

A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

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 may not be offered or sold in the U.S.

**PRELIMINARY PROSPECTUS IN QUEBEC
AND
AMENDED AND RESTATED PRELIMINARY PROSPECTUS
IN EACH OF THE PROVINCES AND TERRITORIES OF CANADA, OTHER THAN QUEBEC
Amending and Restating the Preliminary Prospectus dated September 3, 2010**

Initial Public Offering

September 23, 2010



SUNSTONE U.S. OPPORTUNITY (NO. 3) REALTY TRUST
(the “Trust”)

SUNSTONE (NO. 3) LIMITED PARTNERSHIP
(the “Master LP”)

(collectively, the Trust and the Master LP are
referred to herein as the “Issuers”)

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

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

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

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

- (1) The Offering Price was determined by negotiation between the Lead Agent and the Trust. No third-party valuation was obtained.
- (2) 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”).
- (3) As a further incentive to the Agents, the Holding GPs have agreed to pay to the Agents a trailer fee equal to 25% of any amounts realized by the Holding GPs in respect of their GP Interests. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Trust Units. As well, Sunstone US will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the Asset Management Fees paid to Sunstone US. Such trailer fee will only be paid by Sunstone US to the Agents if it is collected by it. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Trust Units. Pursuant to the Cost Sharing and Recovery Agreements, the Agents’ Commission and expenses incurred with respect to the Offering will be borne entirely by the Holding LPs (refer to “Plan of Distribution – Agency Agreement”).
- (4) Before deduction of the balance of the expenses of the Offering estimated at \$400,000 to \$600,000.

The Prospectus also qualifies the distribution to the Trust of up to 40,000 units of the Master LP (each a “**Master LP Unit**”) having a price of \$1,248.75 per Master LP Unit.

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

This is a “blind pool” Offering. Although the Issuers expect that the available net proceeds of the Offering will be applied in the purchase of one or more Properties, the specific Properties in which the net proceeds will be invested have not yet been determined. In any event, if the maximum Offering of 40,000 Trust Units is sold, the Issuers expect that approximately \$45,400,000 (approximately 90.8% of the gross proceeds of the Offering) will be applied to the purchase price and other acquisition costs of one or more Properties (including Financing Fees payable as described herein), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 4,000 Trust Units is sold, the Issuers expect that approximately \$4,200,000 (approximately 84.0% of the gross proceeds of the Offering) will be applied to the purchase price and other acquisition costs of one or more Properties (including Financing Fees payable as described herein), and to the creation of working capital reserves and reserves for renovations and upgrades.

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

As at the date of this Prospectus, neither the Trust nor the Master LP has any of their securities listed or quoted, has not applied to list or quote any of their securities, nor intends to apply to list or quote any of their securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America including the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.

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

The cumulative, non-compounded Minimum Returns of 8% per annum payable to limited partners of the Holding LPs, which will ultimately form part of the distributions available from the Trust to Trust Unitholders, are preferred returns, but are not guaranteed and may not be paid on a current basis in each year or at all.

“Related Parties” (as defined in the Glossary of Terms) shall not, in total, subscribe for more than 9.9% of the Trust Units sold pursuant to the Offering.

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

The return on an investment in the Trust Units is not comparable to the return on an investment in a fixed-income security. Cash distributions, including a return of a Trust Unitholder’s original investment, are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions. Although the Trust intends to distribute its available cash to the holders of Trust Units, such cash distributions may be reduced or suspended. The ability of the Trust to make cash distributions and the actual amount distributed will depend on the operations of the Properties acquired by the Holding LPs, and will be subject to various factors including those referenced in the “Risk Factors” section of this Prospectus. In addition, the market value of the Trust Units may decline if the Trust is unable to meet its cash distribution targets in the future, and that decline may be significant.

It is important for Purchasers to consider the particular risk factors that may affect the real estate and hotel investment markets generally and therefore the stability of the distributions to Trust Unitholders (refer to “Risk Factors” for a more complete discussion of these risks and their potential consequences).

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

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

Most of the Entities (as defined herein) are incorporated or otherwise organized under the laws of a foreign jurisdiction. Although each of such Entities has appointed Clark Wilson LLP, 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1, as its agent for service of process in British Columbia, it may not be possible for investors to enforce judgements obtained in Canada against the Master LP, Master GP, Investment LPs, Investment GPs, Holding LPs, Holding GPs or Hotels Leaseco.

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

The directors of the Trustee, the Master GP, the Investment GPs, Hotels Leaseco, the Holding GPs, Sunstone US, Advisorco, Hotel Managerco and Sunstone are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates (refer to “Potential Conflicts of Interest (Directors and Officers)”).

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

The Trust Units offered hereunder are offered on a “commercially reasonable best efforts” basis in each of the provinces and territories of Canada until November 30, 2010 by Dundee Securities Corporation, as lead agent, Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc., HSBC Securities (Canada) Inc., Sora Group Wealth Advisors Inc., Burgeonvest Bick Securities Limited and MGI Securities Inc., subject to: (a) prior sale, if, as and when issued and delivered by the Trust in accordance with the conditions of the Agency Agreement referred to in “Plan of Distribution”; (b) the approval of certain legal matters by Clark Wilson LLP, Vancouver, British Columbia on behalf of the Issuers; and (c) the approval of certain legal matters by Miller Thomson LLP on behalf of the Agents. The Agents may enter into co-brokerage/selling group agreements with other investment dealers to market the Trust Units offered hereunder.

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

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FORWARD-LOOKING STATEMENTS

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

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

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

Important factors and assumptions used by management of the Issuers to develop the forward-looking information include, but are not limited to management’s current expectations about: the availability of Properties for acquisition and the price at which such Properties may be acquired; the availability of mortgage financing and current interest rates; the extent of competition for Properties; assumptions about the markets in which the Holdings LPs intend to operate; the global and North American economic environment; and changes in governmental regulations or tax laws.

Although management of the Issuers believe that the expectations reflected in such forward-looking statements are reasonable and represent the relevant Issuer’s internal projections, expectations and belief at this time, such statements involve known and unknown risks and uncertainties which may cause a particular Issuer’s actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from a particular Issuer’s expectations include, among other things, the availability of suitable Properties for purchase by the Trust, the availability of mortgage financing for such Properties, and general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, in addition to those factors discussed or referenced in the “Risk Factors” section (refer to “Risk Factors”).

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

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

PROSPECTUS SUMMARY

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

Sunstone U.S. Opportunity (No. 3) Realty Trust

Sunstone U.S. Opportunity (No. 3) Realty Trust (the "**Trust**") is an unincorporated, open-ended investment trust formed under and governed by the laws of the Province of British Columbia and resident in Canada. The Trust was established for the purposes of indirectly acquiring, owning and leasing a diversified portfolio of revenue-producing real estate properties in the United States.

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

Sunstone has identified a number of regions in the U.S. as regions in which investors can take advantage of current economic circumstances, which Sunstone believes have created attractive investment opportunities for revenue-producing real estate properties. The tightening of credit markets in the U.S. commencing in 2008, arising in part as a result of the collapse of the "sub-prime" mortgage market, coupled with a general worldwide economic slowdown, caused an erosion of real estate prices in many areas of the U.S.

Although economic recovery has commenced in the United States, growth rates are low and a commensurate recovery in the private real estate markets has not yet occurred. The overhanging exposure of owners to conduit loans which mature in the next several years and which are at loan-to-value levels which are not supported by the current lending environment, as well as limited availability of mortgage financing and a diminished number of buyers, are among the factors which continue to limit price increases. Prospective purchasers with access to investment capital should be able to take advantage of foreclosure and other financial distress situations in acquiring properties on an opportunistic basis. Sunstone has created the Trust to take advantage of opportunities to invest in revenue-producing investment properties in order to generate positive investment returns over a medium to long-term investment horizon.

In addition, global stock markets have experienced high degrees of volatility during the past two years and, as such, Sunstone believes that private investments with medium to long-term investment horizons are particularly attractive relative to publicly-traded equities.

Sunstone also believes that similar economic factors have created attractive investment opportunities in the hotel sector and that significant debt defaults in the past two years among hotel owners, exposure to maturing conduit loans and a lack of available financing for under-capitalized owners should lead to the opportunity to earn a high rate of return from an opportunistic investment in hotel properties in the United States. Together with the principals of O'Neill Hotels & Resorts Ltd., one of the leading North American hotel management companies, Sunstone has established the Hotels Holding LP and Hotel Managerco to take advantage of these opportunities in the hotel sector. The Trust will allocate a portion of the net proceeds from the issuance of the Trust Units to the acquisition, ownership and leasing on an opportunistic basis of hotel properties in the United States, which will be managed and operated by Hotel Managerco.

An investment in Trust Units will be an indirect investment in the acquisition, ownership and leasing of the Properties acquired by the Holding LPs. As a result, the Minimum Returns and other returns on and of capital payable to limited partners holding Holding LPs Units, and the distributions received from Hotels Leaseco, will ultimately flow through to Trust Unitholders (refer to the Investment Structure chart on page 3).

Investment Highlights and Strategy

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

U.S. Property Market Focus

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

- *Nascent Economic Recovery Provides Investment Opportunities* – There has been a dramatic erosion of real estate values in the United States over the past two years, as a result of the economic fallout from the sub-prime mortgage crisis, the overall tightening of U.S. and global credit markets, and a world-wide economic slowdown. In response to the economic downturn, the U.S. federal government and governments in other countries have injected substantial levels of liquidity into the financial system and have taken various other actions designed to stabilize the economy. The National Board of Economic Review (NBER), a U.S. private sector group composed of academic economists, declared in September, 2010 that the U.S. recession ended in June, 2009, and that a recovery commenced in that month. However, the NBER recognized that the U.S. economy has not returned to operating at normal capacity. Rather, unemployment remains at 9.6%, economic growth is sluggish and many economic measures are below their peaks of mid 2007. Nonetheless, although recovery has been sluggish, Sunstone believes that timing is favourable for investment in underperforming properties.
- *Tightening of Credit Markets Favours Those With Capital* – The tightening of lending standards and a reduction in overall lending capacity among banks and other institutional lenders globally have combined to create difficult conditions for securing acquisition financing on favourable terms, or at all. This has reduced the number of investors and other participants in the real estate market.
- *Strong Population Growth in U.S. Sunbelt Regions* – Sunstone has targeted several markets in the “Sunbelt” regions of the U.S. for investment in revenue-producing real estate properties. Despite current economic concerns, population growth in the U.S. continues at the rate of nearly 1% annually, with much of the growth concentrated in the Southwestern and Southeastern portions of the country, in which Sunstone will primarily target property acquisitions. Sunstone expects that new immigrants to the Sunbelt regions will first seek out rental housing rather than buying homes, increasing demand for rental housing, supporting the multifamily residential property market which is one of the sectors targeted by Sunstone for investment in Properties.
- *Constraints on New Construction* – Sunstone expects that another result of tightening credit markets will be a decrease in the construction of new revenue-producing properties, thereby increasing demand for lease premises in existing properties and leading to increasing occupancy rates. Construction starts in June, 2010 were down 5.0% from May, 2010 and 5.8% below the June, 2009 levels.
- *Abundance of Revenue-Producing Property Supply* – The U.S. revenue-producing property sector is vast and there is an abundance of revenue-producing property supply. Sunstone expects that current economic circumstances should result in many owners being required to sell their properties in order to repay financing or repatriate capital for other properties or businesses. Sunstone believes there will be significant opportunities to acquire high quality revenue-producing property assets at attractive valuations and to further enhance their value through asset refurbishment and re-positioning in the marketplace.
- *Advantageous Hotel Market Fundamentals* - The U.S. hotel industry has experienced substantial declines in fundamentals as a result of the global economic recession and its adverse impact on business and leisure travel, with a significant number of hotel properties experiencing sizeable declines in operating cash flow. As a result, Sunstone believes that well-capitalized investors will have the opportunity to

acquire high-quality hotel properties at prices significantly below replacement cost with substantial appreciation potential.

