative purposes only and does not in any way confirm that the Limited Partners will be entitled to the tax benefits described herein. (Refer to "Experts – Income Tax Consequences – Tax Shelter Rules" on page 58 herein for further particulars.)

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

The Units offered hereunder are offered on a "commercially reasonable best efforts" basis in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island until December 31, 2005 by Dundee Securities Corporation, Blackmont Capital Inc., Sora Group Wealth Advisors Inc., Raymond James Ltd. and Bieber Securities Inc. (collectively the "Agents"), as agents, subject to: (a) prior sale, if, as and when issued and delivered by the General Partner on behalf of the Limited Partnership in respect of the LP Units and by the Debenture Issuer in respect of the Debentures in accordance with the conditions of the Agency Agreement referred to in "Plan of Distribution" on page 44 herein; and (b) the approval of certain legal matters by Clark Wilson LLP, Vancouver, British Columbia on behalf of the Limited Partnership and the Debenture Issuer, and the approval of certain legal matters by Miller Thomson LLP on behalf of the Agents. The Agents may enter into co-brokerage/selling group agreements with other investment dealers to market the Units offered hereunder.

Registration and transfers of Units, and of the underlying LP Units and Debentures, will be effected only through the book entry only system administered by The Canadian Depository for Securities Limited ("CDS"). A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. Beneficial owners of Units, and of the underlying LP Units and Debentures, will not have the right to receive physical certificates evidencing their ownership of such securities. See "Plan of Distribution" on page 44 herein.

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SCHEDULE A - AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

Schedule B - AMENDMENT TO LIMITED PARTNERSHIP AGREEMENT

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements with respect to the Issuers, including their respective business operations and strategy, and financial performance and condition. These statements generally can be identified by the use of forward-looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe” or “continue”, or the negative thereof, or similar variations. Although management of each of the Issuers believes that the expectations reflected in such forward-looking statements are reasonable and represent the relevant Issuer’s internal projections, expectations and belief at this time, such statements involve known and unknown risks and uncertainties which may cause a particular Issuer’s actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from a particular Issuer’s expectations include, among other things, the availability of suitable Properties for purchase by the Limited Partnership, the availability of mortgage financing for such Properties, and general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, in addition to those factors discussed or referenced in the “Risk Factors” section. (See “Risk Factors” commencing on page 45 herein.)

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.

Businesses:

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

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

The Offering:

The Offering consists of a minimum of 400 Units and a maximum of 3,600 Units, at a price of \$12,500 per Unit.

Each Unit consists of one LP Unit of the Limited Partnership having a price of \$2,500, and one Debenture of the Debenture Issuer in the principal amount of \$10,000 maturing on October 31, 2010. The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2006 (Refer to “Plan of Distribution” on page 44 herein.)

Plan Of Distribution:

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

There will be no closing unless a minimum of 400 Units are sold. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agents in trust.

Sales commissions and fees will be paid to the Agents at a rate equal to 8% of the purchase price of the LP Units and the Debentures. As a further incentive to the Agents or any sub-agents, the General Partner may assign up to 25% of its Incentive Management Interest to the Agents, who in turn may assign all or part of such interest to sub-agents

effecting sales of Units, such assignment to be made on a basis determined by the General Partner. As well, the General Partner has agreed to pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. Such trailer fee will only be paid by the General Partner to the Agents, if it is collected by the General Partner. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units. (Refer to “Plan of Distribution” on page 44 herein.)

Use Of Proceeds:

Assuming that the maximum Offering of 3,600 Units is sold, the gross proceeds to the Issuers will be \$45,000,000. The gross proceeds of this Offering, plus estimated Mortgage Loans in the aggregate principal amount of \$104,491,523 will be used to: pay the estimated aggregate purchase price of as yet unidentified Properties of \$139,322,032; pay due diligence and documentation costs relating to the purchase of such Properties of \$2,786,441; pay Agents’ commissions and fees of \$3,600,000; pay estimated third party offering expenses of \$300,000; create reserves for renovation and upgrading of such Properties of \$696,610; create reasonable working capital reserves for such Properties of \$696,610; and pay the Financing Fee of \$2,089,830.

Assuming that the minimum Offering of 400 Units is sold, the gross proceeds to the Issuers will be \$5,000,000. The gross proceeds of this Offering, plus estimated Mortgage Loans in the aggregate principal amount of \$11,313,559 will be used to: pay the estimated aggregate purchase price of one or more as yet unidentified Properties of \$15,084,746; pay due diligence and documentation costs relating to the purchase of such Properties of \$301,695; pay Agents’ commissions and fees of \$400,000; pay estimated third party offering expenses of \$150,000; create reserves for renovation and upgrading of such Properties of \$75,424; create reasonable working capital reserves for such Properties of \$75,424; and pay the Financing Fee of \$226,270. (Refer to “Use of Proceeds” on page 13 herein.)

Management:

The General Partner’s directors are Steve Evans, Darren Latoski, Robert King and James Redekop. Mr. Latoski and Mr. Evans serve as the General Partner’s President and Secretary, respectively. The Debenture Issuer’s directors are Steve Evans, Darren Latoski, Robert King and James Redekop. Mr. Evans and Mr. Latoski serve as the Debenture Issuer’s President and Secretary, respectively. The Limited Partnership is managed by the General Partner and does not have a board of directors. (Refer to “Directors and Officers” on page 33 herein.)

Risk Factors:

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

This is a Blind Pool Offering; Reliance on General Partner and its Management – Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will

invest have not yet been determined. Depending on the return on investment achieved on the Properties that may be acquired by the Limited Partnership, the Limited Partners' return on their respective investments in the Units will vary. Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the General Partner and its principals, Darren Latoski and Steve Evans.

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

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

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

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

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

Interest Rate Fluctuations - The Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Limited Partnership's cost of borrowing.

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

Uninsured Losses – The General Partner will arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned by the Limited Partnership and

will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses are either uninsurable or not economically insurable.

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

Limited Redemption Rights – If, in any given year, the Issuers receive notices requiring the Issuers to redeem a number of LP Units and Debentures in excess of 5% of the total number of LP Units and Debentures issued by the Issuers, or if insufficient funds are available to redeem the number of LP Units and Debentures in respect of which a request for redemption has been made, then the redemption of LP Units and Debentures in that year will be made on a *pro rata* basis. The number of LP Units and Debentures redeemed will be limited to the lesser of 5% of the total number of LP Units and Debentures issued by the Issuers and that number of LP Units and Debentures for which funds are determined to be available. Therefore, there can be no assurance that Investors will be able to redeem their LP Units and Debentures when they wish to do so. (Refer to “Description of the Securities Distributed – Limited Redemption Rights” at page 26 herein for further particulars.)

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

Tax Matters – The tax treatment of real estate activities and of the Limited Partnership has a material effect on the advisability of investment in the Units. (Refer to “Experts – Income Tax Consequences” on page 51 herein.)

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

Additional Contributions – The Limited Partnership Agreement provides that the General Partner may, if authorized by Special Resolution, request that additional capital contributions be made by Limited Partners. No Limited Partner who fails to contribute capital in response to a call for additional capital will be required to forfeit his, her or its LP Unit(s). However, among other things, the Proportionate Share and Income Share of each Limited Partner who does contribute capital will be increased by the amount of the additional capital so contributed, and the Limited Partners’ Minimum Return will be calculated on the total of the Limited Partner’s initial subscription capital plus any additional capital contributed.

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

Liability to Repay Debentures – The only collateral security for the Debentures is the Debenture Issuer's interest in the Debenture Issuer Loan and, as a result, no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.

Competition for Real Property Investments – The Limited Partnership 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 Limited Partnership. An increase 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.

For a more complete discussion of the risks associated with an investment in Units, refer to "Risk Factors" commencing on page 45 herein, and also to "Directors and Officers – Potential Conflicts of Interest (Directors and Officers)" commencing on page 41 herein.

Summary Financial Information:

Included in this Prospectus are: audited financial statements of Sunstone Opportunity Fund (2005) Limited Partnership for the period from formation on December 30, 2004 to July 21, 2005; audited financial statements of SRAI Capital Corp. for the period from formation on March 4, 2003 to December 31, 2003 and for the year ended December 31, 2004 and unaudited financial statements for the six month period ended June 30, 2005; and audited financial statements of Sunstone Realty Advisors (2005) Inc. for the period from formation on December 29, 2004 to July 21, 2005.

GLOSSARY OF TERMS

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

- (a) **“Agency Agreement”** means an agreement dated as of September 12, 2005, between the Limited Partnership, the Debenture Issuer, the General Partner, SRAI and the Agents, as amended by an agreement dated as of October 6, 2005;
- (b) **“Agents”** means, collectively, the Lead Agent, Blackmont Capital Inc., Sora Group Wealth Advisors Inc., Raymond James Ltd. and Bieber Securities Inc.;
- (c) **“Debenture Issuer”** means SRAI Capital Corp., a closely-held British Columbia company;
- (d) **“Debenture Issuer Loan”** means a loan from the Debenture Issuer to the Limited Partnership in an amount equal to the net proceeds from the issuance of the Debentures, the proceeds of which will be used by the Limited Partnership for the financing, purchase, ownership and operation of the Properties;
- (e) **“Debentureholders”** means holders of record of any Debentures;
- (f) **“Debentureholders Agreement”** means the agreement dated as of August 9, 2005 between the Debenture Issuer and each of the Debentureholders setting out the interest, rights and obligations of Debentureholders, as amended by an agreement dated October 6, 2005;
- (g) **“Debentures”** means Series C Debentures issued by the Debenture Issuer, each in the principal amount of \$10,000 maturing on October 31, 2010 and bearing interest at a rate of 8% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2006;
- (h) **“Disposition Fee”** means a fee in the amount of 1.5% of the gross sales price of a Property payable to the General Partner in consideration of the General Partner negotiating and finalizing the sale of such Property on behalf of the Limited Partnership;
- (i) **“Final Prospectus”** means the final version of this Prospectus which will be filed by the Issuers with the Securities Commissions;
- (j) **“Financing Fee”** means a fee payable to the General Partner for financing services, in an amount equal to 1.5% of the gross purchase price of a Property, and payable to the General Partner upon the completion of the purchase of each Property;
- (k) **“General Partner”** means Sunstone Realty Advisors (2005) Inc., a closely-held British Columbia company;
- (l) **“General Partner Services Agreement”** means an agreement dated as of August 9, 2005 between the Limited Partnership and the General Partner pursuant to which the General Partner has agreed to provide certain services to the Limited Partnership, as amended by an agreement dated October 6, 2005;
- (m) **“GST”** means the goods and services tax imposed under Part IX of the *Excise Tax Act* (Canada), or, if the context requires, any similar sales or value added tax;

- (n) ***“Incentive Management Interest”*** means an allocation and distribution to be made, subject to the payment of the Limited Partners’ Minimum Return, to the General Partner from the Limited Partnership in an amount equal to 20/80ths of the total to the date of such allocation and distribution of (a) the total payments made to Limited Partners in respect of the Limited Partners’ Minimum Return, and (b) the interest paid on the Debenture Issuer Loan, thereby providing the General Partner with a 20% share of the total of the interest paid on the Debenture Issuer Loan and the amounts allocated and distributed to the Limited Partners by the Limited Partnership up to such date;
- (o) ***“Income Share”*** means an allocation of the Limited Partner’s proportionate share of the income or loss of the Limited Partnership, subject to certain adjustments which may be made by the General Partner to ensure a fair allocation of income and expenses on a cumulative, proportionate basis;
- (p) ***“Initial Limited Partner”*** means SRA First Partner Ltd., a closely-held British Columbia company;
- (q) ***“Issuers”*** mean collectively, Sunstone Opportunity Fund (2005) Limited Partnership and SRAI Capital Corp.;
- (r) ***“Knightswood”*** means Knightswood Financial Corp., a company existing under the *Business Corporations Act* (British Columbia) whose common shares are listed for trading on the TSX Venture Exchange, and which is at arm’s length to SRAI and the Limited Partnership;
- (s) ***“Lead Agent”*** means Dundee Securities Corporation;
- (t) ***“Lender”*** means a lender and mortgagee of any of the Mortgage Loans;
- (u) ***“Limited Partners”*** means holders of record of any LP Units;
- (v) ***“Limited Partners’ Minimum Return”*** means a minimum return to the Limited Partners of 8% per annum, cumulative but not compounded, calculated on the Limited Partners’ Net Equity in the Limited Partnership;
- (w) ***“Limited Partnership”*** means Sunstone Opportunity Fund (2005) Limited Partnership, a British Columbia limited partnership;
- (x) ***“Limited Partnership Agreement”*** means the amended and restated limited partnership agreement made as of August 9, 2005 among the General Partner, SRA First Partner Ltd. and all persons who subscribe for LP Units establishing the Limited Partnership, as amended by an agreement dated October 6, 2005;
- (y) ***“LP Units”*** means units in the capital of the Limited Partnership, issued pursuant to the terms of the Limited Partnership Agreement;
- (z) ***“Mortgage Loans”*** means one or more mortgages on the Properties to be granted by the Limited Partnership (or, if a Property is held by a nominee entity on behalf of the Limited Partnership, by such entity) to one or more Lenders, the proceeds of which will be used to finance the purchase, ownership and operation of such Properties;

- (aa) **“Net Asset Value”** means the greater of: (a) the total gross cash proceeds from this Offering; and (b) the total purchase price of the Properties including all fees and expenses and cash reserves, less the outstanding Mortgage Loans;
- (bb) **“Net Equity”** means the cash paid by a Limited Partner in respect of his, her or its LP Units, being \$2,500 per LP Unit, less the aggregate of any distributions made to the Limited Partner arising from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds;
- (cc) **“Offering”** means the offering of a minimum of 400 Units at a price of \$12,500 per Unit for gross proceeds of \$5,000,000 and a maximum of 3,600 Units at a price of \$12,500 per Unit for gross proceeds of \$45,000,000;
- (dd) **“Offering Price”** means \$12,500 per Unit;
- (ee) **“Property”** means one of the Properties;
- (ff) **“Properties”** means the lands and premises purchased, owned and operated by the Limited Partnership, or interests therein;
- (gg) **“Proportionate Share”** for each LP Unit or Limited Partner, as the case may be, means that fraction which:
 - (i) has as its denominator the aggregate of the total cash proceeds received by the Limited Partnership from subscriptions for LP Units, plus the additional capital received by the Limited Partnership from time to time from Limited Partners; and
 - (ii) has as its numerator:
 - (A) in the case of an LP Unit, the aggregate of the subscription price of such LP Unit plus any additional capital contributed in respect of such LP Unit pursuant to the Limited Partnership Agreement; and
 - (B) in the case of a Limited Partner the aggregate of the total subscription price paid by such Limited Partner for all of his, her or its LP Units plus any additional capital contributed by such Limited Partner pursuant to the Limited Partnership Agreement.
- (hh) **“Prospectus”** means this prospectus and any amendments thereto;
- (ii) **“Purchaser”** means the purchaser of a Unit;
- (jj) **“Qualifying Provinces”** means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island;
- (kk) **“Receipt”** means a mutual reliance review system (MRRS) decision document issued by or on behalf of a Securities Commission for the Final Prospectus pursuant to National Policy 43-201, and each receipt issued for the Final Prospectus by a Securities Commission that opts out of the MRRS system;

- (ll) **“Related Party”** means, with reference to an Issuer, any of the following: (1) any person who participates in the management of the Issuer, including the General Partner; (2) any person who participates in the management of a Property; (3) the contractor, where the proceeds from the Offering are used to build or develop a Property; (4) a promoter or an affiliate of a promoter; (5) an affiliate of a person mentioned in (1), (2) or (3), or a person with whom any such affiliate is associated, including limited partnerships or other real estate entities set up by any such persons; or (6) any director or officer of a person mentioned in (1), (2), (3), (4) or (5), as well as the persons with whom he or she is associated;
- (mm) **“Securities”** means the Units, the LP Units and the Debentures being offered pursuant to this Offering;
- (nn) **“Securities Commission”** means any one of the Securities Commissions;
- (oo) **“Securities Commissions”** means, collectively, the securities commissions or other securities regulatory authorities in the Qualifying Provinces;
- (pp) **“Special Resolution”** means a resolution approved by not less than 75% of the votes cast by those Limited Partners who vote in person or by proxy at a duly convened meeting of Limited Partners, or a written resolution signed by Limited Partners entitled, in the aggregate, to not less than 75% of the aggregate number of votes of the Limited Partners;
- (qq) **“SRAI”** means Sunstone Realty Advisors Inc., a closely-held British Columbia company, and the promoter of this Offering;
- (rr) **“Sunstone LP”** means Sunstone Opportunity Fund Limited Partnership, a British Columbia limited partnership;
- (ss) **“Sunstone (2004) LP”** means Sunstone Opportunity Fund (2004) Limited Partnership, a British Columbia limited partnership;
- (tt) **“Tax Act”** means the *Income Tax Act* (Canada), as amended from time to time; and
- (uu) **“Units”** means a minimum of 400 units and a maximum of 3,600 units to be offered by the Issuers pursuant to the Prospectus, and each such unit consisting of one LP Unit and one Debenture.

1. CORPORATE STRUCTURE

1.1 Name and Incorporation

Limited Partnership

The Limited Partnership was formed by a certificate filed pursuant to the *Partnership Act* (British Columbia) on December 30, 2004 under the name “SRAI Project (No. 3) Limited Partnership” and the number 387130-04. The Limited Partnership changed its name to “Sunstone Opportunity Fund (2005) Limited Partnership” upon filing an Amended and Restated Certificate of Limited Partnership on July 25, 2005.

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

The General Partner

The general partner of the Limited Partnership is Sunstone Realty Advisors (2005) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on December 29, 2004 under the name “0712510 B.C. Ltd.” and changed its name to Sunstone Realty Advisors (2005) Inc. on July 21, 2005.

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

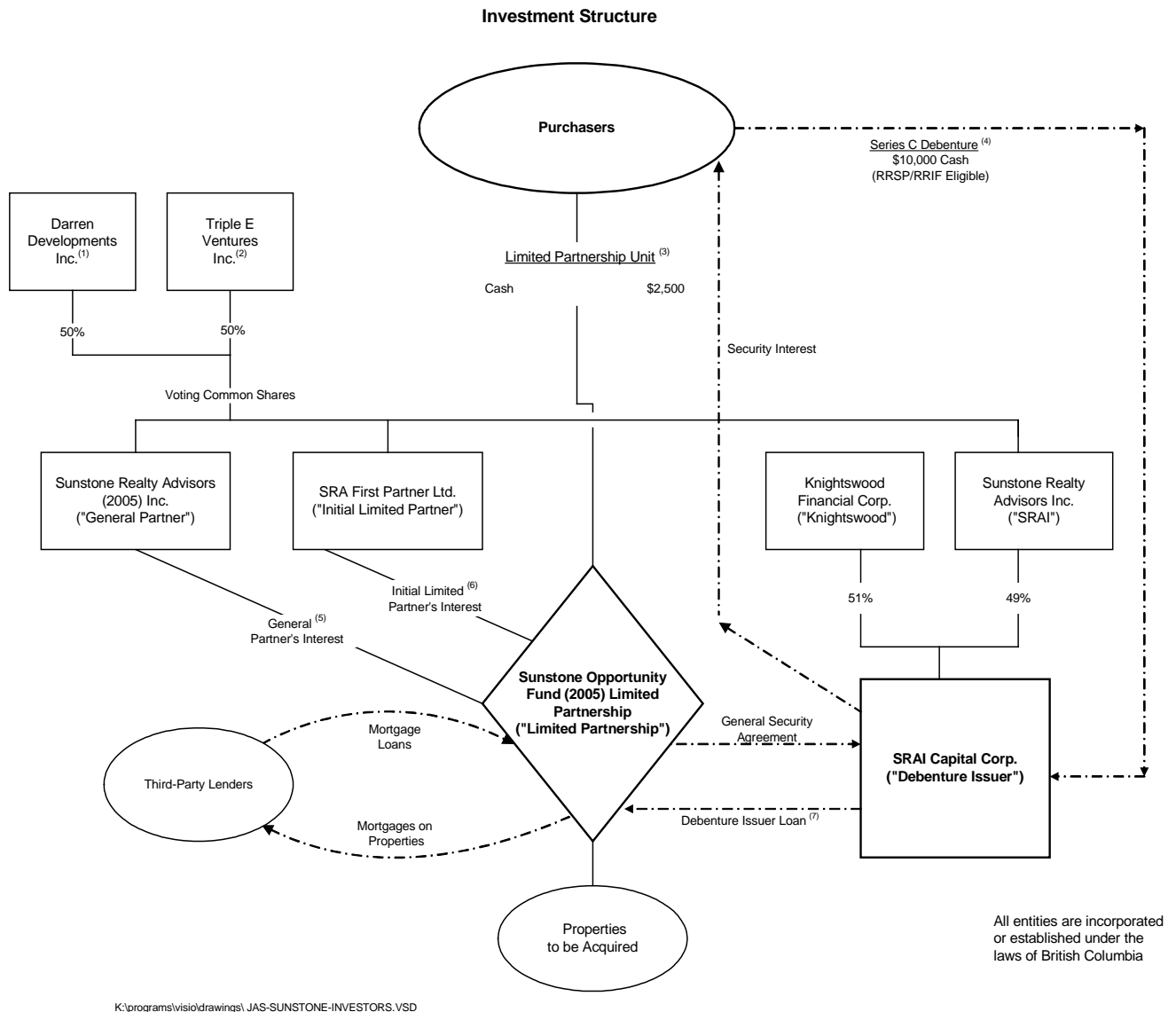
The Debenture Issuer

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

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

1.2 Intercorporate Relationships

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



Notes:

- (1) Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.
- (2) Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc.
- (3) The terms and conditions attaching to each LP Unit are summarized in "Description of the Securities Distributed – Limited Partnership Units" at page 21 herein.
- (4) The terms and conditions attaching to each Debenture are summarized in "Description of the Securities Distributed – Debentures" at page 25 herein.

- (5) The General Partner has made a capital contribution of \$10 to the Limited Partnership, and has no further obligation to contribute capital. The General Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum plus its Incentive Management Interest. (Refer to “Description of the Securities Distributed – Limited Partnership Units” at page 21 herein.) The General Partner has also agreed to provide certain services to the Limited Partnership pursuant to the General Partner Services Agreement, as described in more detail under the heading “Executive Compensation – Management Agreements” on page 43 herein.
- (6) The Initial Limited Partner has made a capital contribution of \$10 to the Limited Partnership, and has no further obligation to contribute capital. The Initial Limited Partner is entitled to receive .005% of the net income or net losses of the Limited Partnership to a maximum of \$100 per annum. (Refer to “Description of the Securities Distributed – Limited Partnership Units” at page 21 herein.)
- (7) The Debenture Issuer will loan to the Limited Partnership by way of the Debenture Issuer Loan an amount equal to the net proceeds received by the Debenture Issuer from subscriptions for Debentures. Assuming that all 3,600 Units are sold pursuant to this Offering, and that the aggregate expenses of this Offering will be \$300,000, the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$9,133 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agents’ 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$67). Assuming that the minimum Offering of 400 Units is sold, and that the aggregate expenses of the minimum Offering will be \$150,000, the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$8,900 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agents’ 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$300). (Refer to “Description of the Businesses of the Issuers – The Debenture Issuer Loan” at page 8 herein.)

2. DESCRIPTION OF THE BUSINESSES OF THE ISSUERS

2.1 Limited Partnership

The Limited Partnership has been established for the purpose of owning and operating a diversified portfolio of high quality income-producing residential and/or commercial real estate Properties in Canada (or proportionate interests in such Properties) and for limited investment in real estate development opportunities, or the making of loans in respect of such properties. An investment in LP Units is intended to provide Purchasers with the opportunity to receive cash distributions originating from the ongoing operation of the Properties; the opportunity to receive, in certain circumstances, the proceeds from a refinancing of the Mortgage Loans; the opportunity to receive, in certain circumstances, a portion of the gains derived from the development of a real estate Property or Properties.

2.2 Business of the Limited Partnership

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

All Properties will be purchased at prices and on terms negotiated with arm’s length third party vendors. In some cases, the Properties will be acquired pursuant to agreements of purchase and sale entered into by

SRAI with arm's length third party vendors, which will be assigned by SRAI to the Limited Partnership at no cost other than reimbursement of any deposits (some of which may be refundable to the Limited Partnership) and due diligence expenses paid by SRAI prior to such assignment.

The General Partner will be focusing on commercial properties for investment by the Limited Partnership, as they typically offer a higher cash yield than residential properties, yet can still offer a diversified tenant mix with a reduced lease renewal exposure. As well, the General Partner believes that in the current market there exist excellent opportunities to acquire individual properties from the owners or managers of larger property portfolios, where such properties do not fit the current asset mix of the portfolio. In doing so, the General Partner believes it can optimize investor yield through quarterly cash flow distributions and potential long term capital appreciation, while diversifying the risks associated with real estate ownership.

The General Partner intends to have a detailed inspection report prepared by an independent inspection firm for each property that is proposed for acquisition by the Limited Partnership, and to have any such property appraised by a qualified appraiser who is recognized as an Accredited Appraiser, Canadian Institute.

