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

## **Preliminary Prospectus**

**Initial Public Offering**

**September 24, 2008**



### **SUNSTONE OPPORTUNITY (2008) REALTY TRUST** (the "Realty Trust")

### **SUNSTONE OPPORTUNITY (2008) MORTGAGE FUND** (the "Mortgage Fund") (hereinafter collectively called the "Trusts")

### **SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP** (the "Limited Partnership") (hereinafter collectively with the Trusts called the "Issuers")

**Minimum: \$5,000,000 (4,000 Units)**  
**Maximum: \$40,000,000 (32,000 Units)**  
**\$1,250 per Unit**  
(the "Offering")

This Prospectus qualifies the distribution of up to 32,000 units (each a "Unit") at a price of \$1,250 per Unit (the "Offering Price"). Each Unit is comprised of two separate underlying securities: one unit of the Realty Trust (a "Trust Unit") having a price of \$250, and one unit of the Mortgage Fund (a "Fund Unit") having a price of \$1,000. **Purchasers are required to acquire a minimum of ten Units.** Additional subscriptions may be made in single Unit multiples. Units cannot be purchased or held by "non-residents" of Canada, as defined in the Tax Act.

The Prospectus also qualifies the distribution to the Realty Trust of up to 32,000 units of the Limited Partnership (each an "LP Unit") having a price of \$250 per LP Unit.

	Price to Public <sup>(2)</sup>	Agents' Commission <sup>(3)</sup>	Proceeds to Issuer <sup>(4)</sup>
<b>Per Unit</b>			
Per Trust Unit <sup>(1)</sup>	\$250	\$20	\$230
Per Fund Unit <sup>(1)</sup>	\$1,000	\$80	\$920
<b>Minimum Offering<sup>(5)</sup></b>			
4,000 Trust Units <sup>(1)</sup>	\$1,000,000	\$80,000	\$920,000
4,000 Fund Units <sup>(1)</sup>	\$4,000,000	\$320,000	\$3,680,000
<b>Maximum Offering</b>			
32,000 Trust Units <sup>(1)</sup>	\$8,000,000	\$640,000	\$7,360,000
32,000 Fund Units <sup>(1)</sup>	\$32,000,000	\$2,560,000	\$29,440,000

- (1) The proceeds raised by the Realty Trust from the issuance of the Trust Units will be invested in an equal number of LP Units, each having a price of \$250. The proceeds raised by the Mortgage Fund from the issuance of Fund Units will be used to invest in the Mortgage Loan to the Limited Partnership. Refer to "Description of Businesses of the Issuers" for further particulars on the acquisition of LP Units and the granting of the Mortgage Loan.
- (2) The Offering Price was determined by negotiation between the Lead Agent, the Realty Trust and the Mortgage Fund. No third-party valuation was obtained.
- (3) The promoter of this Offering, Sunstone Realty Advisors Inc. ("SRAI"), will co-ordinate the placement of the Units through the Agents and sub-agents in the jurisdictions where the Units are offered for sale. A commission and fees will be paid to the Agents and any sub-agents in connection with this Offering, at a rate equal to 8% of the gross proceeds of the Offering (the "Agents' Commission"). As a further incentive to the Agents, the General Partner has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the General Partner in respect of its Incentive Management Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Units. As well, the General Partner will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6<sup>th</sup> of the Asset Management Fee paid to the 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. Pursuant to the Cost Sharing and Recovery Agreements, the Agents' Commission and expenses incurred with respect to the Offering will be borne entirely by the Limited Partnership. Refer to "Plan of Distribution – Agency Agreement".
- (4) Before deduction of the balance of the expenses of the Offering estimated at \$225,000 to \$400,000.
- (5) There will be no closing unless a minimum of 4,000 Units are sold not more than 90 days after the date of the Receipt for the Final Prospectus (as hereinafter defined). **Purchasers are required to acquire a minimum of ten Units.** Additional subscriptions may be made in single Unit multiples. Units cannot be purchased or held by "non-residents" of Canada, as defined in the Tax Act.

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

**This is a "blind pool" Offering. Although the Issuers expect that the available net proceeds of the Offering will be applied by the Limited Partnership in the purchase of 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 32,000 Units is sold, the Issuers expect that the Limited Partnership will apply approximately**

**\$36,400,000 (approximately 91.0% 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), the creation of working capital reserves and reserves for renovations and upgrades, and due diligence and other costs. If only the minimum Offering of 4,000 Units is sold, the Issuers expect that the Limited Partnership will apply approximately \$4,375,000 (approximately 87.5% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), the creation of working capital reserves and reserves for renovations and upgrades, and due diligence and other costs.**

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

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

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

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

**SRAI is a connected issuer of one of the Agents, Sora Group Wealth Advisors Inc. (“SGWA”), due to the ownership by the principals of Sunstone, Darren Latoski and Steve Evans, of an aggregate of 3.4% of the outstanding shares in the capital of SGWA (refer to “Relationship Between the Trusts, the Limited Partnership and the Agents”).**

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

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

**Subject to the qualifications and assumptions discussed under the heading “Canadian Federal Income Tax Considerations”, the Trust Units and Fund Units will, on the date of closing, be qualified for investment by RRSPs and similar Plans. If either the Realty Trust or the Mortgage Fund, or both, cease to qualify as a mutual fund trust, a Trust Unit or Fund Unit, as the case may be, will cease to be a qualified investment for RRSPs and similar Plans. Adverse tax consequences may apply to a Plan, and an annuitant thereunder, if the Plan acquires or holds property**

that is not a qualified investment for the Plan. Refer to “Canadian Federal Income Tax Considerations” for further particulars.

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

The directors of the Realty Trustee, the Mortgage Fund Trustee, SRAI and the General Partner are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates. Refer to “Directors and Officers – Potential Conflicts of Interest (Directors and Officers)”.

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

The Units offered hereunder are offered on a “commercially reasonable best efforts” basis in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island until ♦, 2008 by Dundee Securities Corporation, as lead agent, and Raymond James Ltd., Canaccord Capital Corp., Sora Group Wealth Advisors Inc., Blackmont Capital Inc., HSBC Securities (Canada) Inc. and MGI Securities Inc., subject to: (a) prior sale, if, as and when issued and delivered by the Realty Trust in respect of the Trust Units and by the Mortgage Fund in respect of the Fund Units in accordance with the conditions of the Agency Agreement referred to in “Plan of Distribution”; (b) the approval of certain legal matters by Clark Wilson LLP, Vancouver, British Columbia on behalf of the Realty Trust and the Mortgage Fund; and (c) the approval of certain legal matters by Miller Thomson LLP on behalf of the Agents. The Agents may enter into co-brokerage/selling group agreements with other investment dealers to market the Units offered hereunder.

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

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## **FORWARD-LOOKING STATEMENTS**

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

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

## PROSPECTUS SUMMARY

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

### Structure of the Offering

The securities being distributed pursuant to this Prospectus are bundled as Units, each of which is comprised of two separate underlying securities: one Unit of the Realty Trust (a “Trust Unit”); and one Unit of the Mortgage Fund (a “Fund Unit”). The Offering consists of a minimum of 4,000 Units and a maximum of 32,000 Units, at a price of \$1,250 per Unit. Each Trust Unit has a price to the public of \$250 and each Fund Unit has a price to the public of \$1,000. Refer to “Plan of Distribution”.

**Purchasers are required to acquire a minimum of ten Units.** Additional subscriptions may be made in single Unit multiples.

The Realty Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of LP Units at a price of \$250 per LP Unit. The Mortgage Fund will invest the proceeds from the issuance of Fund Units in the Mortgage Loan to the Limited Partnership. The Mortgage Loan will be in the principal amount of not less than \$4,000,000 and not more than \$32,000,000, will bear interest at a rate of 8.1% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2009, and will mature on October 31, 2013.

The Limited Partnership will use the proceeds from the issuance of the LP Units and the advance of the Mortgage Loan in the purchase, ownership and operation of the Properties.

Pursuant to the Cost Sharing and Recovery Agreements, all costs and expenses in respect of this Offering incurred by the Realty Trust and the Mortgage Fund will be borne by the Limited Partnership in connection with the issuance of LP Units and the advance of the Mortgage Loan, respectively. 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.

### Business of the Realty Trust

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

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

The principal business of the Realty Trust will be to issue Trust Units and invest the proceeds in acquisition of LP Units.

The LP Units will be issued at a price of \$250 for each LP Unit. Limited Partners will be entitled to receive from Distributable Cash the Limited Partners’ Minimum Return (being a minimum return of 8%



per annum, cumulative but not compounded, calculated on the Limited Partners' Net Equity in the Limited Partnership) and, after payment to the General Partner of the Incentive Management Interest, 80% of the balance of Distributable Cash. After payment of current obligations of the Limited Partnership, the retention of reserves and the repayment of the Mortgage Loan, the net proceeds from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds, will be used to pay the Limited Partners' Minimum Return, to repay the Net Equity, and to pay to the General Partner the Incentive Management Interest, with the balance of any such proceeds paid 80% to the Limited Partners holding LP Units and 20% to the General Partner. Refer to "Description of the Securities Distributed – LP Units".

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

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

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

The principal business of the Mortgage Fund will be to issue Fund Units and to invest in and hold the Mortgage Loan. The Mortgage Loan bears interest at a rate of 8.1% per annum, payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2009, and matures on October 31, 2013.

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

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 pursuant to the laws of the Province of British Columbia for the purposes of owning and operating a diversified portfolio of high quality income-producing commercial real estate Properties in Canada (or interests in such Properties) and for limited development of capital properties as income-producing real estate for long-term investment. The principal business of the Limited Partnership will be to issue LP Units and borrow the Mortgage Loan, to invest the proceeds from such issuance and borrowing in the Properties, and to own and operate the Properties.

### **Investment Objectives**

The Limited Partnership's primary investment objectives are as follows:

- (a) to invest in a diversified portfolio of quality commercial revenue-producing Properties with positive cash flow;
- (b) to provide quarterly cash flow distributions targeted at 8%, upon full investment of the net proceeds allocated to the purchase price of Properties;

- (c) to enhance the Limited Partnership's return on capital and the Purchasers' yield through limited development of capital properties as income-producing real estate for long-term investment; and
- (d) to enhance the potential for long-term growth of capital through value-added enhancements to the Properties and organic growth in rental rates.

### **Guidelines for Property Acquisitions**

The General Partner has agreed, under the Limited Partnership Agreement, to comply with the following general guidelines in acquiring Properties:

- (a) assuming all 32,000 Units offered under this Prospectus are issued, not more than 40% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements on account of the Agents' Commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) assuming all 32,000 Units offered under this Prospectus are issued, not more than 20% of the net proceeds from such issuance will be invested in opportunities for development of capital properties as income-producing real estate for long-term investment, through joint ventures, partnerships or similar entities;
- (c) in the event that less than 32,000 Units are issued, it may be necessary to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (d) below, or more than 20% of the net proceeds to investment in opportunities for development of capital properties as income-producing real estate for long-term investment, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property); and
- (d) upon purchase, each Property (other than a capital property under development) would be expected to generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the 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 value added opportunities through development of capital properties, replacement of management, re-leasing or similar initiatives.

### **General Partner Services Agreement**

Pursuant to a General Partner Services Agreement between the General Partner and the Limited Partnership, the General Partner has agreed to provide certain services relating to the Properties, including structuring the Limited Partnership and this Offering, structuring the ownership of each of the Properties, arranging for the Senior Mortgage Loans in respect of the Properties, negotiating and completing the sale of a Property, overseeing and supervising property management of the Properties, and preparing annual financial reports on the Properties.

In consideration of providing such services, 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), the

Disposition Fee, in an amount equal to 1.5% of the selling price for each Property, and the Asset Management Fee, in an amount equal to 1.5% of the Net Asset Value.

### **Plan Of Distribution**

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

There will be no closing unless a minimum of 4,000 Units are sold. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agents in trust.

The Agents' Commission will be paid to the Agents at a rate equal to 8% of the purchase price of the Units. Pursuant to the Cost Sharing and Recovery Agreements, the Agents' Commission and expenses will be borne entirely by the Limited Partnership as a cost of issuing LP Units and borrowing the Mortgage Loan. As a further incentive to the Agents or any sub-agents, the General Partner has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the General Partner in respect of its Incentive Management Interest. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Units, such assignment to be made on a basis determined by the General Partner. As well, the General Partner will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6<sup>th</sup> of the Asset Management Fee paid to the 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".

### **Use Of Proceeds**

Assuming that the maximum Offering of 32,000 Units is sold, the gross proceeds to the Issuers will be \$40,000,000. Of this amount, \$32,000,000 will be received by the Mortgage Fund and invested in the Mortgage Loan and \$8,000,000 will be received by the Realty Trust and invested in the acquisition of the LP Units. The gross proceeds of \$40,000,000 therefore received by the Limited Partnership, plus estimated Senior Mortgage Loans in the aggregate principal amount of \$73,855,073 will be used by the Limited Partnership to: pay the Agents' Commission of \$3,200,000; pay the other expenses of this Offering estimated at \$400,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$105,507,247; pay due diligence and documentation costs relating to the purchase of such Properties of \$2,110,145; create reserves for renovation and upgrading of such Properties of \$527,536; create reasonable working capital reserves for such Properties of \$527,536; and pay the Financing Fees of \$1,582,609. Refer to "Use of Proceeds".

Assuming that the minimum Offering of 4,000 Units is sold, the gross proceeds to the Issuers will be \$5,000,000. Of this amount, \$4,000,000 will be received by the Mortgage Fund and invested in the Mortgage Loan and \$1,000,000 will be received by the Realty Trust and invested in the acquisition of LP Units. The gross proceeds of \$5,000,000 therefore received by the Limited Partnership, plus estimated Senior Mortgage Loans in the aggregate principal amount of \$8,876,812 will be used by the Limited Partnership to: pay the Agents' Commission of \$400,000; pay the other expenses of this Offering estimated at \$225,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$12,681,160; pay due diligence and documentation costs relating to the purchase of such Properties of \$253,623; create reserves for renovation and upgrading of such Properties of \$63,406; create reasonable working capital reserves for such Properties of \$63,406; and pay the Financing Fee of \$190,217. Refer to "Use of Proceeds".

### **Redemption of Trust Units**

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

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of
  - (i) the aggregate value of the real estate assets of the Limited Partnership on the last day of the most recent calendar quarter that ends prior to the redemption date; plus
  - (ii) the aggregate value of the cash and other working capital assets of the Limited Partnership and of the Realty Trust on the redemption date; less
  - (iii) the aggregate of:
    - A. the aggregate value of the Limited Partnership's liabilities on the redemption date (including the aggregate amount of the Mortgage Loan outstanding on the redemption date);
    - B. the amount which would be payable to the General Partner (to the extent not taken into account in (iii)(A) above) if the Limited Partnership was terminated and liquidated on the redemption date; and
    - C. the aggregate value of the Realty Trust's liabilities (including the Trust Notes) on the redemption date,

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

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

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

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

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

- (a) the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption;
- (b) a distribution *in specie* to the Trust Unitholder of a number of LP Units having an aggregate value determined on the redemption date based on the redemption price of the LP Units under the terms and conditions of the Limited Partnership Agreement, equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption; or
- (c) a distribution *in specie* to the Trust Unitholder of a number of Debt Securities (each in the principal amount of \$100) having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption.

### **Redemption of Fund Units**

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

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

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

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

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

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

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

### **Management**

The directors of each of the Realty Trustee and the Mortgage Fund Trustee are Robert King and James Redekop. The sole officer of the Realty Trustee and the Mortgage Fund Trustee is Darren Latoski, President. The Limited Partnership is managed by the General Partner and does not have a board of directors. The General Partner's directors are Darren Latoski and Steve Evans, who serve as the General Partner's President and Secretary, respectively. Refer to "Directors and Officers".

### **Risk Factors**

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

*This is a Blind Pool Offering* – The gross proceeds of the Offering will ultimately be invested in LP Units and the Mortgage Loan and are intended to be used by the Limited Partnership for the acquisition of one or more Properties, after the deduction of the costs of the Offering. However, 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 through the Limited Partnership, the Unitholders' return on their respective investments in the Trust Units and Fund Units will vary.

*Reliance on Management of the General Partner* – 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, the underlying Trust Units and Fund Units or the LP Units, and it is expected that there will be no market for the Units, Trust Units, Fund Units or LP Units.

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

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

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

*Risks of Real Estate Ownership* – An investment in Trust Units and Fund Units is an indirect investment in real estate through the Limited Partnership's investment in the Properties. Investment in real estate is subject to numerous risks, which include but are not limited to the following:

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

The operation of the Properties may not generate sufficient funds to make the payments of principal and interest due on the Senior Mortgage Loans, and, upon default, one or more Lenders could exercise their rights including, without limitation, foreclosure or sale of the Properties. Inability to renew Senior Mortgage Loans when they mature will adversely impact the ability of the Limited Partnership to make cash distributions. An increase in the interest rate of Senior Mortgage Loans on renewal may reduce the cash flow available from the Limited Partnership for distributions to holders of LP Units and the Unitholders.

The Senior Mortgage Loans and/or other credit facilities obtained by the Limited Partnership will contain covenants, including limitations on the Limited Partnership's ability to incur secured and unsecured indebtedness, sell all or substantially all of its

assets and engage in mergers and consolidations and various acquisitions. In addition, mortgage indebtedness and other credit facilities will contain limitations on the Limited Partnership's ability to transfer or encumber the mortgaged properties without lender consent. These provisions may restrict the Limited Partnership's ability to pursue business initiatives or acquisition transactions that may be in its best interests. They also may prevent the Limited Partnership from selling Properties at times when, due to market conditions, it may be advantageous to do so. In addition, failure to meet any of the covenants could cause an event of default under and/or acceleration of some or all of the Limited Partnership's indebtedness, which would have an adverse effect on the Limited Partnership.

- (b) *Interest Rate Fluctuations* – The Senior Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Limited Partnership's cost of borrowing.
- (c) *Environmental Matters* – 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.
- (d) *Uninsured Losses* – The General Partner will, under the terms of the Limited Partnership Agreement, arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned through 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.
- (e) *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.
- (f) *Competition for Real Property Investments* – The Limited Partnership will compete for suitable real property investments with other individuals, corporations, real estate investment trusts and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those sought by the Limited Partnership. Such competition would tend to increase purchase prices of real estate properties and reduce the yield on such investments.
- (g) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Senior Mortgage Loans or to fund changes in any variable rates of interest charged in respect of such loans.
- (h) *Fluctuations in Capitalization Rates* – As interest rates fluctuate in the lending market, so too do capitalization rates which affects the underlying value of real estate. As such,



when interest rates rise, so too do capitalization rates. Over the period of investment, capital gains and losses at the time of disposition can occur due to the movement of these capitalization rates.

- (i) *Economic Conditions* - The yields available from investments in real estate depend upon the amounts of the revenues generated and expenses incurred. The risks in this regard include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, the attractiveness of properties to tenants, and the ability of the owner to provide adequate maintenance at an economic cost. The performance of the economy in each of the areas in which Properties are located affects occupancy, market rental rates and expenses. These factors consequently can have an impact on revenues from the Properties and their underlying values. The financial results and labour decisions of major local employers may also have an impact on the revenues from and value of certain Properties.
- (j) *Tenancy Risks* - The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants and upon the vacancy rates in each of the Properties acquired. Revenue would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties were not able to be leased on economically favourable lease terms. In addition, revenue would be adversely affected by increased vacancies in the Properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting an investment in the Properties may be incurred. Furthermore, at any time, a tenant of any of the Properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available. The ability to rent unleased space in Properties will be affected by many factors. Delays in re-leasing properties and/or units of properties as vacancies arise would reduce the revenues and could adversely affect operating performance. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a Property is producing any income. If the Limited Partnership is unable to meet mortgage payments on any Property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.
- (k) *Illiquidity* - Real property investments tend to be relatively illiquid with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the Limited Partnership's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Limited Partnership were to be required to liquidate its real property investments, the proceeds to the Limited Partnership might be significantly less than the aggregate carrying value of its Properties.
- (l) *Current Condition of Credit Markets* - During 2007 and 2008, access to long-term financing has been negatively impacted by both sub-prime mortgages and the asset-backed commercial paper markets. These factors may impact the ability of the Limited Partnership to obtain Senior Mortgage Loans and other credit facilities on terms favourable to the Limited Partnership.