Geographic Focus on Properties in the U.S. “Sunbelt” Regions

Sunstone will focus on the acquisition of Properties in the “Sunbelt” regions of the U.S., primarily in the Southwestern and Southeastern areas of the United States, although opportunities for acquisitions may arise in other regions of the U.S. States such as California, Arizona, Nevada, Texas, Georgia and Florida have experienced strong population growth rates over the last five years which were above the national average, a trend which is expected to continue over the next five years (with projected population growth rates of 5%, 13%, 14%, 8%, 7% and 10% respectively), creating additional demand for revenue-producing properties. These same regions have relatively high concentrations of sub-prime mortgages which Sunstone believes enhances the environment for opportunistic investments in revenue-producing properties. Sunstone believes that increased levels of “forced selling” by current owners should result in opportunistic valuations being obtained by it on purchased properties.

Focus on Full Service and Select Service Hotels

The Hotels Holding LP will focus on the acquisition of select service and full service hotels of at least 80 rooms. Full service hotels can generally be described as those providing significant food and beverage and meeting facilities to their guests and include brands such as Holiday Inn, Marriott and Hilton. Select service hotels derive a higher percentage of their revenues from the rental of guestrooms and usually include fitness facilities, swimming pools, business centres and a breakfast room. Examples of select services brands include Hilton Garden Inn, Hampton Inn and Courtyard by Marriott. It is expected that the majority of hotel properties to be acquired will be branded with an international flag.

Focus on Newer Properties

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

Experienced Management Team with a Strong Track Record of Creating Value

Through the Services Agreements between the Holding LPs and Sunstone US, investors will have the benefit of Sunstone’s experienced real estate management team with a breadth of experience in all facets of real estate, including acquisitions, asset management, property management, lease administration and finance. Darren Latoski and Steve Evans are co-founders, directors and senior officers of Sunstone and have an extensive track record of successful property investments. Over the past 20 years, they have been involved in the acquisition, and/or development of over CDN\$800 million in Canadian real estate properties and over \$307 million in U.S. real estate properties. Included among such properties are 58 properties acquired in Canada since 2004 by various Sunstone Opportunity Funds having an aggregate acquisition cost of over CDN\$489 million and six properties acquired indirectly by Sunstone U.S. Opportunity Realty Trust having an acquisition cost of over \$129 million. Messrs Latoski and Evans have also established a series of Sunstone Opportunity Funds annually from 2003 to 2009, which have raised an aggregate of CDN\$208,666,250 in equity financing for Canadian real estate and \$66,675,000 in equity financing for U.S. real estate.

Sunstone’s principals, Darren Latoski and Steve Evans, established Pure Industrial Real Estate Trust (“PIRET”) in 2007 and are two of PIRET’s trustees. Since 2007, PIRET has raised over CDN\$74 million in equity financing and acquired a portfolio of 54 industrial properties in Canada having an acquisition price of over CDN\$164 million. Since its inception, PIRET has been one of Canada’s best performing REITs, providing investors with a total return of 32% since its IPO as opposed to a -5% total return by the TSX over the same period.

Together with the principals of O'Neill Hotels & Resorts Ltd., one of the leading North American hotel management companies, Sunstone has established the Hotels Holding LP to identify and acquire hotel properties in the U.S. and Hotel Managerco to manage and operate such Hotels. O'Neill Hotels & Resorts Ltd. operates the Westin Resort and Spa at Whistler, BC; the Westin Grand Hotel, Vancouver, BC; and the Coast Blackcomb Suites at Whistler, BC. The principals of O'Neill Hotels & Resorts Ltd. have a combined 50 years of hotel industry experience. After successfully managing the transition of the family-owned Coast Hotels and Resorts chain to new owners in the 1990s, they established the Canadian Hotel Income Properties REIT ("**CHIP REIT**") in 1997 and, upon an initial public offering of nearly \$190 million, acquired 15 hotel properties, with the portfolio ultimately reaching 36 properties when management was internalized. In 2007, CHIP REIT was acquired by the British Columbia Investment Management Corporation. At that time, CHIP REIT owned 32 hotel properties valued at an estimated \$1.2 billion. From its initial public offering to its acquisition, CHIP REIT provided investors with a total return of 379% (14% annualized) as opposed to a 4% total return by the TSX over the same period.

Attractive U.S. Dollar Based Investment

The Offering Price for Trust Units is denominated in U.S. dollars. Generally, as the U.S. economy falters, the value of the Canadian dollar relative to the U.S. dollar rises. As the U.S. economy recovers, so too does the value of the U.S. dollar relative to the Canadian dollar, which declines. With the Canadian dollar trading close to its 40 year high in relation to the U.S. dollar, Sunstone believes that this is an opportune time for Canadian investors to use Canadian dollars to invest in a U.S. dollar denominated security of an investment vehicle that will own US assets.

Alignment of Interests Between Management and Trust Unitholders

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

Prudent Use of Financial Leverage

The current real estate debt financing market offers long-term debt financing at attractive interest rates which the Holding LPs intend to fully utilize in order to increase their respective return on equity. Sunstone expects that Properties (other than Hotels) will be available for acquisition at prices which provide an initial annual return on the unlevered purchase price of approximately 7% to 8%, while long-term mortgage financing will be available at annual interest rates of between 5% and 5½ %, providing positive financial leverage upon acquisition. As well, the Properties Holding GP will target the overall loan-to-value ratio of the Mortgage Loans at not more than 70% of the purchase price of the Properties as a whole, plus the amount of any property improvement reserve account approved by the Lenders.

In the case of Hotels, debt markets are returning for properties that are acquired at attractive per room costs and that have positive cash flows. Leverage is not expected to return to the levels of 2007 when underwriting techniques were very aggressive. Generally, Sunstone expects leverage of up to 60% of the acquisition cost of a Hotel to be achievable with interest rates in the range of 5.5% to 6.0% per annum.

Structure of the Offering

The Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of Master LP Units and shares of the Master GP. The Master GP will contribute the proceeds from the issuance of its shares

to the capital of the Master LP, so that all of the proceeds from the issuance of Trust Units will be invested in the Master LP. The Master LP will invest the proceeds from the issuance of Master LP Units in one or more of the following underlying entities:

- (a) Properties Investment LP Units - the Properties Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Properties Holding LP Units and the Properties Holding LP will invest the proceeds from the issuance of the Properties Holding LP Units in the acquisition of Properties, other than Hotels;
- (b) Hotels Investment LP Units - the Hotels Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Hotels Holding LP Units and the Hotels Holding LP will invest the proceeds from the issuance of the Hotels Holding LP Units in the acquisition of Hotels; and
- (c) Hotels Leaseco Shares – Hotels Leaseco will enter into leases of the Hotels (the “**Hotel Leases**”) from the Hotels Holding LP or subsidiary entities, and will engage Hotel Managerco to operate and manage the Hotels for and on behalf of Hotels Leaseco,

(refer to the Investment Structure chart on page 3). As a result, an investment in Trust Units will be an indirect investment in the acquisition, ownership and leasing of the Properties and the Minimum Returns and other returns on and of capital payable to limited partners holding Holding LPs Units, and the distributions received from Hotels Leaseco will ultimately flow through to Trust Unitholders.

The Trust

The securities being distributed pursuant to this Prospectus are units of the Trust (“**Trust Units**”). The Offering consists of a minimum of 4,000 Trust Units and a maximum of 40,000 Trust Units, at a price of \$1,250 per Trust Unit (refer to “Plan of Distribution”). **Purchasers are required to acquire a minimum of ten Trust Units.** Additional subscriptions may be made of single Trust Units. Trust Units cannot be purchased or held by “non-residents” of Canada, as defined in the Tax Act. The Trust will make an election pursuant to the Internal Revenue Code (“Code”) to be taxed as a partnership for U.S. federal income tax purposes, effective on the date of its formation.

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

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

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

The Master LP

The Prospectus also qualifies the distribution to the Trust of up to 40,000 units of the Master LP (“**Master LP Units**”) having a price of \$1,248.75 per Master LP Unit.

The Master LP is a limited partnership formed pursuant to and governed by the laws of Nevada and created by the Master LP Agreement. The Master LP was established, among other things, to:

- (a) acquire Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares; and
- (b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Master LP and making distributions to the holders of the Master LP Units.

The principal business of the Master LP will be to issue Master LP Units and to acquire and hold Investment LPs Units and Hotels Leaseco Shares. The allocation of the net proceeds received by the Master LP from the issuance of Master LP Units among Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares will be determined by the Master GP from time to time based upon the individual economic fundamentals of the prospective investment opportunities.

The Properties Investment LP and Hotels Investment LP

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

- (a) acquire Properties Holding LP Units and Hotels Holding LP Units (collectively, the “**Holding LPs Units**”), respectively; and
- (b) temporarily hold cash and investments for the purposes of paying their expenses and liabilities and making distributions to the holders of the Investment LPs Units.

The principal business of the Investment LPs will be to issue Investment LPs Units and to acquire and hold Holding LPs Units.

Subject to the right of the limited partners of the Investment LPs holding Class B Units thereof to receive an annual percentage return, cumulative but not compounded, calculated on their net equity in the Investment LPs (the “**Class B Minimum Return**”) at an expected rate of 12.5% per annum, and to such limited partners’ right to the repayment of their capital in the Investment LPs in priority to the limited partners holding Investment LPs Units, all funds received by the Investment LPs from the Holding LPs will be paid 99.99% to the limited partners holding Investment LPs Units and 0.01% to the Investment GPs (refer to “Description of the Securities Distributed – The Properties Investment LP and the Hotels Investment LP”).