The General Partner may also invest up to that amount which is equal to 15% of the net proceeds from a maximum Offering (being gross proceeds less the Agents' commission and the expenses of this Offering) in the development of a residential or commercial property. The General Partner intends that any such investment will be by way of participation in a joint venture, partnership, or other similar investment vehicle, through which the Partnership will join with an established developer which has local knowledge and experience in the marketplace in which the development will be located. The General Partner intends that any such development will be in strong growth markets, and will have a significant level of pre-sales or pre-leasing prior to commencement.

The General Partner has targeted limited investment in development opportunities in order to enhance the return on the Partnership's capital and the investor's yield, while retaining a diversified portfolio and conservative risk profile for the Partnership as a whole.

Investment Objectives

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

- (a) to provide an investment in a diversified portfolio of quality commercial revenue-producing Properties with positive cash flow, which also permits the investor to invest in a debenture which is RRSP eligible;
- (b) to provide an opportunity to enhance the Partnership's return on capital and the investor's yield through limited investment in real estate development opportunities;
- (c) to provide quarterly cash flow distributions targeted at 8%, upon full investment of the net proceeds allocated to the purchase price of Properties; and
- (d) to enhance the potential for long-term growth of capital through value-added enhancements to the Properties and organic growth in rental rates, combined with an overall reduction in capitalization rates. A reduction in capitalization rates may occur during periods of increasing demand for real estate investment opportunities, when

investors become prepared to pay higher prices for the same level of net operating income.

Guidelines for Property Acquisitions

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

- (a) assuming all 3,600 Units are sold pursuant to this Offering, not more than 40% of the net proceeds (gross proceeds less the Agents' commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) assuming all 3,600 Units are sold pursuant to this Offering, not more than 15% of the net proceeds will be invested in real estate development opportunities, through joint ventures, partnerships or similar entities;
- (c) in the event that less than the maximum Offering is sold, it may be necessary to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (d) below, or more than 15% of the net proceeds to investment in a real estate development opportunity, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property) if the number of Units sold is at or close to the minimum Offering of 400 Units; and
- (d) upon purchase, each Property (other than a development property) would be expected to generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership's invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide unique value added opportunities through capital improvement programs, replacement of management, re-leasing or similar initiatives.

The decision to purchase a Property, and any related investment decisions, will be made by the full board of directors of the General Partner. The board of directors of the General Partner has resolved that, if the number of directors with relevant experience in the commercial and residential real estate sector is reduced to less than three, then the remaining directors will:

- (1) appoint a special advisory board of independent persons with relevant experience who will advise and assist the board of directors in the decision to purchase the Property, or
- (2) appoint a sufficient number of additional directors to ensure that the board has at least three directors who have such relevant experience.

In accordance with the policies of the Autorité des marchés financiers, the Limited Partnership Agreement specifically prohibits the General Partner and SRAI from receiving a hidden "flip" or "kick-back" fee in connection with the purchase of a Property by the Limited Partnership. The fees that the General Partner and the Promoter are entitled to receive from the Limited Partnership are limited to those specifically set forth in this Prospectus.

Alignment of Interests

The General Partner believes that individual investors should have the same opportunities as institutions, pension funds and high net worth individuals. With this goal in mind, this Offering has been structured to align the interests of the General Partner with those of the Limited Partners. In the event of any capital transaction in respect of the Properties, including a sale or a refinancing of the Properties, the General Partner will be entitled to receive any unpaid Incentive Management Interest only after the Debenture Issuer Loan has been repaid in full; and all Net Equity has been returned to the Limited Partners, and the Limited Partners have received full payment of the Limited Partners' Minimum Return and the interest due under the Debentures. (Refer to "Description of the Securities Distributed – Limited Partnership Units – Net Proceeds from Refinancings, Sale or other Capital Transactions" at page 23 herein.)

Independent Directors

The board of directors of the General Partner has appointed a committee comprised of its two independent directors, Mr. Robert King and Mr. James Redekop, to oversee compliance by the General Partner of its fiduciary obligations to the Limited Partnership and the Limited Partners. Each independent director is independent of the General Partner, the Promoter and each of their respective affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with exercise of an independent director's judgement.

The independent directors shall provide independent advice to the General Partner to assist it in performing its services to the Limited Partnership, including with respect to conflicts of interest, potential conflicts of interest or related party transactions identified by the General Partner. Under applicable corporate and limited partnership laws, the independent directors will have the obligation to act honestly and in good faith in the best interests of the Limited Partnership and the Limited Partners, and in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The General Partner shall report to the independent directors on the operation and performance of the Limited Partnership on a quarterly basis. The General Partner shall also have the obligation to notify in writing and to consult the independent directors of any conflicts of interest, potential conflicts of interest or related party transactions before taking any action concerning these matters.

The annual report of the Limited Partnership shall include a report by the independent directors to the Limited Partners, summarizing recommendations made by the independent directors to the General Partner, disclosing any recommendations not followed by the General Partner, and including any other matter that the independent directors determine appropriate in the circumstances.

The independent directors will be responsible for overseeing the promulgation and implementation of conflicts-of-interest rules for the Limited Partnership, which will set forth guidelines and procedures for handling potential conflicts of interest between the General Partner and the Limited Partnership. It is anticipated that the conflicts-of-interest rules will require the management of the General Partner:

- to notify the independent directors in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the General Partner or the Limited Partnership, and to consult with the independent directors in respect of any such conflicts of interest, potential conflicts of interest or related party transactions;
- upon the written direction of the independent directors, to call a meeting of the Limited Partners to consider the conflict of interest, potential conflict of interest or related party transaction, in the event

of a dispute between the independent directors and the management of the General Partner with respect to a conflict of interest, potential conflict of interest or related party transaction; and

- to include in any annual report by the General Partner to the Limited Partners a report of the independent directors summarizing recommendations made by them to the General Partner, disclosing any recommendations not followed by the General Partner, and including any other matter that the independent directors determine appropriate in the circumstances.

Title to the Properties

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

Management of Properties

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

Mortgage Loans

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

Allocations of Income and Cash Distributions

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

2.3 Business of the Debenture Issuer

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

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

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

The only collateral security for the Debentures is the Debenture Issuer’s interest in the Debenture Issuer Loan and, as a result, no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.

2.4 The Debenture Issuer Loan

The Debenture Issuer will loan to the Limited Partnership by way of the Debenture Issuer Loan an amount equal to the net proceeds received by the Debenture Issuer from subscriptions for Debentures. Assuming that all 3,600 Units are sold pursuant to this Offering, and further assuming that the aggregate expenses of the maximum Offering will be \$300,000 (80% of which will be borne by the Debenture Issuer), the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$9,133 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agents’ 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$67). Accordingly, the Debenture Issuer Loan will be in the principal amount of approximately \$32,880,000 in the event that the maximum Offering is sold.

Assuming that the minimum Offering of 400 Units is sold, and further assuming that the aggregate expenses of the minimum Offering will be \$150,000 (80% of which will be borne by the Debenture Issuer), the net proceeds from the sale of each Debenture available to the Debenture Issuer to advance to the Limited Partnership by way of the Debenture Issuer Loan will be \$8,900 (calculated by deducting from the gross proceeds of \$10,000 per Debenture: (a) the Agents’ 8% selling commission of \$800 per Debenture; and (b) the proportionate expenses of the Offering allocable to each Debenture in the amount of \$300). Accordingly, the Debenture Issuer Loan will be in the principal amount of approximately \$3,560,000 in the event that the minimum Offering is sold.

The Debenture Issuer Loan bears interest at an annual rate of 9.0% in order to pay in full the interest payable to holders of Debentures. Interest will be payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2006, in respect of the interest accrued during the immediately preceding calendar quarter. The Debenture Issuer Loan will be due on October 31, 2010, which is approximately five years from the date of the initial advance. In addition, the Limited Partnership will pay to the Debenture Issuer:

- (a) an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected in the aggregate over the term of the Debenture Issuer Loan to equal the total Agents' commissions and fees and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures. This fee will be payable on December 31 in each year, commencing December 31, 2005. In the event of prepayment of the Debenture Issuer Loan, a portion of this fee may become due upon prepayment; and
- (b) an ongoing loan fee, payable quarterly in arrears on the last day of each calendar quarter, commencing December 31, 2005, equal to one-quarter of 0.5% of the outstanding principal amount of Debentures at the beginning of each such calendar quarter.

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

Independent Directors

The board of directors of the Debenture Issuer has appointed a committee comprised of its two independent directors, Mr. Robert King and Mr. James Redekop, to oversee compliance by the Debenture Issuer of its fiduciary obligations to the Debentureholders. Each independent director is independent of the Debenture Issuer, the Promoter and each of their respective affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with exercise of an independent director's judgement.

The independent directors shall provide independent advice to the Debenture Issuer to assist it in performing its obligations and enforcing its rights under the Debenture Issuer Loan, including with respect to conflicts of interest, potential conflicts of interest or related party transactions identified by the Debenture Issuer. Under applicable corporate law, the independent directors will have the obligation to act honestly and in good faith in the best interests of the Debenture Issuer, its shareholders and the Debentureholders, and in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Debenture Issuer shall report to the independent directors on the operation and performance of the Debenture Issuer on a quarterly basis. The Debenture Issuer shall also have the obligation to notify in writing and to consult the independent directors of any conflicts of interest, potential conflicts of interest or related party transactions before taking any action concerning these matters.

The annual report of the Debenture Issuer shall include a report by the independent directors to the Debentureholders, summarizing recommendations made by the independent directors to the Debenture Issuer, disclosing any recommendations not followed by the Debenture Issuer, and including any other matter that the independent directors determine appropriate in the circumstances.

The independent directors will be responsible for overseeing the promulgation and implementation of conflicts-of-interest rules for the Debenture Issuer, which will set forth guidelines and procedures for handling potential conflicts of interest between the Debenture Issuer and the Debentureholders. It is anticipated that the conflicts-of-interest rules will require the management of the Debenture Issuer:

- to notify the independent directors in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Debenture Issuer or the Debentureholders, and to consult with the independent directors in respect of any such conflicts of interest, potential conflicts of interest or related party transactions;
- upon the written direction of the independent directors, to call a meeting of the Debentureholders to consider the conflict of interest, potential conflict of interest or related party transaction, in the event of a dispute between the independent directors and the management of the Debenture Issuer with respect to a conflict of interest, potential conflict of interest or related party transaction; and
- to include in any annual report by the Debenture Issuer a report of the independent directors to the Debentureholders summarizing recommendations made by them to the Debenture Issuer, disclosing any recommendations not followed by the Debenture Issuer, and including any other matter that the independent directors determine appropriate in the circumstances.

3. DEVELOPMENT OF THE BUSINESSES OF THE ISSUERS

3.1 Description and General Development Since Inception

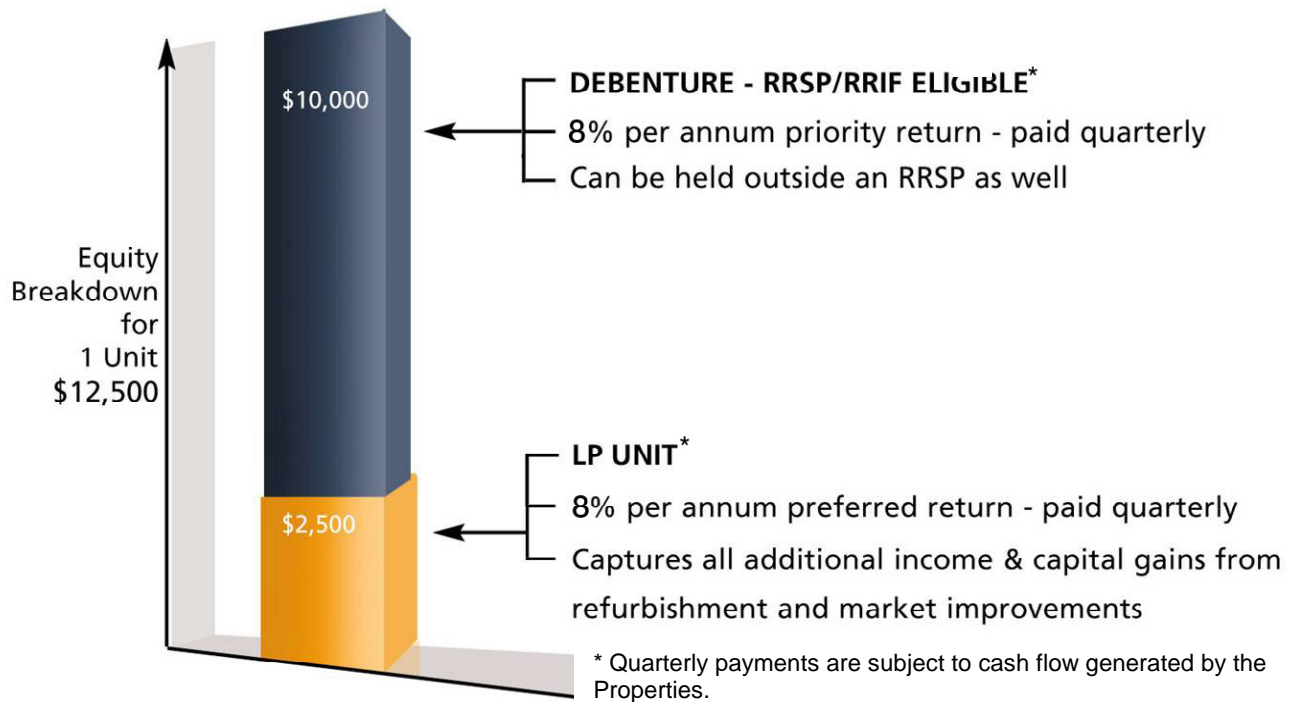
The Limited Partnership was established on December 30, 2004 for the purpose of owning and operating interests in a diversified portfolio of high quality income-producing residential and/or commercial real estate Properties in Canada (or proportionate interests in such properties), for limited investment in real estate development opportunities, or the making of loans in respect of such properties. The Limited Partnership does not have an operating history.

To date, the General Partner has not identified any Properties for potential acquisition by the Limited Partnership or any development opportunities for investment by the Limited Partnership. Assuming that the maximum Offering of 3,600 Units is sold, the General Partner is intending to cause the Limited Partnership to apply up to \$41,100,000 of the net proceeds of the Offering to the purchase price of as yet unidentified Properties or the investment in as yet unidentified development opportunities. If only the minimum Offering of 400 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$4,450,000 of the net proceeds to the purchase price of one or more as yet unidentified Properties.

If the maximum Offering is sold, the general guidelines that the General Partner has established for the Limited Partnership provide that not more than 40% of the net proceeds (gross proceeds less the Agents' commission and the expenses of this Offering) should be applied to the acquisition of any one Property, nor more than 15% of the net proceeds invested in real estate development opportunities. In the event that less than the maximum Offering is sold, it may be necessary for the Limited Partnership to apply more than 40% of the net proceeds to the acquisition of any one Property or more than 15% of the net proceeds to an investment in a real estate development opportunity, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property), or more than 15% of the net proceeds to an investment in a development opportunity, if the number of Units sold is at or close to the minimum Offering of 400 Units.

The Debenture Issuer was incorporated on March 4, 2003 for the purpose of purchasing, owning and operating interests in income-producing and other real estate properties, or the making of loans in respect of such properties.

The Offering has been structured with the view to facilitating a tax-efficient investment in real estate, as described under the heading “Experts – Income Tax Consequences” on page 51 herein and as illustrated in the diagram below:



3.2 Significant Acquisitions

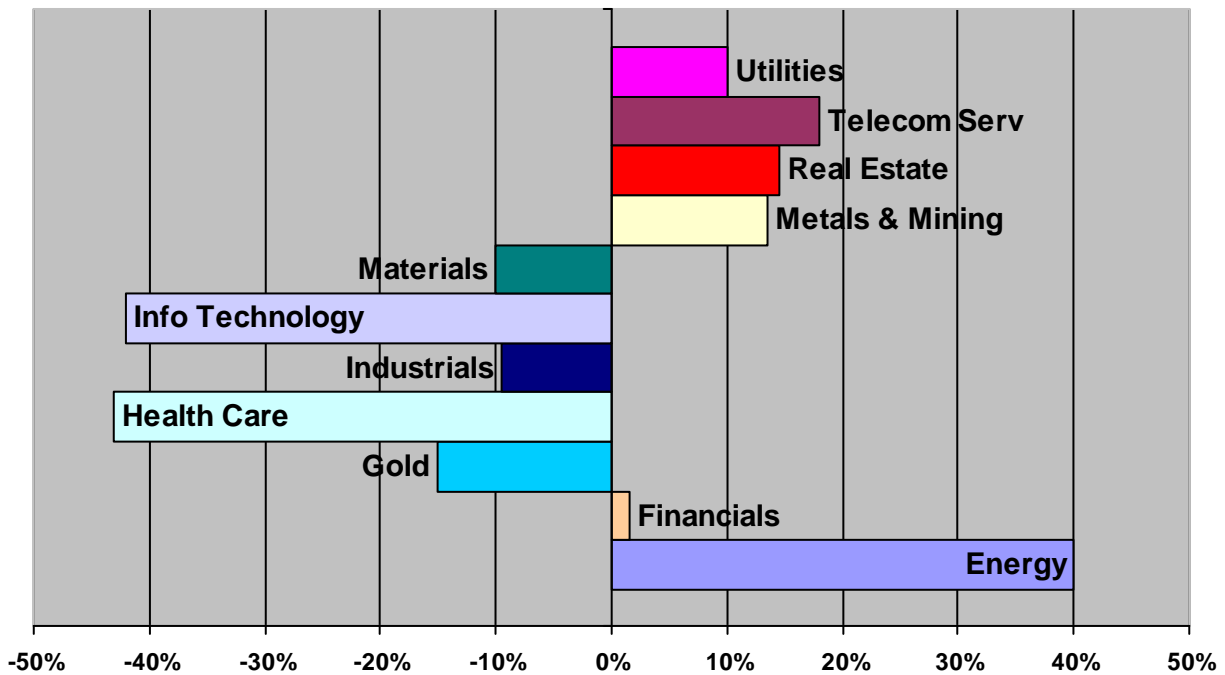
The Issuers have not made any significant Property acquisitions or dispositions to date.

3.3 Trends

The General Partner believes that the current economic environment has created attractive investment opportunities in real estate. In particular, the General Partner expects that growing investment demand for high quality real estate properties will place downward pressure on capitalization rates, resulting in higher property valuations. As well, long-term mortgage interest rates are at or near historically low levels, in the range of 5% to 6.5% per annum, and many high quality real estate properties are being sold at prices which provide an initial return, on an unleveraged basis, of 7.5% to 9% per annum. The difference between mortgage rates and the potential rates of return on investment will offer Purchasers the potential for immediate positive financial leverage, enhancing the potential return on investment.

Real estate investments are subject to a number of risks, some of which are outlined under the heading “Risk Factors” at page 45 herein. However, while past performance is not necessarily an indicator of future performance, real estate investments have historically outperformed investments in many other sectors of the economy, as illustrated in the following chart covering the 12-month period ended in June 2005:

1 Yr Excess Returns - Selected S&P/TSX GICS Sectors
(Based on excess returns over S&P/TSX Composite,
for 12 months to June 2005)



Source: Standard & Poor's Index Services, June 2005. Based on Excess Returns over S&P/TSX Composite, for 12 months from June 2004 to June 2005.

3.4 Stated Business Objectives

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

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

The Limited Partnership's short-term objectives are:

- (a) to evaluate properties which the General Partner has identified for potential acquisition by the Limited Partnership as Properties; and
- (b) to complete by December 31, 2006 the purchase of sufficient Properties to utilize the full amount made available to the Limited Partnership by way of purchases of LP Units pursuant to this Offering, the Debenture Issuer Loan and the Mortgage Loans.

3.5 Milestones

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

The General Partner has not identified any properties for potential acquisition by the Limited Partnership, and is intending to apply up to \$41,100,000 to an estimated aggregate purchase price of, as yet unidentified Properties, assuming that the maximum Offering of 3,600 Units is sold. If only the minimum Offering of 400 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$4,450,000 of the net proceeds to the purchase price of one or more as yet unidentified Properties.

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

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Document and Complete Purchase Of Properties	December 31, 2006 ⁽¹⁾	Purchase Price	\$15,084,746	\$139,322,032
		Due diligence and documentation costs ⁽²⁾	\$301,695	\$2,786,441
		Reserve for renovations and upgrades	\$75,424	\$696,610
		Working capital reserve	\$75,424	\$696,610
		Financing Fee	\$226,270	\$2,089,830
		Subtotal	\$15,763,559	\$145,591,523

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

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

4. USE OF PROCEEDS

Sources of Funds		Assuming Minimum Offering ⁽¹⁾	Assuming Maximum Offering ⁽²⁾
	Gross cash proceeds of this Offering		
	Subscription price for LP Units	\$1,000,000	\$9,000,000
	Subscription price for Debentures	\$4,000,000	\$36,000,000
A	Total Subscription Proceeds	\$5,000,000	\$45,000,000
B	Mortgage Loans	\$11,313,559	\$104,491,523
C	Total Sources of Funds: C = A + B	\$16,313,559	\$149,491,523

- (1) There will be no closing unless a minimum of 400 Units are sold not more than 90 days after the date of the receipt for the Final Prospectus.
- (2) The maximum Offering is 3,600 Units.

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

Use of Available Funds	Assuming Min. Offering⁽¹⁾	Assuming Max. Offering⁽²⁾
Purchase Price of the Properties ⁽³⁾	\$15,084,746	\$139,322,032
Agents' commissions ⁽⁴⁾	\$400,000	\$3,600,000
Agents' fees and expenses ⁽⁵⁾	\$75,000	\$75,000
Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings)	\$75,000	\$225,000
Estimated closing costs for purchase of Properties (including transfer fees, legal and due diligence costs) ⁽⁶⁾	\$301,695	\$2,786,441
Creation of reserve for renovation and upgrading of Properties ⁽⁷⁾	\$75,424	\$696,610
Creation of reasonable working capital reserves for the Properties ⁽⁸⁾	\$75,424	\$696,610
Financing Fee ⁽⁹⁾	\$226,270	\$2,089,830
Total	\$16,313,559	\$149,491,523

- (1) There will be no closing unless a minimum of 400 Units are sold not more than 90 days after the date of the Receipt for the Final Prospectus.
- (2) The maximum Offering is 3,600 Units.
- (3) The purchase price of Properties shown is an estimate only, and may not be the actual aggregate price payable pursuant to the agreements of purchase and sale to be made between the Limited Partnership and arm's-length third party vendors, or to be made between SRAI and arm's-length third party vendors and assigned to the Limited Partnership by SRAI.
- (4) The Issuers will pay to the Agents a commission and fee equal to 8% of the subscription price of LP Units and the Debentures.
- (5) The Issuers have also agreed to bear all of the Agents' expenses (currently estimated to be \$75,000) of or incidental to the issue, sale and delivery of the Units pursuant to this Offering, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents.
- (6) The amount incurred in respect of the purchase of Properties by the Limited Partnership will include, without limitation, all due diligence inspections and reviews of the Properties, third party consultant's fees, closing adjustments, legal and accounting fees, financing fees paid to third party mortgage Lenders, insurers and brokers, other closing costs and transfer fees and taxes.
- (7) The General Partner may undertake a refurbishment program in respect of one or more of the Properties. The amount shown is an estimate of the amount which may be required to establish a reserve for the payment of the anticipated and unanticipated costs of such programs for all of the Properties.

- (8) The General Partner will establish working capital reserves for the Limited Partnership, to help ensure sufficient funds are on hand from time to time to pay anticipated and unanticipated operating and capital expenses of the Properties.
- (9) The General Partner will be paid a Financing Fee equal to 1.5% of the gross purchase price of each Property for the provision of certain financial services to the Limited Partnership.

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

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

The General Partner has agreed to provide certain services to the Limited Partnership pursuant to the General Partner Services Agreement, as described in more detail under the heading "Executive Compensation – Management Agreements" on page 43.

The General Partner has agreed under the General Partner Services Agreement that if by December 31, 2006, the Limited Partnership has not invested at least 97% of the aggregate net proceeds of the Offering in the purchase of Properties (or interests in Properties), and the creation of reasonable reserves for renovation and upgrading and working capital reserves for such Properties, or in the development of a property, the General Partner will cause the Limited Partnership to: (a) repay to the Limited Partners as a return of Limited Partnership capital on or before March 1, 2007, 20% of that portion of the aggregate net proceeds of the Offering not so invested; and (b) to repay to the Debenture Issuer on or before March 1, 2007, on account of the Debenture Issuer Loan, 80% of that portion of the aggregate net proceeds of the Offering not so invested, together with interest thereon at the rate payable on the Debenture Issuer Loan. The Debenture Issuer is obligated under the Debentureholders Agreement to apply any amount that it so receives to the repayment of principal and interest under the outstanding Debentures, on a pro rata basis. In addition, the General Partner will repay to the Limited Partnership and the Debenture Issuer all commissions paid on the amount of the proceeds which are repaid to Purchasers, which amount will be deducted from the Incentive Management Interest otherwise payable to the General Partner.