- (m) *Development Risks* - The Limited Partnership's potential involvement in development activities, brings with it the following related risks: (a) the potential insolvency of a developer; (b) the developer's failure to use advanced funds in payment of construction costs; (c) construction or unanticipated delays; (d) incurring construction costs before ensuring rental revenues will be earned from the project; (e) cost over-runs on the project; and (f) the failure of tenants to occupy and pay rent in accordance with lease arrangements. Such risks are minimized by generally not commencing construction until satisfactory levels of preleasing/ sales are achieved. This risk exposure is further mitigated by the Limited Partnership Agreement, which limits the amount to be committed to opportunities for development of capital properties as income-producing real estate for long-term investment, to no more than 20% of the net proceeds of the Offering, assuming completion of the maximum Offering.
- (n) *Joint Ownership* - The Limited Partnership may be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks, including, (i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with the Limited Partnership's or take actions contrary to the Limited Partnership's instructions or requests or to the Limited Partnership's policies or objectives with respect to the Properties, (ii) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such Properties or repay the co-venturers'/partners' share of property debt guaranteed by the Limited Partnership or for which the Limited Partnership will be liable and/or result in the Limited Partnership suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions, (iii) the risk that such co-venturers/ partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject the Limited Partnership to liability, and (iv) the need to obtain coventurers'/ partners' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when the Limited Partnership may not desire to sell but may be forced to do so because the Limited Partnership does not have the cash to purchase the other party's interests. Such rights may also inhibit the Limited Partnership's ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis the Limited Partnership desires.

*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.

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

Trustees (to the extent that claims are not satisfied by the Trust). In any event, each of the Realty Trust Declaration and the Mortgage Fund Declaration require the respective Trustees to ensure that any written contract or commitment of either the Realty Trust or Mortgage Fund include an express limitation of liability except where not reasonably possible.

*Risks Associated with Redemptions*

- (a) *Use of Available Cash* – The payment in cash by the Realty Trust and Mortgage Fund, respectively, of the redemption price of Trust Units and Fund Units will reduce the amount of cash available to the Realty Trust and Mortgage Fund for the payment of distributions to the holders of Trust Units and Fund Units, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.
- (b) *Limitation on Payment of Redemption Price in Cash* – The total cash amount available for the payment of the redemption price of Trust Units or Fund Units by the Realty Trust and Mortgage Fund, respectively, is limited to, in each case, \$50,000 in each calendar quarter and in each case is also limited in any twelve month period to 3/4 of 1% of the aggregate subscription price of all Trust Units or Fund Units, as the case may be, that were issued and outstanding at the start of such twelve month period. Further, certain requirements must be satisfied with respect to the ratio of the aggregate amount outstanding in respect of the Mortgage Loan relative to the aggregate capital accounts in respect of LP Units in order for the redemption price to be paid in cash.
- (c) *Payment of Redemption Price in Kind* – As a result of the foregoing limitations, the redemption of Trust Units may be paid by way of a Trust Note, a Debt Security or a distribution of LP Units and the redemption of Fund Units may be paid by a Fund Note or Debt Security. Trust Notes, Fund Notes and Debt Securities are payable over a term of five years or less with annual interest at the Canada Five-Year Yield. Trust Notes, Fund Notes, LP Units and Debt Securities received as a result of redemptions of Trust Units or Fund Units may not be liquid. Further, they may not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan or the annuitant under a Plan, including the redeeming Unitholder becoming subject to a penalty tax, the Plan annuitant being deemed to receive income from the Plan, or, in the case of an RESP, having the Plan's tax exempt status revoked. Accordingly, Plans that propose to invest in Trust Units or Fund Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Units.
- (d) *Limited Rights to Redeem LP Units* – The right to redeem LP Units is limited. If, in any given year, the Limited Partnership receives notices requiring it to redeem a number of LP Units in excess of 5% of the total number of LP Units issued by Limited Partnership, or if insufficient funds are available to redeem the number of LP Units in respect of which a request for redemption has been made, then the redemption of LP Units in that year will be made on a pro rata basis. The number of LP Units redeemed will be limited to the lesser of 5% of the total number of LP Units issued by the Limited Partnership and that number of LP Units for which funds are determined to be available. Therefore, there can be no assurance that Unitholders who receive LP Units upon the redemption of their Trust Units will be able to redeem such LP Units when they wish to do so. Refer to "Description of the Securities Distributed – LP Units - Limited Redemption Rights".

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

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

**Summary Financial Information:**

Included in this Prospectus are: audited financial statements of Sunstone Opportunity (2008) Realty Trust for the period from formation on September 12, 2008 to September 17, 2008; audited financial statements of Sunstone Opportunity (2008) Mortgage Fund for the period from formation on September 12, 2008 to September 17, 2008; and audited financial statements of Sunstone Opportunity Fund (2008) Limited Partnership for the period from formation on September 15, 2008 to September 17, 2008.

## GLOSSARY OF TERMS

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

- (a) **“Administration Agreement”** an agreement dated as of September 15, 2008 among the General Partner, the Realty Trust and the Mortgage Fund, pursuant to which the General Partner will provide certain managerial and administrative services to the Trusts;
- (b) **“Agency Agreement”** means an agreement dated as of ♦, 2008 between the Realty Trustee, as trustee for and on behalf of the Realty Trust, the Mortgage Fund Trustee, as trustee for and on behalf of the Mortgage Fund, SRAI, the General Partner on behalf of the Limited Partnership and the Agents;
- (c) **“Agents”** means, collectively, the Lead Agent, and (to be determined by lead agent)
- (d) **“Asset Management Fee”** means an annual fee equal to 1.5% of the Net Asset Value payable monthly on the last day of each month during the term of the General Partner Services Agreement in an amount equal to 0.125% of the Net Asset Value at the beginning of each such month, plus an amount equal to the amount of any portion of the Asset Management Fee for a previous year or years of the term of the General Partner Services Agreement, the payment of which was waived by the General Partner, payable within 30 days of the presentation by the General Partner of an invoice therefore;
- (e) **“Business Day”** means any day which is not a Saturday, Sunday or statutory holiday in the Province of British Columbia;
- (f) **“Canada Five-Year Yield”** means on any date the yield to maturity on such date (expressed as a percentage), assuming semi-annual compounding, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of approximately five years, which Canada Five-Year Yield shall be determined by a major Canadian investment dealer selected by either the Realty Trustee or the Mortgage Fund Trustee;
- (g) **“CBCA”** means the *Business Corporations Act* (Canada), as amended from time to time;
- (h) **“Cost Sharing and Recovery Agreement – Mortgage Fund”** means an agreement dated as of September 15, 2008 between the Limited Partnership and the Mortgage Fund pursuant to which the Limited Partnership has agreed in connection with the borrowing of the Mortgage Loan to bear all of the costs of this Offering incurred by the Mortgage Fund and to reimburse the Mortgage Fund for any costs incurred in connection with the transactions described in this Offering;
- (i) **“Cost Sharing and Recovery Agreement – Realty Trust”** means an agreement dated as of September 15, 2008 between the Limited Partnership and the Realty Trust pursuant to which the Limited Partnership has agreed in connection with the issuance of the LP Units to bear all of the costs of this Offering incurred by the Realty Trust and to reimburse the Realty Trust for any costs incurred in connection with the transactions described in this Offering;
- (j) **“Cost Sharing and Recovery Agreements”** means the Cost Sharing and Recovery Agreement – Mortgage Fund and the Cost Sharing and Recovery Agreement – Realty Trust;

- (k) **“Debt Securities”** means debt securities of any subsidiary of either the Realty Trust or the Mortgage Fund that may be created and issued from time to time, that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the option of the issuer prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (l) **“Disposition Fee”** means a fee in the amount of 1.5% of the gross sales price of a Property, plus GST if applicable, payable to the General Partner in consideration of the General Partner negotiating and finalizing the sale of such Property on behalf of the Limited Partnership;
- (m) **“Distributable Cash”** means, for any period, for a Property which is a revenue-producing property or property which has been developed by the Limited Partnership and is a capital property owned as income-producing real estate for long-term investment, an amount equal to the gross rents received from the operation of such Property, less the operating expenses incurred in its operations and 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 distributions to the Limited 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 of a Property;
- (n) **“Final Prospectus”** means the final version of this Prospectus which will be filed by the Issuers with the Securities Commissions;
- (o) **“Financing Fee”** means a fee payable to the General Partner pursuant to the General Partner Services Agreement for financing services, in an amount equal to 1.5% of the gross purchase price of a Property, plus GST if applicable, and payable to the General Partner upon the completion of the purchase of each Property;
- (p) **“Founding Limited Partner”** means SRA First Partner Ltd., a closely-held British Columbia company;
- (q) **“Fund Mortgage”** means a mortgage interest in the Properties securing the obligations of the Limited Partnership under Mortgage Loan Agreement, such mortgage ranking after the mortgage interests of the Lenders under the Senior Mortgage Loans. A Fund Mortgage may only in certain circumstances also be registered against the titles to the Properties that are registered in the name of a nominee or bare trustee;
- (r) **“Fund Notes”** means promissory notes of the Mortgage Fund that may be created and issued from time to time that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Mortgage Fund’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (s) **“Fund Property”** means all of the property and assets of the Mortgage Fund held in trust by the Mortgage Fund Trustee pursuant to the Mortgage Fund Declaration;
- (t) **“Fund Unit”** means a redeemable unit of beneficial interest in the Mortgage Fund;
- (u) **“Fund Unitholder”** means a holder of record of any Fund Unit;

- (v) **“General Partner”** means Sunstone Realty Advisors (2008) Inc., a private, closely-held British Columbia company, being the general partner of the Limited Partnership;
- (w) **“General Partner Services Agreement”** means an agreement dated as of September 15, 2008 between the Limited Partnership and the General Partner pursuant to which the General Partner has agreed to provide certain services to the Limited Partnership;
- (x) **“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;
- (y) **“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 Mortgage Loan, thereby providing the General Partner with a 20% share of the total of the interest paid on the Mortgage Loan and the amounts allocated and distributed to the Limited Partners by the Limited Partnership up to such date;
- (z) **“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;
- (aa) **“Issuers”** means, collectively, Sunstone Opportunity (2008) Realty Trust, Sunstone Opportunity (2008) Mortgage Fund and Sunstone Opportunity Fund (2008) Limited Partnership;
- (bb) **“Lead Agent”** means Dundee Securities Corporation;
- (cc) **“Lender”** means a lender and mortgagee of any of the Senior Mortgage Loans;
- (dd) **“Limited Partners”** means holders of record of any LP Units;
- (ee) **“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;
- (ff) **“Limited Partnership”** means Sunstone Opportunity Fund (2008) Limited Partnership, a British Columbia limited partnership;
- (gg) **“Limited Partnership Agreement”** means the amended and restated agreement establishing the Limited Partnership made as of September 12, 2008 among the General Partner, the Founding Limited Partner and all persons who subscribe for LP Units;
- (hh) **“LP Unitholder”** means any holder of LP Units including the Realty Trust;
- (ii) **“LP Units”** means units in the capital of the Limited Partnership, issued pursuant to the terms of the Limited Partnership Agreement;
- (jj) **“Mortgage Fund”** means Sunstone Opportunity (2008) Mortgage Fund, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;

- (kk) **“Mortgage Fund Declaration”** means the Amended and Restated Declaration of Trust establishing the Mortgage Fund made as of September 12, 2008 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Funds Units as provided therein;
- (ll) **“Mortgage Fund Property”** means all of the property and assets of the Mortgage Fund held in trust by the Mortgage Fund Trustee pursuant to the Mortgage Fund Declaration;
- (mm) **“Mortgage Fund Trustee”** means SRAI Mortgage Fund (2008) Inc., a private, closely-held British Columbia corporation;
- (nn) **“Mortgage Loan”** means a loan by the Mortgage Fund to the Limited Partnership in the principal amount of not less than \$4,000,000 and not more than \$32,000,000, having the terms described in this Prospectus;
- (oo) **“Mortgage Loan Agreement”** means the agreement dated as of September 15, 2008 and made between the Mortgage Fund and the Limited Partnership, pursuant to which the Mortgage Fund has agreed to lend the Mortgage Loan to the Limited Partnership;
- (pp) **“Net Asset Value”** means the greater of: (a) the total gross cash proceeds from this Offering; and (b) the total purchase price of the Properties including all fees and expenses and cash reserves, less the outstanding Senior Mortgage Loans;
- (qq) **“Net Equity”** means the cash paid by a Limited Partner in respect of his, her or its LP Units, being \$250 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;
- (rr) **“Net LP Subscription Proceeds”** means the net proceeds received by the Limited Partnership from the issuance of LP Units and the advance of the Mortgage Loan, being after any payment by the Limited Partnership to the Realty Trust and the Mortgage Fund pursuant to the Cost Sharing and Recovery Agreements of any Agents’ Commission and the other expenses of this Offering to the extent initially paid by the Realty Trust or Mortgage Fund;
- (ss) **“Offering”** means the offering of a minimum of 4,000 Units at a price of \$1,250 per Unit for gross proceeds of \$5,000,000 and a maximum of 32,000 Units at a price of \$1,250 per Unit for gross proceeds of \$40,000,000. Purchasers are required to acquire a minimum of ten Units. Additional subscriptions may be made in single Unit multiples;
- (tt) **“Offering Price”** means \$1,250 per Unit;
- (uu) **“Ordinary Resolution”** in respect of the Realty Trust, Mortgage Fund, or Limited Partnership, as the case may be, means a resolution approved by not less than 50% of the votes cast by those Trust Unitholders, Fund Unitholders or Limited Partners, as the case may be, who vote in person or by proxy at a duly convened meeting of Trust Unitholders, Fund Unitholders or Limited Partners, or a written resolution signed by Trust Unitholders, Fund Unitholders or Limited Partners entitled, in the aggregate, to not less than 50% of the aggregate number of votes of the Trust Unitholders, Fund Unitholders or Limited Partners;
- (vv) **“Plans”** means RRSPs, RESPs, registered retirement income funds, and deferred profit sharing plans, as those phrases are defined in the Tax Act, and **“Plan”** means any of them;
- (ww) **“Property”** means one of the Properties;



- (xx) **“Properties”** means the various direct and indirect interests in commercial real estate properties, including existing revenue-producing properties and capital properties developed by the Limited Partnership to be held as income-producing real estate for long-term investment, situate in Canada acquired, owned and operated from time to time by the Limited Partnership;
- (yy) **“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; and
  - (ii) has as its numerator:
    - A. in the case of an LP Unit, the aggregate of the subscription price of such LP Unit; 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.
- (zz) **“Prospectus”** means this prospectus and any amendments hereto;
- (aaa) **“Purchaser”** means the purchaser of Units;
- (bbb) **“Qualifying Provinces”** means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island;
- (ccc) **“Realty Trust”** means Sunstone Opportunity (2008) Realty Trust, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;
- (ddd) **“Realty Trust Declaration”** means the Amended and Restated Declaration of Trust establishing the Realty Trust made as of September 12, 2008 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein;
- (eee) **“Realty Trust Property”** means all of the property and assets of the Realty Trust held in trust by the Realty Trustee pursuant to the Realty Trust Declaration;
- (fff) **“Realty Trustee”** means SRAI Realty Services (2008) Inc., a private, closely-held British Columbia corporation;
- (ggg) **“Receipt”** means a receipt for the Final Prospectus issued by the British Columbia Securities Commission as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, *“Passport System”*;
- (hhh) **“Related Party”** means, with reference to any of the Issuers, any of the following: (1) any person who participates in the management of any of the Issuers, the Realty Trustee, the Mortgage Fund Trustee or, with respect to the Limited Partnership, 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;

- (iii) **“RESPs”** means registered education savings plans as defined in the Tax Act;
- (jjj) **“RRSPs”** means registered retirement savings plans as defined in the Tax Act;
- (kkk) **“Securities”** means the Units, the Trust Units, the Fund Units and the LP Units;
- (lll) **“Securities Commission”** means any one of the Securities Commissions;
- (mmm) **“Securities Commissions”** means, collectively, the securities commissions or other securities regulatory authorities in the Qualifying Provinces;
- (nnn) **“Senior Mortgage Loans”** means one or more mortgage, charge, pledge, hypothec, lien, security interest or other encumbrance of any kind or nature whatsoever of 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;
- (ooo) **“Special Resolution”** in respect of the Realty Trust, Mortgage Fund, or Limited Partnership, as the case may be, means a resolution approved by not less than 75% of the votes cast by those Trust Unitholders, Fund Unitholders or Limited Partners, as the case may be, who vote in person or by proxy at a duly convened meeting of Trust Unitholders, Fund Unitholders or Limited Partners, or a written resolution signed by Trust Unitholders, Fund Unitholders or Limited Partners entitled, in the aggregate, to not less than 75% of the aggregate number of votes of the Trust Unitholders, Fund Unitholders or Limited Partners
- (ppp) **“SRAI”** means Sunstone Realty Advisors Inc., a private, closely-held British Columbia company, and the promoter of this Offering;
- (qqq) **“Sunstone LP”** means Sunstone Opportunity Fund Limited Partnership, a British Columbia limited partnership;
- (rrr) **“Sunstone (2004) LP”** means Sunstone Opportunity Fund (2004) Limited Partnership, a British Columbia limited partnership;
- (sss) **“Sunstone (2005) LP”** means Sunstone Opportunity Fund (2005) Limited Partnership, a British Columbia limited partnership;
- (ttt) **“Sunstone (2006) LP”** means Sunstone Opportunity Fund (2006) Limited Partnership, a British Columbia limited partnership;
- (uuu) **“Sunstone (2007) Co-ownership”** means the co-ownership established by Sunstone Opportunity (2007) Realty Trust and Sunstone Investments (2007) Inc. as co-owners pursuant to a Co-ownership Agreement made as of September 4, 2007;
- (vvv) **“Tax Act”** means the *Income Tax Act* (Canada), as amended from time to time;
- (www) **“Trusts”** mean collectively, Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund;

- (xxx) **“Trust Note”** means promissory notes of the Realty Trust that may be created and issued from time to time that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Realty Trust’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;
- (yyy) **“Trust Unit”** means a redeemable unit of beneficial interest in the Realty Trust;
- (zzz) **Trust Unitholder”** means a holder of record of any Trust Unit;
- (aaaa) **“Unitholder”** means a holder of record of any Trust Unit or Fund Unit; and
- (bbbb) **“Units”** means a minimum of 4,000 units and a maximum of 32,000 units to be offered by the Issuers pursuant to the Prospectus, and each such unit consisting of one Trust Unit and one Fund Unit.

## **1. CORPORATE STRUCTURE**

### **1.1 Name and Incorporation**

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

The Realty Trust is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Realty Trust was formed by an Amended and Restated Declaration of Trust made September 12, 2008 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein.

The trustee of the Realty Trust is SRAI Realty Services (2008) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on September 12, 2008 under incorporation number BC0834853.

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

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

The Mortgage Fund is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Mortgage Fund was formed by an Amended and Restated Declaration of Trust made September 12, 2008 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Fund Units as provided therein.

The trustee of the Fund Trust is SRAI Mortgage Fund (2008) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on September 11, 2008 under incorporation number BC0834759.