The Properties Holding LP and Hotels Holding LP

Each of the Properties Holding GP and Hotels Holding GP (collectively, the “**Holding GPs**”) is a company engaged in identifying investment opportunities in revenue-producing real estate located in the U.S. In order to take advantage of such investment opportunities, the Holding GPs have established the Properties Holding LP and the Hotels Holding LP (collectively, the “**Holding LPs**”) pursuant to the laws of Nevada for the purposes of owning and leasing a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or proportionate interests in such Properties). The principal business of the Holding LPs will be to issue Holding LPs Units, to invest the proceeds from such issuance in the Properties, and to own and lease such Properties. In order to accommodate the expected requirements of Lenders and to segregate any risks of ownership between

Properties, the Holding GPs intend to have each of the Properties owned by a separate underlying limited partnership established and owned by the Properties Holding LP or the Hotels Holding LP.

Hotels Leaseco

Hotels Leaseco is a company formed under the laws of Delaware and is owned 99% by the Master LP and 1% by Hotels Investment LP. Hotels Leaseco intends to jointly elect with Hotels Investment LP to be treated for the purposes of the Code as a “taxable REIT subsidiary” of Hotels Investment LP. Hotels Leaseco will enter into a Hotel Lease with the Hotels Holding LP or its subsidiaries in respect of each of the Hotels. Rent payable under the Hotel Leases will be intended to qualify for the purposes of the Code as “rents from real property”. Refer to “U.S. Federal Income Tax Considerations” below for a further discussion of the Hotel Leases and the operations of the Hotels.

Distributions by the Holding LPs and Hotels Leaseco

The Trust will indirectly be a limited partner in the Holding LPs. Limited partners holding Holding LPs Units will be entitled to receive from Distributable Cash (Properties) and Distributable Cash (Hotels), respectively, a minimum return of 8% per annum, cumulative but not compounded, calculated on their Net Equity in the respective Holding LP (the “**Minimum Returns**”) and, after the return of their Net Equity invested in the Holding LPs and payment to Sunstone US and Advisorco of the respective Incentive Advisory Fees, 80% of the balance of Distributable Cash (Properties) and Distributable Cash (Hotels), respectively. **The Minimum Returns are preferred returns, but are not guaranteed and may not be paid on a current basis in each year or at all. The return on an investment in the Trust Units is not comparable to the return on an investment in a fixed-income security. Cash distributions, including a return of a Trust Unitholder’s original investment, are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions.**

The net proceeds from a capital transaction, such as a refinancing, sale or expropriation of a Property, or the receipt of insurance proceeds, after payment of current obligations of the respective Holding LP and the retention of reserves and the payment of any Disposition Fees, will be used to repay the limited partners’ respective Net Equity, to pay the respective outstanding Minimum Returns, and to pay to Sunstone US and/or Advisorco the respective Incentive Advisory Fees. The balance of any such proceeds will be paid 80% to the limited partners holding Holding LPs Units of the respective Holding LP and 20% to the applicable Holding GP (refer to “Description of the Securities Distributed – The Properties Holding LP and the Hotels Holding LP”).

As a result of the Trust’s indirect investment in Holding LPs Units, the amounts payable to limited partners holding Holding LPs Units in respect of the Minimum Returns and other distributions by the Holding LPs of Distributable Cash (Properties) and Distributable Cash (Hotels) and Net Equity (less any amounts payable to the limited partners of the Investment LPs holding Class B Units, including the respective Class B Minimum Return) will ultimately form part of the Distributable Cash Flow (Trust) and be available for distribution to Trust Unitholders.

Further, the Master LP and the Hotels Investment LP will own 99% and 1%, respectively, of the outstanding shares of Hotels Leaseco. As such, the Master LP and Hotels Investment LP will be entitled to receive 99% and 1%, respectively, of the distributions by Hotels Leaseco, which will include, after payment of current obligations of Hotels Leaseco and the retention of reserves as determined by the directors of Hotels Leaseco, the net after tax income earned by Hotels Leaseco from the operation and management of the Hotels (through Hotel Managerco) and the net after tax portion of any gains from any capital transaction. As a result of the Trust’s indirect investment in the shares of Hotels Leaseco, the distributions received from Hotels Leaseco will ultimately form part of the Distributable Cash Flow (Trust) and be available for distribution to Trust Unitholders.

Hotel Management and Operations

Hotels Leaseco will enter into the Hotel Management Agreement upon the acquisition of the first Hotel. Pursuant to the Hotel Management Agreement, Hotels Leaseco will engage Hotel Managerco, a British Columbia corporation, to provide management and operations services in respect of the Hotels. Hotel Managerco is a

subsidiary of O'Neill Hotels & Resorts Ltd., Darren Developments Inc. and Triple E Ventures Inc., and will provide ongoing hotel management, operations and supervision in respect of each of the Hotels. Hotel Managerco intends to qualify as an "eligible independent contractor" of Hotels Leaseco and Hotels Investment LP for the purposes of the Code and will ensure that any subcontractor qualifies as an "eligible independent contractor" of Hotels Leaseco and Hotels Investment LP for the purposes of the Code.

Hotel Managerco will have the right to subcontract and/or assign some or all of the services to be provided by it under the Hotel Management Agreement to a party who qualifies as an eligible independent contractor of Hotels Leaseco and the Hotels Investment LP as defined by the Code, provided that in the event of such a subcontract or assignment, Hotel Managerco will remain liable for the fulfillment of the obligations of the manager under the Hotel Management Agreement. Hotel Managerco intends to assign the Hotel Management Agreement to Tower Rock Hotels and Resorts Inc. ("**Operatorco**"). Operatorco is a U.S. subsidiary of O'Neill Hotels & Resorts Ltd. Upon such assignment, Hotels Leaseco may terminate the Hotel Management Agreement on 90 days notice either in whole or with respect to an individual Hotel.

Investment Objectives

The Holding LPs' primary investment objectives are as follows:

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

Guidelines for Acquisitions

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

- (a) assuming all 40,000 Trust Units offered under this Prospectus are issued, not more than 50% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Holding LPs 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) in the event that less than 40,000 Trust Units are issued, it may be necessary to apply more than 50% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraphs (c) below, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property and the creation of a reasonable working capital reserve);
- (c) upon purchase, each Property would be expected to generate a positive return on the respective Holding LPs' invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The Holding GPs will be able to waive this minimum requirement for Properties which they believe provide unique value-added opportunities through replacement of management, re-leasing or similar initiatives; and
- (d) the Holding LPs intend to acquire Properties which are eligible for investment by a REIT and which produce REIT-eligible income. To the extent that a Holding LP intends to acquire an interest in a Property which is not eligible for investment by a REIT, a taxable subsidiary (which will be a taxable

REIT subsidiary of that Investment LP for U.S. federal income tax purposes) will be established to acquire such Property.

Services Agreements

Pursuant to the Services Agreements between the Holding LPs and Sunstone US, Sunstone US has agreed to provide certain services relating to the Holding LPs and the Properties, including structuring this Offering, the Trust, the Master LP, the Investment LPs and the Holding LPs; liaising with legal and tax counsel; identifying Properties for acquisition; maintaining ongoing liaison with the Lenders in respect of the Mortgage Loans for the Properties; conducting ongoing analysis of market conditions to monitor the Holding LPs' investment in the Properties; supervising property management; advising the Holding LPs with respect to the disposition of the Properties; and providing investor communication and reporting services to the Holding LPs. In consideration of providing such services, the Holding LPs will pay to Sunstone US:

- (a) the Financing Fees, in an amount equal to 1.5% of the gross purchase price of each Property (or interest in a Property);
- (b) the Disposition Fees in an amount equal to 1.5% of the gross selling price for each Property;
- (c) in the case of the Hotels, if the gross selling price of a Hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the Hotel (including the price, due diligence costs, closing costs, legal fees, and additional capital costs), an additional disposition fee in an amount equal to 2% of the gross selling price of such Hotel;
- (d) the Asset Management Fees, in an annual amount equal to 1.5% of the Net Asset Values, payable monthly from property revenues, on the last day of each month during the term of the Services Agreements in an amount equal to 0.125% of the Net Asset Values at the beginning of each such month; and
- (e) the Incentive Advisory Fees, being the aggregate of:
 - (i) the Incentive Advisory Fee (Properties), being an amount equal to 20/80ths of the total payments made to limited partners holding Properties Holding LP Units in respect of the Minimum Return (Properties), which will be earned and will accrue and become payable only after the limited partners holding Properties Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Properties) from current and/or prior years' Distributable Cash (Properties) and Extraordinary Distributions (Properties); and
 - (ii) the Incentive Advisory Fees (Hotels), being an amount equal to 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which will be earned and will accrue and become payable only after the limited partners holding Hotels Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Hotels) from current and/or prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

Pursuant to the Advisory Agreement, Advisorco will provide a variety of advisory services to the Hotels Holding LP in respect of the Hotels, including assisting in the identification of Hotels for purchase and the preparation and implementation of asset management plans relating to the investment in the Hotels. In consideration of these services, the Hotels Holding LP will pay to Advisorco fees equal to 1.0% of the gross purchase price of each Hotel (or interest in a Hotel); 1.0% of the gross selling price for each Hotel (or interest in a Hotel); an additional disposition fee equal to 2% of the gross selling price of a Hotel if the gross selling price of such Hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the Hotel (including the price, due diligence costs, closing costs, legal fees, and additional capital costs); and the Incentive Advisory Fees (Hotels), being an amount equal to 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which will be earned and will accrue and become payable only after the limited partners

holding Hotels Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Hotels) from current and/or prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

Operations of the Hotels

Hotels Leaseco will engage Hotel Managerco, a British Columbia corporation, to provide management and operation services in respect of the Hotels upon the acquisition of the first Hotel. Hotel Managerco is a subsidiary of O'Neill Hotels & Resorts Ltd., Darren Developments Inc. and Triple E Ventures Inc. and will provide ongoing hotel management, operations and supervision in respect of each of the Hotels. In consideration of the provision of services under the Hotel Management Agreement, Hotels Leaseco will pay Hotel Managerco a management fee equal to 3.5% of total revenues per month earned by each Hotel (plus applicable taxes). As well, Hotels Leaseco will reimburse Hotel Managerco for all out-of-pocket expenses reasonably incurred by Hotel Managerco in the provision of services under the Hotel Management Agreement.

Hotel Managerco will have the right to subcontract and/or assign some or all of the services to be provided by it under the Hotel Management Agreement to a party who qualifies as an eligible independent contractor of Hotels Leaseco and the Hotels Investment LP as defined by the Code, provided that in the event of such a subcontract or assignment, Hotel Managerco will remain liable for the fulfillment of the obligations of the manager under the Hotel Management Agreement. Hotel Managerco intends to assign the Hotel Management Agreement to Operatorco. Operatorco will be a U.S. subsidiary of O'Neill Hotels & Resorts Ltd. Upon such assignment, Hotels Leaseco may terminate the Hotel Management Agreement on 90 days notice either in whole or with respect to an individual Hotel.