The General Partner's obligation to cause the Limited Partnership to return capital and repay a portion of the principal under the Debenture Issuer Loan in the event that the Limited Partnership has not invested at least 97% of the aggregate net proceeds of the Offering in the manner described above by December 31, 2006, will not be secured in any way, and the Issuers do not intend to make any of the proceeds of this Offering subject to escrow. Any subscription proceeds for LP Units which are not invested in Properties or applied to the Limited Partnership's working capital needs, and any subscription proceeds for Debentures that are used to fund the Debenture Issuer Loan and are not then invested in Properties or applied to the Limited Partnership's working capital needs, will be retained by the General Partner for the Limited Partnership in money market investments, and will therefore be available for repayment to subscribers should the 97% threshold referred to above not be achieved.

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

- the Limited Partnership's business strategy outlined under the heading "Description of the Businesses of the Issuers – Business of the Limited Partnership" (see page 3 herein); and

- the guidelines discussed under the heading “Description of the Businesses of the Issuers – Business of the Limited Partnership – Guidelines for Property Acquisitions” (see page 5 herein).

In determining what would constitute “reasonable reserves” for renovation and upgrading and working capital reserves for such Properties, the General Partner will review a comprehensive third party due diligence report that will be produced for each Property. The amount of a renovation and upgrading reserve for a given Property will be assessed by the General Partner having regard to, among other things, the Property’s age, general state of repair, and an assessment of whether anticipated revenues would be sufficient to cover all or a portion of the repairs or upgrades identified as reasonably necessary through the due diligence process.

In determining how much of a working capital reserve would be reasonable for a given Property, the General Partner will generally target a working capital reserve of $\frac{1}{2}\%$ of the purchase price of the Property. In the event that the maximum Offering of 3,600 Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$139,322,032; if the minimum Offering of 400 Units is sold, the estimated aggregate purchase price of, as yet unidentified, Properties is \$15,084,746. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$696,610, and the targeted working capital reserves in the event of a minimum Offering is \$75,424. However, for any given Property, the General Partner could allocate a larger or smaller amount to working capital reserves than the targeted amount of $\frac{1}{2}\%$ of the purchase price of the Property, based on Property-specific considerations such as the anticipated revenues from the Property.

5. SELECTED FINANCIAL INFORMATION

5.1 Financial Information

Limited Partnership

The audited financial statements of the Limited Partnership for the period from the date of its formation to July 21, 2005 are included in this Prospectus. The Limited Partnership was only recently formed and capitalized with nominal capital. As the Limited Partnership has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

Debenture Issuer

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

Balance Sheet			
	As at June 30, 2005 (Unaudited)	As at December 31, 2004	As at December 31, 2003
TOTAL ASSETS	\$ 23,090,602	\$ 23,159,419	\$ 100
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)			
Current			
Interest payable and accrued liabilities	\$ 549,780	\$ 380,348	\$ -
Series A Debentures debt	12,340,000	12,340,000	-
Series B Debentures debt	10,460,000	10,460,000	-
	<u>23,349,780</u>	<u>23,180,348</u>	<u>-</u>
Shareholders' equity (deficiency)			
Capital stock	100	100	100
Deficit	<u>(259,278)</u>	<u>(21,029)</u>	<u>-</u>
	<u>(259,178)</u>	<u>(20,929)</u>	<u>100</u>
	\$ 23,090,602	\$ 23,159,419	\$ 100

Statement of Cash Flows			
	Six month Period Ended June 30, 2005	Year Ended December 31, 2004	Period From Incorporation on March 4, 2003 to December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	\$ (238,249)	\$ (21,029)	\$ -
Item not affecting cash:			
Amortization of deferred Offering costs	226,203	278,073	-
Changes in non-cash working capital items:			
Increase in interest and other receivables	(167,190)	(645,456)	-
Increase in accounts payable and accrued liabilities	<u>169,432</u>	<u>380,348</u>	<u> </u>
Net cash used in operating activities	<u>(9,804)</u>	<u>(8,064)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Debenture Issuer Loans	<u>-</u>	<u>(20,515,400)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	-	-	100
Proceeds from debenture debt	-	22,800,000	-
Deferred offering costs	<u>-</u>	<u>(2,262,029)</u>	<u>-</u>
Net cash provided by financing activities	<u>-</u>	<u>20,537,971</u>	<u>100</u>
Cash paid for:			
Interest	\$ 856,010	\$ 622,960	\$ -
Income taxes	-	-	-

The following is a summary of certain selected financial information for each of the six most recently completed quarters and for the period from incorporation on March 4, 2003 to December 31, 2003.

Balance Sheets							
	As at June 30, 2005	As at March 31, 2005	As at December 31, 2004	As at September 30, 2004	As at June 30, 2004	As at March 31, 2004	As at December 31, 2003
TOTAL ASSETS	\$ 23,090,602	\$ 23,210,560	\$ 23,159,419	\$ 12,454,845	\$12,508,788	\$9,821,593	\$ 100
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)							
Current							
Interest payable and accrued liabilities	\$ 549,780	\$ 542,280	\$ 380,348	\$ 287,290	\$ 287,290	\$ 71,578	\$ -
Series A Debentures debt	12,340,000	12,340,000	12,340,000	12,340,000	12,340,000	9,800,000	-
Series B Debentures debt	10,460,000	10,460,000	10,460,000	-	-	-	-
	23,349,780	23,342,280	23,180,348	12,627,290	12,627,290	9,871,578	-
Shareholders' equity (deficiency)							
Capital stock	100	100	100	100	100	100	100
Deficit	(259,278)	(131,820)	(21,029)	(172,545)	(118,602)	(50,085)	-
	(259,178)	(131,720)	(20,929)	(172,445)	(118,502)	(49,985)	100
	\$ 23,090,602	\$ 23,210,560	\$ 23,159,419	\$ 12,454,845	\$ 12,508,788	\$ 9,821,593	\$ 100

Statement of Cash Flows							
	Three month Period Ended June 30, 2005	Three month period ended March 31, 2005	Three month period Ended December 31, 2004	Three month period ended September 30, 2004	Three month period ended June 30, 2004	Three month period ended March 31, 2004	Period From Incorporation on March 4, 2003 to December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES							
Income (loss) for the period	\$ (127,458)	\$ (110,791)	\$ 151,516	\$ (53,943)	\$ (68,517)	\$ (50,085)	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES							
Debt Issuer Loans	-	-	(9,382,600)	-	(2,256,800)	(8,876,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES							
Net cash provided by financing activities	-	-	9,389,589	-	2,264,583	8,883,800	100

General Partner

The audited financial statements of the General Partner for the period from the date of its formation to July 21, 2005 are included in this Prospectus. The General Partner was only recently formed and

capitalized with nominal capital. As the General Partner has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

6. EARNINGS COVERAGE RATIOS

6.1 Limited Partnership

The Limited Partnership has not had any earnings to date, and currently has no outstanding long-term debt. However, it is anticipated that the Limited Partnership will incur Mortgage Loans in the aggregate principal amount of up to \$104,491,523, and the Debenture Issuer Loan in the aggregate principal amount of up to \$32,880,000.

In acquiring Properties, the General Partner intends to cause the Limited Partnership to comply with the guidelines discussed under the heading “Description of the Businesses of the Issuers – Business of the Limited Partnership – Guidelines for Property Acquisitions” (see page 5 herein), including the expectation that each Property (other than a development property) generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership’s invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide unique value added opportunities through capital improvement programs, replacement of management, re-leasing or similar initiatives.

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

6.2 Debenture Issuer

The Debenture Issuer was incorporated on March 4, 2003, and has had revenues of \$1,069,146 to June 30, 2005, as discussed below.

Pursuant to a Prospectus dated January 5, 2004 of the Debenture Issuer and Sunstone LP, the Debenture Issuer offered up to 1,600 of its Series A Debentures (the “Series A Debentures”) in the principal amount of \$10,000 each. The Series A Debentures bear interest at 9% per annum and mature on February 28, 2009. By way of subscriptions accepted on March 4, 2004 and April 1, 2004, the Debenture Issuer has issued 1,234 Series A Debentures for gross proceeds of \$12,340,000. The Debenture Issuer has loaned to Sunstone LP the sum of \$11,132,800, which loan bears interest at the rate of 9.9% and in respect of which Sunstone LP is required to pay annual administrative and loan fees to the Debenture Issuer.

Pursuant to a Prospectus dated October 25, 2004 of the Debenture Issuer and Sunstone (2004) LP, the Debenture Issuer offered up to 2,000 of its Series B Debentures (the “Series B Debentures”) in the principal amount of \$10,000 each. The Series B Debentures bear interest at 9% per annum and mature on October 31, 2009. By way of subscriptions accepted on November 15, 2004 and December 20, 2004 the Debenture Issuer has issued 1,046 Series B Debentures for gross proceeds of \$10,460,000. The Debenture Issuer has loaned to Sunstone (2004) LP the sum of \$9,382,600, which loan bears interest at the rate of 9.95% and in respect of which Sunstone (2004) LP is required to pay annual administrative and loan fees to the Debenture Issuer.

During the six month period ended June 30, 2005, the Debenture Issuer earned aggregate interest of \$1,017,858 and aggregate loan fees of \$51,288 from Sunstone LP and Sunstone (2004) LP. In the same period, the Debenture Issuer paid aggregate debenture interest of \$1,026,000 to the holders of the Series

A and Series B Debentures and paid aggregate administration fees of \$38,560 in respect of the administration of the Series A and Series B Debentures.

As discussed more fully below, the Debenture Issuer will require \$3,139,200 in earnings to attain an earnings coverage ratio of 1.09 to 1.00, based on the following assumptions:

- (1) The Debenture Issuer will, assuming the maximum Offering, have 3,600 Debentures outstanding, each with a principal amount of \$10,000, bearing interest at 8% per annum. Although the Debentures mature on October 31, 2010, for the purpose of calculating the Debenture Issuer's earnings coverage ratio, it is assumed that the Debentures will have a term of 60 months. Interest expense for a 12 month period will be approximately \$2,880,000. Deferred debt offering costs comprised of the 8.0% commission of \$2,880,000 and other offering expenses estimated at \$240,000 (the Debenture Issuer will bear 80% of the other offering expenses comprised of aggregate estimated Agents expenses of \$50,000 and aggregate estimated offering expenses of \$250,000) will be amortized over the term of the Debentures resulting in an annual amortization of \$624,000.
- (2) The Debenture Issuer will have advanced to the Limited Partnership by way of the Debenture Issuer Loan \$32,880,000. The Debenture Issuer Loan will generate income at 9.0% per annum resulting in interest income of \$2,959,200 for a 12 month period.
- (3) Based on an average of outstanding Debentures of \$36,000,000 during a 12 month period (assuming no repayment of the Debenture Issuer Loans), the Debenture Issuer will be entitled to a fee equal to 0.5% of the outstanding principal amount resulting in income of \$180,000.
- (4) The Debenture Issuer is entitled to an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected to aggregate over the term of the Debenture Issuer Loan to equal the total selling commissions and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures. The total estimated costs incurred by the Debenture Issuer (commission of \$2,880,000 and other estimated offering expenses of \$240,000) are assumed to be repaid in equal annual payments over the term of the Debentures. Accordingly, the Debenture Issuer has an annual loan fee of \$624,000.
- (5) No other expenses or income sources have been assumed for the Debenture Issuer.

Based on the above assumptions, the Debenture Issuer's earnings before interest and income tax for a 12 month period would be \$3,139,200, which is 1.09 times the Debenture Issuer's interest requirements for such period.

7. DESCRIPTION OF THE SECURITIES DISTRIBUTED

The Issuers are offering a minimum of 400 Units and a maximum of 3,600 Units, at a purchase price of \$12,500 per Unit. Each Unit is comprised of one LP Unit and one Debenture.

7.1 Limited Partnership Units

The rights and obligations of the General Partner and the Limited Partners are governed by the Limited Partnership Agreement dated as of August 9, 2005 among the General Partner, the Initial Limited Partner and all persons who subscribe for LP Units establishing the Limited Partnership, as amended by an agreement dated October 6, 2005. The following is a summary of certain material provisions of the Limited Partnership Agreement. **This summary does not purport to be complete and reference**

should be to the Limited Partnership Agreement itself, a copy of which is attached to this Prospectus.

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

Capital in the Limited Partnership - The capital of the Limited Partnership consists of up to 5,000 LP Units, plus the respective interests held by the Initial Limited Partner and the General Partner. The Limited Partnership is offering up to 3,600 LP Units at a total price of \$9,000,000 pursuant to this Offering.

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

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

Cash Flow from Operations - In each fiscal year of the Limited Partnership, the Limited Partnership will pay and distribute an amount equal to all cash flow from operations of the Properties in that year after payment of all current obligations relating to the Properties, including all current principal and interest payments under the Mortgage Loans, all interest payable under the Debenture Issuer Loan, and after the creation of reasonable working capital and capital improvement reserves as determined by the General Partner.

Such distributions will be made as follows:

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

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

- (a) firstly, to repay all current obligations relating to the Properties;
- (b) secondly, to pay to the Limited Partners that amount which is estimated by the General Partner to be required by the Limited Partners to pay any income or other taxes arising as a result of a sale of a Property;
- (c) thirdly, to the repayment of the Debenture Issuer Loan;
- (d) fourthly, to the payment to those Limited Partners who have contributed additional capital to the Limited Partnership, *pro rata* in accordance with such contributions, of the full amount of such additional capital;
- (e) fifthly, to the payment to Limited Partners of (i) the amount, if any, of their cumulative Limited Partners' Minimum Return which remains unpaid; and then (ii) the amount of Net Equity received from the Limited Partners, to the extent that the Net Equity has not been repaid to them;
- (f) sixthly, to the payment to the General Partner of the amount, if any, of the Incentive Management Interest which remains unpaid; and
- (g) seventhly, to the payment of the balance as to 80% to the Limited Partners and 20% to the General Partner.

Notwithstanding the foregoing, upon any sale of a Property which closes on or before December 31st, 2006, the General Partner may in its discretion retain for re-investment by the Limited Partnership the net proceeds from such sale, including any gain on the sale, provided that the Limited Partnership will distribute to the Limited Partners an amount estimated by the General Partner to be required by the Limited Partners to pay any income or other taxes arising as a result of such sale.

In accordance with the policies of the Autorité des marchés financiers, the Limited Partnership Agreement provides that the Limited Partnership may only sell a Property to a Related Party if the price paid is not less than the market value of the Property, as determined by an independent valuator. No commission is payable to any Related Party in connection with the sale of a Property.

Additional Capital Contributions - No Limited Partner is required to make additional capital contributions to the Limited Partnership over and above the purchase price paid for such Limited Partner's LP Units, unless the General Partner is authorized by Special Resolution of the Limited Partners to request additional capital contributions from the Limited Partners. Any calls for additional capital contributions must be justified and reasonable in the circumstances. No Limited Partner who fails to contribute capital in response to a call for additional capital will be required to forfeit his, her or its LP Unit(s). However, the Proportionate Share and Income Share of each Limited Partner who does contribute capital will be increased by the amount of the additional capital so contributed, and the Minimum Return of each Limited Partner will be calculated on the total of the Limited Partner's initial subscription capital plus any additional capital contributed. In addition, Limited Partners who have contributed additional capital will be entitled to a return of the additional capital out of the proceeds of the sale or re-financing of a Property

in priority to the pay out of both the Minimum Return and the initial subscription capital paid on all outstanding LP Units.

Partner Loans - If the Limited Partnership requires additional funding, the General Partner may also request that one or more Limited Partners voluntarily loan funds to the Limited Partnership. If a Limited Partner elects to make a loan to the Limited Partnership, the Limited Partnership will be required to repay such loan, together with interest thereon, in priority to any distributions of amounts in respect of cash flow from the operations of the Properties, and in priority to any distributions of net proceeds received by the Limited Partnership from any capital transaction in respect of the Properties.

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

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

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

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

Removal of the General Partner - The Limited Partners may, by Special Resolution and upon 60 days written notice to the General Partner, remove the General Partner without cause, and may remove the General Partner 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 removed General Partner, and the

removed General Partner will be released of its liabilities under the Limited Partnership Agreement and indemnified for any damages and expenses with respect to events which occur in relation to the Limited Partnership after the appointment of the new General Partner.

In the event of the removal of the General Partner, the Limited Partnership may terminate the General Partner Services Agreement and any other agreements made between the Limited Partnership and the General Partner or a Related Party, upon the payment by the Limited Partnership to the General Partner 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 Limited Partnership will be responsible for the payment to the General Partner of any and all fees payable under that Agreement, and all expenses incurred and paid by the General Partner, up to the date immediately prior to the date of termination. As well, the Limited Partnership will purchase from the former General Partner its interest in the Limited Partnership for a price equal to the fair market value thereof.

The removal and replacement of the General Partner will not dissolve the Limited Partnership, and the business of the Limited Partnership will be continued by the new General Partner.

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

Financial Information - The General Partner has agreed under the Limited Partnership 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 Limited Partnership, 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 Limited Partnership's income. All financial statements will be prepared in accordance with Canadian 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 General Partner will also provide interim financial and management reports regarding the affairs of the Limited Partnership on a semi-annual basis.

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

7.2 Debentures

The Debenture Issuer is offering up to 3,600 Debentures of \$10,000 each for total proceeds of \$36,000,000.

The Debentures will bear interest at a fixed, simple rate of 8% per annum. Interest will be paid quarterly in arrears on the 15th days of each of January, April, July and October commencing on January 15, 2006. Interest will be paid when cash is available to the Debenture Issuer from interest received by it from the Limited Partnership under the Debenture Issuer Loan. **If cash flow from the Debenture Issuer Loan is insufficient to permit the Debenture Issuer to pay the full amount of the interest over the terms of the Debentures, the recourse of Debentureholders in respect of any unpaid interest will be limited to the Debenture Issuer Loan.**

The Debentures have a term of approximately five years, expiring October 31, 2010. The term of the Debentures may be extended by way of the favourable vote of Debentureholders owning Debentures representing more than 50% of the dollar principal amount of Debentures then outstanding. The Debenture Issuer may redeem the Debentures either in whole at any time or in part from time to time. The Debenture Issuer must repay the principal amount outstanding under the Debentures, and accrued interest, if and to the extent, at any time during its term, the Debenture Issuer Loan is repaid by the Limited Partnership in whole or in part. The Limited Partnership is obligated to repay the Debenture Issuer Loan under certain terms and conditions.

The Debentures will be secured by way of a security interest to be granted by the Debenture Issuer in favour of the Debentureholders under the Debentureholders Agreement, notice of which will be registered in the personal property security registry in each province in which the Debenture Issuer or the Limited Partnership carries on business.

The only collateral security for the Debentures is the Debenture Issuer's interest in the Debenture Issuer Loan and, as a result, no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.

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

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

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

7.3 Limited Redemption Rights

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

- (a) on or before May 31 in each year, commencing on May 31, 2009, the Issuers will determine and provide written notice to the Purchasers of the price at which LP Units and

Debentures will be redeemed (the “Redemption Price”) on the following January 15th (a “Redemption Date”);

- (b) a Purchaser (the “Requestor”) wishing to have such Purchaser’s LP Units and Debentures redeemed by the Issuers may, by delivering notice in writing to the Issuers prior to July 1 in each year (the “Notice Date”), commencing on July 1, 2009, require the redemption of all or part of such Purchaser’s LP Units and Debentures;
- (c) the obligation of the Issuers to redeem LP Units and Debentures will be subject to the General Partner and the directors of the Debenture Issuer determining, in their sole discretion, that funds are available to the Limited Partnership and the Debenture Issuer, respectively, for the purposes of redemption;
- (d) the number of LP Units and Debentures which will be redeemed on any one Redemption Date will be limited in each year to 5% of the total number of LP Units and Debentures issued by the Issuers;
- (e) if by any Notice Date the Issuers have received notices requiring the Issuers to redeem a number of LP Units and Debentures in excess of 5% of the total of number of LP Units and Debentures issued by the Issuers, or if on a Redemption Date the General Partner and the directors of the Debenture Issuer determine that funds are not available to the Limited Partnership and the Debenture Issuer, respectively, to redeem the number of LP Units and Debentures in respect of which a request for redemption has been made, then the redemption of LP Units and Debentures on the next following Redemption Date will be made *pro rata* to the number of LP Units and Debentures in respect of which requests for redemption have been made;
- (f) on a Redemption Date, commencing on January 15, 2010, the Issuers will pay to the Requestors, the Redemption Price for each LP Unit and Debenture in respect of which redemption will be made; and
- (g) all accrued and unpaid Limited Partners’ Minimum Return in respect of LP Units which are redeemed will be forfeited.

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

7.4 Subscription

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

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

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

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

8. SHARE AND LOAN CAPITAL

8.1 Existing and Proposed Share Capital

Limited Partnership

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at August 9, 2005	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial Limited Partner's Interest	1	1 (\$10)	1 (\$10)	1 (\$10)
General Partner's Interest	1	1 (\$10)	1 (\$10)	1 (\$10)
LP Units	5,000	Nil	400 (\$1,000,000) ⁽¹⁾	3,600 (\$9,000,000) ⁽¹⁾

⁽¹⁾ Gross proceeds before issuance costs.

General Partner

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at August 9, 2005	Number outstanding and carrying value after Offering
Common Shares	Unlimited (no par value)	1,000 (\$10)	1,000 (\$10)

Debenture Issuer

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at August 9, 2005	Number outstanding and carrying value after Offering
Common Shares	100,000,000 (no par value)	100 (\$100)	100 (\$100)

8.2 Long-Term Debt

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

The Limited Partnership intends to borrow funds by way of the Mortgage Loans, the terms and conditions of which will vary in the case of each Property to be purchased. In addition, the proceeds raised by the Debenture Issuer from the issuance of Debentures will be loaned to the Limited Partnership by way of the Debenture Issuer Loan, to be secured by way of a general security interest over personal property granted by the Limited Partnership in favour of the Debenture Issuer. Assuming all 3,600 Units are sold pursuant to this Offering, the Debenture Issuer Loan will be in the principal amount of approximately \$32,880,000. (Refer to "Description of Business of the Issuers – Debenture Issuer Loan" on page 8 for further particulars on the Debenture Issuer Loan.)

Series A Debentures

Pursuant to the Prospectus dated January 5, 2004 of the Debenture Issuer and Sunstone LP, the Debenture Issuer has issued 1,234 of its Series A Debentures for gross proceeds of \$12,340,000. The Series A Debentures, which mature on February 28, 2009, bear interest at an annual rate of 9% and are secured by way of a security interest over personal property granted by the Debenture Issuer in favour of the holders of Series A Debentures pursuant to a Debentureholders Agreement made between the Debenture Issuer and the holders of Series A Debentures.

The Debenture Issuer has loaned the net proceeds (after payment of agents commissions and offering costs) from the issuance of the Series A Debentures to Sunstone LP, which has used such proceeds in the acquisition of: Langley Crossing, an 8.03 acre community strip shopping centre in Langley, British Columbia; the 30,500 square foot RONA store located at Langley Crossing in British Columbia; the Westhill Centre, a neighbourhood retail and office centre located in Nanaimo, British Columbia, comprised of 34,294 square feet of rental area with an overall site area of 46,066 square feet; and a 50% undivided beneficial interest in Cascade Plaza, a shopping plaza and condominium complex located in Banff, Alberta. Recourse under the Series A Debentures is limited to the Debenture Issuer's interest in

the underlying loan by the Debenture Issuer to Sunstone LP, which stands as sole security for the Series A Debentures.

Series B Debentures

Pursuant to the Prospectus dated October 25, 2004 of the Debenture Issuer and Sunstone (2004) LP, the Debenture Issuer has issued 1,046 of its Series B Debentures for gross proceeds of \$10,460,000. The Series B Debentures, which mature on October 31, 2009, bear interest at an annual rate of 9% and are secured by way of a security interest over personal property granted by the Debenture Issuer in favour of the holders of Series B Debentures pursuant to a Debentureholders Agreement made between the Debenture Issuer and the holders of Series B Debentures.

The Debenture Issuer has loaned the net proceeds (after payment of agents commissions and offering costs) from the issuance of the Series B Debentures to Sunstone (2004) LP, which has used such proceeds in the acquisition of: 1425 Kebet Way, a 47,693 square foot concrete warehouse, with an overall site area of 2.18 acres, situated in Port Coquitlam, British Columbia; the 70,074 square foot WestWillow Shopping Centre located in the Willowbrook shopping district of Langley, British Columbia; the 56,781 square foot Scott Town Plaza shopping centre, located in Surrey, British Columbia; the 70,228 square foot Halton Hills Shopping Plaza, located in Georgetown, Ontario; the 10,537 square foot Drumheller Shopping Centre, located in Drumheller, Alberta; and the 14,634 square foot Torquay Village, located in Victoria, British Columbia. Sunstone (2004) LLP purchased the 1425 Kebet Way property for a purchase price of \$3,765,187 (plus standard closing costs and adjustments) and subsequently sold this property on May 6, 2005 for a total sale price of \$4,570,000. Recourse under the Series B Debentures is limited to the Debenture Issuer's interest in the underlying loan by the Debenture Issuer to Sunstone (2004) LP, which stands as sole security for the Series B Debentures.