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

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

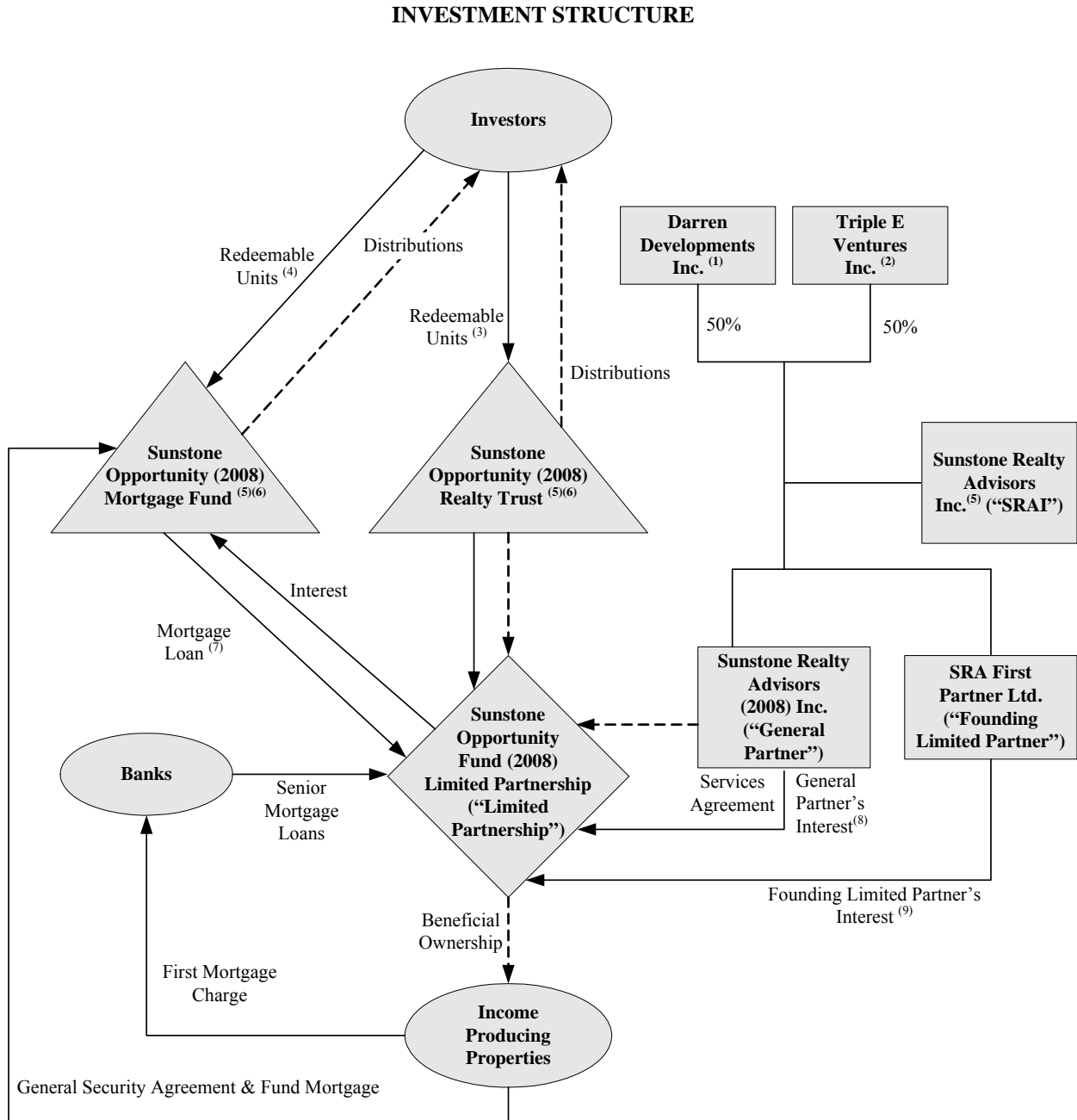
The Limited Partnership was formed by a certificate filed pursuant to the *Partnership Act* (British Columbia) on September 15, 2008 under number 08 0486092. The head office and address for service of the Limited Partnership is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 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 (2008) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on September 10, 2008 under incorporation number BC0834684. 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.

## 1.2 Intercorporate Relationships

The following chart sets forth the relationships among the Realty Trust, the Mortgage Fund, the Realty Trustee, the Mortgage Fund Trustee, the General Partner and the Limited Partnership, each such 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 and are invested by the Limited Partnership in the Properties.



- (1) Darren Latoski is the sole director and officer and a shareholder of Darren Developments Inc.
- (2) Steve Evans is the sole director and officer and a shareholder of Triple E Ventures Inc.
- (3) The terms and conditions attaching to each Trust Unit are summarized in “Description of the Securities Distributed – Trust Units”.
- (4) The terms and conditions attaching to each Fund Unit are summarized in “Description of the Securities Distributed – Fund Units”.
- (5) SRAI has made a capital contribution of \$10 to each of the Realty Trust and the Mortgage Fund, which comprises the initial property of the Realty Trust and the Mortgage Fund, respectively. SRAI has no further obligation to contribute capital to the Realty Trust or the Mortgage Fund. SRAI is entitled to receive the return of its \$10 capital contributions upon the first closing of Trust Units and Fund Units.
- (6) The Realty Trust will use the gross proceeds received from the issuance of Trust Units to purchase the LP Units at a price of \$250 per LP Unit. The Mortgage Fund will invest the proceeds from the sale of Fund Units in the Mortgage Loan to the Limited Partnership. Pursuant to the Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear all of the costs and expenses of this Offering in connection with the issuance of the LP Units and the borrowing of the Mortgage Loan. Therefore, the gross proceeds from the issuance of Units will be invested in the Limited Partnership and the net proceeds from the issuance of the Units will be invested in the acquisition, operation and maintenance of the Properties.
- (7) The terms and conditions of the Mortgage Loan are summarized in “The Mortgage Loan”, below.
- (8) 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 – LP Units”. 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”.
- (9) The Founding Limited Partner has made a capital contribution of \$10 to the Limited Partnership, and has no further obligation to contribute capital. The Founding 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 – LP Units”.

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

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

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

The Realty Trust’s long-term objective is to earn income by way of distributions from the Limited Partnership to holders of the LP Units, which will originate from a diversified portfolio of high quality income-producing commercial real estate Properties in Canada owned by the Limited Partnership, including capital properties developed and owned by the Limited Partnership as income-producing real estate for long-term investment. An investment in Trust Units is intended to provide Purchasers with the opportunity to receive cash distributions originating from the ongoing operation of the Properties and the

opportunity to receive, in certain circumstances, a portion of the gains derived from the development or sale of a real estate Property or Properties.

## **2.2 Business of the Mortgage Fund**

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

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

## **2.3 Business of the Limited Partnership**

The gross proceeds from the issuance of the Units will be invested in the Limited Partnership through the Realty Trust's investment in LP Units and the Mortgage Fund's advance of the Mortgage Loan.

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

The General Partner will focus on purchasing Properties which are, in the opinion of the General Partner, currently operating below their full potential. The General Partner intends to invest the proceeds realized from the issuance of LP Units and the advance of the Mortgage Loan in high quality income-producing commercial real estate 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 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 will have a detailed inspection report prepared by an independent inspection firm for each property that is proposed for acquisition by the Limited Partnership, and will have any such property

appraised by a qualified third party appraiser who is recognized as an Accredited Appraiser, Canadian Institute.

Assuming the completion of the maximum Offering, the Limited Partnership may also invest up to that amount which is equal to 20% of the net proceeds from the issuance of LP Units and from the Mortgage Loan for the limited development of capital property as income-producing real estate for long-term investment, to add to the high quality income-producing portfolio to be owned and operated by the Limited Partnership. The General Partner intends that any such investment may be by way of participation in a joint venture, partnership or other similar entity with an established developer which has local knowledge and experience in the marketplace in which the income-producing properties would be located. The General Partner intends that any such investment will be in strong growth markets, and will have a significant level of pre-leasing prior to commencement. The General Partner has targeted limited development opportunities in order to enhance the return on the Limited Partnership's capital and the investor's yield, while retaining a diversified portfolio and conservative risk profile for the Limited Partnership as a whole.

### ***Investment Objectives***

The Limited Partnership's primary investment objectives are as follows:

- (a) to invest in a diversified portfolio of quality commercial revenue-producing Properties with positive cash flow;
- (b) to provide quarterly cash flow distributions targeted at 8%, upon full investment of the net proceeds allocated to the purchase price of Properties;
- (c) to enhance the Limited Partnership's return on capital and the Purchaser's yield through limited development of capital properties as income-producing real estate for long-term investment; and
- (d) to enhance the potential for long-term growth of capital through value-added enhancements to the Properties and organic growth in rental rates.

### ***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 32,000 Units offered under this Prospectus are issued, not more than 40% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements on account of the Agents' Commission and the expenses of this Offering) will be applied to the acquisition of any one Property;
- (b) assuming all 32,000 Units offered under this Prospectus are issued, not more than 20% of the net proceeds from such issuance will be invested in opportunities for development of capital properties as income-producing real estate for long-term investment, through joint ventures, partnerships or similar entities;
- (c) in the event that less than 32,000 Units are issued, it may be necessary to apply more than 40% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraph (d) below, or more than 20% of the net proceeds to investment in



opportunities for development of capital properties as income-producing real estate for long-term investment, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property, and the creation of a reasonable working capital reserve for the Property); and

- (d) upon purchase, each Property (other than a capital property under development) would be expected to generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the 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 development of capital properties, replacement of management, re-leasing or similar initiatives.

### ***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, an investment in Units has been structured to align the interests of the General Partner with those of the Trust Unitholders and Fund Unitholders.

Pursuant to the Limited Partnership Agreement, interest must be paid on the Mortgage Loan and the Limited Partners' Minimum Return must be received by Limited Partners, including the Realty Trust, prior to any allocation of the Incentive Management Interest to the General Partner. If the Limited Partners' Minimum Return is not received by Limited Partners, no Incentive Management Interest will be allocated to the General Partner. In addition, 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: (i) the Mortgage Loan and all interest due on the Mortgage Loan has been paid in full; (ii) Limited Partners, including the Realty Trust, have received full payment of the Limited Partners' Minimum Return; and (iii) all Net Equity has been returned to the Limited Partners, including the Realty Trust. Refer to "Description of the Securities Distributed – LP Units". The Mortgage Fund and Realty Trust, as holders of the Mortgage Loan and LP Units, respectively, will receive the amounts described in items (i) to (iii) prior to the General Partner receiving the Incentive Management Interest.

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

The Mortgage Fund will advance not less than \$4,000,000 and not more than \$32,000,000 to the Limited Partnership by way of the Mortgage Loan. The Mortgage Loan bears interest at an annual rate of 8.1%. Interest will be payable quarterly in arrears on the 15th day after the end of each calendar quarter, commencing January 15, 2009, in respect of the interest accrued during the immediately preceding calendar quarter. The Mortgage Loan will be due on October 31, 2013, which is approximately five years from the date of the initial advance of the Mortgage Loan by the Mortgage Fund.

The Limited Partnership and the Mortgage Fund will enter into the Mortgage Loan Agreement in respect of the Mortgage Loan. Pursuant to the Mortgage Loan Agreement, the Limited Partnership will issue a promissory note to evidence the advance of the Mortgage Loan. Upon the initial advance of the Mortgage Loan, the Mortgage Loan will be secured by way of a general security agreement executed by the Limited Partnership in favour of the Mortgage Fund. Upon the purchase of each Property by the Limited Partnership, a Fund Mortgage of each Property will be granted to the Mortgage Fund, which shall be subordinate to the mortgage and other security instruments securing the Senior Mortgage Loans and

which may, in certain circumstances, be registered against the title to the Property. The general security agreement and each Fund Mortgage will be subject to the prior charge of the Senior Mortgage Loans.

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

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

### ***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 those 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. All or a portion of this fee may be recovered from the tenants of the Property depending on the terms of lease agreements with tenants.

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

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

The Realty Trust was established on September 12, 2008 for the purpose of investing in LP Units. Its principal business will be to issue Trust Units and acquire and hold LP Units. The Realty Trust does not have an operating history.

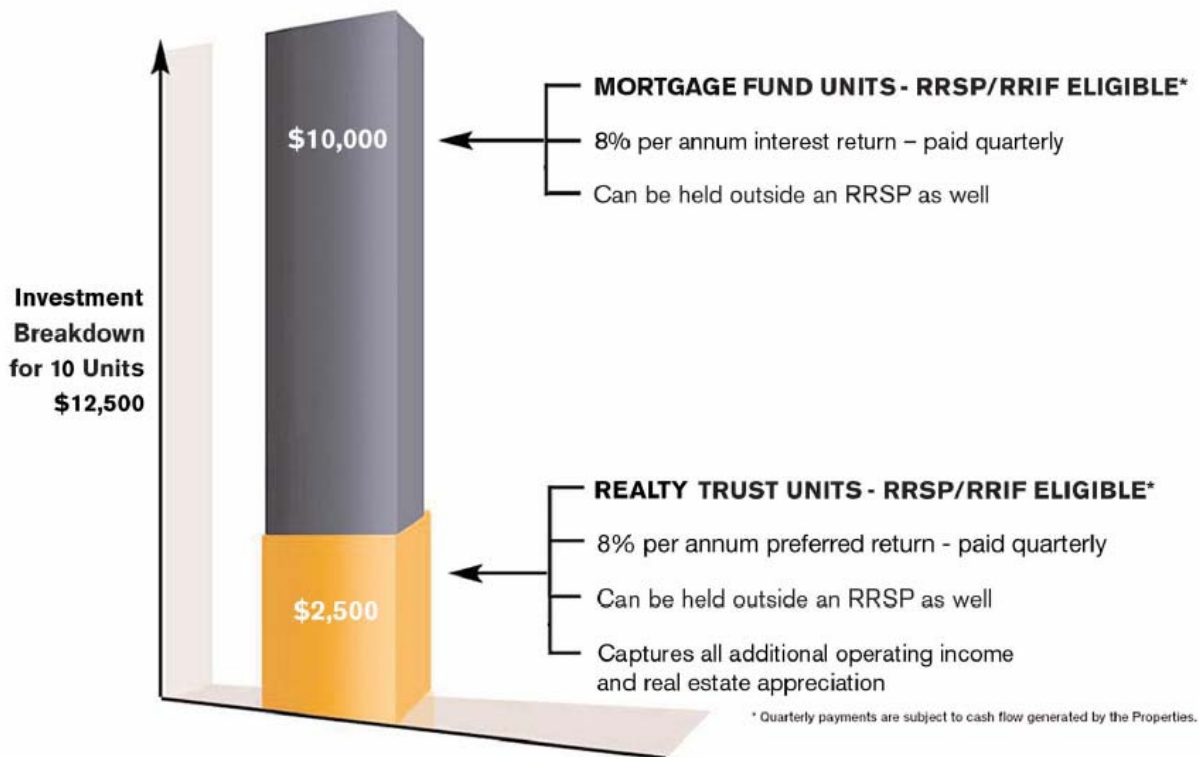
The Mortgage Fund was established on September 12, 2008 for the purpose of investing in the Mortgage Loan. Its principal business will be to issue Fund Units and acquire and hold the Mortgage Loan. The Mortgage Fund does not have an operating history.

The Limited Partnership was established on September 15, 2008 for the purpose of owning and operating interests in a diversified portfolio of high quality income-producing commercial real estate Properties in Canada (or interests in such properties) and for limited development of capital properties as income-producing real estate for long-term investment. The 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 opportunities for development of capital properties to be held as long-term investments by the Limited Partnership. Assuming that the maximum Offering of 32,000 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$36,400,000 of the net proceeds received by it from the issuance of LP Units and the advance of the Mortgage Loan to the purchase price and other costs of as yet unidentified Properties or the investment in as yet unidentified capital property development opportunities. If only the minimum Offering of 4,000 Units is sold, the General Partner intends to cause the Limited Partnership to apply up to \$4,375,000 of the net proceeds received by the Limited Partnership from the issuance of LP Units and the advance of the Mortgage Loan 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 20% of the net proceeds invested in the development of capital property. In the event that less than the maximum Offering is sold, the net proceeds may be applied by the Limited Partnership to the acquisition of as little as one Property.

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



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

### **3.2 Significant Acquisitions**

The Limited Partnership has not made any property acquisitions or dispositions to date.

### **3.3 Trends**

The General Partner believes that the current economic environment continues to provide attractive investment opportunities in real estate. Notwithstanding the decline in the availability of credit over the past twelve months, the General Partner believes that there continues to be high levels of investment demand for high quality real estate properties, which will support the current capitalization rates and encourage transaction activity in the marketplace. As well, the General Partner believes that long-term mortgage interest rates continue to be at or near historically low levels, in the range of 5.5% to 6.0% per annum, and many high quality real estate properties continue to be available at prices which provide an initial return, on an unleveraged basis, of 7.0% to 8.0% per annum. The difference between mortgage rates and the potential rates of return on investment will offer Purchasers the potential for immediate positive financial leverage, enhancing the potential return on investment.

Real estate investments are subject to a number of risks, some of which are outlined under the heading “Risk Factors”. However, while past performance is not necessarily an indicator of future performance, real estate investments have historically provided stable cash flow with consistent moderate returns on capital, and have outperformed investments in many other sectors of the economy.

### **3.4 Stated Business Objectives**

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

The business of the Realty Trust is the investment in LP Units. Its short-term objectives are to complete the offering of Trust Units pursuant to this Offering by November 15, 2008 and to invest the proceeds thereof in LP Units. The Realty Trust’s long-term objective is to earn income by way of distributions from the Limited Partnership to holders of the LP Units, which will originate from a diversified portfolio of high quality income-producing commercial real estate Properties in Canada owned by the Limited Partnership, including Properties developed by the Limited Partnership and held as income-producing real estate for long-term investment.

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

The business of the Mortgage Fund is the investment in the Mortgage Loan. Its short-term objectives are to complete the offering of Fund Units pursuant to this Offering by November 15, 2008 and invest the proceeds thereof in the Mortgage Loan. The Mortgage Fund’s long-term objective is to earn interest income from its investment in the Mortgage Loan, to distribute such interest income to holders of the Fund Units in accordance with the terms of the Mortgage Fund Declaration, and to redeem the Fund Units upon the repayment of the Mortgage Loan by the Limited Partnership.

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

The Limited Partnership has been established for the purpose of owning and operating a diversified portfolio of high quality income-producing real estate properties in Canada (or interests in such properties) and for limited development of capital properties as income-producing real estate for long-term investment. The 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 November 15, 2009 the purchase of sufficient Properties to utilize the full amount made available to the Limited Partnership through the issuance of LP Units to the Realty Trust and from the Mortgage Loan and the Senior Mortgage Loans.

### 3.5 Milestones

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

The Realty Trust and the Mortgage Fund propose to pursue the business objectives set forth under the heading “Development of the Businesses of the Issuers – Stated Business Objectives” in accordance with the following schedule:

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Complete the Offering	November 15, 2008	Agents’ Commission <sup>(1)</sup>	\$400,000	\$3,200,000
		Agents’ fees and expenses <sup>(2)</sup>	\$75,000	\$75,000
		Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings)	\$150,000	\$325,000
		<b>Subtotal</b>	<b>\$625,000</b>	<b>\$3,600,000</b>

- (1) The Issuers will pay to the Agents the Agents’ Commission in an amount equal to 8% of the subscription price of Trust Units and the Fund Units. Such amount will be borne entirely by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements.
- (2) The Issuers have also agreed to bear all of the Agents’ expenses (currently estimated to be \$75,000) of or incidental to the issue, sale and delivery of the Units pursuant to this Offering, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. Such amounts will be borne entirely by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements.

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

Utilization of the full amount from the net proceeds made available to the Limited Partnership by way of the issuance of the LP Units and the borrowing of the Mortgage Loan for investment in Properties 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, but intends that up to \$105,507,247 will be applied to an estimated aggregate purchase price of as yet unidentified Properties, assuming that the maximum Offering of 32,000 Units is sold and that Senior Mortgage Loans of \$73,855,073 are obtained. If only the minimum Offering of 4,000 Units is sold, the General Partner intends that up to \$12,681,160 will be applied to the purchase price of one or more as yet unidentified Properties, assuming that Senior Mortgage Loans of \$8,876,812 are obtained.

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

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Document and Complete Purchase Of Properties	November 15, 2009 <sup>(1)</sup>	Purchase Price	\$12,681,160	\$105,507,247
		Due diligence and documentation costs <sup>(2)</sup>	\$253,623	\$2,110,145
		Reserve for renovations and upgrades	\$63,406	\$527,536
		Working capital reserve	\$63,406	\$527,536
		Financing Fee	\$190,217	\$1,582,609
		<b>Subtotal</b>	<b>\$13,251,812</b>	<b>\$110,255,073</b>

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

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

#### 4. USE OF PROCEEDS

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

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

Sources of Funds	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(2)</sup>
Subscription price for Trust Units	\$1,000,000	\$8,000,000
Subscription price for Fund Units	\$4,000,000	\$32,000,000
Payment of Agents’ Commission and expenses and Offering Costs <sup>(3)</sup>	(\$625,000)	(\$3,600,000)
Reimbursement of costs by the Limited Partnership <sup>(4)</sup>	\$625,000	\$3,600,000
<b>Total Subscription Proceeds</b>	<b>\$5,000,000</b>	<b>\$40,000,000</b>

Uses of Funds		
Investment by Realty Trust in LP Units <sup>(5)</sup>	\$1,000,000	\$8,000,000
Advance by Mortgage Fund of the Mortgage Loan to the Limited Partnership <sup>(6)</sup>	\$4,000,000	\$32,000,000
<b>Total</b>	<b>\$5,000,000</b>	<b>\$40,000,000</b>

<sup>(1)</sup> There will be no closing unless a minimum of 4,000 Units are sold not more than 90 days after the date of the Receipt for the Final Prospectus.

<sup>(2)</sup> The maximum Offering is 32,000 Units.