Cost Sharing and Recovery Agreements

Pursuant to the Cost Sharing and Recovery Agreements, the Holding LPs will ultimately bear all costs and expenses in respect of this Offering. Therefore, all proceeds of this Offering, net of expenses, will ultimately be invested in the Holding LPs in the purchase, ownership and leasing of the Properties, and in the payment of the costs shown in the table in "Item 5 Use of Proceeds".

Plan of Distribution

There will be no closing unless a minimum of 4,000 Trust Units are sold. The distribution under this Offering will not continue for a period of more than 90 days after the date of the Receipt for the Final Prospectus if subscriptions representing the minimum number of Trust Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90 day period, funds received from subscriptions will be held by the Agents in trust. Unless an amendment to the Final Prospectus (herein defined) is filed and the British Columbia Securities Commission, as principal regulator pursuant to Part 3 of Multilateral Instrument 11-102, "Passport System", has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the Receipt for the Final Prospectus. If an amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the amendment, the distribution of these securities will cease within 90 days after the date of the receipt for such amendment, unless a further amendment to the Final Prospectus is filed and the principal regulator has issued a receipt for the further amendment. In any case, the total period of distribution must not end more than 180 days from the date of the Receipt for the Final Prospectus.

Sales commissions (the "Agents' Commission") will be paid to the Agents at a rate equal to 8% of the gross proceeds of the Offering. Pursuant to the Cost Sharing and Recovery Agreements, the Agents' Commission and expenses will be ultimately borne entirely by the Holding LPs as a cost of issuing Properties Holding LP Units and Hotels Holding LP Units, respectively. As a further incentive to the Agents, the Holding GPs have agreed to pay to the Agents a trailer fee equal to 25% of any amounts realized by them in respect of their GP Interests. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Trust Units. As well, Sunstone US will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the Asset Management Fees paid to Sunstone US pursuant to the Services Agreements. Such trailer fee will only be paid by Sunstone US to the Agents if it is collected by it. The Agents may assign all or part of the trailer fee to sub-agents

effecting sales of Trust Units. Pursuant to the Cost Sharing and Recovery Agreements, the Agents' Commission and expenses incurred with respect to the Offering will be borne entirely by the Holding LPs (refer to "Plan of Distribution").

Use of Proceeds

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

The Master LP will invest the proceeds from the issuance to the Trust of Master LP Units in one or more of the following underlying entities:

- (a) Properties Investment LP Units - the Properties Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Properties Holding LP Units and the Properties Holding LP will invest the proceeds from the issuance of the Properties Holding LP Units in the acquisition of Properties, other than Hotels;
- (b) Hotels Investment LP Units - the Hotels Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Hotels Holding LP Units and the Hotels Holding LP will invest the proceeds from the issuance of the Hotels Holding LP Units in the acquisition of Hotels; and
- (c) Hotels Leaseco Shares – Hotels Leaseco will enter into leases of the Hotels (the "Hotel Leases") from the Hotels Holding LP or subsidiary entities, and will engage Hotel Managerco to operate and manage the Hotels for and on behalf of Hotels Leaseco,

(refer to the Investment Structure chart on page 3).

Assuming that the maximum offering of 40,000 Trust Units is sold, the gross proceeds of \$50,000,000, plus estimated Mortgage Loans in the aggregate principal amount of \$92,115,942 will be used to: pay the Agents' Commission of \$4,000,000; pay the other expenses of this Offering estimated at \$600,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$131,594,203; pay due diligence, documentation and financing costs relating to the purchase of such Properties of \$2,631,884; create reserves for renovation and upgrading of such Properties of \$657,971; create reasonable working capital reserves for such Properties of \$657,971; and pay the Financing Fees of \$1,973,913. (refer to "Use of Proceeds").

Assuming that the minimum Offering of 4,000 Trust Units is sold, the gross proceeds \$5,000,000, plus estimated Mortgage Loans in the aggregate principal amount of \$8,521,739 will be used to: pay the Agents' Commission of \$400,000; pay the other expenses of this Offering estimated at \$400,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$12,173,913; pay due diligence, documentation and financing costs relating to the purchase of such Properties of \$243,478; create reserves for renovation and upgrading of such Properties of \$60,870; create reasonable working capital reserves for such Properties of \$60,870; and pay the Financing Fees of \$182,608 (refer to "Use of Proceeds").

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

Redemption of Trust Units

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

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of
 - (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of the aggregate of:
 - (i) the Master LP Unit Value, being:
 - (A) the aggregate Properties Holding LP Unit Value of the Properties Holding LP Units indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date, plus the aggregate value of cash, working capital or other assets of the Properties Investment LP on the redemption date, other than Properties Holding LP Units the value of which is already accounted for; plus
 - (B) the aggregate Hotels Holding LP Unit Value of the Hotels Holding LP Units indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date, plus the aggregate value of cash, working capital or other assets of the Hotels Investment LP on the redemption date, other than Hotels Holding LP Units the value of which is already accounted for and the Hotels Leaseco Shares, the value of which is accounted for under (b)(i)(C) below; plus
 - (C) the aggregate Hotels Leaseco Share Value of the Hotels Leaseco Shares directly and indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date; plus
 - (D) the aggregate value of the cash, working capital, or other assets of the Master LP on the redemption date, other than Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares the value of which is accounted for under (b)(i)(A), (B) and (C) above; less
 - (E) the aggregate value of the liabilities of the Master LP, the Properties Investment LP and the Hotels Investment LP on the redemption date; less
 - (F) the aggregate value on the redemption date of any interest in the Properties Investment LP, the Hotels Investment LP or Hotels Leaseco other than Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares held by the Master LP, plus
 - (ii) the aggregate value of the cash, working capital, or other assets of the Trust on the redemption date, other than Master LP Units the value of which is accounted for under (b)(i) above; less
 - (iii) the aggregate value of the liabilities of the Trust on the redemption date; less
 - (iv) the aggregate value on the redemption date of any interest in the Master LP other than Master LP Units held by the Trust,

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

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

- (a) the total amount payable by the Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$100,000;
- (b) the total amount payable by the Trust by cash payment in respect of the redemption of Trust Units in any twelve month period ending at the end of that calendar quarter will not exceed 3/4 of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period; and
- (c) in the event the Trust Units are listed on a stock exchange or similar market, the normal trading of the Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

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

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

Management

The directors of the Trustee are Robert King and James Redekop. The sole officer of the Trustee is Darren Latoski, President. The directors and officers of the Investment GPs and the Holding GPs are Steve Evans and Bryan Kerns. The directors and officers of Sunstone US are Darren Latoski and Steve Evans.

Risk Factors

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

This is a Blind Pool Offering – The net proceeds of the Offering will ultimately be invested in the acquisition of one or more Properties, including one or more Hotels. However, the specific Properties in which the net proceeds will be invested have not yet been determined. Depending on the return on investment achieved on the Properties that may be acquired with the net proceeds of the Offering, the Trust Unitholders' return on their investments in the Trust Units will vary.

Reliance on Management – Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the Sunstone group of companies and its principals, Darren Latoski and Steve Evans. Further, prospective purchasers will also be relying on the good faith and expertise of Hotel Managerco and its principals, Rob O'Neill and John O'Neill, with respect to the management and operation of the Hotels.

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

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

Return not Guaranteed – The Minimum Returns are preferred returns, but are not guaranteed and may not be paid on a current basis in each year or at all. The return on an investment in the Trust Units is not comparable to the return on an investment in a fixed-income security. Cash distributions, including a return of a Trust Unitholder's original investment, are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions.

Non-GAAP Measures – Certain cash returns on investment in previous Sunstone trust and partnership entities set out in this Prospectus are not stated in accordance with Generally Accepted Accounting Principles (GAAP). Such returns are variously referred to as an annualized internal rate of return (IRR) or a total pre-tax cash return on investment. Such measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable measure calculated in accordance with GAAP, as such measures are based on investment which is external to the issuer. The measures used are meaningful to the investors as they are based on the average investor's individual investment in the entities mentioned. Sunstone uses such unaudited measures to provide investors with an estimated guideline as to the investment returns received on its previous investment offerings. Investors are cautioned that historical returns on other Sunstone investment offerings and similar offerings by others are not predictive of the returns which may be achieved by Trust Unitholders from an investment in Trust Units.

Risks of Real Estate Ownership – An investment in Trust Units is an indirect investment in U.S. real estate through the Trust's indirect interest in the Holding LPs and the Properties acquired by them. Investment in real estate is subject to numerous risks, which include but are not limited to the following:

- (a) *Acquisition Risk* - The acquisition of Properties entails risks that investments will fail to perform in accordance with expectations, including the risks that the Properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired Property up to standards established for the market position intended for that Property may prove inaccurate.
- (b) *General Real Estate Ownership Risks* - All real property investments are subject to a degree of risk and uncertainty and are affected by various factors including general economic conditions, local real estate markets, demand for leased premises, competition from other available premises, leasing risk, exposure to defaulting tenants and various other factors.
- (c) *Financing Risks* – There is no assurance that either of the Holding LPs will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties on commercially acceptable terms or at all. There is also no assurance that any Mortgage Loans, if obtained, will be renewed when they mature. In the absence of mortgage financing, the number of Properties which the Holding LPs will be able to purchase will decrease and the return from the ownership of Properties (and ultimately the return on an investment in Trust Units) will be reduced.

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

- (d) *Interest Rate Fluctuations* – The Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Holding LPs' cost of borrowing.
- (e) *Environmental Matters* – Under various environmental and ecological laws, the Holding LPs and/or their subsidiaries could become liable for the costs of removal or remediation of certain hazardous or toxic substances that may be released on or in one or more of the Properties or disposed of at other locations. The failure to deal effectively with such substances, if any, may adversely affect the Holding LPs' ability to sell such Property or to borrow using the Property as collateral, and could potentially also result in claims against the Holding LPs by private parties.