Series C Debentures

The Debenture Issuer is offering up to 3,600 Series C Debentures of \$10,000 each for total proceeds of \$36,000,000. The Debentures have a term of approximately five years, expiring October 31, 2010. The Debentures will be secured by way of a security interest over personal property to be granted by the Debenture Issuer in favour of the Debentureholders pursuant to the Debentureholders Agreement. The only collateral security for the Debentures is the Debenture Issuer's interest in the Debenture Issuer Loan and, as a result, no recourse will be available to the assets of the Debenture Issuer (including the loan by the Debenture Issuer to Sunstone LP which stands as sole security for the Series A Debentures and the loan by the Debenture Issuer to Sunstone (2004) LP which stands as sole security for the Series B Debentures) other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan. (Refer to "Description of the Securities Distributed – Debentures" at page 25 herein for further particulars of the terms of the Debentures.)

9. PRIOR SALES

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

Entity	Date of issuance	Type of security issued	Number of securities issued	Price per security	Gross Proceeds
<i>Limited Partnership</i>	December 30, 2004	General Partner's Interest	1	\$10	\$10

Entity	Date of issuance	Type of security issued	Number of securities issued	Price per security	Gross Proceeds
	December 30, 2004	Initial Limited Partner's Interest	1	\$10	\$10
<i>Debenture Issuer</i>	March 4, 2003	Common Share(s)	1	\$1	\$1
	November 27, 2003	Common Share(s)	99	\$1	\$99
	March 4, 2004	Series A Debentures	980	\$10,000	\$9,800,000
	April 1, 2004	Series A Debentures	254	\$10,000	\$2,540,000
	November 15, 2004	Series B Debentures	503	\$10,000	\$5,030,000
	December 20, 2004	Series B Debentures	543	\$10,000	\$5,430,000

10. PRINCIPAL SHAREHOLDERS

Limited Partnership

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

Name and Municipality of Residence	Class	Ownership	Number of Securities	Percentage of Class Prior to the Offering	Percentage of Class After the Offering
Sunstone Realty Advisors (2005) Inc. ⁽¹⁾ Vancouver, B.C.	General Partner's Interest	Direct	1	100%	100%
SRA First Partner Ltd. ⁽²⁾ Vancouver, B.C.	Initial Limited Partner's Interest	Direct	1	100%	100%

⁽¹⁾ The shares of Sunstone Realty Advisors (2005) Inc. are owned by Triple E Ventures Inc. and Darren Developments Inc., as to 50% each. Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc., and Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc.

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

Debenture Issuer

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

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

- (1) The shares of Knightswood are listed on the TSX Venture Exchange. According to the most recent information circular filed by Knightswood in connection with the annual general meeting of its shareholders held on June 9, 2005, to the knowledge of the directors and officers of Knightswood, the following persons beneficially own, directly or indirectly, more than 10% of the issued and outstanding shares of Knightswood:

Name of Beneficial Shareholder	No. of Common Shares	Percentage of 2,161,667 Common Shares Outstanding as at May 6, 2004
Liza V. Lanzet (308,936 are held directly and 191,947 are held as joint tenant with Stanley Lanzet)	500,883	23.17%
Stanley Lanzet (183,728 are held directly and 191,947 are held as joint tenant with Liza Lanzet)	375,675	17.38%

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

The General Partner

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

Name and Municipality of Residence	Class	Ownership	Number of Securities	Percentage of Class Prior to the Offering	Percentage of Class After the Offering
Steve Evans North Vancouver, BC	Common	Indirect ⁽¹⁾	500	50%	50%

Name and Municipality of Residence	Class	Ownership	Number of Securities	Percentage of Class Prior to the Offering	Percentage of Class After the Offering
Darren Latoski Vancouver, BC	Common	Indirect ⁽²⁾	500	50%	50%
TOTAL	--	--	1,000	100%	100%

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

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

11. DIRECTORS AND OFFICERS

11.1 Name, Address, Occupation and Security Holding

The General Partner

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

Name, Age, Municipality of Residence and Position Held with General Partner	Principal Occupation	Periods Served as a Director	Securities of the General Partner Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Darren Latoski Age 36 Vancouver, BC President and Director	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Advisors (Canada) 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, development and management company from September 1989 to present; Vice	President and Director since December 29, 2004.	500 common shares ⁽¹⁾	50%	50%

Name, Age, Municipality of Residence and Position Held with General Partner	Principal Occupation	Periods Served as a Director	Securities of the General Partner Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
	President of MacLuan Capital Corporation from December 1997 to February 2001.				
Steve Evans Age 41 North Vancouver, BC Secretary and Director	Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Sunstone Advisors (Canada) Inc.; Director and Secretary of Sunstone Realty Advisors (Canada) Inc.; Director and Secretary of Churchill Property Group Inc., from January 2002 to present; President of Triple E Ventures Inc., a personal holding and investment company from June 1997 to present; Vice President of England Securities Ltd., a real estate investment, development and management company from June 1987 to September 2001.	Secretary and Director since December 29, 2004.	500 common shares ⁽²⁾	50%	50%
Robert W. King Age 39 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. Director of PlanetOut Inc., an online media company, from February 2004 to present.	Director since December 29, 2004.	Nil	Not Applicable	Not Applicable
James Redekop Age 45 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 since December 29, 2004.	Nil	Not Applicable	Not Applicable

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

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

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

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

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

Sunstone LP acquired the Westhill Centre on September 30, 2004 for a purchase price of \$3,040,000 plus standard closing costs and adjustments. The property was built in 1998 and is well-situated on a major four lane arterial traffic route. Westhill Centre is near the 31 acre Westhill Community development and the Nanaimo General Hospital. It is a neighbourhood retail and office centre, comprised of 34,294 square feet of rental area, with an overall site area of 146,066 square feet. The Westhill Centre tenants include a free-standing Tim Horton's Restaurant, a second free-standing restaurant building and a 26,600 square foot, multi-tenanted, two story building with Edward D. Jones, Domino's Pizza and other office, retail and medical services tenants. Sunstone LP sold The Westhill Centre on September 29, 2005 for \$3,550,000.

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

Further, SRAI organized Sunstone (2004) LP, which in November and December, 2004, raised total cash proceeds from its joint offering with SRAI Capital Corp., of \$13,075,000. Sunstone (2004) LP acquired and currently owns the 10,537 square foot Drumheller Shopping Centre, located in Drumheller, Alberta; the 14,634 square foot Torquay Village Shopping Plaza, located in Victoria, British Columbia; the 70,074 square foot WestWillow Shopping Centre, located in Langley, British Columbia; the 56,781 square foot Scott Town Plaza shopping centre, located in Surrey, British Columbia; and the 70,228 square foot Halton Hills Shopping Plaza, located in Georgetown, Ontario. It also acquired and subsequently sold a 47,693 square foot concrete warehouse located at 1425 Kebet Way in Port Coquitlam, British Columbia.

On December 30, 2004, Sunstone (2004) LP acquired 1425 Kebet Way for a purchase price of \$3,765,187 (plus standard closing costs and adjustments). Sunstone (2004) LP funded the acquisition with cash and a \$2,823,890 new first mortgage on the property in favour of Canadian Western Bank. The property is located in the Meridian Industrial Park in Port Coquitlam, British Columbia and is a 47,693 square foot concrete warehouse that was constructed in 1993, with an overall site area of 2.18 acres. The warehouse has been fully leased since its development and the cash flow from the property met the threshold yield for the preferred return for the Sunstone (2004) LP investment. On May 6, 2005 Sunstone (2004) LP sold the 1425 Kebet Way property for the sale price of \$4,570,000.

On March 17, 2005 Sunstone (2004) LP acquired WestWillow Shopping Centre for a purchase price of \$9,750,000 (plus standard closing costs and adjustments). Sunstone (2004) LP funded the acquisition with cash and a \$7,312,500 new first mortgage on the property in favour of Coast Capital Savings Credit Union. WestWillow Shopping Centre is a 70,074 square foot shopping centre located in the Willowbrook shopping district of Langley, British Columbia. The centre is anchored by Fairway Market and has a diversified tenant mix including Baskin Robbins and Mail Boxes Etc. WestWillow Shopping Centre is also in close proximity to other big box stores and shopping centres that include Wal-Mart, Home Outfitters, Real Canadian Superstore and Willowbrook Mall which adds to high traffic volumes, and visibility. The Willowbrook area is increasingly becoming a regional town centre, and is considered to have a strong drawing power, bringing traffic from the surrounding areas of White Rock, and South Surrey.

On May 30, 2005 Sunstone (2004) LP acquired Scott Town Plaza for a purchase price of \$8,000,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$6,000,000 new first mortgage on the property in favour of Coast Capital Savings. Scott Town Plaza is a 56,781 square foot shopping centre located in the district of Surrey, British Columbia, one of the fastest growing cities in Canada. The centre is anchored by Pharmasave and a Buy-Rite Foods grocery store. Scott Town Plaza is in close proximity to other big box stores and shopping centres that include Save-on-Foods and Real Canadian Superstore.

On May 27, 2005 Sunstone (2004) LP acquired Halton Hills Shopping Plaza for a purchase price of \$8,650,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a blended \$6,750,000 mortgage on the property in favour of GMAC Commercial Mortgage and vendor financing. Halton Hills Shopping Plaza is a grocery anchored, 70,228 square foot, open neighbourhood centre and is situated in the highly visible and heavily traveled commercial area of Georgetown, Ontario. The centre is anchored by a Food Basics grocery store and is complimented by a high-profile diversified tenant mix including TD Canada Trust, PetValu, Pita Pit and Dollarama. Halton Hills Shopping Plaza is situated directly across the street from Georgetown Market Place, a 300,000 square foot enclosed community scale centre anchored by Zellers, Loblaws and Walmart, which generates higher traffic volumes in the area and increased consumer exposure. Halton Hills is increasingly becoming a regional town centre and is considered to have strong drawing power, bringing traffic from the surrounding areas of both Brampton and Burlington.

On July 15, 2005 Sunstone (2004) LP acquired Drumheller Shopping Centre for a purchase price of \$2,335,000, plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a \$1,751,000 new first mortgage on the property in favour of Canadian Western Bank, bearing an interest rate of 4.7% per annum and maturing in July 2010. Drumheller Shopping Centre is a 10,537 square foot shopping centre located north east of Calgary, in Drumheller, Alberta. The centre has three tenants, A&W restaurants, Alberta Treasury Branches and VHQ Entertainment (Video Headquarters, which was recently acquired by Movie Gallery). Drumheller Shopping Centre is located in the new

“South Side” business district, adjacent to tenants such as IGA, McDonalds, Country Style Donuts, Super 8 Motel and Canadian Tire.

On July 15, 2005 Sunstone (2004) LP acquired Torquay Village Plaza for a purchase price of \$3,350,000 plus standard closing costs and adjustments. Sunstone (2004) LP funded the acquisition with cash and a blended \$2,525,000 first mortgage on the property in favour of Standard Life and vendor financing. Torquay Village Plaza is a 14,634 square foot, single-storey shopping plaza, located in Victoria, British Columbia. Its tenants include nationwide companies such as Edward Jones, Dominos Pizza and General Paint.

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

CIRE LP acquired Parkway Mall on January 22, 2003 for an effective purchase price of \$30,000,000 (before acquisition costs). The property was sold in January 2004 for \$37,800,000. Parkway Mall is a 280,000 square feet enclosed mall situated in a predominantly residential neighbourhood with a mix of single and multi-family homes. It serves as its neighbourhood’s main centre for shopping and medical, dental and professional services. As two of the three principals of CPGI, Messrs. Evans and Latoski were instrumental in the identification of Parkway Mall as an opportunity to add value to the property through strategic management, upgrades to the property and certain re-leasing. In addition Evans and Latoski negotiated and managed the sale of the property.

CIRE LP acquired an undivided 50% interest in Queensway Business Park on October 8, 2003 for an effective purchase price of \$11,500,000 (before acquisition costs). The 50% interest in the property was sold March 1, 2004 for \$12,800,000. Queensway Business Park is located within close proximity to Toronto’s downtown core and the Lester B. Pearson International Airport. Queensway is an unenclosed business park consisting of 10 industrial/office buildings totalling 334,200 square feet of gross building area and 332,594 of net leasable area. As two of the three principals of CPGI, Messrs. Evans and Latoski were instrumental in the identification of Queensway Business Park as a stable income producing property with the opportunity to increase revenues through pro-active lease management and a small redevelopment. In addition, Messrs. Evans and Latoski negotiated and managed the sale of the property.

Messrs. Evans and Latoski also indirectly own an interest in, and control the management of, the Christina Place / Ocean View Retirement Community in White Rock, British Columbia. This property is comprised of a 72 unit intermediate care facility and an 85 suite independent living retirement community, and was acquired in April, 2002 for \$18,120,000 (including all offering and acquisition costs and a capital reserve for refurbishing the property). A total of \$4,700,850 in cash proceeds was raised by way of an Offering Memorandum for this purchase. The property is held through CIPC (Ocean View) Limited Partnership, a British Columbia limited partnership which was established for the purposes of financing the acquisition of and owning this property.

Darren Latoski - As President and indirect 50% owner of the shares in SRAI, Mr. Latoski participated in the negotiation and acquisition of property interests by Sunstone LP totalling \$44,190,000 and Sunstone (2004) LP totalling \$35,850,187, as detailed above. He continues his active role in the management of the business of SRAI, with a focus on enhancing the value of the assets of Sunstone LP and Sunstone (2004) LP. As President and the indirect owner of one-third of the shares in CPGI, Mr. Latoski participated in the negotiation and acquisition by CIRE LP of property interests totalling \$41,500,000, as detailed above. He continues an active role in the management of the business of CPGI and CIRE LP.

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

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

Steve Evans – As Managing Director and indirect 50% owner of the shares in SRAI, Mr. Evans participated in the negotiation and acquisition of property interests by Sunstone LP totalling \$44,190,000 and Sunstone (2004) LP totalling \$35,850,187, as detailed above. He continues his active role in the management of the business of SRAI, with a focus on enhancing the value of the assets of Sunstone LP and Sunstone (2004) LP. As Managing Director and the indirect owner of one-third of the shares in CPGI, Mr. Evans participated in the negotiation and acquisition by CIRE LP of property interests totalling \$41,500,000, as detailed above. He continues an active role in the management of the business of CPGI and CIRE LP.

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

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

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

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

Limited Partnership

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

Debenture Issuer

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

Name, Age, Municipality of Residence and Position Held with Debenture Issuer	Principal Occupation	Periods Served as a Director	Securities of the Debenture Issuer Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Steve Evans Age 41 North Vancouver, BC President and Director	Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Sunstone Advisors (Canada) Inc.; Director and Secretary of Sunstone Realty Advisors (Canada) Inc.; Director and Secretary of Churchill Property Group Inc., from January 2002 to present; President of Triple E Ventures Inc., a personal holding and investment company from June 1997 to present; Vice President of England Securities Ltd., a real estate investment, development and management company from June 1987 to September 2001.	President and Director since November 2003	See note (1) below	See note (1) below	See note (1) below

Name, Age, Municipality of Residence and Position Held with Debenture Issuer	Principal Occupation	Periods Served as a Director	Securities of the Debenture Issuer Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Darren Latoski Age 36 Vancouver, BC Secretary and Director	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Advisors (Canada) 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, development and management company from September 1989 to present; Vice President of MacLuan Capital Corporation from December 1997 to February 2001.	Secretary and Director since November 2003	See note (1) below	See note (1) below	See note (1) below
Robert W. King Age 39 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. Director of PlanetOut Inc., an online media company, from February 2004 to present.	Director since October 2004	Nil	Not Applicable	Not Applicable
James Redekop Age 45 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 since October 2004	Nil	Not Applicable	Not Applicable

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

Steve Evans – For a brief description of Mr. Evans’ background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 33.

Darren Latoski – For a brief description of Mr. Latoski’s background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 33.

Robert W. King – For a brief description of Mr. King’s background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 33.

James Redekop – For a brief description of Mr. Redekop’s background and experience, please refer to the discussion under the heading “Name, Address, Occupation and Security Holding - The General Partner” on page 33.

11.2 Corporate Bankruptcies

Robert King, a director of the General Partner and the Debenture Issuer, served as a director of Redekop Properties Inc. (“Redekop”) from March 1997 to June 2001. Redekop was formerly listed on the Toronto Stock Exchange. On December 4, 2000, Redekop and certain affiliated companies applied for and were granted a protective order under the *Companies’ Creditors Arrangement Act* (Canada). On February 9, 2001, Redekop 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 Redekop while the stay order remained in effect.

On March 2, 2001, the British Columbia Supreme Court dismissed an application by Redekop and its affiliates for an order entitling Redekop 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 Redekop and its affiliates.

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

11.3 Penalties or Sanctions (Directors and Officers)

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

11.4 Potential Conflicts of Interest (Directors and Officers)

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

The Limited Partnership will be obligated to pay interest and to repay principal to the Debenture Issuer under the Debenture Issuer Loan. The Debenture Issuer Loan bears interest at an annual rate of 9.0% in

order to pay in full the interest payable to holders of Debentures. Interest is payable quarterly in arrears, commencing January 15, 2006. In addition, the Limited Partnership will pay to the Debenture Issuer:

- (a) an annual loan fee in an amount to be determined by the Debenture Issuer and the Limited Partnership, which fee is expected in the aggregate, over the term of the Debenture Issuer Loan, to equal the total Agents' commissions and fees and offering expenses incurred by the Debenture Issuer in respect of the Offering of the Debentures. In the event of prepayment of the Debenture Issuer Loan, a portion of this fee may become due upon prepayment; and
- (b) an ongoing loan fee, payable quarterly in arrears on the last day of each calendar quarter, commencing December 31, 2005, equal to one-quarter of 0.5% of the outstanding principal amount of Debentures at the beginning of each such calendar quarter.

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

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

12. EXECUTIVE COMPENSATION

12.1 Compensation

Limited Partnership

The Limited Partnership does not have any executive officers.

Debenture Issuer

For the financial year ended December 31, 2004 and for the interim period ending June 30, 2005, no compensation was paid by the Debenture Issuer to any of the following executive officers: Steve Evans, President; and Darren Latoski, Secretary.

General Partner

For the period from formation on December 29, 2004 to July 21, 2005, no compensation was paid by the General Partner to any of the following executive officers: Darren Latoski, President; and Steve Evans, Secretary.

12.2 Management Agreements

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

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

The Debenture Issuer has entered into a Capital Agreement with Knightswood pursuant to which the Debenture Issuer will pay to Knightswood a quarterly fee of \$6,250. Such fee is subject to adjustment as follows: (i) if the aggregate principal amount of the Debentures issued by the Debenture Issuer is less than \$5,000,000, the quarterly fee will be reduced to \$5,000; and (ii) if the aggregate principal amount of the Debentures issued by the Debenture Issuer is greater than \$10 million, the quarterly fee will be increased to \$7,500.

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

12.3 Long-Term Incentive Plans - Awards

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

12.4 Option/SAR Grants

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

12.5 Compensation Committee

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

13. PLAN OF DISTRIBUTION

13.1 Maximum Offering

SRAI will co-ordinate through the Agents, by this Prospectus, the offer to sell to the public in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edward Island on a continuing basis, up to a maximum of 3,600 Units at a price of \$12,500 per Unit until December 31, 2005. Each Unit consists of one LP Unit having a price of \$2,500 and one Debenture at a price of \$10,000 per Debenture.

13.2 Minimum Offering

There will be no closing unless a minimum of 400 Units are sold pursuant to this Offering. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agents, in trust; if the minimum number of Units are not sold during the 90-day period, these funds will be returned to the subscribers unless the subscribers have otherwise instructed the Agents.

13.3 Agency Agreement

Pursuant to an Agency Agreement made as of September 12, 2005 between the Limited Partnership, the Debenture Issuer, the General Partner, SRAI and the Agents, as amended by an agreement dated October 6, 2005, the Agents have agreed to offer the Units for sale on a “commercially reasonable best efforts” basis until December 31, 2005 or such later date as may be agreed by the Agents, in consideration of a fee equal to 8% of the purchase price of the LP Units and the Debentures.

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

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

As well, the General Partner has agreed to pay to the Agents, on an annual basis, a trailer fee equal to 1/6th of the quarterly asset management fee paid to the General Partner pursuant to the General Partner Services Agreement. However, such trailer fee will only be paid by the General Partner to the Agents, if it is collected by the General Partner. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Units.

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

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

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

Currently, the Agents do not beneficially own, directly or indirectly, any securities of the Issuers.

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

The price to the public of LP Units and Debentures was determined by negotiation between the Lead Agent, the Limited Partnership and the Debenture Issuer.

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

14. RISK FACTORS

The purchase of securities hereunder involves a number of risk factors. The risks described below are not the only risks involved with an investment in the Units. If any of the following risks occur, or if others occur, the Limited Partnership's business, operating results and financial condition could be seriously harmed and Purchasers may lose all of their investment. In addition to the risk factors set forth elsewhere in this Prospectus, prospective purchasers should consider the following risks associated with a purchase of such securities:

This is a Blind Pool Offering; Reliance on General Partner and its Management – Although the General Partner expects that the available net proceeds of the Offering will be applied to purchase one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been

determined. In any event, if the maximum Offering of 3,600 Units is sold, the General Partner expects to cause the Limited Partnership to apply approximately \$41,100,000 (i.e. approximately 91.3% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner upon the closing of any Property acquisitions), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 400 Units is sold, the General Partner intends to cause the Limited Partnership to apply approximately \$4,450,000 (i.e. approximately 89% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), and to the creation of working capital reserves and reserves for renovations and upgrades. Depending on the return on investment achieved on any Properties that may be acquired by the Limited Partnership, the Limited Partners' return on their respective investments in the Units will vary.

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

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

Less than Full Offering – There can be no assurance that this Offering will be completely sold out. If less than all of the 3,600 Units are sold pursuant to this Offering, then less than the maximum proceeds will be available to the Limited Partnership and, consequently, its business development plans and prospects could be adversely affected, since fewer Properties will be purchased, owned and operated by the Limited Partnership.

Risks of Real Estate Ownership – Investment in real estate is subject to numerous risks, including the highly competitive nature of the real estate industry, changes in general or local conditions, failure of tenants to pay rent, changes in neighbourhood property values, interest rates, availability of mortgage funds, increases in real estate tax rates and other operating expenses, the possibility of competitive overbuilding and of the inability to obtain full occupancy of the properties, governmental rules and fiscal policies, including rent control legislation, which limit potential rent increases, and other events and factors which are beyond the control of the Limited Partnership.

Financing Risks – There is no assurance that the Limited Partnership will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties, or, if available, that the Limited Partnership will be able to obtain Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Mortgage Loans, if obtained, will be renewed when they mature or, if renewed,

renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the Limited Partnership is able to purchase will decrease and the projected return from the ownership of Properties will be reduced.

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

Interest Rate Fluctuations - The Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Limited Partnership's cost of borrowing.

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

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

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

Limited Redemption Rights – If by any Notice Date the Issuers have received notices requiring the Issuers to redeem a number of LP Units and Debentures in excess of 5% of the total number of LP Units and Debentures issued by the Issuers, or if on a Redemption Date the General Partner and the directors of the Debenture Issuer determine that funds are not available to the Limited Partnership and the Debenture Issuer, respectively, to redeem the number of LP Units and Debentures in respect of which a request for redemption has been made, then the redemption of LP Units and Debentures will be made *pro rata* to the number of LP Units and Debentures in respect of which requests for redemption have been made. The number of LP Units and Debentures redeemed will be limited to the lesser of 5% of the total number of LP Units and Debentures issued by the Issuers and that number of LP Units and Debentures for which the General Partner and the directors of the Debenture Issuer determine that funds are available. Therefore, there can be no assurance that Investors will be able to redeem any or all of their LP Units and Debentures when they wish to do so. (Refer to “Description of the Securities Distributed – Limited Redemption Rights” at page 26 herein for further particulars.)

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

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

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

Additional Contributions – The Limited Partnership Agreement provides that the General Partner may, if authorized by special resolution of the Limited Partners, request that additional capital contributions be made by Limited Partners. Any calls for additional capital contributions must be justified and reasonable in the circumstances. No Limited Partner who fails to contribute capital in response to a call for additional capital will be required to forfeit his, her or its LP Unit(s). However, the Proportionate Share and Income Share of each Limited Partner who does contribute capital will be increased by the amount of the additional capital so contributed, and the Limited Partners’ Minimum Return will be calculated on the total of the Limited Partner’s initial subscription capital plus any additional capital contributed. In addition, Limited Partners who have contributed additional capital will be entitled to a return of the additional capital out of the proceeds of the sale or re-financing of a Property in priority to the pay out of both the Limited Partners’ Minimum Return and the initial subscription capital paid on all outstanding LP Units.

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

No Independent Liability to Repay Debentures – The only collateral security for the Debentures is the Debenture Issuer’s interest in the Debenture Issuer Loan and, as a result, no recourse will be available to the assets of the Debenture Issuer other than its interest in the Debenture Issuer Loan. Recourse in the event of default in payment under the Debentures is limited solely to proceeds from the disposition of the Debenture Issuer Loan.