- (3) The amount shown is made up of Agents' Commission in an amount equal to 8% of the subscription price of Trust Units and the Fund Units and the Agents' expenses of or incidental to the issue, sale and delivery of the Units pursuant to this Offering. Such amounts will be borne entirely by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements.
- (4) Pursuant to the Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear all costs and expenses incurred by the Mortgage Fund and the Realty Trust in respect of the Offering, including the Agents' Commission and expenses and the other expenses of the Offering.
- (5) The gross proceeds from the issuance of Trust Units will be used by the Realty Trust to invest in LP Units.
- (6) The gross proceeds raised by the Mortgage Fund from the issuance of Fund Units will be advanced to the Limited Partnership by way of the Mortgage Loan.

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

### ***Limited Partnership***

The gross proceeds from the issuance of the Units will be invested in the Limited Partnership through the Realty Trust's investment in LP Units and the Mortgage Fund's advance of the Mortgage Loan. The Limited Partnership intends to use the gross proceeds received by it from the issuance of LP Units and the advance of the Mortgage Loan and the Senior Mortgage Loans as follows:

<b>Sources of Funds</b>	<b>Assuming Minimum Offering<sup>(1)</sup></b>	<b>Assuming Maximum Offering<sup>(1)</sup></b>
Gross proceeds from issuance of LP Units	\$1,000,000	\$8,000,000
Gross proceeds from advance of Mortgage Loan	\$4,000,000	\$32,000,000
Senior Mortgage Loans <sup>(2)</sup>	\$8,876,812	\$73,855,073
<b>Total Sources of Funds</b>	<b>\$13,876,812</b>	<b>\$113,855,073</b>

<b>Use of Funds</b>		
Purchase Price of the Properties <sup>(3)</sup>	\$12,681,160	\$105,507,247
Agents' Commission <sup>(4)</sup>	\$400,000	\$3,200,000
Agents' fees and expenses <sup>(5)</sup>	\$75,000	\$75,000
Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings) <sup>(6)</sup>	\$150,000	\$325,000
Estimated closing costs for purchase of Properties (including transfer fees, legal and due diligence costs) <sup>(7)</sup>	\$253,623	\$2,110,145
Creation of reserve for renovation and upgrading of Properties <sup>(8)</sup>	\$63,406	\$527,536
Creation of reasonable working capital reserves for the Properties <sup>(9)</sup>	\$63,406	\$527,536
Financing Fee <sup>(10)</sup>	\$190,217	\$1,582,609
<b>Total</b>	<b>\$13,876,812</b>	<b>\$113,855,073</b>

- (1) The minimum Offering is 4,000 Units and the maximum Offering is 32,000 Units.
- (2) The aggregate principal amount of the Senior Mortgage Loans is an estimate only and may not represent the actual aggregate principal amount of the Senior Mortgage Loans when they are advanced. The amounts and Lenders of the Senior Mortgage Loans have not yet been identified and the amounts shown above are estimates only.
- (3) The purchase price of Properties shown is an estimate only, and may not be the actual aggregate price payable pursuant to the agreements of purchase and sale to be made in respect of the Properties.

- (4) The Issuers will pay to the Agents the Agents' Commission in an amount equal to 8% of the subscription price of Trust Units and the Fund Units. Such amounts will be borne entirely by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements.
- (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. Such amount will be borne by the Limited Partnership pursuant to the Cost Sharing and Recovery Agreements.
- (6) Pursuant to the Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear all costs and expenses incurred in respect of the Offering by the Realty Trust and the Mortgage Fund, including the Agents' Commission and expenses and the other expenses of the Offering.
- (7) 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.
- (8) The Limited Partnership may undertake a refurbishment program in respect of one or more of the Properties. The amount shown is an estimate of the amount which may be required to establish a reserve for the payment of the anticipated and unanticipated costs of such programs for all of the Properties.
- (9) The Limited Partnership will establish working capital reserves, to help ensure sufficient funds are on hand from time to time to pay anticipated and unanticipated operating and capital expenses of the Properties.
- (10) The Limited Partnership will pay to the General Partner a Financing Fee equal to 1.5% of the gross purchase price of each Property, plus GST if applicable, for the provision of certain financial services to the Limited Partnership.

The net proceeds of the Offering 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 through the Limited Partnership in the conduct of property inspection and due diligence. Some Properties in respect of which non-refundable deposits, mortgage application fees and property due diligence and inspection costs are paid may not be ultimately acquired, resulting in a possible loss of such deposits, fees and/or costs.

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

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".

### ***Reserves***

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

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

In determining what would constitute "reasonable reserves" for renovation and upgrading and working capital reserves for such Properties, 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 32,000 Units is sold, the estimated aggregate purchase price of, as yet unidentified Properties is \$105,507,247; if the minimum Offering of 4,000 Units is sold, the estimated aggregate purchase price of, as yet unidentified, Properties is \$12,681,160. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$527,536, and the targeted working capital reserves in the event of a minimum Offering is \$63,406. 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**

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

The audited financial statements of the Realty Trust for the period from the date of its formation to September 17, 2008 are included in this Prospectus. The Realty Trust was only recently formed and capitalized with nominal capital. As the Realty Trust has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

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

The audited financial statements of the Mortgage Fund for the period from the date of its formation to September 17, 2008 are included in this Prospectus. The Mortgage Fund was only recently formed and capitalized with nominal capital. As the Mortgage Fund has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

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

The audited financial statements of the Limited Partnership for the period from the date of its formation to September 17, 2008 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.

## **6. EARNINGS COVERAGE RATIOS**

### **6.1 Realty Trust**

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

### **6.2 Mortgage Fund**

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

### **6.3 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 Senior Mortgage Loans in the

aggregate principal amount of up to \$73,855,073 and the Mortgage Loan in the amount of not less than \$4,000,000 and not more than \$32,000,000, assuming the Maximum Offering is sold.

In acquiring Properties, the General Partner intends to comply with the guidelines discussed under the heading “Development of the Businesses of the Issuers – The Properties – Guidelines for Property Acquisitions”, including the expectation that each Property (other than a capital property under development) generate a positive cash return, exclusive of the payment of principal on the Senior Mortgage Loans for such Property, on the 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 limited development of capital properties as income-producing real estate for long-term investment, replacement of management, re-leasing or similar initiatives.

Given the uncertainties involved in connection with predicting the 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.

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

The Issuers are offering a minimum of 4,000 Units and a maximum of 32,000 Units, at a purchase price of \$1,250 per Unit. Each Unit is comprised of two underlying securities, being one Trust Unit and one Fund Unit. Purchasers are required to acquire a minimum of ten Units. Additional subscriptions may be made in single Unit multiples.

### **7.1 Trust Units**

The rights and obligations of the Trust Unitholders are governed by the Amended and Restated Declaration of Trust for the Realty Trust made September 12, 2008 among the Realty Trustee, SRAI as settlor, and all persons who become holders of Trust Units as provided therein. The following is a summary of certain material provisions of the Realty Trust Declaration. **This summary does not purport to be complete and reference should be to the Realty Trust Declaration itself, a copy of which is available from the Realty Trustee.**

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

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

The Realty Trust is authorized to issue an unlimited number of redeemable units of beneficial interest (each a “Trust Unit”). Each Trust Unit entitles the Trust Unitholder to the same rights and obligations as any other Trust Unitholder and no Trust Unitholder is entitled to any privilege, priority or preference in relation to any other Trust Unitholders.

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

### ***Distributions***

The Realty Trust will distribute to each Trust Unitholder amounts which are received from the Limited Partnership in respect of the LP Units acquired by the Realty Trust with the proceeds from the issuance of Trust Units as and when such amounts are received. Subject to the foregoing, the Realty Trust intends to make quarterly distributions to Trust Unitholders of record on the last Business Day of each quarter. Distributions will be paid within 15 days following the end of each quarter for which a distribution is declared. The Realty Trust may also make additional distributions in excess of quarterly distributions during the year, as the Realty Trustee may determine.

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

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

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

- (a) income and taxable capital gains of the Realty Trust arising on or in connection with an *in specie* redemption of Trust Units which are paid or payable by the Realty Trust to redeeming Trust Unitholders;
- (b) capital gains, which may be offset by capital losses carried forward from prior years or, if not so offset, the tax on which is recoverable by the Realty Trust;
- (c) income, which may be offset by non-capital losses, if any, carried forward from prior years; and
- (d) net income and net realized capital gains of the Realty Trust for the taxation year otherwise distributed or made payable to the Trust Unitholders during such year.

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

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

certainly, any distribution of net realized capital gains of the Realty Trust shall include the non-taxable portion of the capital gains of the Realty Trust which are included in such distribution.

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

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

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

- (a) to pay the liabilities of the Realty Trust, provide for indemnity against any other outstanding liabilities and obligations therefor (actual and contingent), pay any unpaid expenses of the Realty Trust and establish reserves for the contingent liabilities of the Realty Trust; and
- (b) to redeem the Trust Units on a *pro rata* basis from the Trust Unitholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Redemption***

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

and further documents or evidence the Realty Trustee may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

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

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of (i) the aggregate value of the real estate assets of the Limited Partnership on the last day of the most recent calendar quarter that ends prior to the redemption date, or, where the amount would be a lesser amount, on the redemption date itself; plus (ii) the aggregate value of the cash and other working capital assets of the Limited Partnership and of the Realty Trust on the redemption date; less (iii) the aggregate of: (A) the aggregate value of the Limited Partnership's liabilities on the redemption date (including the aggregate amount of the Mortgage Loan outstanding on the redemption date); (B) the amount which would be payable to the General Partner (to the extent not taken into account in (iii)(A) above) if the Limited Partnership was terminated and liquidated on the redemption date; and (C) the aggregate value of the Realty Trust's liabilities (including the Trust Notes) on the redemption date, divided by the number of outstanding Trust Units on the Redemption Date.

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

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

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

satisfied by way of one of the following methods to be selected by the Realty Trustee using its sole discretion:

- (a) the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption;
- (b) a distribution *in specie* to the Trust Unitholder of a number of LP Units having an aggregate value determined on the redemption date based on the redemption price of the LP Units under the terms and conditions of the Limited Partnership Agreement, equal to the redemption price per Trust Unit multiplied by the number of Trust Units tendered for redemption; or
- (c) a distribution *in specie* to the Trust Unitholder of a number of Debt Securities (each in the principal amount of \$100), having an aggregate principal amount equal to the redemption price per unit multiplied by the number of Trust Units tendered for redemption.

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

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

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

At no time may non-residents of Canada be the beneficial owners of Trust Units. If a Trust Unitholder becomes a non-resident of Canada or otherwise becomes a “designated beneficiary” as defined in section 210 of the Tax Act (and as defined in proposed subsection 210(1) of the Tax Act), the Realty Trustee may in its discretion, either forthwith redeem all or a part of the Trust Units held by such Trust Unitholder, or by written notice require the Trust Unitholder to, within thirty (30) days, transfer the Trust Units to a transferee who is not a “designated beneficiary” as defined in section 210 of the Tax Act. The redemption proceeds payable for each Trust Unit to be redeemed will be equal to 85% of the lesser of the Subscription Price and the amount payable to a redeeming Trust Unitholder in the event of a Redemption of a Trust Unit, determined on the day on which the Realty Trustee issues the redemption notice. The amount so determined will be payable in cash, subject to the limitations described in “Trust Units - Redemption”, above, in which case the redemption proceeds may be paid *in specie* by delivery of LP Units, to the extent permitted by the Limited Partnership Agreement, or by delivery of Debt Securities in any other case. Any capital gains or income realized in a year by the Realty Trust as a result of any disposition of property in accordance with the foregoing will be designated and treated as having been paid to the redeemed Trust Unitholder in accordance with the Realty Trust Declaration.

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

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



- (a) holding Realty Trust Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Realty Trust Property;
- (b) ensuring that the Net Subscription Proceeds are invested in LP Units as described in Item 3.3;
- (c) borrowing money as necessary to pay distributions to Trust Unitholders, and encumbering Realty Trust Property in respect thereof;
- (d) paying properly incurred expenses out of Realty Trust Property;
- (e) depositing monies from time to time forming part of the Realty Trust Property in accounts;
- (f) possessing and exercising rights, powers and privileges appertaining to ownership of or interest in Realty Trust Property;
- (g) holding legal title to Realty Trust Property;
- (h) appointing the accountants of the Realty Trust;
- (i) appointing the bankers of the Realty Trust;
- (j) ensuring compliance with applicable securities legislation;
- (k) preparing and filing or causing to be prepared and filed all requisite returns, reports and filings;
- (l) monitoring the Realty Trust's tax status as a "mutual fund trust" and, if applicable, a "real estate investment trust" within the meaning of the Tax Act;
- (m) providing all requisite office accommodation and associated facilities;
- (n) collecting, suing for and receiving all sums of money or other property or items that are believed due to the Realty Trust and obtaining security, including encumbrances on assets, to secure the full payment of monies owed to the Realty Trust and the performance of all obligations in favour of the Realty Trust, and exercising all of the rights of the Realty Trust, and to perform all of the obligations of the Realty Trust, under such security;
- (o) paying all taxes or assessments imposed upon or against the Realty Trustee in connection with the Realty Trust Property, undertaking or income of the Realty Trust, or imposed upon or against the Realty Trust Property in connection with the undertaking or income of the Realty Trust;
- (p) to do all such acts and things, and to execute, deliver and perform the obligations of the Realty Trust under all such agreements and instruments as are necessary to complete the Offering or as are contemplated by this Prospectus;
- (q) providing or causing to be provided to the Realty Trust all other administrative and other services and facilities required by the Realty Trust; and maintaining or causing to be

maintained complete records of all transactions in respect of the investment portfolio of the Realty Trust;

- (r) prescribing any instrument provided for or contemplated by the Realty Trust Declaration; and
- (s) remitting distributions,

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

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

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

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

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

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

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

A Trust Unitholder has substantially all of the same protections, rights and remedies as a shareholder would have under the CBCA, except as described herein. Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Realty Trust Declaration. For example, Trust Unitholders are entitled to exercise voting rights in respect of their Trust Units in a manner comparable to shareholders of a CBCA corporation, and provisions relating to the calling and holding of meetings of Trust Unitholders included in the Realty Trust Declaration are comparable to those of the CBCA. Unlike shareholders of a CBCA corporation, Trust Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Realty Trust. The matters in respect of which Trust Unitholder approval is required under the Realty Trust Declaration are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. The appointment of auditors is reserved to the Realty Trustee rather than the Unitholders. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, the sale of all or substantially all of its property, or a going private transaction). As an alternative, Trust Unitholders seeking to terminate their investment in the Realty Trust are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the Realty Trust's net assets through the exercise of the redemption rights described above under "Trust Units - Redemption". Trust Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties.

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

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

The General Partner will act as the administrator of the Realty Trust pursuant to the terms of the Administration Agreement.

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

## **7.2 Fund Units**

The rights and obligations of the Fund Unitholders are governed by the Amended and Restated Declaration of Trust for the Mortgage Fund made September 12, 2008 among the Mortgage Fund Trustee, SRAI as settlor, and all persons who become holders of Fund Units as provided therein. The following is a summary of certain material provisions of the Mortgage Fund Declaration. **This summary does not purport to be complete and reference should be to the Mortgage Fund Declaration itself, a copy of which is available from the Mortgage Fund Trustee.**

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

***Fund Units***

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

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

***Distributions***

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

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

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

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

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

- (c) income, which may be offset by non-capital losses, if any, carried forward from prior years; and
- (d) net income and net realized capital gains of the Mortgage Fund for the taxation year otherwise distributed or made payable to the Fund Unitholders during such year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a general rule, in making investments for the Mortgage Fund, the Mortgage Fund Trustee contracts as principal; and therefore, subject to contract, the Mortgage Fund Trustee is liable for all obligations incurred

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

### ***Redemption***

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

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

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

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

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



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

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

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

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

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

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

At no time may non-residents of Canada be the beneficial owners of Fund Units. If a Fund Unitholder becomes a non-resident of Canada or otherwise becomes a “designated beneficiary” as defined in section 210 of the Tax Act (and as defined in proposed subsection 210(1) of the Tax Act), the Mortgage Fund Trustee may in its discretion, either forthwith redeem all or a part of the Fund Units held by such Fund Unitholder, or by written notice require the Fund Unitholder to, within thirty (30) days, transfer the Fund Units to a transferee who is not a “designated beneficiary” as defined in section 210 of the Tax Act. The redemption proceeds payable for each Fund Unit to be redeemed will be equal to 85% of the lesser of the Subscription Price and the amount payable to a redeeming Fund Unitholder in the event of a Redemption of a Fund Unit, determined on the day on which the Mortgage Fund Trustee issues the redemption notice. The amount so determined will be payable in cash, subject to the limitations described in “Fund Units - Redemption”, above, in which case the redemption proceeds may be paid *in specie* by delivery of Fund Notes or Debt Securities. Any capital gains or income realized in a year by the Mortgage Fund as a result of any disposition of property in accordance with the foregoing will be designated and treated as having been paid to the redeemed Fund Unitholder in accordance with the Mortgage Fund Declaration.

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

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

- (a) holding Mortgage Fund Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Mortgage Fund Property;
- (b) ensuring that the Net Subscription Proceeds are invested in the Mortgage Loan as described in Item 2.2;
- (c) borrowing money as necessary to pay distributions to Fund Unitholders, and encumbering Mortgage Fund Property in respect thereof;
- (d) paying properly incurred expenses out of Mortgage Fund Property;
- (e) depositing monies from time to time forming part of the Mortgage Fund Property in accounts;
- (f) possessing and exercising rights, powers and privileges appertaining to ownership of or interest in Mortgage Fund Property;
- (g) holding legal title to Mortgage Fund Property;
- (h) appointing the accountants of the Mortgage Fund;
- (i) appointing the bankers of the Mortgage Fund;
- (j) ensuring compliance with applicable securities legislation;
- (k) preparing and filing or causing to be prepared and filed all requisite returns, reports and filings;
- (l) monitoring the Mortgage Fund's tax status as a "mutual fund trust" and, if applicable, a "real estate investment trust" within the meaning of the Tax Act;
- (m) providing all requisite office accommodation and associated facilities;
- (n) providing or causing to be provided to the Mortgage Fund all other administrative and other services and facilities required by the Mortgage Fund; and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Mortgage Fund;
- (o) collecting, suing for and receiving all sums of money or other property or items that are believed due to the Mortgage Fund and obtaining security, including encumbrances on assets, to secure the full payment of monies owed to the Mortgage Fund and the performance of all obligations in favour of the Mortgage Fund, and exercising all of the

rights of the Mortgage Fund, and to perform all of the obligations of the Mortgage Fund, under such security;

- (p) paying all taxes or assessments imposed upon or against the Mortgage Fund Trustee in connection with the Mortgage Fund Property, undertaking or income of the Mortgage Fund, or imposed upon or against the Mortgage Fund Property in connection with the undertaking or income of the Mortgage Fund;
- (q) to do all such acts and things, and to execute, deliver and perform the obligations of the Mortgage Fund under all such agreements and instruments as are necessary to complete the Offering or as are contemplated by this Prospectus;
- (r) providing or causing to be provided to the Mortgage Fund all other administrative and other services and facilities required by the Mortgage Fund; and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Mortgage Fund;
- (s) prescribing any instrument provided for or contemplated by the Mortgage Fund Declaration; and
- (t) remitting distributions,

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

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

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

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

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

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

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

A Fund Unitholder has substantially all of the same protections, rights and remedies as a shareholder would have under the CBCA, except as described herein. Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Mortgage Fund Declaration. For example, Fund Unitholders are entitled to exercise voting rights in respect of their Fund Units in a manner comparable to shareholders of a CBCA corporation, and provisions relating to the calling and holding of meetings of Fund Unitholders included in the Mortgage Fund Declaration are comparable to those of the CBCA. Unlike shareholders of a CBCA corporation, Fund Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Mortgage Fund. The matters in respect of which Fund Unitholder approval is required under the Mortgage Fund Declaration are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. The appointment of auditors is reserved to the Mortgage Fund Trustee rather than the Unitholders. Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, the sale of all or substantially or of its property, or a going private transaction). As an alternative, Fund Unitholders seeking to terminate their investment in the Mortgage Fund are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the Mortgage Fund's net assets through the exercise of the redemption rights described above under "Redemption". Fund Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties.

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

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

The General Partner will act as the administrator of the Mortgage Fund pursuant to the terms of the Administration Agreement.

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

### **7.3 LP Units**

The rights and obligations of the General Partner and the Limited Partners are governed by the Amended and Restated Limited Partnership Agreement made as of September 12, 2008 among the General Partner, the Founding Limited Partner and all persons who subscribe for LP Units establishing the Limited Partnership. 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 available from the General Partner.**

**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 an unlimited number of LP Units, plus the respective interests held by the Founding Limited Partner and the General Partner. The Limited Partnership is offering up to 32,000 LP Units at a total price of \$8,000,000 pursuant to this Offering.

The General Partner and the Founding 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 \$250 in capital per LP Unit purchased.