- (f) *Uninsured Losses* – Each of the Holding GPs will arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned by them or their subsidiaries 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.
- (g) *Reliance on Property Management* – The Properties Holding GP will rely upon independent management companies to perform property management functions in respect of each of the Properties (other than the Hotels). 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.
- (h) *Reliance on Hotel Management* – The Hotels Holding GP will rely upon Hotel Managerco to manage and operate the Hotels. The officers, management and employees of Hotel Managerco will devote so much of their time to the management and operation of the Hotels as in their judgment is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Hotels and their other development, investment and/or management activities.
- (i) *Competition for Investments* – The Holding LPs will compete for suitable investments with other individuals, corporations, real estate investment trusts and similar vehicles, and institutions which are presently seeking or which may seek in the future real property investments similar to those sought by the Holding LPs. Such competition would tend to increase purchase prices of real estate properties and reduce the yield on such investments.
- (j) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Mortgage Loans or to fund changes in any variable rates of interest charged in respect of such loans.
- (k) *Fluctuations in Capitalization Rates* – As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.
- (l) *Joint Ventures* - The Holding LPs may invest in or be a participant in joint ventures and partnerships with third parties in respect of the Properties, respectively. A joint venture or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the Holding LPs' control over the Properties and their ability to sell their interests in a Property within a reasonable time frame.
- (m) *U.S. Market Factors* – The Properties will be located in the U.S. Global market and economic conditions since the beginning of 2008 have been challenging with recession in the North American economy. U.S. markets are currently experiencing increased levels of volatility due to a combination of many factors, including high unemployment, decreasing home prices, the highest level of home foreclosures since the recession began in 2008, limited access to credit markets, higher fuel prices, less consumer spending, fears of a “double-dip” recession, and the slow rate of recovery. Although the recession technically ended in June, 2009, the U.S. economy has not returned to operating at normal capacity and the effects of the current market dislocation may persist as governments wind down fiscal stimulus programs. Concern about the stability of the markets generally and the strength of the economic recovery may lead lenders to reduce or cease to provide funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures. As a result, this economic downturn has reduced demand for space and removed support for rents and property values. The Trust cannot predict when the real estate markets will recover. The value of Properties acquired may decline if current market conditions persist or worsen.

Hotel Industry Risks

- (a) *Operating Risks* – Operating risks include economic cycles; changes in the level of business and commercial travel and tourism; increases in supply; competition from other hotels; the recurring need for refurbishment; changes in wages, prices, energy costs and construction and maintenance costs, government regulations, changes in interest rates or currency fluctuations; seasonal fluctuations in hotel operating income; availability of financing; and increases in expenses of travel, particularly automotive travel.
- (b) *Competition* - The hotel industry is highly competitive. Each of the Hotels will compete locally and regionally with existing hotels and will compete with hotels that may be developed in the future.
- (c) *Franchise Risk* – The Hotels may be subject to franchise agreements. The continuation of any franchises is subject to specified operating standards and other terms and conditions which are often subject to change over time. The failure of a Hotel to conform to the franchisor's operating standards or other causes could result in the loss or cancellation of the franchise agreement. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the Hotel.
- (d) *Management by Hotel Managerco* – The Hotels will be operated by Hotel Managerco which is not controlled by the Hotels Holding LP or the Trust. The Hotels Holding LP may not be able to require Hotel Managerco to change its method of operation of the Hotels.
- (e) *Potential Labour Disruptions* - Hotel operations rely heavily on employees. Individual Hotels may experience labour disruptions or difficulties which could affect the short term operating performance of particular hotels. Any such labour difficulties could have a material adverse effect on the Trust's results of operations, business, prospects and financial condition.

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

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

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

Liability of Trust Unitholders – There is a risk that a Trust Unitholder could be held personally liable for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust). The Trust Declaration provides that no Trust Unitholder shall be held to have any personal liability as such for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Trust or the Trustee (to the extent that claims are not satisfied by the Trust). In any event, the Trust Declaration requires the Trustee to ensure that any written contract or commitment of the Trust includes an express limitation of liability except where not reasonably possible.

Risks Associated with Redemptions

- (a) *Use of Available Cash* – The payment in cash by the Trust of the redemption price of Trust Units will reduce the amount of cash available to the Trust for the payment of distributions to the holders of Trust Units, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.
- (b) *Limitation on Payment of Redemption Price in Cash* – The total cash amount available for the payment of the redemption price of Trust Units by the Trust is limited to \$100,000 in each calendar quarter and is also limited in any twelve month period to 3/4 of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period.
- (c) *Payment of Redemption Price in Kind* – As a result of the foregoing limitations, the redemption of Trust Units may be paid by way of a Trust Note, Debt Security or a Master LP Unit. Trust Notes and Debt Securities are payable over a term of five years or less with annual interest at the Canada Five-Year Yield. Trust Notes, Debt Securities and Master LP Units received as a result of redemptions of Trust Units may not be liquid. Further, they generally will not be qualified investments for Plans and may be prohibited investments for TFSA's, which will generally give rise to adverse consequences to a Plan and/or its annuitant, beneficiary thereunder or holder thereof, including the redeeming Trust Unitholder or Plan annuitant, beneficiary or holder becoming subject to a penalty tax, the Plan annuitant being deemed to receive income from the Plan, or, in the case of an RESP, having the Plan's tax-exempt status revoked. Accordingly, Plans that propose to invest in Trust Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Trust Units.

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

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

From the perspective of U.S. federal income tax (and without limiting the generality of the foregoing), the Investment LPs are not currently qualified as REITs for U.S. federal income tax purposes and they may fail to meet the requirements to qualify as REITs, which will require the Investment LPs to pay additional taxes and which could reduce funds available to make distributions to the Trust Unitholders. Even if the Investment LPs each becomes qualified as a REIT for U.S. federal income tax purposes, they may be subject to other tax liabilities that reduce their cash flow and their ability to make distributions to the Trust. For example, if an Investment LP (through its respective Holding LP) sells property, other than foreclosure property, that it holds primarily for sale in the ordinary course of business, the gain recognized would be subject to a 100% "prohibited transaction" tax. In addition, Hotels Leaseco, as a "taxable REIT subsidiary" of the Hotels Investment LP, will be subject to U.S. federal, state and local income taxes applicable to U.S. corporations.

Furthermore, future legislative, judicial or administrative changes to Canadian and U.S. federal income tax laws could affect the tax implications to the Investment LPs, the Holding LPs, Hotels Leaseco, the Master LP, the Trust and the Trust Unitholders.

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

Summary Financial Information

Included in this Prospectus are audited financial statements of Sunstone U.S. Opportunity (No. 3) Realty Trust for the period from formation on August 17, 2010 to August 19, 2010 and audited financial statements of Sunstone (No. 3) Limited Partnership for the period from formation on August 18, 2010 to August 19, 2010.

U.S. Currency

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

GLOSSARY OF TERMS

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

“Advisorco” means Maverick Management Ltd., a British Columbia corporation;

“Advisory Agreement” means an agreement to be made between the Hotels Holding LP and Advisorco pursuant to which Advisorco will provide certain services relating to the Hotels;

“Agency Agreement” means an agreement dated as of September ♦, 2010 among the Trustee, for itself and on behalf of the Trust as its trustee; the Master GP, for itself and on behalf of the Master LP; each of the Investment GPs, for themselves and on behalf of their respective Investment LP as general partner; each of the Holding GPs, for themselves and on behalf of their respective Holding LP as general partner; Sunstone US; Sunstone; and the Agents;

“Agents” means, collectively, the Lead Agent, Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc., Sora Group Wealth Advisors Inc., HSBC Securities Inc., MGI Securities Inc. and Burgeonvest Securities Ltd.;

“Asset Management Fee (Hotels)” means an annual fee equal to 1.5% of the Net Asset Value (Hotels), payable to Sunstone US monthly from property revenues, on the last day of each month during the term of the Services Agreement (Hotels) in an amount equal to 0.125% of the Net Asset Value (Hotels) at the beginning of each such month, plus an amount equal to the amount of any portion of the Asset Management Fee (Hotels) for a previous year or years of the term of the Services Agreement (Hotels), the payment of which was waived by Sunstone US, payable within 30 days of the presentation by Sunstone US of an invoice therefore;

“Asset Management Fee (Properties)” means an annual fee equal to 1.5% of the Net Asset Value (Properties) payable to Sunstone US monthly from property revenues, on the last day of each month during the term of the Services Agreement (Properties) in an amount equal to 0.125% of the Net Asset Value (Properties) at the beginning of each such month, plus an amount equal to the amount of any portion of the Asset Management Fee (Properties) for a previous year or years of the term of the Services Agreement (Properties), the payment of which was waived by Sunstone US, payable within 30 days of the presentation by Sunstone US of an invoice therefore;

“Asset Management Fees” means, collectively, the Asset Management Fee (Hotels) and the Asset Management Fee (Properties);

“Business Day” means any day which is not a Saturday, Sunday or statutory holiday in the Province of British Columbia;

“Canada Five-Year Yield” means on any date the yield to maturity on such date (expressed as a percentage), assuming semi-annual compounding, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of approximately five years, which Canada Five-Year Yield shall be determined by a major Canadian investment dealer selected by the Trustee;

“Cash Flow (Trust)” means, for any Distribution Period:

- (a) the sum of all cash amounts received by the Trust for or in respect of such Distribution Period, including the amounts received as a limited partner holding Master LP Units in the Master LP pursuant to the terms of the Master LP Agreement and all other income, interest, distributions, dividends, proceeds from the investment in the Master LP Units (other than by way of security interest), returns of capital and repayments of indebtedness, as well as all amounts received by the Trust in any prior Distribution Period to the extent not previously distributed; less

- (b) all costs and expenses of the Trust that, in the opinion of the Trustee, may reasonably be considered to have accrued and become owing in respect of, or which relate to, such Distribution Period or a prior Distribution Period if not accrued in such prior period; less
- (c) all amounts payable in cash that relate to the redemption or repurchase of Trust Units and that have become payable by the Trust in such Distribution Period or prior Distribution Period; and less
- (d) any interest expense incurred by the Trust between distributions,

provided that any funds borrowed by the Trust or the proceeds of the issuance of Units or other securities of the Trust and related transactions in connection therewith will not be included in the calculations of Cash Flow (Trust) in respect of any Distribution Period.