Competition for Real Property Investments – The Limited Partnership 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 Limited Partnership. 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.

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

15. PROMOTER

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

16. LEGAL PROCEEDINGS

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

17. AUDITORS

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

The auditors of the Limited Partnership and the General Partner are Meyers Norris Penny LLP, 96 Wallace Street, Nanaimo, British Columbia V9R 5L5

18. REGISTRAR AND TRANSFER AGENT

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

Registration and transfers of LP Units and Debentures will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited (“CDS”). A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. See “Plan of Distribution” on page 44 herein.

19. MATERIAL CONTRACTS

19.1 Particulars of Material Contracts

The following are the only material agreements, other than contracts entered into in the ordinary course of business, which one or both of the Issuers have entered into during the last two years, and the material agreements to which Purchasers will be required to become a party. **Copies of these agreements are available for inspection during regular business hours at the offices of the General Partner, located at 910 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2.**

1. ***Limited Partnership Agreement*** – described in “Description of the Securities Distributed – Limited Partnership Units” on page 21 herein and attached as Schedule A hereto.
2. ***Debentureholders Agreement*** - described in “Description of the Securities Distributed – Debentures” on page 25 herein.
3. ***Debenture Issuer Loan Agreement*** – described in “Description of the Businesses of the Issuers – Debenture Issuer Loan” on page 8 herein.
4. ***General Security Agreement executed by the Limited Partnership in favour of the Debenture Issuer*** – described in “Description of the Businesses of the Issuers – Debenture Issuer Loan” on page 8 herein.
5. ***General Partner Services Agreement*** – described in “Use of Proceeds” on page 13 herein and in “Executive Compensation – Management Agreements” on page 43 herein.
6. ***Agency Agreement*** – described in “Plan of Distribution – Agency Agreement” on page 44 herein.
7. ***Administration Agreement between the Debenture Issuer and Trilogy Bancorp Ltd.*** – described in “Executive Compensation - Management Agreements” on page 43 herein.
8. ***Capital Agreement between SRAI and Knightswood*** – described in “Executive Compensation - Management Agreements” on page 43 herein.
9. ***Option Agreement between SRAI and Knightswood*** – described in “Description of the Businesses of the Issuers – Business of the Debenture Issuer” on page 7 herein.
10. ***Amendment to Limited Partnership Agreement*** – described in “Description of the Securities Distributed – Limited Partnership Units” on page 21 herein and attached as Schedule B hereto.
11. ***Amendment to Debentureholders Agreement*** – described in “Description of the Securities Issued - Debentures” on page 25 herein.
12. ***Amendment to Debenture Issuer Loan Agreement*** – described in “Description of the Business of the Issuers – Debenture Issuer Loan” on page 8 herein.
13. ***Amendment to General Partner Services Agreement*** – described in “Use of Proceeds” on page 13 herein and in “Executive Compensation - Management Agreements” on page 43 herein.
14. ***Amendment to Agency Agreement*** – described in “Plan of Distribution - Agency Agreement” on page 44 herein.

19.2 Inspection of Contracts and Reports

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

20. EXPERTS

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

As of October 17, 2005, the partners of Davidson & Company, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

As of October 17, 2005, the partners of Meyers Norris Penny LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

20.1 Income Tax Consequences

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

The following summary has been prepared by Meyers Norris Penny LLP and is, in their view, a fair and adequate summary of the principal Canadian federal income tax consequences of investing in Units to a Purchaser who is an individual that is resident in Canada. The income tax consequences will not be the same for all Purchasers but will vary depending on a number of factors, including the province in which the Purchaser resides or carries on business, whether the Units acquired by the Purchaser will be characterized as capital property, whether the Purchaser is an individual, trust or corporation, the nature and amount of the Purchaser's income from other sources and whether the Debentures are purchased by, or contributed or sold by the Purchaser to, the Purchaser's registered retirement savings plan ("RRSP"). The following discussion of the income tax consequences of an investment in Units is, therefore, of a general nature only, is not intended to constitute an exhaustive analysis of those income tax consequences and should not be interpreted as legal or tax advice to any particular Purchaser.

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

This summary is based upon Meyers Norris Penny LLP's understanding of the current provisions of the Tax Act, the regulations to the Tax Act (the "Regulations"), all specific amendments to the Tax Act proposed by or on behalf of the Minister of Finance for Canada prior to the date hereof, and the current published administrative practices of the Canada Revenue Agency ("CRA"), and it assumes that those specific amendments will be enacted substantially as proposed, although no assurance in this regard can be given. This summary does not otherwise take into account or anticipate any changes in laws whether by judicial, governmental or legislative decision or action nor does it take into account provincial or foreign income tax legislation or considerations.

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

- (a) the Purchaser is an individual resident in Canada;
- (b) the Purchaser acquires Units pursuant to this Prospectus and holds the Units as capital property for the purpose of earning income from the Units;

- (c) all members of the Limited Partnership are residents of Canada;
- (d) the Limited Partnership holds its interest in the Properties as capital property;
- (e) the Units will not constitute “tax shelter investments” as defined by the Tax Act (see “Tax Shelter Rules” below); and
- (f) the Purchaser deals at arm’s length with the Limited Partnership.

Reasonable Expectation of Cumulative Profit

On October 31, 2003 the Minister of Finance for Canada announced proposed amendments to the Tax Act, which may impact on the ability of a Purchaser to deduct Limited Partnership losses and interest on funds borrowed to acquire Units in 2005 and subsequent years. Under the proposed amendments, a Purchaser will be able to deduct a loss from Units, including interest paid on funds borrowed to acquire the Units, only if it is reasonable to expect that the Purchaser will realize a cumulative profit from the Units. Under these proposed amendments, capital gains are not included in the computation of cumulative profit. If a loss is denied by virtue of these proposed amendments, there is no provision to claim the loss in a future year.

Under these proposed amendments, the issue of whether a Purchaser has a reasonable expectation of cumulative profit will be a question of fact.

On February 23, 2005, the Minister announced that an alternative proposal to replace the October 31, 2003 proposed amendments would be released for comment at an early opportunity. There is no assurance that any such alternative proposal will either favourably or adversely affect Purchasers’ tax positions.

Eligibility for Investment by Deferred Income Plans

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

The Debentures issued by the Debenture Issuer will be qualified investments under the Tax Act for RRSPs, registered retirement income funds, registered education savings plans and deferred profit sharing plans provided that, at all times, the Debenture Issuer is controlled directly or indirectly by a corporation whose shares are listed on a prescribed stock exchange in Canada. Provided that the Debenture Issuer is controlled by Knightswood Financial Corporation and the shares of Knightswood Financial Corporation are listed on Tier 1 or 2 of the TSX Venture Exchange, the Debentures will be a qualified investment for such deferred income plans. Among other circumstances, a Debenture may cease to be a qualified investment for a deferred income plan if:

- (a) the shares of Knightswood cease to be traded on a stock exchange prescribed under the Tax Act; or
- (b) the Debenture Issuer ceases to be a Canadian corporation.

If a Debenture is not a qualified investment for such a deferred income plan at the end of a month, then the plan will be liable to pay a tax under the Tax Act for that month equal to 1% of the fair market value of the Debenture at the time it was acquired by the plan.

Interest Earned on Debentures

Where the Debentures are held by a Purchaser, the Debenture interest receivable will be included in his taxable income annually. This annual income inclusion will be required even if the Debenture interest has not actually been paid to the Purchaser.

Computation of Partnership Income or Loss

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

General

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

Capital Cost Allowance

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

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

Limited Partnership Expenses

Certain expenses, summarized below, will be incurred by the Limited Partnership in respect of the Offering, refurbishment of Properties and the management and financing of the Properties. Under the Tax Act, all expenses must be reasonable, which is a question of fact. There is no assurance that the CRA will

agree to the reasonableness of any such expense or to the allocation of the cost thereof among them. The deductibility of certain expenses is subject to the proposed “reasonable expectation of cumulative profit” rules (see “Reasonable Expectation of Cumulative Profit” above).

(i) Selling Commissions and Offering Costs

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

(ii) Annual Loan Fees

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

(iii) Asset Management Fee

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

(iv) Refurbishments

Any amount paid by the Limited Partnership on account of refurbishments must be allocated on a reasonable basis among the items included in the refurbishments. Amounts allocated to landscaping and to repairs and maintenance will generally be deductible in the year the expenses are incurred provided that they are not capital in nature. Amounts, if any, allocated to the acquisition and installation of capital assets will generally be added to the undepreciated capital cost of the class of property to which the assets belong.

(v) Financing Fee

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

Fiscal Period

The fiscal period of the Limited Partnership will be the calendar year as adopted pursuant to the Limited Partnership Agreement. The Limited Partnership was formed prior to January 1, 2005 and therefore the

capital cost allowance, offering costs and Financing Fee need not be pro-rated for its fiscal year ending December 31, 2005.

Allocation of Income or Loss

The Limited Partnership Agreement provides for the allocation of the income or loss of the Limited Partnership for each of its fiscal periods. Generally, the income or loss of the Limited Partnership for a particular fiscal period will be allocated amongst the Purchasers who are partners at the end of that fiscal period according to their respective proportionate Income Share, with adjustments for prior income, issue costs and certain other items where a Purchaser purchases an LP Unit during a fiscal year.

Where a Purchaser disposes of an LP Unit prior to the end of a fiscal period of the Limited Partnership, no portion of the income or loss of the Limited Partnership in respect of the LP Unit may be allocated to the withdrawing Purchaser. Rather, the portion of the income or loss of the Limited Partnership that would have been allocated in respect of the LP Unit to the withdrawing Purchaser will be allocated to the person who acquired the LP Unit, or a subsequent acquirer thereof, that holds the LP Unit at the end of the Limited Partnership's fiscal period. (See "Disposition of LP Units or Debentures by Purchasers" below.)

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

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

At-Risk Rules

The Tax Act contains "at-risk rules" which may, in certain circumstances, restrict the deduction of a Purchaser's share of losses of the Limited Partnership to his "at-risk amount." A Purchaser's at-risk amount will generally be (subject to detailed rules in the Tax Act) calculated as the adjusted cost base of his LP Units (see "Adjusted Cost Base of LP Units", below) immediately before the end of the Limited Partnership's fiscal period, plus his share of any Limited Partnership income for the fiscal period, less any amount owing by the Purchaser to the Limited Partnership or to persons who do not deal at arm's length with the Limited Partnership and any amount or benefit granted to reduce the impact, in whole or in part, of any loss the Purchaser may sustain by virtue of being a member of the Limited Partnership or of holding or disposing of LP Units.

The effect, if any, that the at-risk rules will have on a Purchaser's deductions will depend, among other factors, on the pricing, financing and results of operations of any Properties acquired in the future.

Adjusted Cost Base of LP Units

The cost to a Purchaser of his LP Units, plus or minus adjustments required under the Tax Act, will be the adjusted cost base of the LP Units, against which a capital gain or capital loss is measured on his sale or other disposition of the LP Units. The adjustments required include additions to the adjusted cost base for

income of (including the full amount of any capital gains realized by) the Limited Partnership and allocated to a Purchaser and reductions to the adjusted cost base for distributions received by, and for losses incurred (including the full amount of any capital losses incurred) by the Limited Partnership and allocated to, the Purchaser. If, at the end of a fiscal period of the Limited Partnership, these reductions exceed the cost plus the additions to the adjusted cost base of a Purchaser's LP Units, (hereafter referred to as a negative adjusted cost base), the Purchaser will realize an immediate capital gain to the extent of the excess. If LP Units are disposed of in mid-year, the amount by which the adjusted cost base is negative at the time the LP Units are disposed of by a Purchaser is added in computing the capital gain on the disposition of the LP Units.

Disposition of LP Units or Debentures by Purchasers

Generally, a Purchaser will realize a capital gain, or sustain a capital loss, equal to the amount by which the proceeds received on the disposition or deemed (such as on his death) disposition of an LP Unit or a Debenture exceed, or are exceeded by, his adjusted cost base of the LP Unit or Debenture. The amount by which a Purchaser's adjusted cost base is negative at the time of the disposition will be included in computing the Purchaser's capital gain. Purchasers must include one-half of a capital gain in computing taxable income as a "taxable capital gain." One-half of a capital loss will be an "allowable capital loss" that may be used by a Purchaser to offset taxable capital gains in the year that the capital loss is sustained. To the extent the allowable capital loss is not offset against taxable capital gains in that year, it may be carried back three years and forward indefinitely to offset taxable capital gains realized in those years. No income tax on any capital gain, or loss, is realized in circumstances where a Purchaser's RRSP disposes of a Debenture.

A Purchaser who is considering disposing of LP Units during a fiscal period of the Limited Partnership should obtain tax advice before doing so, since ceasing to be a limited partner before the end of the Limited Partnership's fiscal year may result in certain adjustments to his adjusted cost base, and may adversely affect his entitlement to a share of the Limited Partnership's losses.

Disposition of the Properties

On the sale or other disposition of all or some of the Properties by the Limited Partnership, the net proceeds (gross proceeds less costs of disposition including the Disposition Fee) must be allocated on a reasonable basis among the land, buildings, sidewalks and roads, appliances and equipment, and computer equipment. No such allocation is binding on CRA, and there is no assurance that the CRA will agree that such allocation is reasonable. Any reallocation imposed by CRA may affect adversely the income tax liability arising on a disposition of Properties.

The lesser of the proceeds allocable to a particular class of property, and the original cost of the property is deducted from the undepreciated balance of the respective class. If the deduction causes the class to have a negative balance, that balance is included in the income of the Limited Partnership, resulting in a recapture of prior capital cost allowance claims. If, after the deduction, the class has a positive balance, and there are no assets of the class remaining, the balance can be deducted from the income of the Limited Partnership as a terminal loss. As long as the class has a positive balance and remaining assets, that balance will be used in computing future capital cost allowance claims.

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

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

Alternative Minimum Tax

The Tax Act imposes an alternative minimum tax that may require an individual to pay a minimum federal income tax of 16% on “adjusted taxable income” in excess of \$40,000 if that amount exceeds the individual’s federal tax otherwise payable for the taxation year. Adjusted taxable income is computed under specific rules that essentially disregard deductions for certain amounts that would otherwise be deductible in computing taxable income. To the extent that the alternative minimum tax of an individual exceeds income tax otherwise payable for a particular taxation year, the difference may be deducted in the seven taxation years following that taxation year from the excess of the individual’s tax otherwise payable over the individual’s alternative minimum tax for any such taxation year. A Purchaser’s share of the Limited Partnership’s losses and the Purchaser’s carrying charges will be added back in computing the adjusted taxable income of the Purchaser. Similarly, 60% of the non-taxable portion of any capital gain arising upon disposition by a Purchaser of LP Units (including a disposition arising from a negative adjusted cost base of the LP Units) or of a Debenture must be included in computing adjusted taxable income which effectively results in 80% of any such capital gain being included in computing adjusted taxable income.

Whether and to what extent the tax liability of a particular Purchaser will be increased as a result of the application of the alternative minimum tax rules will depend on the amount of his income, the sources from which it is derived, and the nature and amounts of any deductions he claims.

Interest on Money Borrowed to Purchase Units

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

Dissolution of the Limited Partnership

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

General Anti-Avoidance Rule

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

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

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

Partnership Returns

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

Tax Shelter Rules

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

A “tax shelter investment” includes a partnership interest where it can reasonably be considered, having regard to statements or representations made in connection with the partnership interest, that within four years after the day on which the interest is acquired, the losses and other amounts in respect of the partnership interest represented to be deductible in computing income will equal or exceed the cost of the partnership interest to the partner. The Tax Act provides for onerous penalties to a promoter and disallows deductions in respect of a tax shelter where tax shelter investments are sold before a tax shelter identification number is obtained. Accordingly, while the LP Units should not constitute “tax shelter investments,” the Promoter has nevertheless obtained a tax shelter identification number for the Limited Partnership. The tax shelter identification number is TS070730. The issuance of an identification number by the CRA does not in any way confirm that the Purchasers will be entitled to the tax benefits described herein. The Tax Act requires that the following statement be included with this reference to the tax shelter identification number:

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

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

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

As the recourse against Purchasers in respect of the Debenture Issuer Loan may be limited, the Debenture Issuer Loan may be considered a limited-recourse amount and, if the LP Units were found to constitute tax shelter investments, the cost of the Properties would be reduced by the amount of the Debenture Issuer Loan.

20.2 Legal Matters

Certain legal matters in connection with this Offering will be passed upon by Clark Wilson LLP, on behalf of the Issuers, and by Miller Thomson LLP, on behalf of the Agents.

As at October 17, 2005, 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 October 17, 2005, 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.

21. PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides Purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a Purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the Purchaser, provided that such remedies for rescission or damages are exercised by the Purchaser within the time limit prescribed by the securities legislation of the applicable province. The Purchaser should refer to the securities legislation in the province in which the Purchaser resides for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS

Auditors' Consent

To the British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland And Labrador securities regulatory authorities:

We have read the amended prospectus of Sunstone Opportunity Fund (2005) Limited Partnership (the "Limited Partnership") and SRAI Capital Corp. (the "Company") dated October 17, 2005 relating to the sale and distribution of a minimum of 400 Units up to a maximum of 3,600 Units at a price of \$12,500 per Unit. Each Unit is comprised of one unit of the Limited Partnership having a price of \$2,500 and one Series C Debenture of the Company with a principal amount of \$10,000, maturing on October 31, 2010. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Sunstone Realty Advisors (2005) Inc. in its capacity as general partner of the Limited Partnership on the balance sheet of the Limited Partnership as at July 21, 2005 and the statement of cash flows for the period from formation on December 30, 2004 to July 21, 2005. Our report is dated August 2, 2005 (except as to Note 4 which is as of October 17, 2005.)

We also consent to the use in the above-mentioned prospectus of our report to the directors of Sunstone Realty Advisors (2005) Inc. on the balance sheet of Sunstone Realty Advisors (2005) Inc. as at July 21, 2005 and the statement of cash flows for the period from incorporation on December 29, 2004, to July 21, 2005. Our report is dated August 2, 2005 (except as to Note 5 which is as of October 17, 2005).

This Auditors' Consent is provided solely for the purpose of assisting the securities regulatory authorities to which it is addressed in discharging their responsibilities and should not be used for any other purpose. Any use that a third party makes of the letter, or any reliance or decisions made based on it, are the responsibility of such third party, and the auditors accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on it.

"Meyers Norris Penny LLP"

Nanaimo, British Columbia

Chartered Accountants

October 17, 2005

P.O. Box 514, 96 Wallace Street, Nanaimo, British Columbia, V9R 5L5, Phone: (250) 753-8251, 1-877-340-3330



**SUNSTONE OPPORTUNITY FUND (2005)
LIMITED PARTNERSHIP**

FINANCIAL STATEMENTS

July 21, 2005

Audited financial statements of
Sunstone Opportunity Fund (2005) Limited Partnership
for the period from formation on December 30, 2004 to July 21, 2005.



MEYERS NORRIS PENNY

**Sunstone Opportunity Fund (2005)
Limited Partnership
Financial Statements**
July 21, 2005

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To the Directors of Sunstone Realty Advisors (2005) Inc. in its capacity as General Partner of Sunstone Opportunity Fund (2005) Limited Partnership:

We have audited the balance sheet of Sunstone Opportunity Fund (2005) Limited Partnership as at July 21, 2005 and the statement of cash flows for the period from formation on December 30, 2004 to July 21, 2005. These financial statements are the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Limited Partnership as at July 21, 2005 and the results of its cash flows for the period from formation on December 30, 2004 to July 21, 2005 in accordance with Canadian generally accepted accounting principles.

"Meyers Norris Penny LLP"

Nanaimo, British Columbia

Chartered Accountants

August 2, 2005 (except as to Note 4 which is as of
October 17, 2005)

Sunstone Opportunity Fund (2005) Limited Partnership

Balance Sheet

As at July 21, 2005

Assets

Cash	20
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Nature of business and basis of presentation (*note 1*)

Subsequent events (*note 4*)

Partners' Capital

Partners' capital (<i>note 3</i>)	20
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**Approved by the directors of
Sunstone Realty Advisors (2005) Inc.,
as General Partner:**

I "Darren Latoski" Director

"Steve Evans" Director

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2005) Limited Partnership

Statement of Cash Flows

For the period December 30, 2004 to July 21, 2005

Cash provided by (used for) the following activities:

Financing activities

Partners' capital

20

Cash resources, end of period

20

The accompanying notes are an integral part of these financial statements

Sunstone Opportunity Fund (2005) Limited Partnership

Notes to the Financial Statements

For the period December 30, 2004 to July 21, 2005

1. Nature of business and basis of presentation

Sunstone Opportunity Fund (2005) Limited Partnership (the "Limited Partnership") was formed pursuant to the Partnership Act (British Columbia) on December 30, 2004 as SRAI Project (No. 3) Limited Partnership and the name was changed on July 25, 2005. The Limited Partnership was established for the purposes of owning and operating income-producing residential and/or commercial real estate properties in Canada and for limited investment in real estate development opportunities.

The general partner of the Limited Partnership is Sunstone Realty Advisors (2005) Inc. ("General Partner").

The financial statements of the Limited Partnership have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements reflect the financial position of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners. The Limited Partnership has not engaged in any operating activities and, accordingly, no statement of operations for the period has been presented.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Allocation of net income or net loss

Net income or loss of the Limited Partnership will be allocated 0.005% to the General Partner to a maximum of \$100 per annum plus its incentive management interest, 0.005% to the Initial Limited Partner to a maximum of \$100 per annum and the balance to the limited partners. The General Partner is also entitled to an incentive management interest of 20/80ths of the aggregate of total payments made in respect of the Limited Partners' minimum return and the interest paid on debentures issued by SRAI Capital Corp.

Income taxes

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

Sunstone Opportunity Fund (2005) Limited Partnership

Notes to the Financial Statements

For the period December 30, 2004 to July 21, 2005

3. Partners' capital

Authorized

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

Issued

During the period ended July 21, 2005, the Limited Partnership issued the General Partner's unit and the Initial Limited Partner's unit for proceeds of \$10 each.

4. Subsequent events

The Limited Partnership, along with SRAI Capital Corp. (the "Debenture Issuer"), filed a prospectus dated September 20, 2005, which was subsequently amended on October 17, 2005, for an initial public offering to sell a minimum of 400 Units up to a maximum of 3,600 Units at a price of \$12,500 per Unit. Each Unit will consist of one unit of the Limited Partnership and one Series C Debenture from the Debenture Issuer in the principal amount of \$10,000 bearing interest at 8% per annum, maturing on October 31, 2010.

Pursuant to an Agency Agreement, the Agents will receive a commission equal to 8% of the purchase price of the Units sold. In addition, the Agents will receive a trailer fee equal to 1/6th of the asset management fee paid to the General Partner pursuant to a General Partner Services Agreement, only if the asset management fee is collected by the General Partner. The Limited Partnership and the Debenture Issuer have also agreed to bear all of the Agents' expenses relating to the sale of the Units.

97% of the aggregate net proceeds received from the initial public offering are expected to be invested in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by December 31, 2006. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series C Debentures.

The Debenture Issuer will loan to the Limited Partnership by way of a Debenture Issuer Loan an amount equal to the net proceeds received from the issuance of the Series C Debentures. The Debenture Issuer Loan will bear interest at an annual rate of 9.0% in order to pay in full the interest due to Series C Debenture holders, will mature on October 31, 2010 and will be secured by a general security agreement with the Limited Partnership in favour of the Debenture Issuer.

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

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

SRAI CAPITAL CORP.

FINANCIAL STATEMENTS

June 30, 2005

Audited financial statements of SRAI Capital Corp.
for the year ended December 31, 2004 and for the period from
formation on March 4, 2003 to December 31, 2003;
and unaudited financial statements for the six month period ended June 30, 2005

AUDITORS' CONSENT

We have read the amended final prospectus of Sunstone Opportunity Fund (2005) Limited Partnership and SRAI Capital Corp. (the "Company") dated October 17, 2005 relating to the issue and sale of a minimum of 400 Units up to a maximum of 3,600 Units at a price of \$12,500 per Unit. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the directors of the Company on the balance sheets of the Company as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the year ended December 31, 2004 and the period from incorporation on March 4, 2003 to December 31, 2003. Our report is dated February 11, 2005 (except as to Note 11 which is as of October 17, 2005).

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

October 17, 2005

A Member of SC INTERNATIONAL

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

SRAI Capital Corp.

Financial Statements

June 30, 2005

AUDITORS' REPORT

To the Directors of
SRAI Capital Corp.