#### ***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 Loan, all current principal and interest payments under the Senior Mortgage Loans, and after the creation of reasonable working capital and capital improvement reserves as determined by the General Partner.

Cash flow arising from the ordinary course of operations of the Properties will be distributed as follows:

- (a) first, to each of the General Partner and the Founding Limited Partner will be paid .005% of the net income or net loss of the Limited Partnership to a maximum of \$100 per annum;
- (b) secondly, the Limited Partners will be paid 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;
- (c) thirdly, the General Partner will be paid 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 Mortgage Loan to that date, thereby providing the General Partner with a 20% share of the total of the interest paid on the Mortgage Loan and the amounts distributed to the Limited Partners by the Limited Partnership up to that date); and

- (d) fourthly, 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***

Subject to the right of the General Partner to allocate net income and taxable income in such manner as is required to reverse any negative balance in a Limited Partner's capital account and to allocate revenues and expenses among Limited Partners to ensure they are treated equitably, all net income and taxable income of the Limited Partnership arising from any capital transaction in respect of the Properties, will be allocated to the Limited Partners and General Partner on the following basis:

- (a) firstly, each of the General Partner and the Founding Limited Partner will be allocated .005% of the such proceeds to a maximum of \$100 per annum;
- (b) secondly,
  - (i) if the Limited Partners have not received repayment in full of the Cash Proceeds, Limited Partners, other than the Founding Limited Partner, will be allocated such proceeds, *pro rata* in accordance with their respective Income Shares, until they have received repayment of the Cash Proceeds in full;
  - (ii) if the Limited Partners have received repayment in full of the Cash Proceeds, Limited Partners, other than the Founding Limited Partner, will be allocated the Minimum Return, *pro rata* in accordance with their respective Income Shares;
- (c) thirdly, the General Partner shall be allocated:
  - (i) its Incentive Management Interest; plus
  - (ii) to the extent that the amount allocated to the Limited Partners pursuant to subsection (b) above exceeds the Minimum Return, the General Partner will be allocated such proceeds in an amount equal to 20/80ths of such excess; and
- (d) fourthly, the balance of such proceeds will be allocated 80% to the Limited Partners, *pro rata* in accordance with their respective Income Shares, and 20% to the General Partner.

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 distributed in the following order:

- (a) 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 Senior Mortgage Loans or encumbrances registered against the Property;

- (b) 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;
- (c) to pay all current obligations of the Limited Partnership, including without limitation, the Mortgage Loan and any loans advanced by the General Partner or the Limited Partners, plus accrued interest, and to the extent then payable the Asset Management Fee payable under the General Partner Services Agreement;
- (d) if the Limited Partners have not received cash distributions equal to the Minimum Return, to the Limited Partners until they have received the full Minimum Return;
- (e) to the Limited Partners until the Limited Partners have received repayment in full of the Cash Proceeds;
- (f) if the Limited Partners have been allocated net proceeds from any capital transaction in excess of the Minimum Return, such proceeds will be distributed to the Limited Partners in proportion to their share of such excess until each has received the sum of their Minimum Return plus such excess;
- (g) if the General Partner has not received any unpaid amount or amounts of the Incentive Management Interest to which it is entitled, such amount or amounts will be distributed to the General Partner;
- (h) if the General Partner is allocated any of the net proceeds from the capital transaction pursuant to section (c)(ii) above as a result of allocations to the Limited Partners exceeding the Minimum Return, net proceeds will be distributed to the General Partner until the full amount of such excess allocation is paid to the General Partner; and
- (i) the balance will be distributed 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 31, 2011, 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.

#### ***Partner Loans***

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. 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 assets of the Limited Partnership will be liquidated and the proceeds of dissolution will be distributed in the following order:

- (a) in the event that dissolution occurs upon the sale of the last of the Properties, to pay any costs involved in the sale, including the Disposition Fee payable to the General Partner, and to pay all amounts required to discharge any Senior Mortgage Loans or encumbrances registered against the Properties;
- (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, any amounts owing to the General Partner in respect of costs and expenses owing to it pursuant to the Partnership Agreement, and to the extent then payable the Asset Management Fee payable under the General Partner Services 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 Net Equity;
- (f) to return to the General Partner and the Founding Limited Partner their respective capital contributions of \$10;
- (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, 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.

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

For tax and accounting purposes, losses for each fiscal year of the Limited Partnership will be allocated first to the Limited Partners to the extent of their equity accounts (being their Net Equity less prior loss allocations and distributions plus prior income allocations and contributions), and thereafter to the General Partner. For tax and accounting purposes, net income for each fiscal year of the Limited Partnership will be allocated to the Limited Partners and the General Partner in the same manner and in the same priorities in which cash flow from operations and distributions of net proceeds from refinancings, sale or other capital transactions are ultimately distributed to such parties (excluding returns of capital and repayments of the principal amount of loans) subject to adjustments for prior year loss allocations and such other adjustments as necessary to be made on a cumulative basis.



### ***Limited Redemption Rights***

Pursuant to the Limited Partnership Agreement, Limited Partners have a limited right to require the Limited Partnership to redeem the LP Units, subject to the following terms and conditions:

- (a) the obligation of the Limited Partnership to redeem LP Units will be subject to the General Partner determining, in its sole discretion, that funds are available to the Limited Partnership for the purposes of redemption;
- (b) the redemption price (the “Redemption Price”) of an LP Unit at any particular date will be equal to 95% of:
  - (i) the aggregate value of the real estate assets of the Limited Partnership on the last day of the most recent calendar quarter that ends prior to the particular date, or, where the amount would be a lesser amount, at the particular date itself, as determined by the General Partner; plus
  - (ii) the aggregate value of the cash and other working capital assets of the Limited Partnership on the particular date; less
  - (iii) the aggregate of:
    - (A) the aggregate value of the Limited Partnership’s liabilities on the particular date (including the aggregate amount of the Mortgage Loan outstanding on the particular date); and
    - (B) the amount which would be payable to the General Partner or on account of the Mortgage Loan (other than amounts included in (iii)(A) above) if the Limited Partnership was terminated and then liquidated on the particular date;divided by the number of outstanding LP Units on such date;
- (c) on any particular date that the General Partner may establish, but in any event on or before May 31 in each year, commencing on May 31, 2014, the General Partner will provide written notice (“General Partners’ Notice”) to the Limited Partners (i) that the Limited Partners may require the Limited Partnership to redeem some or all of their LP Units; (ii) the Redemption Price of the LP Units determined on the date of the General Partner’s Notice; and (iii) the place of payment;
- (d) a Limited Partner (the “Requestor”) wishing to have his LP Units redeemed by the Limited Partnership on a Redemption Date may, by delivering notice in writing to the Limited Partnership prior to July 1 in each year (the “Notice Date”), commencing on July 1, 2014, or such earlier Notice Date as may be specified in a General Partner’s Notice, require the redemption of all or part of his LP Units;
- (e) the number of LP Units which will be redeemed on any one Redemption Date will be limited in each year to 5% of the total number of LP Units issued by the Limited Partnership;
- (f) if by any Notice Date the Limited Partnership has received notices requiring the Limited Partnership to redeem a number of LP Units in excess of 5% of the total of number of LP

Units issued by the Limited Partnership, or if on a Redemption Date the General Partner determines that funds are not available to the Limited Partnership to redeem the number of LP Units in respect of which a request for redemption has been made, then the redemption of LP Units on the next following Redemption Date will be made *pro rata* to the number of LP Units in respect of which requests for redemption have been made;

- (g) on a Redemption Date, commencing on January 15, 2015 or such earlier date as specified in a General Partner's Notice, the Limited Partnership will pay to the Requestors, the Redemption Price for each LP Unit in respect of which redemption will be made; and
- (h) all accrued and unpaid Limited Partners' Minimum Return in respect of LP Units which are redeemed will be forfeited.

### ***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 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.

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

## **7.4 The Mortgage Loan**

The Mortgage Fund will advance not less than \$4,000,000 and not more than \$32,000,000 to the Limited Partnership by way of Mortgage Loan. The Mortgage Loan will bear interest at a fixed, simple rate of 8.1% per annum. Interest will be paid quarterly in arrears on the 15th days of each of January, April, July and October commencing on January 15, 2009 in respect of interest accrued during the immediately preceding calendar quarter.

The Mortgage Loan has a term of approximately five years, maturing October 31, 2013 whereupon all principal and accrued interest will become due and payable. The term of the Mortgage Loan may be extended by way of the favourable vote of Fund Unitholders.

The Limited Partnership and the Mortgage Fund will enter into the Mortgage Loan Agreement in respect of the Mortgage Loan. Pursuant to the Mortgage Loan Agreement, the Limited Partnership will issue a promissory note to evidence the advance of the Mortgage Loan. Upon the initial advance of the Mortgage Loan, the Mortgage Loan will be secured by way of a general security agreement executed by the Limited Partnership in favour of the Mortgage Fund. Upon the purchase of each Property by the Limited Partnership, the Limited Partnership will grant to the Mortgage Fund a mortgage on each Property (being a Fund Mortgage) to secure its obligations under the Mortgage Loan Agreement. The Fund Mortgage shall be subordinate to the mortgage and other security instruments securing the Senior Mortgage Loans, and which may, in certain circumstances, not be registered on title held by the nominee and bare trustee

registered on title to the Property. The general security agreement and each Fund Mortgage on the Property will be subject to the prior charge of the Senior Mortgage Loans.

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

## **7.5 Subscription**

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

- (a) irrevocably authorizes and directs the Agents to provide certain information to the Realty Trustee and the Mortgage Fund Trustee, including such Purchaser's full name, residential address, telephone number, social insurance, business or corporation account number, as the case may be, and the name and registered representative number of the Agents, and covenants to provide such information to the Agents;
- (b) acknowledges and agrees that he, she or it, as the case may be, is bound by the terms of the Realty Trust Declaration and is liable for all obligations of a Trust Unitholder;
- (c) acknowledges and agrees that he, she or it, as the case may be, is bound by the terms of the Mortgage Fund Declaration and is liable for all obligations of a Fund Unitholder;
- (d) makes representations and warranties, including without limitation, the respective representations and warranties set out in the Realty Trust Declaration and the Mortgage Fund Declaration;
- (e) irrevocably nominates, constitutes and appoints the Realty Trustee as the Purchaser's true and lawful attorney and agent with the full power and authority as set out in the Realty Trust Declaration;
- (f) irrevocably nominates, constitutes and appoints the Mortgage Fund Trustee as the Purchaser's true and lawful attorney and agent with full power and authority as set out in the Mortgage Fund Declaration;
- (g) acknowledges that in the event of a redemption of Trust Units and the payment of the redemption price therefor by way of the transfer to the Purchaser of LP Units, he, she or it, as the case may be, will be bound by the terms of the Limited Partnership Agreement, and will be liable for all obligations as a Limited Partner; and
- (h) in the event of a redemption of Trust Units and the payment of the redemption price therefor by way of the transfer to the Purchaser of LP Units, irrevocably nominates, constitutes and appoints the General Partner as the Purchaser's true and lawful attorney and agent with full power and authority as set out in the Limited Partnership 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 Trust Unitholder and a Fund Unitholder upon the amendment of the records of Trust Unitholders and Fund Unitholders maintained by the Realty Trustee and Mortgage Fund Trustee, respectively. If a subscription is withdrawn, in the time permitted for rescission pursuant to applicable securities laws, or is not accepted, all documents will be returned to the Purchaser within 15 days following such withdrawal or rejection.

## 8. CAPITALIZATION

### 8.1 Existing and Proposed Capitalization

#### *Realty Trust*

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 24, 2008	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by SRAI as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)
Trust Units	unlimited	Nil	4,000 (\$1,000,000) <sup>(1)</sup>	32,000 (\$8,000,000) <sup>(1)</sup>

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

#### *Mortgage Fund*

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 24, 2008	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by SRAI as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)
Fund Units	unlimited	Nil	4,000 (\$4,000,000) <sup>(1)</sup>	32,000 (\$32,000,000) <sup>(1)</sup>

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

### ***Limited Partnership***

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 24, 2008	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Founding Limited Partner's Interest	1	1 (\$10)	1 (\$10)	1 (\$10)
General Partner's Interest	1	1 (\$10)	1 (\$10)	1 (\$10)
LP Units	unlimited	Nil	4,000 (\$1,000,000) <sup>(1)</sup>	32,000 (\$8,000,000) <sup>(1)</sup>

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

### ***General Partner***

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 24, 2008	Number outstanding and carrying value after Offering
Common Shares	Unlimited (no par value)	1,000 (\$10)	1,000 (\$10)

## **8.2 Long-Term Debt**

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

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

### ***Limited Partnership***

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 Loan. Assuming all 32,000 Units are sold pursuant to this Offering, the Mortgage Loan will be in the principal amount of \$32,000,000.

The Limited Partnership also intends to finance a part of the purchase price of the Properties by way of Senior Mortgage Loans from third party Lenders. The General Partner will target the overall loan to value ratio of the Senior Mortgage Loans at not more than 75% of the purchase price of the Properties as a whole, plus the amount of any property improvement reserve account approved by the Lenders. Such loans will generally be for terms of three to seven years, with fixed interest rates calculated with reference to the interest rate on a government bond with a similar term, plus an amount determined in accordance with market factors. The Senior Mortgage Loans will be secured by mortgages registered on the

Properties in respect of which the loans were advanced, and will have priority over the repayment of the Mortgage Loan and the return of capital to the Limited Partners.

## 9. PRIOR SALES

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

## 10. PRINCIPAL SECURITYHOLDERS

### *Realty Trust and Mortgage Fund*

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

### *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, securities of the Limited Partnership which constitute more than 10% of such outstanding securities:

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 (2008) Inc. <sup>(1)</sup> Vancouver, B.C.	General Partner's Interest	Direct	1	100%	100%
SRA First Partner Ltd. <sup>(2)</sup> Vancouver, B.C.	Founding Limited Partner's Interest	Direct	1	100%	100%

<sup>(1)</sup> The shares of Sunstone Realty Advisors (2008) Inc. are owned by Triple E Ventures Inc. and Darren Developments Inc., as to 50% each. Steve Evans is the sole director and officer and a shareholder of Triple E Ventures Inc. Darren Latoski is the sole director and officer and a shareholder of Darren Developments Inc.

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

After giving effect to the Offering, the Realty Trust will own and exercise control and discretion over all of the issued and outstanding LP Units.

### *The General Partner*

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

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

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

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

## **11. DIRECTORS AND OFFICERS**

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

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

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

<b>Name, Age, Municipality of Residence and Position Held with Realty Trustee and Mortgage Fund Trustee</b>	<b>Principal Occupation</b>	<b>Periods Served as a Director or Officer</b>	<b>Securities of the Realty Trustee and Mortgage Fund Trustee Beneficially Owned or Directly or Indirectly Controlled</b>	<b>Percentage of Class Outstanding</b>	<b>Percentage of Class Outstanding After Giving Effect to this Offering</b>
Robert W. King Age 41 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	Director of Mortgage Fund Trustee since September 11, 2008.	500 common shares <sup>(1)</sup>	50%	50%



Name, Age, Municipality of Residence and Position Held with Realty Trustee and Mortgage Fund Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Realty Trustee and Mortgage Fund Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
	company, from March 2005 to present. Director of PlanetOut Inc., an online media company, from February 2004 to present. Trustee of WesternOne Equity Income Fund, a fund established to acquire privately-owned small and mid-market businesses, June 2006 to present. Trustee of Pure Industrial Real Estate Trust, June 2007 to present. Director and Secretary of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present. Director of Sunstone U.S. Realty Services (2008) Inc., from April 18, 2008 to present.	Director of Realty Trustee since September 12, 2008.			
James Redekop Age 47 Mt. Lehman, BC Director	President of Redekop Holdings Inc. from March 1996 to present. Redekop Holdings Inc. is a personal holding company with interests in real estate development and construction projects. Director of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present. Director of Sunstone U.S. Realty Services (2008) Inc., from April 18, 2008 to present.	Director of Mortgage Fund Trustee since September 11, 2008.  Director of Realty Trustee since September 12, 2008.	500 common shares <sup>(2)</sup>	50%	50%
Darren Latoski Age 39 Vancouver, BC President	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Realty Advisors (Canada) Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren	President of Mortgage Fund Trustee since September 11, 2008.	none	n/a	n/a

Name, Age, Municipality of Residence and Position Held with Realty Trustee and Mortgage Fund Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Realty Trustee and Mortgage Fund Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
	Developments Inc., a personal holding, investment and management company from September 1989 to present; Trustee of WesternOne Equity Income Fund and President and CEO of WesternOne Equity GP Inc., June 2006 to present; Trustee of Pure Industrial Real Estate Trust, June 2007 to present. President of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present. President of Sunstone U.S. Realty Services (2008) Inc., from April 18, 2008 to present.	President of Realty Trustee since September 12, 2008.			

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

## Personal Profiles

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

**James Redekop** - Since leaving the single family home construction industry in 1986, Mr. Redekop has been involved in multi-family housing and commercial construction and development in British Columbia, primarily through special-purpose private companies held through Redekop Holdings Inc., Mr.

Redekop's holding company. His primary focus has been with residential wood-frame condominium and townhouse projects. Over the past eighteen years, he has acted as general contractor or project manager on multi-family developments and condominium projects.

**Darren Latoski** – Mr. Latoski's profile is set out below under the heading "Limited Partnership and the General Partner".

***Limited Partnership and the General Partner***

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

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 5 years and the number, class and kind of securities of the General Partner held by each of them.

<b>Name, Age, Municipality of Residence and Position Held with the General Partner</b>	<b>Principal Occupation</b>	<b>Periods Served as a Director</b>	<b>Securities of the General Partner Beneficially Owned or Directly or Indirectly Controlled</b>	<b>Percentage of Class Outstanding</b>	<b>Percentage of Class Outstanding After Giving Effect to this Offering</b>
Darren Latoski Age 39 Vancouver, BC President and Director	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Realty Advisors (Canada) Inc.; Director and President of Churchill Property Group Inc., from January 2002 to present; President of Darren Developments Inc., a personal holding, investment and management company from September 1989 to present; Trustee of WesternOne Equity Income Fund and President and CEO of WesternOne Equity GP Inc., June 2006 to present; Trustee of Pure Industrial Real Estate Trust, June 2007 to present. President of SRAI Realty Services (2007) Inc. and SRAI Mortgage Fund (2007) Inc., August 17, 2007 to present. President of Sunstone U.S. Realty Services (2008) Inc., from April 18, 2008 to present.	President and Director since September 10, 2008.	500 common shares <sup>(1)</sup>	50%	50%

Name, Age, Municipality of Residence and Position Held with the 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
Steve Evans Age 44 North Vancouver, BC Secretary and Director	Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Sunstone Realty Advisors (Canada) Inc.; Director and Secretary of Churchill Property Group Inc., from January 2002 to present; President of Triple E Ventures Inc., a personal holding and investment company from June 1997 to present; Vice President of England Securities Ltd., a real estate investment, development and management company from June 1987 to September 2001; Director of WesternOne Equity GP Inc., a company established to acquire privately-owned small and mid-market businesses, June 2006 to present; Trustee of Pure Industrial Real Estate Trust, June 2007 to present; Trustee of IAT Air Cargo Facilities Income Fund, September 15, 2008 to present.	Secretary and Director since September 10, 2008.	500 common shares <sup>(2)</sup>	50%	50%

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

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

(3) The audit committee of the General Partner will be comprised of Mr. Evans and Mr. Latoski.

### ***Previous Real Estate Experience***

As disclosed below, the principals of SRAI and the General Partner, Messrs. Evans and Latoski, have a wide range of experience in the real estate business, including a history of identifying real estate investment opportunities that are not being operated to their full potential, either as a result of inefficient management or the need for asset refurbishment.