“CBCA” means the *Business Corporations Act* (Canada), as amended from time to time;

“Class B Units” means Class B limited partnership units of each of the Investment LPs;

“Code” means the United States Internal Revenue Code of 1986, as amended from time to time;

“Cost Sharing and Recovery Agreement – Hotels Investment LP” means an agreement dated as of September 1, 2010 between the Master LP and the Hotels Investment LP pursuant to which the Hotels Investment LP has agreed to bear a portion of the costs of this Offering incurred by the Master LP, as a cost of issuing Hotels Investment LP Units;

“Cost Sharing and Recovery Agreement – Hotels Holding LP” means an agreement dated as of September 1, 2010 between the Hotels Investment LP and the Hotels Holding LP pursuant to which the Hotels Holding LP has agreed to bear a portion of the costs of this Offering incurred by the Hotels Investment LP, as a cost of issuing Hotels Holding LP Units;

“Cost Sharing and Recovery Agreement – Master LP” means an agreement dated as of September 1, 2010 between the Trust and the Master LP pursuant to which the Master LP has agreed to bear a portion of the costs of this Offering incurred by the Trust, as a cost of issuing Master LP Units;

“Cost Sharing and Recovery Agreement – Properties Investment LP” means an agreement dated as of September 1, 2010 between the Master LP and the Properties Investment LP pursuant to which the Properties Investment LP has agreed to bear a portion of the costs of this Offering incurred by the Master LP, as a cost of issuing Properties Investment LP Units;

“Cost Sharing and Recovery Agreement – Properties Holding LP” means an agreement dated as of September 1, 2010 between the Properties Investment LP and the Properties Holding LP pursuant to which the Properties Holding LP has agreed to bear a portion of the costs of this Offering incurred by the Properties Investment LP, as a cost of issuing Properties Holding LP Units;

“Cost Sharing and Recovery Agreements” means, collectively, the Cost Sharing and Recovery Agreement – Hotels Investment LP, the Cost Sharing and Recovery Agreement – Hotels Holding LP, the Cost Sharing and Recovery Agreement – Master LP, the Cost Sharing and Recovery Agreement – Properties Investment LP and the Cost Sharing and Recovery Agreement – Properties Holding LP;

“Debt Securities” means debt securities of any subsidiary of the Trust that may be created and issued from time to time, that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the option of the Trust prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;

“Disposition Fees” means the Disposition Fee (Hotels) and the Disposition Fee (Properties);

“Disposition Fee (Hotels)” means the disposition fee payable to Sunstone US by the Hotels Holding LP pursuant to the Services Agreement (Hotels) in consideration of Sunstone US assisting in the negotiation and finalization of the sale of the Hotels on behalf of the Hotels Holding LP as described in “Executive Compensation – Management Agreements – Services Agreements”, below;

“Disposition Fee (Properties)” means a fee payable to Sunstone US by the Properties Holding LP pursuant to the Services Agreement (Properties) in consideration of Sunstone US negotiating and finalizing the sale of the Properties on behalf of the Properties Holding LP as described in “Executive Compensation – Management Agreements – Services Agreements”, below;

“Distributable Cash Flow (Trust)” means, for any Distribution Period, an amount equal to the Cash Flow (Trust) for such Distribution Period, less any amount that the Trustee may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Trust, that have been or are reasonably expected to be incurred in the activities and operations of the Trust (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the Cash Flow (Trust)) and less such reserves or amounts as are, in the opinion of the Trustee, necessary or desirable;

“Distributable Cash (Hotels)” means, for any period, an amount equal to the Gross Rents from the Hotel Leases to Hotels Leaseco, less any other costs or expenses payable by the Hotels Holding LP, and less reasonable reserves determined by the Hotels Holding GP to be necessary to maintain, replace or repair such Hotel or manage the affairs of the Hotels Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Hotels);

“Distributable Cash (Properties)” means, for any period, an amount equal to the Gross Rents from the operations of the Properties, less the Operating Expenses incurred in the operation of the Properties, less any other costs or expenses payable by the Properties Holding LP, and less reasonable reserves determined by the Properties Holding GP to be necessary to lease the Properties or manage the affairs of the Properties Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Properties);

“Distribution Payment Date” means in respect of any Distribution Period, means a date on which the Trustee is required to make a distribution of Distributable Cash Flow (Trust), which date shall be on or before the 15th day of the next calendar month immediately following the end of the Distribution Period or, if such day is not a Business Day, the immediately following Business Day, except in the case of the distribution for any Distribution Period ending December 31, in which case the Distribution Payment Date will be the immediately preceding Business Day or such other date determined from time to time by the Trustee;

“Distribution Period” means each quarter of each calendar year, being any of the periods ending on March 31, June 30, September 30 and December 31 in each year;

“Entity” means any one of the Trust, Trustee, Master LP, Master GP, Hotels Investment LP, Hotels Investment GP, Properties Investment LP, Properties Investment GP, Hotels Holding LP, Hotels Holding GP, Properties Holding LP, Properties Holding GP, or Hotels Leaseco;

“Extraordinary Distributions (Hotels)” means distributions to the partners of the Hotels Holding LP arising from or related to funds received by the Hotels Holding LP on account of matters other than rental revenues payable by Hotels Leaseco pursuant to the Hotel Leases, including distributions arising from a refinancing or a sale of a Hotel, after deduction of any Disposition Fee (Hotels), but excluding distributions of Distributable Cash (Hotels);

“Extraordinary Distributions (Properties)” means distributions to the partners of the Properties Holding LP arising from or related to funds received by the Properties Holding LP on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a refinancing or a sale of a Property, after deduction of any Disposition Fee (Properties), but excluding distributions of Distributable Cash (Properties);

“Final Prospectus” means the final version of this Prospectus which will be filed by the Issuers with the securities commissions or other securities regulatory authorities in the Qualifying Provinces and Territories;

“Financing Fees” means the Financing Fee (Properties) and the Financing Fee (Hotels);

“Financing Fee (Hotels)” means a fee payable to Sunstone US by the Hotels Holding LP pursuant to the Services Agreement (Hotels) in consideration of Sunstone US providing financing services to the Hotels Holding LP, as described in Executive Compensation – Management Agreements – Services Agreements, below;

“Financing Fee (Properties)” means a fee payable to Sunstone US by the Properties Holding LP pursuant to the Services Agreement (Properties) in consideration of Sunstone US providing financing services to the Properties Holding LP, as described in Executive Compensation – Management Agreements – Services Agreements, below;

“GP Interests” means the Holding GP Interest (Hotels) and Holding GP Interest (Properties), as the case may be;

“Gross Rents”, in the case of Properties other than Hotels, means, for any period, all rental and other income from the Properties (including interest income earned on any such monies prior to their distribution) but excluding therefrom security deposits and advance rents, unless and until applied, tenant incentive payments or allowances, tenant expense recoveries, net proceeds from refinancing, and net proceeds from sale and, in the case of the Hotels, the lease revenue payable by Hotels Leaseco pursuant to the Hotel Leases;

“Holding GP Interest (Hotels)” means the Hotels Holding GP’s interest in the allocations and distributions of the Hotels Holding LP, being a 20% interest in the balance of such allocations and distributions after the payment of the Minimum Return (Hotels) and the Incentive Advisory Fees (Hotels);

“Holding GP Interest (Properties)” means the Properties Holding GP’s interest in the allocations and distributions of the Properties Holding LP, being a 20% interest in the balance of such allocations and distributions after the payment of the Minimum Return (Properties) and the Incentive Advisory Fee (Properties);

“Holding GPs” means the Hotels Holding GP and the Properties Holding GP;

“Holding LPs” means the Hotels Holding LP and the Properties Holding LP;

“Holding LPs Agreements” means the Hotels Holding LP Agreement and the Properties Holding LP Agreement;

“Holding LPs Units” means the Hotels Holding LP Units and the Properties Holding LP Units;

“Hotel” means one of the Hotels;

“Hotel Leases” means leases entered into between the Hotels Holding LP or its subsidiaries, as lessor, and Hotels Leaseco, as lessee;

“Hotel Management Agreement” means the Hotel Master Management Agreement to be made between Hotels Leaseco and Hotel Managerco pursuant to which Hotel Managerco will provide certain management services to Hotels Leaseco in respect of the Hotels leased by Hotels Leaseco from the Hotels Holding LP or its subsidiaries;

“Hotel Managerco” means Sunstone O’Neill Hotel Management Inc., a British Columbia corporation;

“Hotels” means the hotels located in the United States or interests therein to be purchased, owned and leased by the Hotels Holding LP;

“Hotels Holding GP” means Sunstone U.S. No. 3H (G.P.) Limited Partnership, a Nevada limited partnership and the general partner of the Hotels Holding LP;

“Hotels Holding LP” means Sunstone U.S. Opportunity (No. 3H) Limited Partnership, a Nevada limited partnership established by the Hotels Investment LP and the Hotels Holding GP pursuant to the laws of Nevada and the Hotels Holding LP Agreement for the identification, acquisition, ownership and leasing of the Hotels;

“Hotels Holding LP Agreement” means the agreement establishing the Hotels Holding LP made as of September 1, 2010 between the Hotels Investment LP and the Hotels Holding GP;

“Hotels Holding LP Units” means limited partnership units of the Hotels Holding LP;

“Hotels Holding LP Unit Value” means, on any particular date:

- (a) the aggregate value of the Hotels of the Hotels Holding LP on the last day of the most recent calendar quarter that ends prior to such date; plus
- (b) the aggregate value of the cash and other working capital assets of the Hotels Holding LP on such date; less
- (c) the aggregate of:
 - (i) the aggregate value of the Hotels Holding LP’s liabilities on such date (including the aggregate amount of the Mortgage Loans outstanding on such date);
 - (ii) the amount to which the Hotels Holding GP would be entitled under the Hotels Holding LP Agreement (to the extent not taken into account in (c)(i) above) if the Hotels Holding LP was terminated and liquidated on such date; and
 - (iii) the amount which would be payable to Sunstone US (other than amounts included in (c)(i) above) if the Services Agreement (Hotels) was terminated on such date,

divided by the number of outstanding Hotels Holding LP Units on such date;

“Hotels Investment GP” means Sunstone Advisors (Delaware) No. 3H Inc., a Delaware corporation;

“Hotels Investment LP” means Sunstone U.S. (No. 3H) L.P., a Delaware limited partnership established by the Master LP and the Hotels Investment GP pursuant to the laws of Delaware and the Hotels Investment LP Agreement, which will make an election pursuant to the Code to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and which intends to make an election to be treated as a REIT pursuant to Section 856 to 859 of the Code;

“Hotels Investment LP Agreement” means the agreement establishing the Hotels Investment LP made as of September 1, 2010 between the Master LP and the Hotels Investment GP;

“Hotels Investment LP Units” means Class A limited partnership units of the Hotels Investment LP;

“Hotels Leaseco” means Sunstone U.S. Hotel (No. 3) Inc. a Delaware corporation;

“Hotels Leaseco Share Value” means, on any particular date:

- (a) the aggregate value of the assets of Hotels Leaseco, other than any value attributed to the Hotel Leases and the aggregate value of the cash and other working capital assets of Hotels Leaseco, on the last day of the most recent calendar quarter that ends prior to such date; plus
- (b) the aggregate value of the cash and other working capital assets of Hotels Leaseco on such date; less

(c) the aggregate value of Hotels Leaseco's liabilities on such date;

divided by the number of outstanding Hotels Leaseco Shares on such date;

"Hotels Leaseco Shares" means the common shares of Hotels Leaseco, which will be issued 99% to the Master LP and 1% to the Hotels Investment LP;

"Incentive Advisory Fees" means the Incentive Advisory Fees (Hotels) and the Incentive Advisory Fee (Properties);

"Incentive Advisory Fees (Hotels)" means fees to be paid by the Hotels Holding LP to each of Sunstone US and Advisorco, which fees will be earned and will accrue and become payable only after the limited partners holding Hotels Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Hotels) from current and/or prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels), each of which fees will be an amount equal to 10/80ths of the total payments made to the date of such distribution to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels);