We have audited the balance sheets of SRAI Capital Corp. as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the year ended December 31, 2004 and the period from incorporation on March 4, 2003 to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for year ended December 31, 2004 and the period from incorporation on March 4, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

February 11, 2005 (except as to Note 11 which
is as of October 17, 2005)

SRAI Capital Corp.
Balance Sheets

	June 30, 2005	December 31, 2004	December 31, 2003
	<i>(Unaudited)</i>		
ASSETS			
Debenture loans (Note 3)	\$ 20,515,400	\$ 20,515,400	\$ -
Deferred offering costs (Note 4)	1,757,753	1,983,956	-
Cash	4,803	14,607	100
Interest and other receivables	812,646	645,456	-
	\$ 23,090,602	\$ 23,159,419	\$ 100
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Debenture debt (Note 5)	\$ 22,800,000	\$ 22,800,000	\$ -
Accounts payable and accrued liabilities	549,780	380,348	-
	23,349,780	23,180,348	-
Shareholders' equity (deficiency)			
Capital stock (Note 6)	100	100	100
Deficit	(259,278)	(21,029)	-
	(259,178)	(20,929)	100
	\$ 23,090,602	\$ 23,159,419	\$ 100

Nature of business (Note 1)

Subsequent event (Note 11)

Approved on behalf of the board

"Steve Evans" Director

"Darren Latoski" Director

The accompanying notes are an integral part of these financial statements

SRAI Capital Corp.
Statements of Operations and Deficit

	<i>Six month period ended June 30, 2005</i>	<i>Six month period ended June 30, 2004</i>	<i>Year ended December 31, 2004</i>	<i>Period from Incorporation on March 4, 2003 to December 31, 2003</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
REVENUE				
Annual loan fees	\$ -	\$ -	\$ 278,074	\$ -
Debenture loan fees	51,288	15,126	49,351	-
Debenture loan interest	1,017,858	342,946	966,765	-
Interest income	-	51	311	-
	1,069,146	358,123	1,294,501	-
EXPENSES				
Administration fees	38,560	22,498	40,690	-
Amortization of deferred offering costs	226,203	103,100	278,073	-
Debenture interest expense	1,026,000	345,310	974,970	-
Miscellaneous	72	5,817	5,856	-
Professional fees	16,560	-	15,941	-
	1,307,395	476,725	1,315,530	-
Loss for the period	(238,249)	(118,602)	(21,029)	-
Deficit, beginning of period	(21,029)	-	-	-
Deficit, end of period	\$ (259,278)	\$ (118,602)	\$ (21,029)	\$ -

The accompanying notes are an integral part of these financial statements

SRAI Capital Corp.
Statements of Cash Flows

	Six month period ended June 30, 2005	Six month period ended June 30, 2004	Year ended December 31, 2004	<i>Period from Incorporation on March 4, 2003 to December 31, 2003</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (238,249)	\$ (118,602)	\$ (21,029)	\$ -
Items not effecting cash:				
Amortization of deferred offering costs	226,203	103,100	278,073	-
Changes in non-cash working capital items:				
Increase in interest and other receivables	(167,190)	(275,537)	(645,456)	-
Increase in accounts payable and accrued liabilities	169,432	287,290	380,348	-
Net cash used in operating activities	(9,804)	(3,749)	(8,064)	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from debenture debt	-	12,340,000	22,800,000	-
Deferred offering costs	-	(1,191,617)	(2,262,029)	-
Issuance of capital stock	-	-	-	100
Net cash provided by financing activities	-	11,148,383	20,537,971	100
CASH FLOWS FROM INVESTING ACTIVITIES				
Debenture issuer loans	-	(11,132,800)	(20,515,400)	-
Net cash used in investing activities	-	(11,132,800)	(20,515,400)	-
Change in cash	(9,804)	11,834	14,507	100
Cash, beginning of period	14,607	100	100	-
Cash, end of period	\$ 4,803	\$ 11,934	\$ 14,607	\$ 100
Cash paid for:				
Interest	\$ 865,010	\$ 67,660	\$ 622,960	\$ -
Income taxes	-	-	-	-

The accompanying notes are an integral part of these financial statements

SRAI Capital Corp.
Notes to the Financial Statements
June 30, 2005

1. NATURE OF BUSINESS

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

On January 5, 2004, the Company, along with Sunstone Opportunity Fund Limited Partnership (the "Sunstone LP"), received final receipt for an initial public offering prospectus to sell a minimum of 200 Units up to a maximum of 1,600 Units at a price of \$12,500 per unit. Each Unit consisted of one unit of the Sunstone LP with a price of \$2,500 and one Series A Debenture from the Company in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on February 28, 2009. The offering was closed on April 1, 2004, at which time 1,234 Units had been sold which included the Company issuing 1,234 Series A Debentures for gross proceeds of \$12,340,000. The Company then loaned to the Sunstone LP by way of a debenture loan the net proceeds received from the issuance of the Series A Debentures (Note 3).

On October 25, 2004, the Company, along with Sunstone Opportunity Fund (2004) Limited Partnership (the "Sunstone (2004) LP"), received final receipt for an initial public offering prospectus to sell a minimum of 400 Units up to a maximum of 2000 Units at a price of \$12,500 per unit. Each Unit consisted of one unit of the Sunstone (2004) LP with a price of \$2,500 and one Series B Debenture from the Company in the principal amount of \$10,000 bearing interest at 9% per annum, maturing on October 31, 2009. The offering was closed on December 20, 2004 at which time 1,046 Units had been sold which included the Company issuing 1,046 Series B Debentures for gross proceeds of \$10,460,000. The Company then loaned to the Sunstone (2004) LP by way of a debenture loan the net proceeds received from the issuance of the Series B Debentures (Note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Deferred offering costs

Deferred offering costs represent costs incurred in obtaining debt financing. These costs will be amortized on a straight-line basis over the term of the related debt.

Revenue recognition

Interest income is recognized when it is earned and collection is reasonably assured.

SRAI Capital Corp.
Notes to the Financial Statements
June 30, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

3. DEBENTURE LOANS

	June 30, 2005	December 31, 2004	December 31, 2003
	<i>(Unaudited)</i>		
Debenture loan due from the Sunstone LP bearing interest at 9.9% per annum, payable quarterly in arrears. The loan is due February 28, 2009, and is secured by a general security agreement over the assets of the Sunstone LP. Included in interest receivable is accrued interest of \$275,537 (December 31, 2004 - \$275,537; December 31, 2003 - \$Nil).	\$ 11,132,800	\$ 11,132,800	\$ -
Debenture loan due from the Sunstone (2004) LP bearing interest at 9.95% per annum, payable quarterly in arrears. The loan is due October 31, 2009 and is secured by a general security agreement over the assets of the Sunstone (2004) LP. Included in interest receivable is accrued interest of \$233,392 (December 31, 2004 - \$72,746; December 31, 2003 - \$Nil).	\$ 9,382,600	\$ 9,382,600	\$ -
	\$ 20,515,400	\$ 20,515,400	\$ -

4. DEFERRED OFFERING COSTS

	Cost	Accumulated amortization	Net book value
June 30, 2005 (Unaudited)	\$ 2,262,029	\$ 504,276	\$ 1,757,753
December 31, 2004	\$ 2,262,029	\$ 278,073	\$ 1,983,956
December 31, 2003	\$ -	\$ -	\$ -

These costs represent the Company's pro-rata share of costs incurred to issue Series A and B Debentures (Note 5) and consist of agent's fees and commissions plus professional and other costs associated with the offerings.

SRAI Capital Corp.
Notes to the Financial Statements
June 30, 2005

5. DEBENTURE DEBT

	June 30, 2005	December 31, 2004	December 31, 2003
	<i>(Unaudited)</i>		
Debentures consisting of 1,234 Series A Debentures at \$10,000 each, bearing interest at a fixed rate of 9.0% per annum and maturing on February 28, 2009.	\$ 12,340,000	\$ 12,340,000	\$ -
Debentures consisting of 1,046 Series B Debentures at \$10,000 each, bearing interest at a fixed rate of 9.0% per annum and maturing on October 31, 2009.	<u>10,460,000</u>	<u>10,460,000</u>	<u>-</u>
	\$ 22,800,000	\$ 22,800,000	\$ -

6. CAPITAL STOCK

	June 30, 2005	December 31, 2004	December 31, 2003
Authorized	<i>(Unaudited)</i>		
100,000,000 Common shares without par value			
Issued and outstanding			
100 Common shares	\$ 100	\$ 100	\$ 100

7. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2005, the Company earned debenture loan interest of \$1,017,858 (Unaudited) (December 31, 2004 - \$966,765; December 31, 2003 - \$Nil), annual loan fees of \$Nil (December 31, 2004 - \$278,074; December 31, 2003 - \$Nil) and debenture loan fees of \$51,288 (Unaudited) (December 31, 2004 - \$49,351; December 31, 2003 - \$Nil) from the Sunstone LP and the Sunstone (2004) LP, limited partnerships whose general partners have officers and directors in common with the Company. The Company incurred debenture debt interest of \$1,026,000 (Unaudited) (December 31, 2004 - \$974,970; December 31, 2003 - \$Nil) to the Series A and B debenture holders who are also the limited partners of the Sunstone LP and Sunstone (2004) LP. In addition, fees of \$30,000 (Unaudited) (December 31, 2004 - \$28,248; December 31, 2003 - \$Nil) were incurred to the shareholder owning 51% of the Company as well as \$8,560 (Unaudited) (December 31, 2004 - \$12,442; December 31, 2003 - \$Nil) in administration fees to a company affiliated with the 51% shareholder.

Included in interest and other receivables at June 30, 2005 is \$812,646 (Unaudited) (December 31, 2004 - \$645,456; December 31, 2003 - \$Nil) owing from the Sunstone LP and Sunstone (2004) LP.

Included in accounts payable and accrued liabilities at June 30, 2005 is \$15,000 (Unaudited) (December 31, 2004 - \$11,332; December 31, 2003 - \$Nil) due to the 51% shareholder of the Company, \$4,280 (Unaudited) (December 31, 2004 - \$3,162; December 31, 2003 - \$Nil) owing to a company affiliated with the 51% shareholder and \$513,000 (Unaudited) (December 31, 2004 - \$352,010; December 31, 2003 - \$Nil) due to the Series A and B debenture holders.

SRAI Capital Corp.
Notes to the Financial Statements
June 30, 2005

7. RELATED PARTY TRANSACTIONS (cont'd...)

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

8. SEGMENTED INFORMATION

The Company operates in one business segment, being the owning and operation of income producing and other real estate properties in Canada or the making of loans in respect of such properties.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, interest and other receivables, debenture loans, accounts payable and accrued liabilities and debenture debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	June 30, 2005	June 30, 2004	December 31, 2004	December 31, 2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Loss for the period	\$ (238,249)	\$ (118,602)	\$ (21,029)	\$ -
Expected income tax recovery	\$ 84,817	\$ 42,222	\$ 7,486	\$ -
Deductible items for tax purposes	-	-	62,063	-
Unrecognized benefit of non-capital losses	(84,817)	(42,222)	(69,549)	-
Total income taxes	\$ -	\$ -	\$ -	\$ -

The significant components of the Company's future income taxes assets are as follows:

	June 30, 2005	December 31, 2004	December 31, 2003
	<i>(Unaudited)</i>		
Future income tax assets:			
Non-capital loss carryforwards	\$ 154,366	\$ 65,520	\$ -
Unit offering costs	(62,063)	(58,576)	-
Future income tax assets	92,303	6,944	-
Valuation allowance	(92,303)	(6,944)	-
Net future income tax assets	\$ -	\$ -	\$ -

SRAI Capital Corp.
Notes to the Financial Statements
June 30, 2005

10. INCOME TAXES (cont'd...)

The Company has available for deduction against future taxable income non-capital losses of approximately \$434,000 (Unaudited) (December 31, 2004 - \$195,000). These losses, if not utilized, will expire commencing in 2014. Future tax benefits which may arise as a result of these non-capital losses and unit offering costs have not been recognized in these financial statements and have been offset by a valuation allowance.

11. SUBSEQUENT EVENT

The Company, along with Sunstone Opportunity Fund (2005) Limited Partnership (the "Sunstone (2005) LP"), is in the process of filing an amended final prospectus for an initial public offering to sell a minimum of 400 Units up to a maximum of 3,600 Units at a price of \$12,500 per Unit. Each Unit will consist of one unit of the Sunstone (2005) LP and one Series C Debenture from the Company in the principal amount of \$10,000 bearing interest at 8% per annum, maturing on October 31, 2010.

Pursuant to an Agency Agreement, the Agents will receive a commission equal to 8% of the purchase price of the Units. In addition, the Agents will receive a trailer fee equal to 1/6th of the asset management fee paid to the General Partner pursuant to a General Partner Services Agreement. The Sunstone (2005) LP and the Company have also agreed to bear all of the Agents' expenses relating to the sale of the Units.

At least 97% of the aggregate net proceeds received from the initial public offering must be invested in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by December 31, 2006. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Sunstone (2005) LP units and Series C Debentures.

The Company will loan to the Sunstone (2005) LP by way of a Debenture Issuer Loan an amount equal to the net proceeds received from the issuance of the Series C Debentures. The Debenture Issuer Loan will bear interest at the annual rate of 9% in order to pay in full the interest due to Series C Debenture holders, will mature on October 31, 2010 and will be secured by a general security agreement with the Sunstone (2005) LP in favour of the Company.

The Sunstone (2005) LP will pay the Company an annual loan fee to be determined over the term of the Debenture Issuer Loan which, in aggregate, is expected to equal the total commissions, fees, and offering expenses to be incurred by the Company in respect of the debenture offering plus an ongoing debenture loan fee equal to 0.5% of the Series C Debenture principal outstanding.

The Company entered into agreements with Knightswood Financial Corp. ("Knightswood") and Trilogy Bancorp Ltd. ("Trilogy") whereby the Company will pay Knightswood a quarterly fee of between \$5,000 and \$7,500 based on the amount of Series C Debenture proceeds raised and pay Trilogy a quarterly administration fee of \$2,000.

SUNSTONE REALTY ADVISORS (2005) INC.

FINANCIAL STATEMENTS

July 21, 2005

Audited financial statements of
Sunstone Realty Advisors (2005) Inc.
for the period from formation on December 29, 2004 to July 21, 2005



MEYERS NORRIS PENNY

Sunstone Realty Advisors (2005) Inc.
Financial Statements
July 21, 2005

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To the Directors of Sunstone Realty Advisors (2005) Inc.

We have audited the balance sheet of Sunstone Realty Advisors (2005) Inc. as at July 21, 2005 and the statement of cash flows for the period from incorporation on December 29, 2004 to July 21, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 21, 2005 and the results of its cash flows for the period from incorporation on December 29, 2004 to July 21, 2005 in accordance with Canadian generally accepted accounting principles.

"Meyers Norris Penny LLP"

Nanaimo, British Columbia

Chartered Accountants

August 2, 2005 (except as to Note 5 which is as of
October 17, 2005)

Sunstone Realty Advisors (2005) Inc.

Balance Sheet

As at July 21, 2005

Assets

Investment in Limited Partnership (<i>note 3</i>)	10
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Nature of business (*note 1*)

Subsequent events (*note 5*)

Shareholders' Equity

Share capital (<i>note 4</i>)	10
---------------------------------	----

Approved by the directors

"Darren Latoski Director

"Steve Evans Director

The accompanying notes are an integral part of these financial statements

Sunstone Realty Advisors (2005) Inc.

Statement of Cash Flows

For the period December 29, 2004 to July 21, 2005

Cash provided by (used for) the following activities

Financing activities

Issuance of share capital	10
---------------------------	----

Investing activities

Purchase of limited partnership unit	(10)
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Cash resources, end of period

-

The accompanying notes are an integral part of these financial statements

Sunstone Realty Advisors (2005) Inc.

Notes to the Financial Statements

For the period December 29, 2004 to July 21, 2005

1. Incorporation and operations

Sunstone Realty Advisors (2005) Inc. (the "Company") was formed pursuant to the Business Corporations Act (British Columbia) on December 29, 2004 as 0712510 B.C. Ltd. and its name was changed on July 21, 2005. The Company was established for the purposes of owning and operating income-producing residential and/or commercial real estate properties in Canada and for limited investment in real estate development opportunities through the Sunstone Opportunity Fund (2005) Limited Partnership (the "Limited Partnership"), in its capacity as general partner in the Limited Partnership.

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

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Investments

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

3. Investment in limited partnership

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

The net income or loss of the Limited Partnership is allocated 0.005% to the Company to a maximum of \$100 per annum, plus its incentive management interest.

4. Share capital

Authorized:

Unlimited common shares without par value

Issued:

1,000 common shares

10

Sunstone Realty Advisors (2005) Inc.

Notes to the Financial Statements

For the period December 29, 2004 to July 21, 2005

5. Subsequent events

The Limited Partnership, along with SRAI Capital Corp. (the “Debenture Issuer”), filed a prospectus dated September 20, 2005, which was subsequently amended on October 17, 2005, for an initial public offering to sell a minimum of 400 Units up to a maximum of 3,600 Units at a price of \$12,500 per Unit. Each Unit will consist of one unit of the Limited Partnership and one Series C Debenture from SRAI Capital Corp. in the principal amount of \$10,000 bearing interest at 8% per annum, maturing on October 31, 2010.

At least 97% of the aggregate net proceeds received from the initial public offering must be invested in the purchase of real estate properties, the creation of renovation and working capital reserves, or the development of real estate properties by December 31, 2006. Otherwise, the remaining proceeds not so invested shall be returned to investors of the Limited Partnership units and Series C Debentures.

CERTIFICATE OF THE LIMITED PARTNERSHIP

DATED: October 17, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

SUNSTONE OPPORTUNITY FUND (2005) LIMITED PARTNERSHIP by its General Partner, Sunstone Realty Advisors (2005) Inc.

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

“Steve Evans”
Steve Evans,
Acting Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

“Darren Latoski”
Darren Latoski, Director

“Steve Evans”
Steve Evans, Director

“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 DEBENTURE ISSUER

DATED: October 17, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

SRAI CAPITAL CORP.

“Steve Evans”
Steve Evans,
Acting Chief Executive Officer

“Darren Latoski”
Darren Latoski,
Acting Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

“Steve Evans”
Steve Evans, Director

“Darren Latoski”
Darren Latoski, Director

“Robert King”
Robert King, Director

“James Redekop”
James Redekop, Director

PROMOTER

SUNSTONE REALTY ADVISORS INC.

“Darren Latoski”
Darren Latoski, President and Director

“Steve Evans”
Steve Evans, Secretary and Director

CERTIFICATE OF THE AGENTS

DATED: October 17, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part 6 of the *Securities Act* (New Brunswick), by Part XIV of the *Securities Act, 1990* (Newfoundland and Labrador) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

DUNDEE SECURITIES CORPORATION

Per: *"Brett A. Whelan"*
Brett A. Whalen
Senior Vice President and Director

BLACKMONT CAPITAL INC.

Per: *"Patrick Leung"*
Patrick Leung
Director, Investment Banking

SORA GROUP WEALTH ADVISORS INC.

Per: *"Robert Isaac"*
Robert Isaac
President and Chief Executive Officer

RAYMOND JAMES LTD.

Per: *"Graham Fell"*
Graham Fell
Managing Director, Syndication

BIEBER SECURITIES INC.

Per: *"Guy Bieber "*
Guy Bieber
Chief Executive Officer

SCHEDULE A

**SUNSTONE OPPORTUNITY FUND (2005)
LIMITED PARTNERSHIP**

**AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT**

August 9, 2005

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AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT is dated for reference the 9th day of August, 2005.

AMONG:

SUNSTONE REALTY ADVISORS (2005) INC., a corporation incorporated under the laws of the Province of British Columbia, having its office at 910 – 925 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6C 3L2

(hereinafter called the “General Partner”)

AND:

SRA FIRST PARTNER LTD., a corporation incorporated under the laws of the Province of British Columbia, having its office at 910 – 925 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6C 3L2

(hereinafter called the “Founding Limited Partner”)

AND:

Each party who from time to time is accepted as a limited partner in the **SUNSTONE OPPORTUNITY FUND (2005) LIMITED PARTNERSHIP**, or who is a successor of any such person and who becomes a limited partner upon being registered as such under *The Partnership Act* (British Columbia)

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

WHEREAS:

A. By way of a Limited Partnership Agreement dated for reference December 23, 2004 and made between the General Partner and the Founding Limited Partner (the “Original Agreement”), the General Partner and Founding Limited Partner agreed to form the Limited Partnership under the Act;

B. The Limited Partnership intends to acquire a beneficial interest in the Properties;

C. The General Partner has agreed to offer Units of the Limited Partnership by way of public offering in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador, and in such other jurisdictions where it may be permitted to do so, for the purposes of financing the acquisition of its interest in the Properties and shall admit Investors for Units as Limited Partners; and

D. It is considered necessary and desirable to amend and restate the Original Agreement as set out in this Agreement.

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

ARTICLE 1 DEFINITIONS

1.1 Definitions

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

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

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

- (d) **Cash Proceeds** means the Subscription Price for Units, being \$2,500 per Unit sold.
- (e) **Date of Closing** means in respect of any Units the date upon which the sale of such Units is closed.
- (f) **Debenture Issuer** means SRAI Capital Corp., a British Columbia company.

- (g) **Debenture Issuer Loan** means a loan of up to \$21,840,000 to be made by the Debenture Issuer to the Limited Partnership, the proceeds of which will be used by the Limited Partnership for the acquisition, ownership and operation of the Properties.
- (h) **Debenture Issuer Loan Agreement** means an agreement made between the Limited Partnership and the Debenture Issuer in respect of the Debenture Issuer Loan.
- (i) **Debenture Issuer Loan Interest** means the interest paid by the Limited Partnership to the Debenture Issuer pursuant to the Debenture Issuer Loan Agreement.
- (j) **Distributable Cash** means, for any period, for a Property which is a revenue-producing property or a development property which has been completed and commenced generating rental revenue, an amount equal to the Gross Rents, less the Operating Expenses, less any other costs or expenses payable by the Limited Partnership, and less reasonable reserves determined by the General Partner to be necessary to operate such property or the affairs of the Limited Partnership in a prudent and businesslike manner, but does not include Extraordinary Distributions.
- (k) **Disposition Fee** means the fee of 1.5% of the gross sales proceeds received by the Limited Partnership on a Sale of a Property or a portion thereof, which is payable to the General Partner from such Sale proceeds.
- (l) **Extraordinary Distributions** means distributions to the Partners arising from or related to funds received by the Limited Partnership on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a Refinancing or a Sale but excluding distributions of Distributable Cash.
- (m) **Extraordinary Net Cash Receipts** means, collectively, Net Proceeds from Sale and Net Proceeds from Refinancing, as the case may be.
- (n) **Final Closing** means the closing at which any then remaining unsubscribed Units are sold under the Public Offering and the Subscription Price paid therefor, which final closing shall occur on or before December 31, 2005, as such date may be extended by the General Partner.
- (o) **Financing Fee** means a fee payable to the General Partner upon the completion of the purchase of a Property equal to 1.5% of the gross purchase price of the Property.
- (p) **Fiscal Year** means the fiscal year of the Limited Partnership, as established by the General Partner.
- (q) **Founding Limited Partner** means SRA First Partner Ltd., or its successors or assigns.
- (r) **General Partner** means Sunstone Realty Advisors (2005) Inc., a British Columbia company, in its capacity as the general partner of the Limited Partnership, or any person which is from time to time admitted as the general partner of the Limited Partnership in accordance with the terms of this Limited Partnership Agreement.
- (s) **General Partner Services Agreement** means the agreement made between the Limited Partnership and the General Partner pursuant to which the General Partner will provide certain services to the Limited Partnership, as described in the Prospectus.

- (t) **Gross Rents** means, for any period, all rental and other income from the Properties (including interest income earned on any such monies prior to their distribution and interest earned on loans made by the Partnership from time to time) but excluding therefrom security deposits and advance rents, unless and until applied, tenant incentive payments or allowances, tenant expense recoveries, Sale proceeds and Refinancing proceeds.
- (u) **Incentive Management Interest** means the allocation to be made to the General Partner, which allocation will be equal to 20/80ths of the aggregate of (A) the total payments made to Limited Partners in respect of the Minimum Return and (B) the Debenture Issuer Loan Interest, calculated from the Date of Closing.
- (v) **Income Share** means the allocation to a Limited Partner of a share of the income or loss of the Limited Partnership which shall be his, her or its Proportionate Share thereof subject to adjustments made to allocate revenue and expenses on a daily incremental basis from the date the Units are issued and to fairly allocate expenses on a cumulative, proportionate basis.
- (w) **Investor** means a person, firm, corporation or other entity who subscribes for Units, subject to acceptance or rejection by the General Partner.
- (x) **Limited Partner** means any Investor whose Subscription is accepted by the General Partner and any person, firm, corporation or other entity who acquires Units on a subsequent transfer from a Limited Partner in accordance with the terms of this Limited Partnership Agreement.
- (y) **Limited Partnership** means the Sunstone Opportunity Fund (2005) Limited Partnership, a limited partnership formed under the Act.
- (z) **Limited Partnership Agreement** means this limited partnership agreement.
- (aa) **Management Agreement** means an agreement or agreements to be entered into by the Limited Partnership and third party property managers or property management companies for the provision of property management services to the Limited Partnership in respect of the Properties.
- (bb) **Minimum Return** means an annual amount equal to 8% of the Net Equity, calculated and accumulated on a non-compounded basis from the Date of Closing, which return must be received by Limited Partners from distributions prior to any allocation of the Incentive Management Interest to the General Partner. If the Minimum Return is not achieved by Limited Partners, no Incentive Management Interest will be allocated to the General Partner.
- (cc) **Mortgage** means the mortgage or mortgages charging the Properties and securing the repayment of the Mortgage Loans, recorded or to be recorded against title to the Properties.
- (dd) **Mortgage Loans** means the financing, which may be provided under one or more separate financing facilities, to be borrowed or assumed by the Limited Partnership to fund the costs of the acquisition, ownership, development and/or operation of the Properties.