### Sunstone LP

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. The proceeds from that offering were invested in the acquisition, ownership, operation and disposition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Langley Crossing	Langley, BC	128,719	\$21,300,000	Apr-04	Rona, Earls, Chuck-E-Cheese, BDO Dunwoody	\$29,000,000	Sep-05
Cascade Plaza - 50% interest	Banff, AB	107,848	\$19,850,000	Aug-04	The Gap, United Colors of Benetton, Second Cup, Alberta Treasury Branches, Old Spaghetti Factory	\$25,500,000	Oct-05
Westhill Centre	Nanaimo, BC	34,294	\$3,040,000	Sep-04	Tim Hortons	\$3,550,000	Sep-05
<b>Total Purchase Price</b>			<b>\$44,190,000</b>		<b>Total Sale Price</b>	<b>\$58,050,000</b>	

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

### Sunstone (2004) LP

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. The proceeds from that offering were invested in the acquisition, ownership, operation and disposition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
1425 Kebet Way	Port Coquitlam, BC	47,693	\$3,765,187	Dec - 04	Single industrial tenant	\$4,570,000	May-05
West Willow Shopping Centre	Langley, BC	70,074	\$9,750,000	Mar-05	Fairway Market, Fanny's Fabrics, Baskin Robbins, Mail Boxes Etc.	\$14,200,000	Jul-06
Scott Town Plaza	Surrey, BC	56,781	\$8,000,000	May-05	Pharmasave, Buy-Rite Foods	\$9,710,000	Nov-07
Halton Hills Shopping Plaza	Halton Hills, ON	70,228	\$8,650,000	May-05	Food Basics, TD Canada Trust, Dollarama	N/A	N/A
Drumheller Shopping Centre	Drumheller, AB	10,537	\$2,335,000	Jul-05	A&W, Alberta Treasury Branches, VHQ Entertainment	\$2,930,000	Sep-07
Torquay Village	Victoria, BC	14,634	\$3,350,000	Jul-05	Edward Jones, Domino's Pizza, General Paint	\$4,850,000	Aug-07
Northland Building	Calgary, AB	54,581	\$4,925,000	Oct-05	Multiple office tenants	\$8,533,500	Aug-07
<b>Total Purchase Price</b>			<b>\$40,775,187</b>				

### Sunstone (2005) LP

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Westview Building	Calgary, AB	34,453	\$3,300,000	Dec-05	Multiple office tenants	\$5,800,000	Jun-07
Camco Distribution Centre	Montreal, QC	164,308	\$11,900,000	Mar-06	Mabe Canada Inc.	\$13,375,000	Aug-07
Pickering Ridge – 50% interest	Pickering, ON	237,000	\$17,675,000	Mar-06	Coast/Interhome Furniture, Kitchen Stuff, Pennington's, Extreme Fitness	N/A	N/A
DeBoers (Pickering) – 50% interest	Pickering, ON	34,543	\$2,150,000	Sep-06	DeBoers	N/A	N/A
Pickering land – 50% interest	Pickering, ON	9 acres	\$2,400,000	Dec-06	N/A	N/A	N/A
River City Centre	Saskatoon, SK	160,389	\$22,900,000	Mar-06	Sears Home, Staples, Sport Mart	\$27,250,000	June-08
7470 Vantage Way	Delta, BC	56,988	\$5,417,763	Mar-06	RSAC Canada Ltd.	\$6,430,000	Aug-07
13325 Comber Way	Surrey, BC	36,368	\$2,976,425	Mar-06	RSAC Canada Ltd.	\$3,600,000	Aug-07
7805-51st Street SE	Calgary, AB	30,082	\$2,384,007	Mar-06	RSAC Canada Ltd.	\$3,250,000	Aug-07
1390-17th Street SE	Calgary, AB	44,429	\$1,404,605	Mar-06	RSAC Canada Ltd.	\$2,135,000	Aug-07
1401-17th Street SE	Calgary, AB	39,182	\$1,659,727	Mar-06	RSAC Canada Ltd.	\$2,135,000	Aug-07
75 Golden Drive	Coquitlam, BC	19,427	\$1,719,925	Mar-06	RSAC Canada Ltd.	\$2,000,000	Aug-07
9203-35th Avenue	Edmonton, AB	15,788	\$1,309,054	Mar-06	Blackfoot Pressure Systems	\$2,160,000	Aug-07
8055 Esquesing Line	Milton, ON	30,291	\$2,293,233	Mar-06	RSAC Canada Ltd.	\$2,560,000	Aug-07
1960 & 1970 Rue le Chatelier	Laval, QC	31,187	\$2,185,260	Mar-06	RSAC Canada Ltd.	\$2,500,000	Aug-06
333 De Baets Street	Winnipeg, MB	32,000	\$2,600,000	Aug-06	RSAC Canada Ltd.	\$2,700,000	Aug-07
Sherwood Forest Shopping Village	Mississauga, ON	43,274	\$9,550,000	Jul-06	Starbucks, LCBO Vintages, Edward Jones	N/A	N/A
Midpark Court	Calgary, AB	23,334	\$3,850,000	Jul-06	Multiple office tenants	N/A	N/A

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Northumberland Mall – 50% interest	Cobourg, ON	349,287	\$19,075,000	Aug-06	Mark's Work Warehouse, Bootlegger, Boston Pizza, Scotia Bank	N/A	N/A
4243 Glanford Ave	Victoria, BC	38,332	\$5,500,000	Nov-06	Multiple office tenants	\$6,900,000	Aug-07
<b>Total Purchase Price</b>			<b>\$122,250,000</b>				

### Sunstone (2006) LP

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Newton Crossing	Surrey, BC	48,966	\$6,600,000	Dec-06	CIBC, Government of BC, Macdonald Realty	N/A	N/A
Maple Park Shopping Centre – 90% interest	Quesnel, BC	140,000	\$2,884,500	Feb-07	Dollarama	N/A	N/A
Millwoods Mainstreet Mall	Edmonton, AB	142,865	\$29,000,000	Feb-07	IGA Garden Market, Bank of Montreal, Rogers Video, Tim Hortons, Wendy's	N/A	N/A
Evergreen Centre	Sooke, BC	67,156	\$8,170,000	Feb-07	Western Foods, Shoppers Drug Mart, Royal Bank, BC Liquor Store, A&W	N/A	N/A
Smithers Mall	Smithers, BC	43,741	\$1,760,000	Mar-07	Zellers Select, Bank of Nova Scotia	N/A	N/A
Terrace Shopping Centre	Terrace, BC	19,728	\$2,360,000	Mar-07	TD Canada Trust, Dollar Store With More	N/A	N/A
Cariboo Mall	100 Mile House, BC	39,708	\$2,170,000	Mar-07	Pharmasave, True Value Hardware, Bargain Shop	N/A	N/A
788 Caldew Street	Delta, BC	56,624	\$3,900,000	Mar-07	Single industrial tenant	N/A	N/A
Starlite Centre	Regina, SK	26,869	\$5,321,500	May-07	KFC, Nevada Bob's Golf	N/A	N/A
Polson Place	Vernon, BC	116,016	\$12,500,000	May-07	Shoppers Drug Mart, Galaxy Theatre, Royal Bank	N/A	N/A
Grand Marshall	Toronto, ON	15,965	\$3,400,000	Jun-07	Province of Ontario's Ministry of Transportation	N/A	N/A
Galleries Kirkland	Montreal, QC	85,862	\$12,100,000	Sept-07	Nevada Bob's Golf, TD Bank	N/A	N/A

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
City Gate Centre	Chilliwack, BC	46,163	\$16,466,086	Dec-07	HSBC, Envision Credit Union, Liquor Depot, Blockbuster, Dakota's Restaurant	N/A	N/A
Place des Quatre-Bourgeois	Sainte-Foy, QC	245,028	\$11,597,125 <sup>(1)</sup>	Feb-08	IGA, Winners, Dollarama, Rossy, Ureka, Jean Coutu, Subway	N/A	N/A
<b>Total Purchase Price</b>			<b>\$118,229,211</b>				

(1) Sunstone (2006) LP has a 46.5% undivided interest in Place des Quatre-Bourgeois.

### Sunstone (2007) Co-Ownership

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Timmins Square - 35% interest	Chilliwack, BC	391,410	\$18,550,000	Dec-07	Sears, Zellers, Winners, SportChek, No Frills grocery store	N/A	N/A
Health Plus	Calgary, AB	31,655	\$8,600,000	June-08	Multiple office tenants	N/A	N/A
<b>Total Purchase Price</b>			<b>\$27,150,000</b>				

### Sunstone U.S. Opportunity Realty Trust

SRAI also organized Sunstone U.S. Opportunity Realty Trust, which in June and July, 2008, raised total cash proceeds of US\$35,675,000. Such funds have been targeted for investment in revenue-producing real estate properties in the United States by Sunstone U.S. Opportunity Limited Partnership ("Sunstone U.S. L.P."), a Nevada limited partnership in which the funds raised by Sunstone U.S. Opportunity Realty Trust have been invested. To the date hereof, Sunstone U.S. L.P. has entered into agreements to purchase two such properties and is currently completing due diligence in respect of such purchases.

### Pure Industrial Real Estate Trust

Messrs. Evans and Latoski are two of the six trustees of Pure Industrial Real Estate Trust ("PIRET"), an unincorporated, open-ended investment trust established for the purposes of acquiring, owning and operating a diversified portfolio of income producing industrial properties in both primary and secondary markets across Canada. PIRET focuses exclusively on investing in industrial properties. Sunstone Industrial Advisors Inc., a private company controlled by Darren Developments Inc. and Triple E Ventures Inc., which are in turn private companies controlled by Darren Latoski and Steve Evans, is the asset manager of PIRET. In August and September, 2007, PIRET completed an initial public offering of units and the issuance of units pursuant to the exercise of an over-allotment option in favour of the selling agents, which resulted in aggregate gross proceeds to PIRET of \$22,315,789. In December, 2007 and January, 2008, PIRET completed a follow-on offering of its units and the issuance of units pursuant to the exercise of an over-allotment option in favour of the selling agents, which resulted in aggregate gross



proceeds to PIRET of \$8,459,799.40. The net proceeds of such offerings were used to acquire an aggregate of 18 industrial properties.

### **Personal Profiles**

**Darren Latoski** - As President and indirect 50% owner of the shares in SRAI, Mr. Latoski participated in the negotiation and acquisition of property interests by Sunstone LP totaling \$44,190,000, by Sunstone (2004) LP totaling \$40,775,187, by Sunstone (2005) LP totaling \$122,250,000 by Sunstone (2006) LP totaling \$118,229,211, and by Sunstone (2007) Co-Ownership totaling to date \$27,150,000, all as detailed above. He continues his active role in the management of the business of SRAI, with a focus on enhancing the value of the assets owned by such entities. As President and the indirect owner of one-third of the shares in Churchill Property Group Inc. ("CPGI"), Mr. Latoski participated in the negotiation and acquisition by Churchill Institutional Real Estate Limited Partnership of property interests totaling \$41,500,000. He continues an active role in the management of the business of CPGI. As a founder and trustee of PIRET, Mr. Latoski participated in the creation of a portfolio of 18 industrial properties.

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

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

**Steve Evans** – As Chief Operating Officer and indirect 50% owner of the shares in Sunstone, Mr. Evans participated in the negotiation and acquisition of property interests by Sunstone LP totaling \$44,190,000, by Sunstone (2004) LP totaling \$40,775,187, by Sunstone (2005) LP totaling \$122,250,000 by Sunstone (2006) LP totaling \$118,229,211, and by Sunstone (2007) Co-Ownership totaling to date \$27,150,000, all as detailed above. He continues his active role in the management of the business of Sunstone, with a focus on enhancing the value of the assets owned by such entities. As Chief Operating Officer and the indirect owner of one-third of the shares in CPGI, Mr. Evans participated in the negotiation and acquisition by Churchill Institutional Real Estate Limited Partnership of property interests totaling \$41,500,000. He continues an active role in the management of the business of CPGI. As a founder and trustee of PIRET, Mr. Evans participated in the creation of a portfolio of 18 industrial properties.

From June, 1987, to September, 2001, Mr. Evans was Vice President of England Securities Ltd., a real estate investment, development and management company. In his capacity as Vice President, Mr. Evans actively participated in the negotiation, acquisition and management by England Securities Ltd. of a number of real estate assets totaling 4,500 residential units with an aggregate value in excess of \$280,000,000. Mr. Evans' experience in this regard encompassed assets in the following markets: Dallas, Texas (ten projects); Houston, Texas (three projects); Palm Desert, California (one project – converted to condominiums); Toronto and surrounding area (eight projects); Calgary, Alberta (one project); Vancouver

and surrounding area (three projects). In addition to these initial acquisitions, Mr. Evans also participated in the successful mortgage refinancing of 19 projects in order to re-capitalize various limited partnerships totaling in excess of \$200,000,000.

## **11.2 Corporate Bankruptcies**

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

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

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

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

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

Subject to the foregoing, neither of Steve Evans and Darren Latoski is in any way limited or affected in their ability to carry on other business ventures for their own accounts and for the accounts of others, and are now, and intend in the future to be, engaged in the development of, investment in and management of other real estate properties. None of these persons will have any obligation to account to the Realty Trust, the Trust Unitholders, the Mortgage Fund or the Fund Unitholders for profits made in such other activities. The Realty Trustee and the Mortgage Fund Trustee will engage in no activities other than acting as trustees of the Realty Trust and the Mortgage Fund, respectively.

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

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

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

### **12. EXECUTIVE COMPENSATION**

#### **12.1 Compensation**

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

For the period from formation on September 12, 2008 to September 24, 2008, no compensation was paid by the Realty Trustee to the following executive officer: Darren Latoski, President. The Realty Trustee does not intend to pay any compensation to such executive officers in the future.

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

For the period from formation on September 11, 2008 to September 24, 2008, no compensation was paid by the Mortgage Fund Trustee to the following executive officer: Darren Latoski, President. The Mortgage Fund Trustee does not intend to pay any compensation to such executive officers in the future.

##### ***Limited Partnership and the General Partner***

The Limited Partnership does not have any executive officers. For the period from formation on September 15, 2008 to September 24, 2008, no compensation was paid by the General Partner to any of the following executive officers: Darren Latoski, President; and Steve Evans, Secretary. The General Partner does not intend to pay any compensation to such executive officers in the future.

#### **12.2 Management Agreements**

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

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 Senior Mortgage Loans in respect of the Properties, and arrange for the provision of any guarantees required in connection with the Senior Mortgage Loans, for which 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 the Disposition Fee for each Property equal to 1.5% of the gross sales price of the Property, plus GST if applicable. The fee payable on the sale of any proportionate interest in a Property held by the Limited Partnership or held through a joint venture with a third party 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 Senior Mortgage Loans, and provide overall management, financial and business planning, in respect of which the General Partner will be paid the Asset Management Fee (payable monthly in arrears) equal to 1.5% of the Net Asset Value, plus GST if applicable;
- (d) preparing annual financial reports on the Properties and arrange for an audit of such annual financial reports, together with financial reports; and
- (e) oversee the preparation of this Prospectus, the offering and sale of Units, and the completion of all matters related to the closing of subscriptions on behalf of the Issuers. In addition, 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.

#### ***Administration Agreement***

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

- (a) establishing and maintaining bank accounts on behalf of the Realty Trust and the Mortgage Fund;
- (b) receiving distributions from the Limited Partnership from the investment in LP Units and the Mortgage Fund and processing cash flow distributions to Unitholders;
- (c) establishing appropriate legal and accounting systems for the proper control of the Realty Trust and Mortgage Fund;
- (d) collecting and mailing financial and other reports and all other notices given by the Issuers to Unitholders;
- (e) attending to all arrangements necessary for meetings of the Unitholders;
- (f) responding to all inquiries by Unitholders;
- (g) providing Unitholders with detailed statements for income tax purposes;
- (h) distributing any excess funds;
- (i) ensuring that any regulatory or legislative matters affecting the Realty Trust or Mortgage Fund are dealt with in a timely manner; and

- (j) performing such other administrative duties as a reasonably prudent administrative manager would provide in the same or comparable circumstances and such other administrative duties as the Realty Trust and Mortgage Fund may reasonably request from time to time.

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

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

None of the Realty Trust, the Mortgage Fund, the Limited Partnership or 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 its formation to the date of this Prospectus.

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

None of the Realty Trust, the Mortgage Fund, the Limited Partnership or the General Partner has issued or intends to issue options to purchase securities.

### **12.5 Compensation Committee**

None of the Realty Trust, the Mortgage Fund, the Limited Partnership or the General Partner has a compensation committee.

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

None of the directors or executive officers of the Realty Trustee, the Mortgage Fund Trustee or the General Partner is indebted to any of the Realty Trustee, the Mortgage Fund Trustee or the General Partner.

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

### **13.1 Audit Committee**

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

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

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

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

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

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

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

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

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

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

***Limited Partnership and General Partner***

The audit committee of the General Partner will be comprised of Darren Latoski and Steve Evans. Neither of Messrs Latoski nor Evans is "independent" within the meaning of National Instrument 52-110 – Audit Committees. Both Messrs Latoski and Evans are financially literate within the meaning of applicable securities laws. See the biographies of Messrs Latoski and Evans above under "Directors and Officers" for a description of the experience that is relevant to the performance of their responsibilities as audit committee members.

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

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

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

### **13.2 Corporate Governance**

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

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

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

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

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

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

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

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

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

### ***Limited Partnership and General Partner***

Neither Darren Latoski nor Steve Evans is an independent director of the General Partner within the meaning of applicable securities laws. Mr. Latoski is also a director or trustee of the following reporting issuers: WesternOne Equity Income Fund, Pure Industrial Real Estate Realty Trust, SRAI Capital Corp., Sunstone Realty Advisors (2005) Inc. and Sunstone Advisors (Canada) Inc. Mr. Evans is also a director or trustee of the following reporting issuers: SRAI Capital Corp., Sunstone Realty Advisors (2005) Inc., Sunstone Realty Advisors (Canada) Inc., WesternOne Equity GP Inc., and Pure Industrial Real Estate Trust.

The board of directors of the General Partner has not yet appointed a chair of the board. The board of directors of the General Partner has not held any meetings since the establishment of the Limited Partnership.

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

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

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

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

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

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

## **14. PLAN OF DISTRIBUTION**

### **14.1 Maximum Offering**

SRAI will co-ordinate through the Agents, by this Prospectus, the offer to sell to the public in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edward Island on a continuing basis, up to a maximum of 32,000 Units at a price of \$1,250 per Unit until ♦, 2008. Each Unit consists of one Trust Unit having a price of \$250 and one Fund Unit having a price of \$1,000. Purchasers are required to acquire a minimum of ten Units. Additional subscriptions may be made in single Unit multiples.



## **14.2 Minimum Offering**

**There will be no closing unless a minimum of 4,000 Units are sold. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90-day period, funds received from subscriptions will be held by the Agents in trust.**

## **14.3 Securities Not Listed**

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

## **14.4 Agency Agreement**

Pursuant to the Agency Agreement, the Agents have agreed to offer the Units for sale on a “commercially reasonable best efforts” basis until ♦, 2008 or such later date as may be agreed by the Agents, in consideration of the Agents’ Commission equal to 8% of the aggregate purchase price of the Trust Units and the Fund Units sold under the Offering.

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

As a further incentive to the Agents or sub-agents, the General Partner has agreed to pay to the Agents an amount equal to 25% of any amounts realized by the General Partner in respect of its Incentive Management Interest. The Agents may assign all or part of their entitlements to sub-agents effecting sales of Units, such assignment to be made on a basis determined by 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 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 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 Limited Partnership will bear all of these expenses pursuant to the Cost Sharing and Recovery Agreements.

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

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

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

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

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

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

Registration and transfers of the LP Units will be effected by the General Partner as transfer agent.

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

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

In the view of KPMG LLP (“KPMG”), in its capacity as tax advisor to the Issuers, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a Unitholder who acquires Units pursuant to this Offering and who, for purposes of the Income Tax Act (Canada) (the “Tax Act”) and at all relevant times, is resident in Canada for the purposes of the Tax Act, deals at arm’s length and is not affiliated with the Issuers and hold the Units as capital property. Generally, the Units will be considered to be capital property to a Unitholder provided such units are not held in the course of carrying on a business and have not been acquired in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Unitholders should consult their own tax advisors regarding their particular circumstances.

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

This summary is based on the facts set out in this Prospectus and in a certificate provided to KPMG by the Issuers, the General Partner and SRAI. This summary is also based upon the provisions of the Tax Act and the regulations thereunder (the “Regulations”) in force as of the date hereof and on KPMG’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”). This summary takes into account all specific proposals to amend the Tax

Act and the Regulations thereunder which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. There can be no assurance that these proposals will be enacted in their current form or at all, or that the CRA will not change its administrative and assessing practices.

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

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

## **Tax Status of the Trusts**

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

This summary assumes that the Trusts will both qualify as “mutual fund trusts” as defined in the Tax Act on completion of the Offering of Units hereunder, and will thereafter continuously qualify as mutual fund trusts at all relevant times. This summary assumes that the Trusts will both elect to be deemed to be mutual fund trusts from the date each is established. If the Trusts do not qualify or cease to qualify as mutual fund trusts, the income tax considerations described below would be materially different from those described in this summary, and in particular adverse consequences may arise including that: (i) the Trusts may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the Trusts would be reduced and Unitholders may otherwise be adversely affected); and (ii) unless at such time the Units are listed on a prescribed stock exchange, the Units will not be qualified investments for Plans (with the result that a Plan or its annuitants may become liable to pay additional tax or penalties or may be otherwise adversely affected).