"Incentive Advisory Fee (Properties)" means a fee to be paid by the Properties Holding LP to Sunstone US, which fee will be earned and will accrue and become payable only after the limited partners holding Properties Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Properties) from current and/or prior years' Distributable Cash (Properties) and Extraordinary Distributions (Properties), in an amount equal to 20/80ths of the total payments made to the date of such allocation and distribution to limited partners holding Properties Holding LP Units in respect of the Minimum Return (Properties);

"Investment GPs" means the Hotels Investment GP and the Properties Investment GP;

"Investment LPs" means the Hotels Investment LP and the Properties Investment LP;

"Investment LPs Agreements" means the Hotels Investment LP Agreement and the Properties Investment LP Agreement;

"Investment LPs Units" means Hotels Investment LP Units and Properties Investment LP Units;

"Issuers" means, collectively, Sunstone U.S. Opportunity (No. 3) Realty Trust and Sunstone (No. 3) Limited Partnership;

"Lead Agent" means Dundee Securities Corporation;

"Lender" means a lender and mortgagee of any of the Mortgage Loans;

"Master GP" means Sunstone (No. 3) Inc., a Nevada corporation;

"Master LP" means Sunstone (No. 3) Limited Partnership, a Nevada limited partnership;

"Master LP Unit Value" has the meaning given to it in the description of the redemption price payable for Trust Units, under the heading "Description of the Securities Distributed – Trust Units – Redemption";

"Minimum Returns" means the Minimum Return (Hotels) and Minimum Return (Properties);

"Minimum Return (Hotels)" means a minimum return to the limited partners holding Hotels Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners' Net Equity in the Hotels Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Hotels Holding LP Units to distributions of Distributable Cash (Hotels) and Extraordinary Distributions (Hotels) of the Hotels Holding LP;

“Minimum Return (Properties)” means a minimum return to the limited partners holding Properties Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners’ Net Equity in the Properties Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Properties Holding LP Units to distributions of Distributable Cash (Properties) and Extraordinary Distributions (Properties) of the Properties Holding LP;

“Mortgage Loans” means one or more mortgages, charges, pledges, hypothecs, liens, security interests or other encumbrances of any kind or nature whatsoever of the Properties, to be granted by the Holding LPs (or, if a Property is held by a subsidiary or nominee entity on behalf of a Holding LP, by such entity) to one or more Lenders, the proceeds of which will be used to finance the purchase, ownership and leasing of such Property;

“Net Asset Values” means the aggregate of the Net Asset Value (Hotels) and the Net Asset Value (Properties);

“Net Asset Value (Hotels)” means the greater of: (a) the total cash proceeds from this Offering which are invested through the Master LP, Hotels Investment LP and Hotels Holding LP in the acquisition of Hotels; and (b) the total purchase price of the Hotels including all fees and expenses and cash reserves, less the outstanding Mortgage Loans made in respect of the Hotels;

“Net Asset Value (Properties)” means the greater of: (a) the total cash proceeds from this Offering which are invested through the Master LP, Properties Investment LP and Properties Holding LP in the acquisition of Properties; and (b) the total purchase price of the Properties including all fees and expenses and cash reserves, less the outstanding Mortgage Loans made in respect of the Properties;

“Net Equity” means, in the case of the Properties Holding LP, the cash paid by a limited partner holding Properties Holding LP Units in respect of such Properties Holding LP Units, being \$1,250 per Properties Holding LP Unit, less the aggregate of any Extraordinary Distributions (Properties) and Distributable Cash (Properties) used to repay all or a portion of the invested capital; and, in the case of the Hotels Holding LP, means the cash paid by a limited partner holding Hotels Holding LP Units in respect of such Hotels Holding LP Units, being \$1,250 per Hotels Holding LP Unit, less the aggregate of any Extraordinary Distributions (Hotels) and Distributable Cash (Properties) used to repay all or a portion of the invested capital;

“Offering” means the offering of a minimum of 4,000 Trust Units at a price of \$1,250 per Trust Unit for gross proceeds of \$5,000,000 and a maximum of 40,000 Trust Units at a price of \$1,250 per Trust Unit for gross proceeds of \$50,000,000.

“Offering Price” means \$1,250 per Trust Unit;

“Operating Expenses” means all amounts paid or payable on account of expenses in the operation of the and/or leasing of Properties, determined in accordance with U.S. generally accepted accounting principles;

“Operatorco” means Tower Rock Hotels and Resorts Inc., a Nevada corporation, which is a U.S. subsidiary of O’Neill Hotels & Resorts Ltd.

“Ordinary Resolution” means a resolution of the unit holders, limited partners or shareholders of an Entity, as the case may be, approved by not less than 50% of the votes cast by those persons who vote in person or by proxy at a duly convened meeting of the respective entity, or a written resolution signed by the unitholders, limited partners or shareholders of an Entity, entitled, in the aggregate, to not less than 50% of the aggregate number of votes of those persons;

“PIRET” means Pure Industrial Real Estate Trust, a real estate investment trust;

“Plans” means RRSPs, RESPs, TFSAs, registered retirement income funds and deferred profit sharing plans, as those phrases are defined in the Tax Act, and **“Plan”** means any of them;

“Properties” means the lands and premises located in the United States or interests therein to be purchased, owned and leased by the Holding LPs, and includes Hotels;

“Properties Holding GP” means Sunstone U.S. Opportunity (No. 3P) LLC, a Nevada limited liability company and the general partner of the Properties Holding LP;

“Properties Holding LP” means Sunstone U.S. Opportunity (No. 3P) Limited Partnership, a Nevada limited partnership established by the Properties Investment LP and the Properties Holding GP pursuant to the laws of Nevada and the Properties Holding LP Agreement for the identification, acquisition, ownership and leasing of the Properties (other than Hotels);

“Properties Holding LP Agreement” means the agreement establishing the Properties Holding LP made as of September 1, 2010 between the Properties Investment LP and the Properties Holding GP;

“Properties Holding LP Unit Value” means, on any particular date:

- (a) the aggregate value of the real estate assets of the Properties Holding LP on the last day of the most recent calendar quarter that ends prior to such date; plus
- (b) the aggregate value of the cash and other working capital assets of the Properties Holding LP on such date; less
- (c) the aggregate of:
 - (i) the aggregate value of the Properties Holding LP’s liabilities on such date (including the aggregate amount of the Mortgage Loans outstanding on such date);
 - (ii) the amount to which the Properties Holding GP would be entitled under the Properties Holding LP Agreement (to the extent not taken into account in (c)(i) above) if the Properties Holding LP was terminated and liquidated on such date; and
 - (iii) the amount which would be payable to Sunstone US (other than amounts included in (c)(i) above) if the Services Agreement (Properties) was terminated on such date,

divided by the number of outstanding Properties Holding LP Units on such date;

“Properties Holding LP Units” means limited partnership units of the Properties Holding LP;

“Properties Investment GP” means Sunstone Advisors (Delaware) No. 3P Inc., a Delaware corporation;

“Properties Investment LP” means Sunstone U.S. (No. 3P) L.P., a Delaware limited partnership established by the Master LP and the Properties Investment GP pursuant to the laws of Delaware and the Properties Investment LP Agreement, which will make an election pursuant to the Code to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and which intends to make an election to be treated as a REIT pursuant to Section 856 to 859 of the Code;

“Properties Investment LP Agreement” means the agreement establishing the Properties Investment LP made as of September 1, 2010 between the Master LP and the Properties Investment GP;

“Properties Investment LP Units” means Class A limited partnership units of the Properties Investment LP;

“Property” means one of the Properties;

“Prospectus” means this prospectus and any amendments hereto;

“Purchaser” means a purchaser of Trust Units;

“Qualifying Provinces and Territories” means the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island, the Yukon, Northwest Territories, and Nunavut;

“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”*;

“Related Party” means, with reference to an Entity, any of the following: (1) any person who participates in the management of such Entity; (2) any person who participates in the management of a Property; (3) a promoter or an affiliate of a promoter; (4) an affiliate of a person mentioned in (1), (2) or (3), or a person with whom any such affiliate is associated, including limited partnerships or other real estate entities set up by any such persons; or (5) any director or officer of a person mentioned in (1), (2), (3) or (4), as well as the persons with whom he or she is associated;

“RESPs” means registered education savings plans as defined in the Tax Act;

“REIT” means a real estate investment trust pursuant to the Code or to the Tax Act, or both, as the context may require;

“RRSPs” means registered retirement savings plans as defined in the Tax Act;

“Securities” means the Trust Units;

“Services Agreements” means the Services Agreement (Hotels) and the Services Agreement (Properties);

“Services Agreement (Hotels)” means an agreement dated as of September 1, 2010 between the Hotels Holding LP and Sunstone US pursuant to which Sunstone US has agreed to provide certain services relating to the Hotels;

“Services Agreement (Properties)” means an agreement dated as of September 1, 2010 between the Properties Holding LP and Sunstone US pursuant to which Sunstone US has agreed to provide certain services relating to the Properties;

“Special Resolution” means a resolution of the unit holders, limited partners or shareholders of an Entity, as the case may be, approved by not less than 75% of the votes cast by those persons who vote in person or by proxy at a duly convened meeting of the respective entity, or a written resolution signed by the unitholders, limited partners or shareholders of an Entity, entitled, in the aggregate, to not less than 75% of the aggregate number of votes of those persons;

“Sunstone” means Sunstone Realty Advisors Inc., a private, closely-held British Columbia company, and the promoter of this Offering;

“Sunstone US” means Sunstone Advisors (U.S.) Inc., a British Columbia corporation;

“Tax Act” means the *Income Tax Act* (Canada), as amended from time to time;

“TFSA” means tax-free savings accounts as defined in the Tax Act;

“Trust” means Sunstone U.S. Opportunity (No. 3) Realty Trust, an open-ended investment trust established pursuant to the laws of the Province of British Columbia;

“Trust Declaration” means the Declaration of Trust establishing the Trust made as of August 17, 2010 among the Trustee, Sunstone as settlor, and all persons who become holders of Trust Units as provided therein;

“Trust Notes” means promissory notes of the Trust that may be created and issued from time to time, that are subordinated and unsecured, have a maturity of five years or less, are prepayable at any time at the Trust’s option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;

“Trust Property” means all of the property and assets of the Trust held in trust by the Trustee pursuant to the Trust Declaration;

“Trustee” means Sunstone U.S. Realty Services (No. 3) Inc., a private, closely-held British Columbia corporation;

“Trust Unit” means a redeemable unit of beneficial interest in the Trust;

“Trust Unitholder” means a holder of record of any Trust Unit.