- (ee) **Net Equity** means at any time, the total of:
 - (i) the total proceeds received by the Limited Partnership from Subscriptions, being the aggregate Cash Proceeds; plus
 - (ii) the amount of any additional capital contributed by the Limited Partners pursuant to Subsection 3.12(c); less
 - (iii) the aggregate of any Net Extraordinary Distributions made by the Limited Partnership to the date in question.
- (ff) **Net Extraordinary Distributions** means the cumulative Extraordinary Distributions distributed to the Partners less the cumulative total of payments made on account of the Mortgage Loans or any Refinancing from Extraordinary Distributions.
- (gg) **Net Income** or **Net Loss** means, for accounting purposes, the net income or net loss of the Limited Partnership for a Fiscal Year as determined in accordance with Canadian generally accepted accounting principles applied on a consistent basis to the extent possible and, for income tax purposes, means the income or loss of the Limited Partnership determined under all applicable income tax statutes and regulations after applying the following principles, subject to a determination by the General Partner that such an application generally would not be in the best interest of Limited Partners:
 - (i) deductions in arriving at income or loss will be taken at the earliest time and to the maximum extent permitted by applicable income tax statutes and regulations; and
 - (ii) the recognition of income will be deferred to the maximum extent permitted by applicable income tax statutes and regulations.
- (hh) **Net Proceeds from Refinancing** means all receipts of the Limited Partnership arising from a Refinancing, after deduction of amounts paid to discharge or pay down other encumbrances on the Properties, if any, and all other amounts required to be paid out of such receipts, and after the payment of all costs and expenses associated with the Refinancing.
- (ii) **Net Proceeds from Sale** means, on a sale of a Property or portion thereof, all receipts of the Limited Partnership arising from the Sale, including any principal and interest payments received by the Limited Partnership on any vendor financing taken back on such Sale, less the costs and expenses of the Sale.
- (jj) **Operating Expenses** means all amounts paid or payable on account of expenses in the operation of the Properties including, without limitation, property taxes, the fees payable under the Management Agreements, all costs or expenses incurred in respect of rental of the Properties, all advertising and other related costs of the Properties, and any payments of a non-capital nature, determined in accordance with Canadian generally accepted accounting principles, required to be made in respect of the Properties, other than amortization of deferred charges, depreciation or capital cost allowance.
- (kk) **Ordinary Resolution** means a resolution approved by more than 50% of the votes cast by those Limited Partners who vote and who are entitled to vote in person or by proxy at

a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with this Limited Partnership Agreement, or a written resolution in one or more counterparts distributed to all Limited Partners and signed by Limited Partners holding in the aggregate more than 50% of the aggregate number of votes held by those Limited Partners who are entitled to vote.

- (ll) **Partners** means the General Partner, the Founding Limited Partner and the Limited Partners.
- (mm) **Prime Rate** means the rate of interest declared by the Limited Partnership's principal bankers from time to time at its main branch in Vancouver, British Columbia, as a reference rate for interest charged to its commercial customers for unsecured short term loans in Canadian funds which reference rate is commonly referred to as the "prime rate".
- (nn) **Properties** means the various direct and indirect interests in residential and commercial real estate properties, including revenue-producing and development properties and mixed use light industrial and retail properties, situate in Canada acquired, owned and operated from time to time by the Limited Partnership, and includes direct and indirect interests in loans made from time to time by the Partnership.
- (oo) **Prospectus** means the prospectus qualifying the Public Offering (and any amendment thereto), in respect of which a receipt is issued by the Securities Commissions having jurisdiction over the Public Offering.
- (pp) **Proportionate Share**, for each Unit or Limited Partner, as the case may be, means that fraction which:
 - (i) has as its denominator the aggregate of an amount equal to the total Cash Proceeds received by the Limited Partnership from Subscriptions, plus the total amount of additional capital received by the Limited Partnership pursuant to Subsection 3.12(c); and
 - (ii) has as its numerator:
 - (A) in the case of a Unit, an amount equal to the aggregate of the Subscription Price of such Unit plus the amount of any additional capital contributed in respect of such Unit pursuant to Subsection 3.12(c); and
 - (B) in the case of a Limited Partner, an amount equal to the aggregate of the total Subscription Price paid by such Limited Partner for all of his, her or its Units plus the amount of any additional capital contributed by such Limited Partner pursuant to Subsection 3.12(c).
- (qq) **Public Offering** means the initial public offering of a minimum of 400 Units and a maximum of 2,400 Units contemplated by the preliminary prospectus dated August 9, 2005 and filed by the Limited Partnership and the Debenture Issuer with the Securities Commissions of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador.

- (rr) **Refinancing** means any renewal, extension, increase or refinancing of all or any part of any financing permitted in respect of the Properties, but excluding any ordinary course borrowing for operating purposes.
- (ss) **Register** means the records of the Limited Partnership in which are recorded the names and addresses of the Limited Partners, the number of Units held by each Limited Partner and particulars of transfers of Units
- (tt) **Registrar and Transfer Agent** means the General Partner, or such other person who may be appointed from time to time by the General Partner to act as registrar and transfer agent for the Limited Partnership.
- (uu) **Related Party** means, with reference to the General Partner, any of the following:
 - (i) any person who participates in the management of the General Partner;
 - (ii) any person who participates in the management of a Property;
 - (iii) the contractor, where the proceeds from the Offering are used to build or develop a Property;
 - (iv) a promoter or an affiliate of a promoter;
 - (v) an affiliate of a person mentioned in (i), (ii) or (iii), 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
 - (vi) any director or officer of a person mentioned in (i), (ii), (iii), (iv) or (v), as well as the persons with whom he or she is associated;
- (vv) **Sale** means the sale by the Limited Partnership of all or part of its interest in a Property or the Properties, the receipt by the Limited Partnership of compensation for the expropriation of, condemnation of or injurious affection to a Property or the Properties or any part thereof or interest therein, or the recovery by the Limited Partnership of damage awards or insurance proceeds (other than business or rental interruption insurance proceeds) in respect thereof.
- (ww) **Special Resolution** means a resolution approved by not less than $66\frac{2}{3}\%$ of the votes cast by those Limited Partners who vote and are entitled to vote in person or by proxy at a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with the Limited Partnership Agreement or a written resolution in one or more counterparts distributed to all Limited Partners and signed by Limited Partners holding in the aggregate not less than $66\frac{2}{3}\%$ of the aggregate number of votes held by those Limited Partners who are entitled to vote.
- (xx) **Subscription** means a subscription for Units made by an Investor.
- (yy) **Subscription Price** means \$2,500 for each Unit payable upon subscribing for a Unit.
- (zz) **Tax Act** means the *Income Tax Act* (Canada), as amended, together with all regulations made pursuant thereto.

- (aaa) **Unit** means the interest of a Limited Partner in the Limited Partnership consisting of a right to participate in the income and losses of the Limited Partnership, to participate in the distribution of the net assets of the Limited Partnership upon a liquidation or winding up of the Limited Partnership, and such other rights as are prescribed under the Limited Partnership Agreement.
- (bbb) **Unit Certificate** means a certificate issued by the Limited Partnership following the Date of Closing evidencing the number of Units owned by the Limited Partners.

ARTICLE 2

THE LIMITED PARTNERSHIP

2.1 Formation, Status and Name of Limited Partnership

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

“Sunstone Opportunity Fund (2005) Limited Partnership”.

Subject to all applicable laws, the Limited Partnership shall carry on business under the name “Sunstone Opportunity Fund (2005) Limited Partnership” or such other name or names as the General Partner may determine from time to time, provided that the General Partner files a new declaration or certificate under the Act as required.

2.2 Maintaining Status of Limited Partnership

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

2.3 Fiscal Period

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

2.4 Business and Powers of the Limited Partnership

The business of the Limited Partnership shall be restricted to directly or indirectly acquiring, holding, managing, operating and selling residential and commercial real estate properties, including revenue-producing and development properties and mixed use light industrial and retail properties, in Canada, or any direct or indirect interests therein, which may include a direct or indirect

interest in the Properties, making loans in respect of Properties, conducting other business which is ancillary or incidental thereto, and deriving income therefrom with a view to making a profit.

In selecting Properties, the General Partner will comply with the following:

- (a) the General Partner will have a detailed inspection report prepared by an independent inspection firm for each Property that is proposed for acquisition by the Limited Partnership;
- (b) the General Partner will have each Property that is proposed for acquisition by the Limited Partnership appraised by a qualified appraiser who is recognized as an Accredited Appraiser, Canadian Institute, and the price for such Property (including any option payment) will not exceed its market value as determined by such appraisal;
- (c) the decision to purchase a Property, and any related investment decisions, will be made by the full board of directors of the General Partner. If the number of directors with relevant experience in the commercial and residential real estate sector is reduced to less than three, then the remaining directors will:
 - (i) appoint a special advisory board of independent persons with relevant experience who will advise and assist the board of directors of the General Partner in the decision to purchase the Property, or
 - (ii) appoint a sufficient number of additional directors to ensure that the board has at least three directors who have such relevant experience;
- (d) the price of any Property to be acquired from a Related Party or a person acting on behalf of a Related Party which has already been constructed may not exceed the purchase price paid by the Related Party, plus construction and other improvement costs and reasonable interest on the equity and other funds invested by the Related Party in respect of such Property, provided that a higher price may be paid for such Property if a material event occurs (including but not limited to the passage of time or a change in the use of or zoning applicable to the Property) which has the effect of increasing the value of the Property;
- (e) the price of a Property to be built or developed shall be fixed by contract and shall not exceed the aggregate of the purchase price of the land on which the Property is located and the costs and expenses of construction and development, provided that such costs and expenses are reasonable and competitive within the marketplace,

and the subsections of the third paragraph of section 2.4 are re-lettered accordingly.

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

- (a) assuming that the Limited Partnership issues all of the 2,400 Units offered under the Public Offering and the full amount of the Debenture Issuer Loan is advanced by the Debenture Issuer to the Limited Partnership, not more than 40% of the aggregate of:

- (i) the Cash Proceeds less any agent's commissions and offering costs incurred by the Limited Partnership in the course of the Public Offering; plus
 - (ii) the Debenture Issuer Loan
 - (iii) will be applied to the acquisition of any one Property;
- (b) assuming that the Limited Partnership issues all of the 3,600 Units offered under the Public Offering and the full amount of the Debenture Issuer Loan is advanced by the Debenture Issuer to the Limited Partnership, not more than 15% of the aggregate of:
- (i) the Cash Proceeds less any agent's commissions and offering costs incurred by the Limited Partnership in the course of the Public Offering; plus
 - (ii) the Debenture Issuer Loan
- will be invested in real estate development opportunities, through joint ventures, partnerships or similar entities;
- (c) if the Limited Partnership issues fewer than 3,600 Units under the Public Offering, the aggregate Cash Proceeds and the Debenture Issuer Loan may be applied to the acquisition of only one Property; and
- (d) upon purchase, each Property (other than a development property) would be expected to generate a positive cash return, exclusive of the payment of principal on the Mortgage Loans for such Property, on the Limited Partnership's invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The General Partner will be able to waive this minimum requirement for Properties which the General Partner believes provide significant capital gain opportunities due to capital improvement programs.

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

2.5 Principal Place of Business

The principal place of business and mailing address of the Limited Partnership and the General Partner shall be 910 – 925 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6C 3L2. The General Partner may change the principal place of business, the registered office or the mailing address of the Limited Partnership and the registered office and mailing address of the General Partner from time to time by giving notice to that effect to all Limited Partners, pursuant to the notice provisions contained in this Limited Partnership Agreement.

2.6 Term

The Limited Partnership shall be formed upon the filing and recording of the requisite certificate under the Act and any other applicable legislation and shall continue until terminated upon the earlier of December 31, 2104, the passage of a Special Resolution approving the dissolution of the

Limited Partnership, and the completion of the liquidation of the Limited Partnership and distribution of all funds remaining after payment of all of the debts, liabilities and obligations of the Limited Partnership to its creditors, in accordance with the provisions of this Limited Partnership Agreement.

2.7 Status of the General Partner

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

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

2.8 Status of Each Limited Partner

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

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

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

2.9 Compliance with Laws

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

2.10 Limitation on Authority of Limited Partners

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

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

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

2.11 Number of Partners

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

ARTICLE 3 THE GENERAL PARTNER

3.1 General Powers and Duties of the General Partner

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

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

Without limiting the foregoing, the General Partner shall diligently enforce the obligations and commitments of those companies designated by the General Partner to provide services to the Limited Partnership and the Limited Partners, and their successors and assigns, contained in the aforementioned agreements on behalf of the Limited Partnership and each Limited Partner without further authorization from any Limited Partner. The General Partner shall also carry out its obligations and commitments under such agreements.

3.2 Authority of the General Partner

Subject to those matters requiring an Ordinary Resolution or a Special Resolution, and subject to the provisions of the Act, the General Partner shall carry on the business of the Limited Partnership with full power and authority to administer, manage, control and operate the business of the Limited Partnership, and to do or cause to be done any act, take or cause to be taken any proceeding, make or cause to be made any decision and execute and deliver or cause to be executed and delivered any instrument, deed, agreement or document necessary, appropriate or incidental to the carrying on of the business of the Limited Partnership. No person dealing with the Limited Partnership is required to enquire into the authority of the General Partner to do any act, take any proceeding, make any decision or execute and deliver any instrument, deed, agreement or document for or on behalf of or in the name of the Limited Partnership. The General Partner may execute any document or instrument under seal or without

a seal as it deems appropriate notwithstanding whether or not any document authorizing it to act on behalf of the Limited Partnership or any Limited Partner was executed under seal.

3.3 Specific Powers of the General Partner

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

- (a) to act as the Registrar and Transfer Agent for the Limited Partnership, or retain another person to so act;
- (b) to engage such counsel and other professional advisers or consultants as the General Partner considers advisable in order to perform its duties hereunder;
- (c) to open and operate, either in its own name or in the name of the Limited Partnership, a separate bank account in order to deposit and to distribute funds with respect to the Limited Partnership;
- (d) to execute, deliver and carry out all other agreements, documents and instruments which from time to time require execution by or on behalf of the Limited Partnership;
- (e) to pay all taxes, fees and other expenses relating to the orderly maintenance, repair, management and operation of the business of the Limited Partnership;
- (f) to act on behalf of the Limited Partnership with respect to any and all actions and other proceedings pertaining to the Limited Partnership or the Properties, brought by or against the Limited Partnership;
- (g) to determine the amount and type of insurance coverage to be maintained in order to protect the Limited Partnership from all usual perils of the type covered in respect of comparable properties and businesses to that of the Limited Partnership and in order to comply with the requirements of the lenders of funds to the Limited Partnership;
- (h) to determine the amount, if any, to be claimed by the Limited Partnership in any year in respect of capital cost allowance and initial services incurred by the Limited Partnership;
- (i) to hold the Limited Partnership assets and any properties in the name of the General Partner, the Limited Partnership or other designated person;
- (j) to purchase or acquire assets or property on behalf of the Limited Partnership or sell, transfer or otherwise dispose of the whole or any part of the Limited Partnership's assets or property, all on such terms and conditions as the General Partner may determine;
- (k) to invest funds not immediately required for the business of the Limited Partnership in short term securities or accounts;
- (l) to provide or arrange for the provision of such financial and other reporting functions as may be required by the provisions hereof or applicable securities regulatory authorities;

- (m) to make distributions of Distributable Cash and Extraordinary Net Cash Receipts should it be required;
- (n) to borrow money for and on behalf of the Limited Partnership and to give security therefor, in the name of the Limited Partnership or the General Partner, for the purposes of the Limited Partnership including, without limitation, for the purpose of financing and refinancing the Limited Partnership's interest in the Properties or the business and operation of the Limited Partnership;
- (o) to grant and execute debentures, promissory notes, mortgages, documents and other instruments charging the whole or any part of the Limited Partnership's assets and undertaking and any undivided interest of the Limited Partners in such assets and to do all acts relating thereto as may be necessary or desirable to further the business of the Limited Partnership;
- (p) to oversee the operation, management and rental of the Properties;
- (q) to sell the Properties and to undertake any and all action necessary or desirable to complete such sale, including the execution and delivery of any agreements and documents relating to the sale;
- (r) to approve of a refinancing of the Limited Partnership's interest in the Properties and to undertake any and all action necessary or desirable to complete such refinancing, including the execution and delivery of any agreements, documents or financing, agreements or the granting of any mortgages or other security relating to the sale or refinancing; and
- (s) to execute any and all other deeds, documents and instruments and to do or cause to be done all acts and things as may be necessary or desirable to carry out the intent and purpose of this Limited Partnership Agreement, including, without limitation, retaining qualified agents to carry out any of the foregoing.

Notwithstanding the foregoing;

- (t) the General Partner will not cause the Limited Partnership to sell a Property to a Related Party if the price paid is less than the market value of the Property, as determined by a qualified appraiser who is recognized as an Accredited Appraiser, Canadian Institute;
- (u) the General Partner will not cause the Limited Partnership to grant an exclusive listing of a Property to a Related Party and no commission shall be payable to any Related Party in connection with the sale of a Property unless the Related Party is actively and directly involved in the sale of the Property, provided that upon the sale of a Property the General Partner shall be entitled to the payment of a disposition fee as set out in the General Partner Services Agreement;
- (v) the General Partner will not cause the Limited Partnership to borrow from a Related Party unless the terms of such loan are evidenced in writing, and such terms (in particular those terms related to interest and guarantees) are not more onerous than those which would be required by a financial institution in similar circumstances, and all such loans shall be approved by a Special Resolution.

3.4 Reimbursement of General Partner

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

3.5 Amendment of Agreement

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

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

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

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

3.6 Power of Attorney

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

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

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

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

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

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

3.7 Duties of the General Partner

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

3.8 Income Tax Claims and Deductions

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

3.9 Transactions Involving Affiliates or Associates

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

3.10 Safekeeping of Assets

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

3.11 Indemnification

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

pursuant to the Act relating to the Limited Partnership, and his, her or its share of the undistributed income of the Limited Partnership.

Notwithstanding the foregoing, no Related Party shall be indemnified for any losses, costs, expenses, liabilities or damages incurred by it, its directors, officers, employees or agents where such losses, costs, expenses, liabilities or damages arose out of the fraud, bad faith or negligence of the Related Party, its directors, officers, employees or agents.

3.12 Restrictions Upon the General Partner

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

- (a) cause the Limited Partnership to guarantee the obligations or liabilities of any person or make loans to the General Partner, or any Affiliate or Associate of the General Partner, provided that the General Partner may cause the Limited Partnership to grant a guarantee, make loans or otherwise provide financial assistance to the General Partner or an Affiliate or Associate of the General Partner where such guarantee, loan or financial assistance is given in connection with or in furtherance of the business of the Limited Partnership;
- (b) commingle the funds of the Limited Partnership with the funds of the General Partner or any other person; or
- (c) make a call for additional capital contributions by the Limited Partners, except after having received the approval of the Limited Partnership by way of Special Resolution, and provided that any calls for additional capital by the General Partner must be justified and reasonable in the circumstances;
- (d) cause the Limited Partnership to acquire a Property in a transaction pursuant to which the General Partner, the Debenture Issuer or a Related Party receives an undisclosed fee or "kick-back" or a Property which the General Partner, Debenture Issuer or Related Party has previously acquired on its own account and is selling to the Limited Partnership for a gain, provided that the General Partner, Debenture Issuer or Related Party may receive a reimbursement of actual direct third party costs incurred by it in the acquisition of any Property which it sells to the Limited Partnership;
- (e) cause the Limited Partnership to rent a Property from a Related Party, provided that the Limited Partnership may rent all or a portion of a Property to a Related Party provided that the terms of such rental are no more advantageous than would be offered to a third party; and
- (f) cause the Limited Partnership to extend a loan or loans to a Related Party or to the agents of the Limited Partnership under the Public Offering.

3.13 Employment of an Affiliate or Associate or Related Party

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

3.14 Removal of General Partner

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

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

The Limited Partners may, by Special Resolution:

- (a) remove the General Partner without cause, upon 60 days written notice to the General Partner; and
- (b) remove the General Partner in circumstances where the General Partner has committed an act of gross negligence, wilful misconduct, bad faith or dishonesty or is in material default of its obligations hereunder and such default has not been remedied after reasonable notice from the Limited Partners.

In either case, the following shall apply:

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

- (f) the terms of section 3.21 shall apply; and
- (g) the Limited Partnership may terminate the General Partner Services Agreement and any other agreements made between the Limited Partnership and the General Partner or a Related Party, upon the payment by the Limited Partnership to the General Partner 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.

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

3.15 Continuation of the Limited Partnership

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

3.16 Appointment of Successor General Partner

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

3.17 Retirement of the General Partner

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

3.18 Bankruptcy of the General Partner

The General Partner hereby agrees and covenants that it will not file or otherwise commence bankruptcy proceedings prior to the appointment of a successor General Partner who shall agree to be bound by the provisions of this Limited Partnership Agreement. Any filing or commencement of bankruptcy proceedings in respect of the General Partner shall not be effective until such time as a

successor is appointed in accordance with Section 3.16. The Limited Partnership and the Limited Partners shall have the right to enforce this Section 3.18 without the consent or joinder of the General Partner and the General Partner and any successor general partner hereby consent to any equitable remedies, including temporary and/or permanent injunctions or specific performance preventing such filings or proceedings. Upon the bankruptcy of the General Partner, the successor to the General Partner hereby covenants and agrees to continue the business of the Limited Partnership without interruption.

3.19 Dissolution of General Partner

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

3.20 Prohibition on Non-Corporate General Partners

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

3.21 Valuation and Sale of Interest of Former General Partner

If the business of the Limited Partnership is continued after the resignation, deemed resignation, removal or retirement of the General Partner under this Article 3, the Limited Partnership shall purchase from such former General Partner its interest in the Limited Partnership for a price equal to the fair market value of such interest ("Fair Market Value"), which shall not include any allowance for goodwill, trade names, patents or other intangible assets owned by the Limited Partnership, less the damages caused to the Limited Partnership by such former General Partner in the termination of its relationship with the Limited Partnership, if any. Such Fair Market Value shall be determined either by agreement between the Limited Partnership and the former General Partner or its personal representative or by agreement of two independent appraisers, one selected by the Limited Partnership and one selected by the former General Partner or its personal representative. If such appraisers are unable to agree on the value of the former General Partner's interest in the Limited Partnership, they shall appoint a third independent appraiser whose appraisal must be between the two prior appraisals and whose determination as to value shall be final and binding. The cost of such appraisals shall be borne in equal amounts by the former General Partner and the Limited Partnership. The amount of damages to the Limited Partnership as aforesaid shall be determined by agreement between the Limited Partnership and the former General Partner or its personal representatives, and failing agreement shall be determined by a binding arbitration conducted pursuant to the *Commercial Arbitration Act* (British Columbia).

Promptly after the determination of the Fair Market Value, and after deducting any damages to the Limited Partnership caused by the former General Partner withdrawing, the Limited Partnership shall pay to the former General Partner in cash an amount equal to ten (10%) percent of such Fair Market Value less damages and shall deliver to such former General Partner a promissory note for the balance payable in five equal consecutive annual instalments commencing on the first anniversary of

the date of such note. Such promissory note shall bear interest per annum at the Prime Rate plus two (2%) percent, which interest shall be due and payable annually on the date the principal payment for such year is due and payable.

ARTICLE 4 OBLIGATIONS OF PARTNERS

4.1 Unlimited Liability of the General Partner

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

4.2 Limited Liability of Limited Partners and Founding Limited Partner

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

4.3 Indemnity by General Partner

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

The General Partner will indemnify and save harmless the Limited Partnership from and against any and all costs, damages, liabilities and expenses incurred by the Limited Partnership as a result of any breach by the General Partner of its duties under this Limited Partnership Agreement, including reasonable legal expenses incurred by the Limited Partnership in defending an action based in whole or in part upon an allegation that the General Partner has been guilty of such breach if such defence is substantially unsuccessful.

ARTICLE 5 THE UNITS

5.1 Capital

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

- (a) such funding is approved pursuant to section 3.12(c);
- (b) additional funding is required for the prudent and businesslike operation of the affairs of the Limited Partnership;

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

5.2 Nature of Unit

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

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

5.3 Unit Certificates

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

5.4 Receipt by Limited Partner

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

5.5 Registrar and Transfer Agent

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

5.6 Inspection of Records

The General Partner shall cause the Registrar and Transfer Agent to make the records relating to the Limited Partner available for inspection by any Limited Partner, or his agent duly authorized in writing, at the expense of the Limited Partner. The General Partner will provide, or cause the Registrar and Transfer Agent to provide, a copy of the register of Limited Partners to any Limited Partner within five business days of the written request of such Limited Partner.