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

one block of Trust Units and Fund Units having an aggregate fair market value of not less than \$500 each (for these purposes, if the fair market value of a unit is more than \$100, a block of units means 10 units).

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

Bill C-52, which became law on June 22, 2007 (being deemed to have come into force on October 31, 2006), implements certain amendments to the Tax Act (the “SIFT Rules”) that change the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships, and their investors. More recently, the Minister of Finance (Canada) announced proposed technical amendments on December 20, 2007 and released draft legislative proposals on July 14, 2008 (the “SIFT Amendments”) to amend the SIFT Rules (the SIFT Rules and SIFT Amendments are collectively referred to as the “SIFT Measures”).

***The SIFT Measures and the REIT Exception***

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

Certain distributions attributable to a SIFT trust’s “non-portfolio earnings” (the “non-deductible distributions amount”) will not be deductible in computing a SIFT trust’s income. The SIFT trust will be subject to SIFT tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. For those purposes, “non-portfolio earnings” generally includes income (other than certain dividends) from, or capital gains realized on, “non-portfolio properties”. The non-deductible distributions amount will also be included in computing income of the Unitholder for the purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act.

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

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

The SIFT Measures do not, however, apply to a trust that qualifies as a “real estate investment trust” (“REIT”) (this exception is referred to as the “REIT Exception”) or a partnership or trust that qualifies as an “excluded subsidiary entity”.

To qualify for the REIT Exception in a particular taxation year:

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

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

For purposes of the REIT Exception, "real or immovable property" does not include depreciable property, other than certain real estate assets, property ancillary to the ownership or utilization of such real estate assets or leases in or leasehold interests in respect of land or such real estate assets. Also for these purposes, "rent from real or immovable properties" includes payment for services ancillary to, and customarily rendered or supplied with, the rental of real or immovable properties, but excludes certain other payments or receipts that would otherwise be considered rent. The REIT Exception also includes as "real or immovable property" or as "qualified REIT property" a security held by a REIT, if the security is a security of a trust that satisfies (or of any other entity that would, if it were a trust, satisfy) the above noted conditions for the REIT Exception, or that, in general terms, either (i) holds only property that is ancillary to the REIT's rental activities, (ii) holds only legal title to real property of the REIT or of another subject entity all of the securities of which are held by the REIT, or (iii) derives substantially all of its revenues from certain management activities relating to real property of the REIT.

To qualify as an excluded subsidiary entity in a particular taxation year, the partnership or trust must not, at any time in the taxation year, have any of its "equity" (as defined in the Tax Act):

- (a) listed or traded on a stock exchange or other public market; nor
- (b) held by any person or partnership other than a REIT, a SIFT, a taxable Canadian corporation or an excluded subsidiary entity.

#### The SIFT Measures applied

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

Provided that the Mortgage Loan, the LP Units, and any other security issued by the Limited Partnership are not listed or traded on a stock exchange or other public market, and that all such securities are held only by any combination of REITs, SIFTs, other excluded subsidiary entities or taxable Canadian corporations, the Limited Partnership should qualify as an excluded subsidiary entity and should not itself be subject to tax under the SIFT Measures.

The balance of this summary assumes that, in the event any of the Trust Units or the Fund Units are listed or traded on a stock exchange or other public market, the Trusts will nonetheless qualify for the REIT Exception at all times. The balance of this summary further assumes that LP Units, the Mortgage Loan or any other security issued by the Limited Partnership will not be listed or traded on a stock exchange or other public market and will at all times be held by any combination of REITs, SIFTS, other excluded subsidiary entities or taxable Canadian corporations.

KPMG will not review the Trusts' compliance with the conditions for the REIT Exception, or the Limited Partnership's status as an excluded subsidiary entity. The Realty Trust Declaration and Mortgage Fund Declaration provide that the Trusts will monitor compliance with such requirements. While the SIFT Rules and the REIT Exception are now law, there can be no assurances that the treatment of SIFTS and REITs under the Tax Act will not be changed, or that administrative and assessing practices of CRA will not develop, in a manner which adversely affects the Issuers or the Unitholders.

Should the Trust Units, the Fund Units, the LP Units, the Mortgage Loan, or any other securities or investments in the Trusts or the Limited Partnership be listed or traded on a stock exchange or public market, and should the Trusts not qualify or cease to qualify as REITs under the REIT Exception or should the Limited Partnership not qualify as an excluded subsidiary entity, the income tax considerations could be materially different from those described in this summary. In particular the non-deductible distributions amount, as previously described, could be taxable to the Realty Trust, or the Mortgage Fund, or the taxable non-portfolio earnings of the Limited Partnership, as the case may be, (with the result that the amount of cash ultimately available for distribution by the Trusts to Unitholders would be reduced) and such amount could also, depending on the circumstances, be included in the income of Unitholders for purposes of the Tax Act as taxable dividends.

## **Taxation of the Issuers**

### *Taxation of the Mortgage Fund*

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

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

In computing its income for purposes of the Tax Act, the Mortgage Fund may generally deduct reasonable administrative costs, interest and other expenses of a current nature incurred by it for the

purpose of earning income. The Mortgage Fund will be entitled to deduct reasonable expenses incurred by it in the course of issuing Fund Units on a five-year straight line basis (subject to pro-rata for short taxation years), to the extent such costs are not reimbursed by the Limited Partnership under the Cost Sharing and Recovery Agreement – Mortgage Fund.

A distribution by the Mortgage Fund of Debt Securities or other property upon redemption of Fund Units will be, for purposes of the Tax Act, treated as a disposition by the Mortgage Fund of the property so distributed for proceeds of disposition equal to its fair market value. The Mortgage Fund will realize a capital gain (or a capital loss) on the property so distributed to the extent that the proceeds of disposition of such property exceed (or are less than) the adjusted cost base of the property and any reasonable costs of disposition. The Mortgage Fund Declaration provides that the Mortgage Fund may designate for purposes of the Tax Act any income or capital gains arising on or in connection with an *in specie* distribution on a redemption of Fund Units as being paid to the redeeming Fund Unitholder, with the result that the taxable portion of such gains and income may generally be deductible by the Mortgage Fund. If Debt Securities with accrued interest thereon are distributed to a redeeming Fund Unitholder, the amount of accrued interest will in the first instance be included in income of the Mortgage Fund; however, the amount thereof would then be treated as an amount paid to the Fund Unitholder and thereby generally be deductible by the Mortgage Fund, resulting in no net inclusion in the income of the Mortgage Fund.

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

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

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

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

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

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

#### *Taxation of the Realty Trust*

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

The Realty Trust will generally be required to include in computing income for a particular taxation year its allocated share of the income or loss of the Limited Partnership for the fiscal period of the Limited Partnership ending on or before the year-end of the Realty Trust. The Realty Trust’s ability to deduct any losses allocated to it by the Limited Partnership will be limited by certain rules under the Tax Act. The Realty Trust may also realize a capital gain or loss on the disposition or deemed disposition of LP Units (including from any distribution *in specie* of LP Units), or upon the allocation of a capital gain or loss from the Limited Partnership, as described below under “Taxation of the Limited Partnership”. Also, as described under “Taxation of the Limited Partnership” below, cash flow distributed by the Limited Partnership to the Realty Trust will be generally received free from tax, except to the extent that such distributions reduce the adjusted cost base of LP Units held by the Realty Trust to a negative amount at the end of a fiscal year of the Limited Partnership.

In computing its income for purposes of the Tax Act, the Realty Trust may generally deduct reasonable administrative costs, interest and other expenses of a current nature incurred by it for the purpose of earning income. The Realty Trust will be entitled to deduct reasonable expenses incurred by it in the course of issuing Trust Units on a five-year straight line basis (subject to pro-ration for short taxation years), to the extent such costs are not reimbursed by the Limited Partnership under the Cost Sharing and Recovery Agreement – Realty Trust.

A distribution by the Realty Trust of Debt Securities or other property upon redemption of Trust Units will be, for purposes of the Tax Act, treated as a disposition by the Realty Trust of the property so distributed for proceeds of disposition equal to its fair market value. The Realty Trust will realize a capital gain (or a capital loss) on the property so distributed to the extent that the proceeds of disposition of such property exceed (or are less than) the adjusted cost base of the property and any reasonable costs of disposition. The Realty Trust Declaration provides that the Realty Trust may designate for purposes of the Tax Act any income or capital gains arising on or in connection with an *in specie* distribution on redemption of Trust Units as being paid to the redeeming Trust Unitholder, with the result that the taxable portion of such gains and income may generally be deductible by the Realty Trust. If Debt Securities with accrued interest thereon are distributed to a redeeming Trust Unitholder, the amount of accrued interest will in the first instance be included in income of the Realty Trust; however, the amount thereof would then be treated as an amount paid to the Trust Unitholder and thereby generally be deductible by the Realty Trust, resulting in no net inclusion in the income of the Realty Trust.



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

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

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

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

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

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

#### *Taxation of the Limited Partnership*

The Limited Partnership is not subject to tax under the Tax Act. Each partner of the Limited Partnership (including the Realty Trust) is required to include in computing the partner’s income for a particular taxation year the partner’s share of the income or loss of an underlying partnership for its fiscal year ending in or on the partner’s taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. For this purpose, the income or loss of the Limited Partnership must be computed for each fiscal year as if the Limited Partnership was a separate person resident in Canada, and will be required to be allocated to partners on the basis of their respective shares of that income or loss as provided for in the Limited Partnership Agreement, subject to certain provisions of the Tax Act in that regard.

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

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

The income for purposes of the Tax Act of the Limited Partnership must include its income realized from the rental of the Properties, any taxable capital gains or recapture of capital cost allowance arising from dispositions of the Properties that are capital property, as explained more fully below, and the entire amount of any gains from dispositions of Properties that are not considered capital property of the Limited Partnership for purposes of the Tax Act. In computing its income or loss, the Limited Partnership may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Limited Partnership may also deduct any expenses incurred by it in the course of the issuance of LP Units and arranging the Mortgage Loan on a five-year straight line basis (subject to pro-ration for short taxation years).

In computing its income or loss the Limited Partnership may generally deduct a reasonable amount of interest paid in the year or (in the case of simple interest) payable in respect of the year pursuant to a legal obligation to pay interest on borrowed money used, and on amounts payable for property acquired, for the purpose of earning income from a business or property, including pursuant to the obligations to pay interest in respect of the Mortgage Loan. Compound interest is deductible only when actually paid. The Tax Act limits the deduction of interest expense and property taxes incurred in connection with vacant land and of interest expense and other soft costs attributable to the period of construction, renovation or alteration of a building, and instead requires such amounts that are not currently deductible to be added to the cost of the building for purposes of the Tax Act.

This summary assumes that the Limited Partnership will hold its interest in the Properties as capital property and accordingly, in computing the income or loss of the Limited Partnership, deductions may also be claimed in respect of "capital cost allowance" to the extent permitted under the Tax Act and the Regulations. Such deductions may not exceed the net income of the 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 (and will be subject to pro-ration for short taxation years). Subject to such restrictions, annual deductions will be allowed on a declining balance basis at a rate of 4% to 6% per annum, depending on the Property and its use, on the "undepreciated capital cost" (generally, initial capital cost less prior capital cost allowance deductions) of each class of property which includes the buildings and their

component parts, and at other rates applicable to the other classes of depreciable property.

On the sale or other disposition of all or some of the Properties, the Limited Partnership must allocate the net proceeds of disposition (gross proceeds less costs of disposition) on a reasonable basis among each separate asset which comprises the property sold. On dispositions of Properties that are capital properties for purposes of the Tax Act, a capital gain will be realized on the amount by which the net proceeds of disposition allocated to a particular depreciable property exceed the capital cost of that property (no capital loss can be realized on depreciable property). A capital gain (or capital loss) will be realized on the amount by which the net proceeds of disposition allocated to a non-depreciable capital property exceed (or are less than) its adjusted cost base. The allocation of net proceeds of disposition between depreciable and non-depreciable capital properties is not binding on the CRA, and there is no assurance that the CRA will agree that such allocation is reasonable. Any reallocation imposed by the CRA may affect adversely the income tax liability arising on a disposition of properties. On such sale or other disposition, the lesser of the proceeds of disposition allocable to a particular class of depreciable capital property and the original cost of the property is deducted from the balance of the undepreciated capital cost of the respective class. If at the end of the taxation year of the Limited Partnership the balance of any class is negative, the balance is included in the income of the Limited Partnership resulting in a recapture of prior capital cost allowance deductions. Where the Limited Partnership has disposed of the last property of a particular class and, at the end of the year, the balance of the undepreciated capital cost of the class is positive, the Limited Partnership may, subject to detailed rules of the Tax Act, be entitled to deduct the remaining positive balance as a terminal loss in computing its income.

## **Taxation of Unitholders**

### *Distributions*

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

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

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

The Mortgage Fund Declaration and the Realty Trust Declaration also provide that each respective trust shall make the requisite designations permitted by the Tax Act such that the portion of net taxable capital gains of each respective trust distributed to Unitholders as may reasonably be considered to be part of the amount that was included in computing income of Unitholders for purposes of the Tax Act will be deemed to be received by Unitholders in the year as a taxable capital gain. Any such designated amount will be subject to the general rules relating to the taxation of capital gains described below. A Unitholder which is a “Canadian-controlled private corporation” (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6⅔% on certain investment income, including taxable capital gains.

#### *Purchases of Units*

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

#### *Dispositions of Units*

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

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

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

Where Fund Units or Trust Units are redeemed and the redemption price is paid by the delivery of Debt Securities as described above, the redeeming Unitholder will be required to include in income any interest on Debt Securities acquired (including interest that accrued prior to the date of the acquisition of such Debt Securities by the Unitholder that is designated as income to the Unitholder by the Mortgage Fund or the Realty Trust) in accordance with the provisions of the Tax Act. The cost of any Debt Securities distributed by the Mortgage Fund or the Realty Trust to a Unitholder upon a redemption of Fund Units or of Trust Units will be equal to the fair market value of those Debt Securities at the time of the distribution less any accrued interest on such Debt Securities.

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

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

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

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

#### *Alternative Minimum Tax*

The Tax Act provides for a special "alternative minimum tax" applicable to certain taxpayers including individuals and certain trusts, depending on the amount of their "adjusted taxable income". In general terms, adjusted taxable income of a Unitholder who is an individual or a trust (and therefore the exposure of such Unitholder to liability for alternative minimum tax) must be increased by, among other things,

any capital gains realized by such Unitholder on the disposition of Trust Units or of Fund Units and by any net income of the Realty Trust or of the Mortgage Fund that is paid or payable to such Unitholder and that has been designated as a taxable dividend or as a taxable capital gain.

### **Eligibility for Investment**

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

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

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

## **16. RISK FACTORS**

The purchase of securities hereunder involves a number of risk factors. The risks described below are not the only risks involved with an investment in the Units. If any of the following risks occur, or if others occur, the Issuers’ businesses, operating results and financial conditions could be seriously harmed and Purchasers may lose all of their investment. Risks affecting the Limited Partnership will affect the ability to pay interest on the Mortgage Loan and make distributions on the LP Units, which in turn will affect the ability of the Mortgage Fund and the Realty Trust to make distributions on the Fund Units and the Trust Units, respectively. In addition to the risk factors set forth elsewhere in this Prospectus, prospective purchasers should consider the following risks associated with a purchase of such securities:

*This is a Blind Pool Offering; Reliance on General Partner and its Management* – Although the Realty Trustee and the Mortgage Fund Trustee expect that the net proceeds of this Offering will be applied to the purchase of one or more Properties, the specific Properties in which the Limited Partnership will invest have not yet been determined. In any event, if the maximum Offering of 32,000 Units is sold, the General

Partner expects to cause the Limited Partnership to apply approximately \$36,400,000 (i.e. approximately 91.0% 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), the creation of working capital reserves and reserves for renovations and upgrades, and due diligence and other costs. If only the minimum Offering of 4,000 Units is sold, the Realty Trust expects to apply approximately \$4,375,000 (i.e. approximately 87.5% of the gross proceeds of the Offering) to the purchase price and other acquisition costs of one or more Properties (including the Financing Fees payable to the General Partner), the creation of working capital reserves and reserves for renovations and upgrades, and due diligence and other costs. 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 Trust Units will vary.

*Reliance on Management* – Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the 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 Issuers' investment 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, for the Trust Units or Fund Units comprised in the Units, or for the LP Units and it is expected that there will be no market for the Units, Trust Units, Fund Units or LP Units. Consequently, holders of such securities may not be able to sell them readily, and Units, Trust Units, Fund Units and LP Units may not be readily accepted as collateral for a loan. Purchasers should be prepared to hold these securities indefinitely and cannot expect to be able to liquidate their investment even in the case of an emergency. Accordingly, an investment in Units is suitable solely for persons able to make and bear the economic risk of a long-term investment.

*Less than Full Offering* – There can be no assurance that the maximum Offering will be sold. If less than all of the 32,000 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.

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

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

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

- (a) *Financing Risks* – There is no assurance that the Limited Partnership will be able to obtain sufficient Senior Mortgage Loans to finance the acquisition of Properties, or, if available, that the Limited Partnership will be able to obtain Senior Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Senior Mortgage Loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the 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 Senior Mortgage Loans, the Limited Partnership may not be able to generate sufficient funds through the operation of the Properties to service the Senior Mortgage Loans. If a default occurs under any of the Senior Mortgage Loans, one or more of the Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties. Inability to renew Senior Mortgage Loans when they mature will adversely impact the ability of the Limited Partnership to make cash distributions. An increase in the interest rate of Senior Mortgage Loans on renewal may reduce the cash flow available from the Limited Partnership for distributions to holders of LP Units.

The Senior Mortgage Loans and/or other credit facilities obtained by the Limited Partnership will contain covenants, including limitations on the Limited Partnership's ability to incur secured and unsecured indebtedness, sell all or substantially all of its assets and engage in mergers and consolidations and various acquisitions. In addition, mortgage indebtedness and other credit facilities will contain limitations on the Limited Partnership's ability to transfer or encumber the mortgaged properties without lender consent. These provisions may restrict the Limited Partnership's ability to pursue business initiatives or acquisition transactions that may be in its best interests. They also may prevent the Limited Partnership from selling Properties at times when, due to market conditions, it may be advantageous to do so. In addition, failure to meet any of the covenants could cause an event of default under and/or acceleration of some or all of the Limited Partnership's indebtedness, which would have an adverse effect on the Limited Partnership.

- (b) *Interest Rate Fluctuations* - The Senior Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Limited Partnership's cost of borrowing.
- (c) *Potential Liability under Environmental Protection Legislation* – Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, the 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.
- (d) *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.

- (e) *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.
- (f) *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.
- (g) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Senior Mortgage Loans or to fund changes in the variable rates of interest charged in respect of such loans.
- (h) *Fluctuations in Capitalization Rates* – As interest rates fluctuate in the lending market, so too do capitalization rates which affects the underlying value of real estate. As such, when interest rates rise, so too do capitalization rates. Over the period of investment, capital gains and losses at the time of disposition can occur due to the movement of these capitalization rates.
- (i) *Economic Conditions* - The yields available from investments in real estate depend upon the amount of revenues generated and expenses incurred. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, the attractiveness of properties to tenants, and the ability of the owner to provide adequate maintenance at an economic cost. The performance of the economy in each of the areas in which Properties are located affects occupancy, market rental rates and expenses. These factors consequently can have an impact on revenues from the Properties and their underlying values. The financial results and labour decisions of major local employers may also have an impact on the revenues from and value of certain Properties.
- (j) *Tenancy Risks* - The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants and upon the vacancy rates in each of the Properties acquired. Revenue would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties were not able to be leased on economically favourable lease terms. In addition, revenue would be adversely affected by increased vacancies in the Properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting an investment in the Properties may be incurred. Furthermore, at any time, a tenant of any of the Properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available. The ability to rent unleased space in Properties will be affected by many factors. Delays in re-leasing properties and/or units of properties as

vacancies arise would reduce the revenues and could adversely affect operating performance. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a Property is producing any income. If the Limited Partnership is unable to meet mortgage payments on any Property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

- (k) *Illiquidity* - Real property investments tend to be relatively illiquid with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the Limited Partnership's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Limited Partnership were to be required to liquidate its real property investments, the proceeds to the Limited Partnership might be significantly less than the aggregate carrying value of its Properties.
- (l) *Current Condition of Credit Markets* - During 2007 and 2008, access to long-term financing has been negatively impacted by both sub-prime mortgages and the asset-backed commercial paper markets. These factors may impact the ability of the Limited Partnership to obtain Senior Mortgage Loans and other credit facilities on terms favourable to the Limited Partnership.
- (m) *Development Risks* - The Limited Partnership's potential involvement in development activities, brings with it the following related risks: (a) the potential insolvency of a developer; (b) the developer's failure to use advanced funds in payment of construction costs; (c) construction or unanticipated delays; (d) incurring construction costs before ensuring rental revenues will be earned from the project; (e) cost over-runs on the project; and (f) the failure of tenants to occupy and pay rent in accordance with lease arrangements. Such risks are minimized by generally not commencing construction until satisfactory levels of preleasing/ sales are achieved. This risk exposure is further mitigated by the Limited Partnership Agreement, which limits the amount to be committed to opportunities for development of capital properties as income-producing real estate for long-term investment, to no more than 20% of the net proceeds of the Offering, assuming completion of the maximum Offering.
- (n) *Joint Ownership* - The Limited Partnership may be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks, including, (i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with the Limited Partnership's or take actions contrary to the Limited Partnership's instructions or requests or to the Limited Partnership's policies or objectives with respect to the Properties, (ii) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such Properties or repay the co-venturers'/partners' share of property debt guaranteed by the Limited Partnership or for which the Limited Partnership will be liable and/or result in the Limited Partnership suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions, (iii) the risk that such co-venturers/ partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject the Limited Partnership to liability, and (iv) the need to obtain coventurers'/ partners' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when the Limited Partnership may not desire to sell but may be forced to do so because the Limited Partnership does not have the cash to purchase the other party's interests. Such rights may also

inhibit the Limited Partnership's ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis the Limited Partnership desires.

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

*Risks Associated with Redemptions*

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

*Risk Factors Relating to the Issuers' Tax Status*

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

The exposure of the Mortgage Fund and the Realty Trust to the new tax on SIFTs imposed by the SIFT Measures will depend in part on whether or not the Fund Units and Trust Units will be listed or traded on a stock exchange or other public market, and in such case on the Trusts' ability to qualify as "real estate investment trusts" under the REIT Exception. Where the Fund Units or the Trust Units are listed or traded on a public market, and either the Realty Trust or Mortgage Fund does not qualify or ceases to qualify as a "real estate investment trust" under the REIT Exception, adverse consequences could arise including that the non-deductible distributions amount, as previously described, could be taxable to the Realty Trust or Mortgage Fund, as the case may be, (with the result that the amount of cash available for distribution by the Realty Trust or Mortgage Fund would be reduced) and such amount would also, depending on the circumstances, be included in the income of Unitholders for purposes of the Tax Act as taxable dividends. Neither the Realty Trust nor the Mortgage Fund currently has plans to have the Trust Units or Fund Units listed or traded on a stock exchange.

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

#### *Other Tax Related Risk Factors*

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

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

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

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

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

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

*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.

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

## **17. PROMOTER**

SRAI may be considered to be the promoter of the Issuers by reason of its initiative in organizing the business of the Issuers and taking the steps necessary for the public distribution of the Units. As at the date hereof, neither SRAI nor any of its directors, officers or shareholders beneficially owns, controls or directs, directly or indirectly, any Units. Sunstone Realty Advisors (2008) Inc., the General Partner of the Limited Partnership and a company having directors in common with SRAI, may receive payment from the Limited Partnership for services provided to the Limited Partnership in respect of the acquisition or disposition of Properties and the ongoing management of the Properties and the Limited Partnership.

## **18. LEGAL PROCEEDINGS**

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

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

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

## **20. RELATIONSHIP BETWEEN THE TRUSTS, THE LIMITED PARTNERSHIP AND THE AGENTS**

SRAI may be considered to be a connected issuer of one of the Agents, Sora Group Wealth Advisors Inc. ("SGWA"), because Darren Latoski and Steve Evans own in aggregate 3.4% of the outstanding shares in the capital of SGWA. SGWA was not involved in the decision by the Issuers to offer the Units pursuant to this Prospectus nor in the determination of the terms of the Offering. The Offering was not required,

suggested or consented to by SGWA. Except to the extent that SGWA may receive a portion of the sales fees payable to Agents as a result of sales of Units by SGWA, proceeds from the Offering will not be applied for the benefit of SGWA.

## **21. AUDITORS**

The auditors of each of the Realty Trust, the Mortgage Fund and the Limited Partnership are Davidson & Company LLP. As of September 24, 2008, the partners of Davidson & Company LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

## **22. REGISTRAR AND TRANSFER AGENT**

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

Registration and transfers of Trust Units and Fund Units will be effected only through the book-entry only system administered by The Canadian Depository for Securities Limited ("CDS"). A purchaser of Units will receive only customer confirmation from the registered dealer which is a CDS participant and from or through which Units are purchased. Refer to "Plan of Distribution".

## **23. MATERIAL CONTRACTS**

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

### **23.1 Particulars of Material Contracts**

1. ***Realty Trust Declaration*** – described in "Description of the Securities Distributed– Trust Units".
2. ***Mortgage Fund Declaration*** – described in "Description of the Securities Distributed – Fund Units".
3. ***Limited Partnership Agreement*** – described in "Description of Businesses of the Issuers – The Properties".
4. ***Mortgage Loan Agreement*** – described in "Description of Businesses of the Issuers – Second paragraph of Mortgage Loan Agreement".
5. ***General Security Agreement executed by the Limited Partnership in favour of the Mortgage Fund*** – described in "Description of Businesses of the Issuers – Mortgage Loan Agreement".
6. ***General Partner Services Agreement*** – described in "Executive Compensation – Management Agreements".
7. ***Administration Agreement*** – described in "Executive Compensation – Management Agreements".
8. ***Agency Agreement*** – described in "Plan of Distribution – Agency Agreement".

9. ***Cost Sharing and Recovery Agreement – Mortgage Fund*** – an agreement dated as of September 15, 2008 between the Limited Partnership and the Mortgage Fund pursuant to which the Limited Partnership agreed, in respect of the advance of the Mortgage Loan, to bear all of the costs of this Offering incurred by the Mortgage Fund and to reimburse the Mortgage Fund for any costs incurred in connection with the transactions described in this Offering.
10. ***Cost Sharing and Recovery Agreement – Realty Trust*** – an agreement dated as of September 15, 2008 between the Limited Partnership and the Realty Trust pursuant to which the Limited Partnership agreed, in respect of the issuance of LP Units, to bear all of the costs of this Offering incurred by the Realty Trust and to reimburse the Realty Trust for any costs incurred in connection with the transactions described in this Offering.

### **23.2 Inspection of Contracts and Reports**

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

### **24. EXPERTS**

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

Certain legal matters in connection with this Offering will be passed upon by Clark Wilson LLP, on behalf of the Issuers, and by Miller Thomson LLP, on behalf of the Agents. As at September 24, 2008, partners and associates of Clark Wilson LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates. As at September 24, 2008 partners and associates of Miller Thomson LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

KPMG LLP has prepared the summary of principal Canadian federal income tax considerations set out under the heading "Canadian Federal Income Tax Considerations". As at September 24, 2008 KPMG LLP beneficially owned, directly or indirectly, less than 1% in the outstanding securities of the Issuers and their respective associates and affiliates.

### **25. PURCHASERS' STATUTORY RIGHTS**

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

## **FINANCIAL STATEMENTS**

Please see next page.



## AUDITORS' CONSENT

We have read the prospectus of Sunstone Opportunity (2008) Realty Trust (the "Realty Trust"), Sunstone Opportunity (2008) Mortgage Fund (the "Mortgage Fund") and Sunstone Opportunity Fund (2008) Limited Partnership (the "Limited Partnership") dated September \_\_\_\_\_, 2008 relating to the issue and sale of up to 32,000 units at a price of \$1,250 per unit. Each unit is comprised of one unit of the Realty Trust having a price of \$250, and one unit of the Mortgage Fund having a price of \$1,000. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the Directors of the trustee of the Realty Trust on the balance sheet of the Realty Trust as at September 17, 2008. Our report is dated September 18, 2008 (except as to Note 3 which is as of \_\_\_\_\_, 2008).

We also consent to the use in the above mentioned prospectus of our report to the Directors of the trustee of the Mortgage Fund on the balance sheet of the Mortgage Fund as at September 17, 2008. Our report is dated September 18, 2008 (except as to Note 3 which is as of \_\_\_\_\_, 2008).

In addition, we consent to the use in the above mentioned prospectus of our report to the Directors of Sunstone Realty Advisors (2008) Inc. in its capacity as General Partner of the Limited Partnership on the balance sheet of the Limited Partnership as at September 17, 2008. Our report is dated September 18, 2008 (except as to Note 4 which is as of \_\_\_\_\_, 2008).

Vancouver, Canada

Chartered Accountants

\_\_\_\_\_, 2008

**SUNSTONE OPPORTUNITY (2008) REALTY TRUST**

**FINANCIAL STATEMENTS**

**SEPTEMBER 17, 2008**

## **AUDITORS' REPORT**

To the Directors of the Trustee of  
Sunstone Opportunity (2008) Realty Trust

We have audited the balance sheet of Sunstone Opportunity (2008) Realty Trust as at September 17, 2008. This balance sheet is the responsibility of the Realty Trust's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Realty Trust as at September 17, 2008 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

Chartered Accountants

September 18, 2008  
(except as to Note 3 which  
is as of \_\_\_\_\_, 2008)

**SUNSTONE OPPORTUNITY (2008) REALTY TRUST**  
**BALANCE SHEET**  
**AS AT SEPTEMBER 17, 2008**

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<b>ASSETS</b>		
<b>Current</b>		
Cash	\$	10
<hr/>		
<b>Unitholder equity</b>		
Unitholder equity (Note 2)	\$	10
<hr/>		
<b>Subsequent event</b> (Note 3)		

**Approved on behalf of the Trustee:**

\_\_\_\_\_ Director \_\_\_\_\_ Director

The accompanying notes are an integral part of this balance sheet.

**SUNSTONE OPPORTUNITY (2008) REALTY TRUST**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM SEPTEMBER 12, 2008 TO SEPTEMBER 17, 2008

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**1. INCORPORATION AND OPERATIONS**

Sunstone Opportunity (2008) Realty Trust (the “Realty Trust”) is an unincorporated, open-ended, investment trust created on September 12, 2008 by a declaration of trust governed by the laws of the Province of British Columbia. The Realty Trust is authorized to issue an unlimited number of redeemable units of beneficial interest (“Trust Units”). Each holder of a Trust Unit participates pro rata in any distribution of the Realty Trust. The Realty Trust was established to issue Trust Units and acquire and hold Limited Partnership Units of Sunstone Opportunity Fund (2008) Limited Partnership (the “Limited Partnership”).

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

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

There has been no activity in the Realty Trust between its formation on September 12, 2008, and September 17, 2008 except for the receipt of a capital contribution. Accordingly, no statement of operations, or cash flows for the period have been presented.

**2. UNITHOLDER EQUITY**

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

**3. SUBSEQUENT EVENTS**

The Realty Trust, together with Sunstone Opportunity (2008) Mortgage Fund (the “Mortgage Fund”), and the Limited Partnership filed a prospectus dated \_\_\_\_\_, 2008, for an initial public offering (the “Offering”) to sell a minimum of 4,000 Units up to a maximum of 32,000 Units at a price of \$1,250 per Unit. Each Unit will consist of one Trust Unit at a price of \$250 and one unit of the Mortgage Fund at a price of \$1,000.

The proceeds of the Offering will be used by Realty Trust to acquire Limited Partnership Units from the Limited Partnership.

Pursuant to Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear the costs and expenses incurred in respect of the Offering, including the agent’s commissions, fees and expenses.

**SUNSTONE OPPORTUNITY (2008) MORTGAGE FUND**

**FINANCIAL STATEMENTS**

**SEPTEMBER 17, 2008**

## **AUDITORS' REPORT**

To the Directors of the Trustee of  
Sunstone Opportunity (2008) Mortgage Fund

We have audited the balance sheet of Sunstone Opportunity (2008) Mortgage Fund as at September 17, 2008. This balance sheet is the responsibility of the Mortgage Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Mortgage Fund as at September 17, 2008 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

Chartered Accountants

September 18, 2008  
(except as to Note 3 which  
is as of \_\_\_\_\_, 2008)

**SUNSTONE OPPORTUNITY (2008) MORTGAGE FUND**  
**BALANCE SHEET**  
**AS AT SEPTEMBER 17, 2008**

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<b>ASSETS</b>		
<b>Current</b>		
Cash	\$	10

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<b>Unitholder equity</b>		
Unitholder equity (Note 2)	\$	10

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**Subsequent event** (Note 3)

**Approved on behalf of the Trustee:**

\_\_\_\_\_ Director \_\_\_\_\_ Director

The accompanying notes are an integral part of this balance sheet.



**SUNSTONE OPPORTUNITY (2008) MORTGAGE FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM SEPTEMBER 12, 2008 TO SEPTEMBER 17, 2008**

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**1. INCORPORATION AND OPERATIONS**

Sunstone Opportunity (2008) Mortgage Fund (the “Mortgage Fund”) is an unincorporated, open-ended, investment trust created on September 12, 2008 by a declaration of trust governed by the laws of the Province of British Columbia. The Mortgage Fund is authorized to issue an unlimited number of redeemable units of beneficial interest (“Fund Units”). Each holder of a Fund Unit participates pro rata in any distribution of the Mortgage Fund. The Mortgage Fund was established for the purpose of investing in and holding a mortgage loans (the “Mortgage Loans”) made to Sunstone Opportunity Fund (2008) Limited Partnership (the “Limited Partnership”).

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

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

There has been no activity in the Mortgage Fund between its formation on September 12, 2008, and September 17, 2008 except for the receipt of a capital contribution. Accordingly, no statement of operations, or cash flows for the period have been presented.

**2. UNITHOLDER EQUITY**

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

**3. SUBSEQUENT EVENTS**

The Mortgage Fund, together with Sunstone Opportunity (2008) Realty Trust (the “Realty Trust”), and the Limited Partnership filed a prospectus dated \_\_\_\_\_, 2008, for an initial public offering (the “Offering”) to sell a minimum of 4,000 Units up to a maximum of 32,000 Units at a price of \$1,250 per Unit. Each Unit will consist of one unit of the Realty Trust at a price of \$250 and one Fund Unit at a price of \$1,000.

The proceeds of the Offering will be used by the Mortgage Fund to acquire Mortgage Loans from the Limited Partnership and by the Realty Trust to acquire Limited Partnership Units from the Limited Partnership. The Mortgage Loans will be secured by a general security agreement executed by the Limited Partner in favour of the Mortgage Fund, will bear interest at 8.1% per annum, payable quarterly, and will mature on October 31, 2013.

Pursuant to Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear the costs and expenses incurred in respect of the Offering, including the agent’s commissions, fees and expenses.

**SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS**

**SEPTEMBER 17, 2008**

## **AUDITORS' REPORT**

To the Directors of Sunstone Realty Advisors (2008) Inc.,  
in its capacity as General Partner of Sunstone Opportunity Fund (2008) Limited Partnership

We have audited the balance sheet of Sunstone Opportunity Fund (2008) Limited Partnership as at September 17, 2008. This balance sheet is the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Limited Partnership as at September 17, 2008 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

Chartered Accountants

September 18, 2008  
(except as to Note 4 which  
is as of \_\_\_\_\_, 2008)

**SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP**  
**BALANCE SHEET**  
**AS AT SEPTEMBER 17, 2008**

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<b>ASSETS</b>		
<b>Current</b>		
Cash	\$	20
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<b>Partners' Capital</b> (Note 3)	\$	20
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**Subsequent event** (Note 4)

**Approved by the Directors of**  
**Sunstone Realty Advisors (2008) Inc. as**  
**General Partner**

\_\_\_\_\_ Director \_\_\_\_\_ Director

The accompanying notes are an integral part of this balance sheet.

**SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM SEPTEMBER 15, 2008 TO SEPTEMBER 17, 2008**

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**1. INCORPORATION AND OPERATIONS**

Sunstone Opportunity Fund (2008) Limited Partnership (the “Limited Partnership”) was formed pursuant to the Partnership Act (British Columbia) on September 15, 2008. The Limited Partnership was established for the purpose of acquiring income-producing commercial real estate properties in Canada and for limited development of capital properties as income-producing real estate for long-term investment.

The general partner of the Limited Partnership is Sunstone Realty Advisors (2008) Inc. (the “General Partner”).

There has been no activity in the Limited Partnership between its formation on September 15, 2008 and September 17, 2008 except for the issuance of one Initial Limited Partner Unit and one General Partner Unit. Accordingly, no statement of operations or cash flows 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:

**Basis of presentation**

The financial statements reflect the financial position of the Limited Partnership and do not include the assets, liabilities, revenues and expenses of the partners. No provision for income taxes has been made in these financial statements as the Partners are responsible for the income taxes on their share of income or loss from the Limited Partnership.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Financial results as determined by actual events could differ from those 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 the total payments made in respect of the Limited Partners’ minimum return and the interest paid on the mortgage loan advanced to the Limited Partnership by Sunstone Opportunity (2008) Mortgage Fund (the “Mortgage Fund”).

**3. PARTNERS' CAPITAL**

Authorized: The Limited Partnership's authorized partners' capital consists of an unlimited number of Limited Partners' Units and the interests held by the Initial Limited Partner and the General Partner.

Issued: On September 15, 2008 the Limited Partnership issued the General Partners’ Unit and the Initial Limited Partners' Unit for proceeds of \$10 each.

**SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM SEPTEMBER 15, 2008 TO SEPTEMBER 17, 2008

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**4. SUBSEQUENT EVENTS**

The Limited Partnership, along with Sunstone Opportunity (2008) Realty Trust (the "Realty Trust") and Sunstone Opportunity (2008) Mortgage Fund (the "Mortgage Fund"), filed a prospectus dated \_\_\_\_, 2008, for an initial public offering (the "Offering") to sell a minimum of 4,000 Units up to a maximum of 32,000 Units at a price of \$1,250 per Unit. Each Unit will consist of one unit of the Realty Trust at a price of \$250 and one unit of the Mortgage Fund at a price of \$1,000.

The proceeds of the Offering will be used by the Realty Trust to acquire Limited Partnership Units and by the Mortgage Fund to acquire mortgage loans (the "Mortgage Loans") from the Limited Partnership. The Mortgage Loans will be secured by a general security agreement executed by the Limited Partnership in favour of the Mortgage Fund, will bear interest at 8.1% per annum, payable quarterly, and will mature on October 31, 2013.

Pursuant to Cost Sharing and Recovery Agreements, the Limited Partnership has agreed to bear the costs and expenses incurred in respect of the Offering, including the agent's commissions, fees and expenses.

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 General Partner has agreed to assign 25% of its incentive management interest to the Agents and pay a trailer fee equal to 1/6<sup>th</sup> of the quarterly asset management fee paid to the General Partner pursuant to a General Partner Services Agreement, so long as the asset management fee is collected by the General Partner.

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. Net asset value is the greater of the total gross cash proceeds from the Offering, and the total purchase price of the properties plus cash reserves less outstanding mortgage debt. In addition, the General Partner is entitled to be reimbursed any deposits paid and for all out of pocket expenses incurred by the General Partner.

## **CERTIFICATE OF THE REALTY TRUST**

DATED: September 24, 2008

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

### **SUNSTONE OPPORTUNITY (2008) REALTY TRUST by its Trustee, SRAI Realty Services (2008) Inc.**

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

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

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

*“Robert King”*  
Robert King, Director

*“James Redekop”*  
James Redekop, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

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

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

## **CERTIFICATE OF THE MORTGAGE FUND**

DATED: September 24, 2008

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

### **SUNSTONE OPPORTUNITY (2008) MORTGAGE FUND by its Trustee, SRAI Mortgage Fund (2008) Inc.**

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

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

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

*“Robert King”*  
Robert King, Director

*“James Redekop”*  
James Redekop, Director

### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

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

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



## **CERTIFICATE OF THE LIMITED PARTNERSHIP**

DATED: September 24, 2008

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

### **SUNSTONE OPPORTUNITY FUND (2008) LIMITED PARTNERSHIP by its General Partner, Sunstone Realty Advisors (2008) Inc.**

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

*“Steve Evans”*  
Steve Evans,  
Secretary and  
Acting Chief Financial Officer

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

*“Darren Latoski”*  
Darren Latoski, Director

*“Steve Evans”*  
Steve Evans, Director

#### **PROMOTER**

SUNSTONE REALTY ADVISORS INC.

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

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

## **CERTIFICATE OF THE AGENTS**

DATED: September 24, 2008

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

Dundee Securities Corporation

Per: “◆”  
◆  
◆