5.7 Transfer of Units

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

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

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

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

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

5.8 Parties Not Bound to See to Trust or Equity

Except where specific provision has been made therefor in this Limited Partnership Agreement, the Registrar and Transfer Agent shall not, nor shall the General Partner, the Founding Limited Partner or the Limited Partners, be bound to see to the execution of any trust, expressed, implied

or constructive, or any charge, pledge or equity to which any Unit or any interest therein are subject, or to ascertain or inquire whether any sale or transfer of any such Unit or interest therein by any Limited Partner or his personal representatives is authorized by such trust, charge, pledge or equity, or to recognize any person having any interest therein except for the person or persons recorded as such Limited Partner.

5.9 Liability on Transfer

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

5.10 Successors in Interest of Partners

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

5.11 Incapacity, Death, Insolvency or Bankruptcy

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

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

5.12 Lost Unit Certificate

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

ARTICLE 6 CONTRIBUTIONS, ALLOCATIONS AND DISTRIBUTIONS

6.1 Capital Contributions

The initial capital of the Limited Partnership shall be the aggregate amount of the capital contribution made or agreed to be made by all of the Limited Partners which shall be an amount of up to

\$12,500,000 plus the contributions of the Founding Limited Partner and the General Partner in the amount of Ten Dollars (\$10) each. The capital contributed by each Limited Partner shall be \$2,500 for each Unit. Capital contributions will be made by Limited Partners if, as and when Units are subscribed for and issued. There is no requirement that all Units be issued and therefore the actual capital of the Limited Partnership may be less than the authorized capital of \$12,500,020.

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

6.2 Payment of Subscription Proceeds

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

6.3 Discretion of the General Partner in Raising Capital

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

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

Notwithstanding the foregoing:

- (f) Related Parties may not subscribe for Units for a price or on other terms which are more advantageous than those terms on which Units are offered to Investors who are not Related Parties;

Related Parties shall not subscribe for, and the Limited Partnership shall not issue to Related Parties, that number of Units which in the aggregate represents more than 25% of the total number of Units which are issued to Limited Partners.

6.4 Allocation of Profits and Losses

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

- (a) the General Partner shall be entitled to receive .005% of the Net Income or Net Loss of the Limited Partnership to a maximum of \$100 per annum, plus its Incentive Management Interest, and the Founding Limited Partner shall be entitled to receive

.005% of the Net Income and Net Loss of the Limited Partnership to a maximum of \$100 per annum; and

- (b) the balance of the Net Income or Net Loss of the Limited Partnership shall be allocated among the Limited Partners *pro rata* in accordance with their respective Income Shares.

6.5 Negative Capital Accounts

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

6.6 General Partner Discretion in Allocation

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

6.7 Effect of Assignment on Allocation

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

6.8 Distributions

Subject to Subsection 6.8(c) and Section 10.2:

- (a) Distributable Cash shall be distributed quarterly, as cash flow permits, as follows:
 - (i) first, to the Limited Partners, *pro rata* in accordance with their respective Income Shares, an amount equal to the Minimum Return until each has received an amount which, when aggregated with all previous distributions pursuant to this Subsection 6.8(a)(i) and Subsections 6.8(b)(ii) and 6.8(b)(v), is equal to (but not

- in excess of) the sum of such Limited Partner's Minimum Return from the respective Dates of Closing;
- (ii) secondly, to the General Partner, to the extent not previously distributed, the Incentive Management Interest;
 - (iii) thirdly, as to the balance, 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner;
- (b) Extraordinary Net Cash Receipts will be distributed as and when funds are received and are available for distribution, as follows:
- (i) first, in the event of a Sale of a Property, to pay any costs involved in the Sale, including the Disposition Fee payable to the General Partner, and to pay all amounts required to discharge any Mortgages or encumbrances registered against the assets;
 - (ii) secondly, to pay to the Limited Partners that amount which is estimated by the General Partner to be required by the Limited Partners to pay any income or other taxes arising as a result of the Sale;
 - (iii) thirdly, to pay all current obligations of the Limited Partnership, including without limitation, the Debenture Issuer Loan and any loans advanced by the General Partner or the Limited Partners, plus accrued interest;
 - (iv) fourthly, to those Limited Partners who contributed additional capital pursuant to subsection 3.12(c), *pro rata* in accordance with their respective contributions of such additional capital, until such Limited Partners have received repayment in full of such additional capital, to the extent that such additional capital has not been paid from previous distributions of Distributable Cash or Extraordinary Net Cash Receipts;
 - (v) fifthly, if the Limited Partners have not received cash distributions from Distributable Cash or Extraordinary Net Cash Receipts equal to the Minimum Return, to the Limited Partners until they have received the full Minimum Return in proportion to their accrued but unpaid Minimum Return and until each has received an amount which, when aggregated with all previous distributions pursuant to this Subsection 6.8(b)(v) and Subsections 6.8(a)(i) and 6.8(b)(ii) is equal to (but not in excess of) the sum of such Limited Partner's Minimum Return from the respective Dates of Closing;
 - (vi) sixthly, to the Limited Partners until the Limited Partners have received repayment in full of the Cash Proceeds, to the extent the Cash Proceeds have not been paid from previous distributions of Distributable Cash or Extraordinary Net Cash Receipts;
 - (vii) seventhly, if the General Partner has not received any unpaid amount or amounts of the Incentive Management Interest to which it is entitled pursuant to Subsection 6.8(a)(ii) from the respective Dates of Closing, such amount or amounts will be distributed to the General Partner; and

- (viii) eighthly, the balance of Extraordinary Net Cash Receipts will be distributed 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner.

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

- (c) Notwithstanding the foregoing, upon any sale of a Property which closes on or before December 31, 2006, the General Partner may in its discretion retain for re-investment by the Limited Partnership the net proceeds from such sale, including any gain on the sale, provided that the Limited Partnership will distribute to the Limited Partners an amount estimated by the General Partner to be required by the Limited Partners to pay any income or other taxes arising as a result of such sale.
- (d) The Founding Limited Partner is entitled to receive .005% of Distributable Cash to a maximum of \$100 for each fiscal period and to receive .005% of Extraordinary Net Cash Receipts to a maximum of \$100.

6.9 Overpayments

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

6.10 Effect of Assignment on Distribution

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

6.11 Adjustments

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

6.12 Payment of Adjustments

The General Partner will, within seven (7) days after receiving a report of the Accountants under Section 6.11 hereof, notify in writing each Limited Partner whose share of the income or loss is to be adjusted, of the amount of the adjustment, together with a cheque for the amount payable to the Limited Partner or a request for payment in respect of the amount payable by the Limited Partner, as the case may be. Each Limited Partner hereby agrees to pay any amount owing by the Limited Partner under Section 6.11, within fifteen (15) days from the date of notice of an adjustment given under this Section 6.12.

If such amount is not paid within such 15 day period, such amount shall thereafter bear interest at the Prime Rate plus 4%, calculated and compounded monthly. Any unpaid amount together with interest thereon may be deducted from any distributions that the Limited Partner may otherwise be entitled to.

6.13 Determination of Profits and Losses

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

6.14 Commingling of Funds

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

6.15 Separate Capital Account

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

6.16 Additional Capital Contributions and Partner Loans

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

6.17 No Interest Payable

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

6.18 Individuality of Limited Partners

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

6.19 Return of Capital

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

6.20 Withholding Tax

If the Limited Partnership is required by any applicable income tax or similar legislation to withhold an amount with respect to income allocated to or distributed to a partner, the amount withheld by the Limited Partnership shall be treated as a distribution of Distributable Cash or Extraordinary Net Cash Receipts (a "Withholding Distribution"), whichever the case may be, to the partner to whom such withholding relates. The General Partner shall have the full discretion to determine whether any such withholding taxes are required to be paid and the amount of any such withholding taxes. The General Partner shall have full authority and discretion to determine the proper method or methods for assuring that Withholding Distributions are treated in a manner consistent with the provisions for distribution to Limited Partners contained herein.

ARTICLE 7 RETRACTION

7.1 Limited Partnership's Notice

The Limited Partnership will give to the Limited Partners in the manner provided in Section 12.2 on or before May 31 in each year, commencing May 31, 2009, a notice specifying (i) that the Limited Partners may require the Limited Partnership to retract some or all of their Units; (ii) the amount payable per Unit in respect of the retraction (the "Retraction Price"); and (iii) the place of payment.

7.2 Retraction Notice

The Limited Partners may deliver to the Limited Partnership on or before July 1 in each year (the "Notice Date"), commencing July 1, 2009, a notice (the "Retraction Notice") setting out the intention of the Limited Partner to retract any Units, which notice shall specify the number of Units which the Limited Partner wishes to retract.

7.3 Retraction of Units

On January 15 in each year (the "Retraction Date"), commencing January 15, 2010, the Limited Partnership will retract Units in accordance with the following terms:

- (a) the obligation of the Limited Partnership to retract Units will be subject to the General Partner determining in its sole discretion that sufficient funds are available to the Limited Partnership for the purposes of retraction;
- (b) the number of Units which will be retracted on any one Retraction Date will not exceed 5% of the number of Units originally issued under the Public Offering;
- (c) if by any Notice Date, the Limited Partnership has received Retraction Notices requiring the Limited Partnership to redeem a number of Units in excess of 5% of the number of Units originally issued under the Public Offering, or if on a Retraction Date the General Partner determines that sufficient funds are not available to retract the Net Equity of the

Units in respect of which Retraction Notices have been received, then the retraction of Units will be made *pro rata* to the Net Equity of the Units specified on Retraction Notices for retraction such that each Limited Partner who has given a Retraction Notice to the Limited Partnership will receive a partial repayment of their Net Equity;

- (d) on the Retraction Date, the Limited Partnership will pay the Retraction Price for each Unit being retracted on such Date, and the Retraction Price will be applied to the Net Equity of the Limited Partners holding Units which are retracted; and
- (e) the provisions of Sections 7.4 to 7.10 will apply to all retractions of Units.

7.4 Partial Retraction of Units

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

7.5 Units Due on Retraction Date

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

7.6 Deposit of Moneys

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

7.7 Effect of Retraction

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

7.8 Failure to Surrender Units Due or Called for Retraction

In case the holder of any Unit that is called for retraction fails to surrender the Unit Certificate for such Unit within 30 days of the Retraction Date or shall not within such time accept payment of the retraction funds payable in respect thereof, or give such receipt therefor, if any, as the Limited Partnership may require, such retraction funds shall be set aside and deposited in a separate account established for such purpose by the Limited Partnership, and such setting aside and depositing shall for all purposes be deemed a payment to the Limited Partner of the sum so set aside and deposited

and, to that extent, the Limited Partner shall have no right except to receive payment out of the money so set aside and deposited upon surrender and delivery up of the Unit Certificate representing his, her or its Unit.

7.9 Surrender of Units for Cancellation

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

7.10 Retraction of Debentures

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

ARTICLE 8 ACCOUNTING AND REPORTING

8.1 Books and Records

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

8.2 Annual Financial Information

The General Partner, or its agent in that behalf, shall be responsible for the preparation of audited annual financial statements of the Limited Partnership as at the end of each Fiscal Year and an income return of the Limited Partnership for each calendar year. The General Partner, or its agent in that behalf, shall distribute a copy of such audited annual financial statements to each Limited Partner within ninety (90) days after the end of each Fiscal Year, shall file with Canada Revenue Agency in respect of each calendar year the income tax return of the Limited Partnership and will provide each Limited Partner with a copy of such return and annual income tax information for each Fiscal Year by March 31 of the following year to assist in declaring his, her or its share of the Limited Partnership income; provided, however, each Limited Partner shall be solely responsible for reporting his, her or its share of the Limited Partnership income or loss. All financial statements shall be prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and shall contain a breakdown of any expenses for which Related Parties have been reimbursed. The General Partner shall provide interim financial and management reports regarding the affairs of the Limited Partnership on a semi-annual basis.

ARTICLE 9 MEETINGS

9.1 Meetings

The General Partner may convene meetings of the Limited Partners at any time and, upon the written request of one or more Limited Partners holding not less than 15% of the number of all issued and outstanding Units (the “Requisitioning Partners”), will convene a meeting of the Limited Partners. If the General Partner fails or neglects to call such a meeting within 21 days of receipt of a written request of the Requisitioning Partners, then any Requisitioning Partner may convene such meeting by giving notice to the Limited Partners in accordance with this Limited Partnership Agreement, signed by such person or persons as the Requisitioning Partners specify. Every meeting, however convened, will be conducted in accordance with this Limited Partnership Agreement. There is no requirement to hold annual general meetings; however, the General Partner may call periodic information meetings from time to time to advise Limited Partners as to the status of the Properties.

9.2 Place of Meeting

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

9.3 Notice of Meeting

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

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

9.4 Accidental Omissions

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

9.5 Proxies

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

9.6 Validity of Proxies

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

9.7 Form of Proxy

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

“I, _____ of _____, in the Province of _____, being a Limited Partner of Sunstone Opportunity Fund (2005) Limited Partnership, hereby appoint _____ of _____ in the Province of _____, as my proxy, with full power of substitution to vote for me and on my behalf at the meeting of Limited Partners to be held on the ____ day of _____, 20__, and every adjournment thereof and every poll that may take place in consequence thereof.

As witness my hand this _____ day of _____, 20__”

9.8 Corporations

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

9.9 Attendance of Others

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

9.10 Chairman

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

9.11 Quorum

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

9.12 Voting

Every question submitted to a meeting:

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

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

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

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

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

9.13 Poll

A poll requested or required concerning:

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

9.14 Resolutions Binding

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

9.15 Powers Exercisable by Special Resolution

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

- (a) consenting to the amendment of this Limited Partnership Agreement except as provided herein;
- (b) waiving any default by the General Partner on such terms as the Limited Partners may determine;
- (c) agreeing to any compromise or arrangement by the Limited Partnership with any creditor, or class or classes of creditors;
- (d) changing the Fiscal Year;
- (e) amending, modifying, altering or repealing any Special Resolution previously passed by the Limited Partners;
- (f) dissolving or terminating the Limited Partnership;
- (g) approving a settlement of an action against the General Partner as a result of a breach of its duties; and
- (h) creating or issuing additional interests in the Limited Partnership of a different class than the Units where such additional interests would have a preference or priority over the existing Units in respect of distributions of Distributable Cash, Extraordinary Net Cash Receipts, income or loss or return of contributed capital.

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

9.16 Powers Exercisable by Ordinary Resolution

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

9.17 Minutes

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

9.18 Additional Rules and Procedures

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

9.19 Authorized Attendance

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

ARTICLE 10
DISSOLUTION, LIQUIDATION AND DISTRIBUTION OF SALE PROCEEDS

10.1 Dissolution and Termination

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

10.2 Distributions upon Dissolution

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

- (a) in the event that dissolution occurs upon the Sale of the last of the Properties, to pay any costs involved in the Sale, including the Disposition Fee payable to the General Partner, and to pay all amounts required to discharge any mortgages or encumbrances registered against the assets;
- (b) to pay all expenses incurred in the winding-up of the Limited Partnership;
- (c) to pay all of the liabilities of the Limited Partnership including any loans or advances made by Limited Partners and including amounts owing to the General Partner in respect of costs and expenses owing to it pursuant to this Limited Partnership Agreement, in the manner required by law;
- (d) to establish such reserves as the General Partner considers necessary;
- (e) to return to each Limited Partner the amount in such Limited Partner's capital account;
- (f) to return to the General Partner and the Founding Limited Partner the balance in their respective capital accounts;
- (g) to pay to the Limited Partners any unpaid portion of their Minimum Return;

- (h) if the General Partner has not received any unpaid amount or amounts of the Incentive Management Interest to which it is entitled pursuant to Subsection 6.8(a)(ii) from the respective Dates of Closing, to pay such amount to the General Partner; and
- (i) to distribute any balance then remaining 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner.

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

10.3 Events Not Causing Dissolution

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

ARTICLE 11 FORFEITURE

11.1 Default by Limited Partner

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

11.2 Application of Proceeds

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

11.3 Costs

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

ARTICLE 12 MISCELLANEOUS

12.1 Competing Interests

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

12.2 Notices

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

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

(b) Notice to the Limited Partners:

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

12.3 Further Acts

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

12.4 Binding- Effect

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

12.5 Severability

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

12.6 Counterparts

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

12.7 Time

Time is of the essence hereof.

12.8 Governing Law

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

12.9 Interpretation

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

- (a) the headings are for convenience only and do not form a part of this Limited Partnership Agreement nor are they intended to interpret, define or limit the scope, extent or intent of this Limited Partnership Agreement or any provision hereof;
- (b) all accounting terms not otherwise defined herein have the meanings assigned to them and all computations made pursuant to this Limited Partnership Agreement, except as expressly provided otherwise, shall be made in accordance with Canadian generally accepted accounting principles applied on a consistent basis;
- (c) any reference to a statute shall include and shall be deemed to be a reference to such statute and to the regulations made pursuant thereto, with all amendments made thereto and in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing or superseding the statute so referred to or the regulations made pursuant thereto;

- (d) any reference to an entity shall include and shall be deemed to be a reference to any entity that is a successor to such entity;
- (e) words importing the masculine gender include the feminine gender or neuter gender and words in the singular include the plural, and vice versa; and

any capitalized term used but not defined herein shall have the meaning ascribed thereto in the Prospectus.

12.10 Management Agreements

The following shall apply to all Management Agreements entered into by the Limited Partnership:

- (a) the Management Agreement shall set out the terms and conditions of the property manager's tenure, including the remuneration (in whatever form) and the expenses or services for which the property manager is to be reimbursed;
- (b) the fee payable to the property manager shall not exceed the fee payable to an independent third party property manager for the management of a property similar in terms of type, size, location, physical condition, tenant mix and quality of finish to the Property in respect of which the Management Agreement is entered into;
- (c) if the property manager is a Related Party or an Affiliate or Associate of the General Partner, the Management Agreement shall not be for a term of longer than one year and shall be cancellable without any damages, indemnity or penalty in the event of the General Partner's removal, resignation, retirement, bankruptcy or dissolution;
- (d) upon termination of the Management Agreement as a result of the sale of a Property, the property manager shall be entitled to receive remuneration for services rendered prior to the date of termination, provided that such remuneration shall be reasonable in the circumstances and shall not exceed the amount which would be paid to an independent third party and shall not exceed 25% of the difference between:
 - (i) the net sales proceeds from the sale of the Property; less
 - (ii) the product of the Limited Partnership's invested equity in the Property plus a compounded annual return of at least 6% on such equity;
- (e) in any case, the property manager shall have sufficient experience to manage the Property (which shall generally be considered to be three years' relevant experience in the management of properties similar to the Property in respect of which the Management Agreement is entered into);
- (f) no penalty or indemnity shall be payable, either directly or indirectly, by the Limited Partnership or the Limited Partners, to the property manager in the event of the expiry or non-renewal of the Management Agreement; and
- (g) the property manager shall not use the funds of the Limited Partnership for purposes other than those contemplated in the Management Agreement.

12.11 Joint Ventures and other Proportionate Interests in Properties

The following shall apply in cases where the Limited Partnership acquires only a proportionate interest in a Property, and apply to all agreements made between the Limited Partnership and the owner or owners of the other proportionate interest or interests in such Property:

- (a) all material decisions with respect to the Property shall, as between the owners, be subject to the approval of the Limited Partnership;
- (b) such agreement shall not contain any restriction on transfer of the ownership interests in the Property other than a pre-emptive right in favour of the co-owners;
- (c) the proportionate ownership of any of the co-owners of the Property other than the Limited Partnership shall not exceed his, her or its respective proportionate contribution to the Property; and
- (d) the Limited Partnership shall not be required to incur property expenses in excess of its proportionate interest in the Property.

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

SUNSTONE REALTY ADVISORS (2005) INC.

Per: *"Darren Latoski"*
Authorized Signatory

SRA FIRST PARTNER LTD.

Per: *"Darren Latoski"*
Authorized Signatory

Each person who from time to time becomes a
Limited Partner, by his, her or its agent and attorney,
SUNSTONE REALTY ADVISORS (2005) INC.

Per: *"Darren Latoski"*
Authorized Signatory

SCHEDULE B

AMENDMENT TO

LIMITED PARTNERSHIP AGREEMENT

THIS AMENDING AGREEMENT is dated for reference the 6th day of October, 2005.

AMONG:

SUNSTONE REALTY ADVISORS (2005) INC., a corporation incorporated under the laws of the Province of British Columbia, having its office at 910 – 925 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6C 3L2

(hereinafter called the “General Partner”)

OF THE FIRST PART

AND:

SRA FIRST PARTNER LTD., a corporation incorporated under the laws of the Province of British Columbia, having its office at 910 – 925 West Georgia Street, in the City of Vancouver, in the Province of British Columbia, V6C 3L2

(hereinafter called the “Founding Limited Partner”)

OF THE SECOND PART

AND:

Each party who from time to time is accepted as a limited partner in the **SUNSTONE OPPORTUNITY FUND (2005) LIMITED PARTNERSHIP**, or who is a successor of any such person and who becomes a limited partner upon being registered as such under *The Partnership Act* (British Columbia)

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

OF THE THIRD PART

WHEREAS:

A. By way of a Limited Partnership Agreement (the “Limited Partnership Agreement”) dated for reference the 9th day of August, 2005, the parties agreed to establish the Sunstone Opportunity Fund (2005) Limited Partnership (the “Limited Partnership”) in accordance with the conditions and terms set forth therein;

B. The Limited Partnership contemplated an offering and sale of up to 2,400 Units (the “Offering”) pursuant to a Prospectus dated September 20, 2005 (the “Prospectus”) and issued by the Limited Partnership and SRAI Capital Corp. (the “Debenture Issuer”);

C. The Limited Partnership has not yet distributed nor issued any Units;

D. The Limited Partnership, in consultation with its agents, has determined to increase the size of the offering pursuant to the Prospectus and in connection therewith the parties have agreed to amend certain provisions of the Limited Partnership Agreement;

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

1. All capitalized terms used herein and not otherwise defined shall have the meaning given to them in the Limited Partnership Agreement.
2. The Limited Partnership Agreement is hereby amended as follows:
 - (a) the definitions of “Debenture Issuer Loan”, “Debenture Issuer Loan Agreement”, “General Partner Services Agreement” and “Public Offering” included in subsection 1.1 are deleted and replaced with the following:
 - “(g) **Debenture Issuer Loan** means a loan of up to \$32,880,000 to be made by the Debenture Issuer to the Limited Partnership, the proceeds of which will be used by the Limited Partnership for the acquisition, ownership and operation of the Properties.
 - (h) **Debenture Issuer Loan Agreement** means an agreement made between the Limited Partnership and the Debenture Issuer in respect of the Debenture Issuer Loan, as amended from time to time.
 - (s) **General Partner Services Agreement** means the agreement made between the Limited Partnership and the General Partner pursuant to which the General Partner will provide certain services to the Limited Partnership, as described in the Prospectus, as amended from time to time.
 - (qq) **Public Offering** means the initial public offering of a minimum of 400 Units and a maximum of 3,600 Units contemplated by the preliminary prospectus dated August 9, 2005 and filed by the Limited Partnership and the Debenture Issuer with the Securities Commissions of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Prince Edward Island, New Brunswick, Nova Scotia and Newfoundland and Labrador, as amended by an amended final prospectus to be filed by the Limited Partnership and Debenture Issuer with such Securities Commissions.”;
 - (b) by the deletion of “2,400 Units” in Section 2.4 and its replacement with “3,600 Units”;
 - (c) by the addition of the following as subsection 3.1(g) and the re-lettering of the current subsection (g) accordingly:

“(g) amendments to the General Partner Services Agreement and Debenture Issuer Loan Agreement; and”;

3. The Limited Partnership Agreement, as amended hereby, continues in full force and effect.
4. Each provision of this Agreement is intended to be severable. If any provision hereof is illegal or invalid, such illegality or invalidity shall not affect the validity of the remainder hereof.
5. This Agreement may be executed and delivered in any number of counterparts with the same effect as if all parties hereto had signed the same document. This Agreement may also be adopted in any subscription or assignment forms or similar instruments signed by a Limited Partner or by the General Partner on his, her or its behalf, with the same effect as if such Limited Partner had executed a counterpart of this Agreement. All counterparts and adopting instruments shall be construed together and shall constitute one and the same agreement.
6. Delivery of an executed copy of this Agreement by electronic facsimile transmission or other means of electronic communication capable of producing a printed copy will be deemed to be execution and delivery of this Agreement as of the date first above written.
7. This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the parties hereto hereby submit to and attorn to the non-exclusive jurisdiction of the Courts of the Province of British Columbia.

IN WITNESS WHEREOF this Agreement is executed as of the date first above written.

SUNSTONE REALTY ADVISORS (2005) INC.

Per: _____
Authorized Signatory

Each person who from time to time becomes a Limited Partner, by his, her or its agent and attorney,
SUNSTONE REALTY ADVISORS (2005) INC.

SRA FIRST PARTNER LTD.

Per: _____
Authorized Signatory

Per: _____
Authorized Signatory