1. CORPORATE STRUCTURE

1.1 Name and Incorporation

The Trust

The Trust is an open-ended unincorporated investment trust governed by the laws of the Province of British Columbia. The Trust was formed by a Declaration of Trust made as of August 17, 2010 among the Trustee, Sunstone as settlor, and all persons who become holders of Trust Units as provided therein.

The trustee of the Trust is Sunstone U.S. Realty Services (No. 3) Inc., which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on August 17, 2010 under incorporation number BC0888325. The head office and address for service of the Trust and the Trustee is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. The Trustee's registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

The Master LP

The Master LP is a limited partnership formed pursuant to and governed by the laws of Nevada by the filing of a Certificate of Limited Partnership under Chapter 87A of the Nevada Revised Statutes on August 18, 2010 under No. 20100620106-48. The head office and address for service of the Master LP is located at 6529 Preston Rd., Suite 100 Plano, Texas. The Master LP's registered and records office is located at 6529 Preston Rd., Suite 100 Plano, Texas.

The general partner of the Master LP is Sunstone (No. 3) Inc., a corporation formed pursuant to and governed by the laws of Nevada by the filing of Articles of Incorporation under Chapter 78 of the Nevada Revised Statutes on August 18, 2010 under No. 20100619775-08. The head office and address for service of the Master GP is located at 6529 Preston Rd., Suite 100 Plano, Texas. The Master GP's registered and records office is located at 6529 Preston Rd., Suite 100 Plano, Texas. The directors of the Master GP are Steve Evans and Bryan Kerns. The issued shares of the Master GP are owned by the Trust.

The Investment LPs

The Investment LPs are limited partnerships formed pursuant to and governed by the laws of Delaware. Each of the Investment LPs will make an election pursuant to the Code to be taxed as a corporation for U.S. federal income tax purposes effective on the date of its formation and intends to make an election to be treated as a REIT pursuant to the Code and to take the necessary steps to qualify as a REIT pursuant to the Code.

The general partners of the Investment LPs are Sunstone Advisors (Delaware) No. 3P Inc. and Sunstone Advisors (Delaware) No. 3H Inc., respectively, each of which was incorporated pursuant to the *Delaware General Corporation Law*.

The Holding LPs

The Holding LPs are limited partnerships formed pursuant to and governed by the laws of Nevada. The general partners of the Properties Holding LP is Sunstone U.S. Opportunity (No. 3P) LLC, a limited liability company formed pursuant to and governed by the laws of Nevada. The manager of the Properties Holding GP is Suntip Management Inc., a Nevada corporation, the directors of which are Steve Evans and Bryan Kerns, each of whom indirectly owns 50% of Suntip Management Inc.'s issued shares. The general partner of the Hotels Holding LP is Sunstone U.S. No. 3H (G.P.) Limited Partnership, a limited partnership formed pursuant to and governed by the laws of Nevada. The general partner of the Hotels Holding GP is Sunstone U.S. (No. 3H) Inc., a Nevada corporation, the directors of which are Steve Evans and Bryan Kerns, each of whom indirectly owns 50% of such corporation's issued shares. The limited partners of the Hotels Holding GP are Rob O'Neill, as to 25%, John O'Neill, as to 25%, and Sunstone DS Investments Limited Partnership, a British Columbia limited partnership, as to 50%.

Hotels Leaseco

Hotels Leaseco is a corporation formed pursuant to and governed by the laws of Delaware. Hotels Leaseco is owned 99% by the Master LP and 1% by the Hotels Investment LP. The directors of Hotels Leaseco are Steve Evans and Bryan Kerns. Hotels Leaseco will make a joint election pursuant to the Code with the Hotels Investment LP to be treated as a taxable REIT subsidiary of Hotels Investment LP.

Hotel Managerco

Hotel Managerco is a corporation formed pursuant to and governed by the laws of the Province of British Columbia. Hotel Managerco is owned 51% by O'Neill Hotels & Resorts Ltd. and 24.5% by each of Darren Developments Inc. and Triple E Ventures Inc. The directors of Hotel Managerco are Norm Dowad, who is chairman of the Board, Rob O'Neill and John O'Neill.

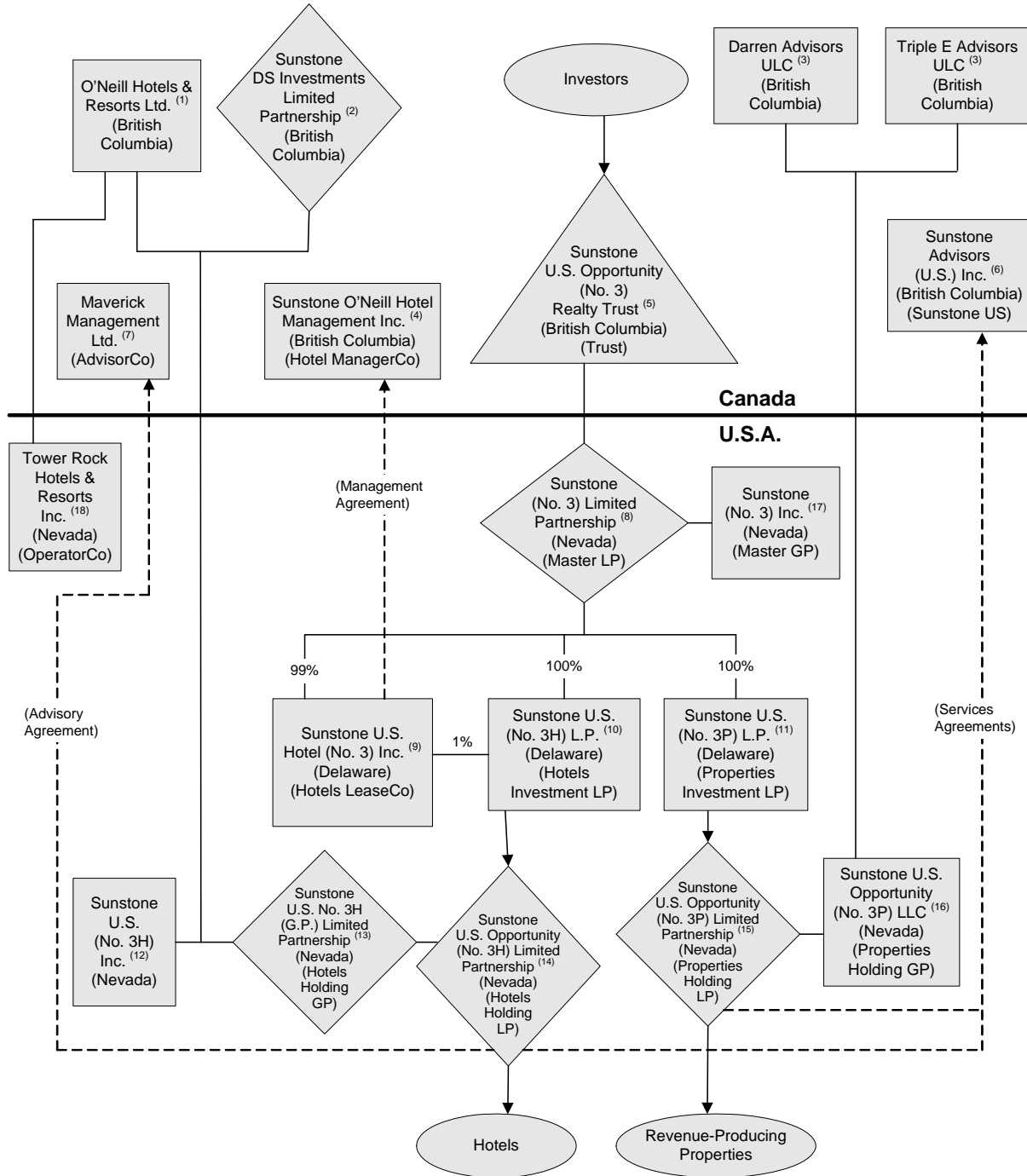
Advisorco

Advisorco is a corporation formed pursuant to and governed by the laws of the Province of British Columbia. Advisorco is owned by Big Wood Investments Ltd. and John C. O'Neill & Associates Ltd., which are personal holding companies of Rob O'Neill and John O'Neill. The directors of Advisorco include Rob O'Neill and John O'Neill.

1.2 Intercorporate Relationships

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

INVESTMENT STRUCTURE



- (1) The directors of O'Neill Hotels & Resorts Ltd. are Rob O'Neill and John O'Neill.
- (2) Sunstone DS Investments Limited Partnership is a British Columbia limited partnership, the limited partners of which are Darren Developments Inc. and Triple E Ventures Inc. Darren Latoski is the sole director, officer and shareholder of Darren Developments Inc. Steve Evans is the sole director, officer and shareholder of Triple E Ventures Inc. The General Partner of Sunstone DS Investments Limited Partnership is Sunstone DS Investments (G.P.) Ltd. Sunstone is the sole shareholder of Sunstone DS Investments (G.P.) Ltd. Darren Latoski and Steve Evans are the directors and officers of Sunstone DS Investments (G.P.) Ltd.
- (3) Each of Darren Advisors ULC and Triple E Advisors ULC is a member of Sunstone U.S. Opportunity (No. 3P) LLC (the "Properties Holding GP") and has a 50% interest therein. Darren Advisors ULC is a British Columbia unlimited liability company. Darren Latoski is the sole director and officer of Darren Advisors ULC. Triple E Advisors ULC is a British Columbia unlimited liability company. Steve Evans is the sole director and officer of Triple E Advisors ULC.
- (4) Sunstone O'Neill Hotel Management Inc. ("Hotel Managerco") is a British Columbia company. The common shares of Hotel Managerco are owned 51% by O'Neill Hotels & Resorts Ltd., 24.5% by Darren Developments Inc. and 24.% by Triple E Ventures Inc. Votes which may be exercised by the shareholders of Hotel Managerco will be allocated 50% to O'Neill Hotels & Resorts Ltd., 25% to Darren Developments Inc. and 25% to Triple E Ventures Inc. The directors and officers of Hotel Managerco are Rob O'Neill and John O'Neill.
- (5) Sunstone, as settlor of the Trust, has made a capital contribution of \$10 to the Trust, which comprises the initial property of the Trust. Sunstone has no further obligation to contribute capital to the Trust. Sunstone is entitled to receive the return of its \$10 capital contributions upon the first closing of Trust Units. The terms and conditions attaching to each Trust Unit are summarized in "Description of the Securities Distributed – The Trust". Sunstone U.S. Realty Services (No. 3) Inc. (the "Trustee") is a British Columbia company, the shareholders of which are Redekop Holdings Inc. and Fairmont Pacific Capital Corp. Robert King and James Redekop are the directors of the Trustee and Darren Latoski is the sole officer of the Trustee.
- (6) Sunstone Advisors (U.S.) Inc. is a British Columbia company. Sunstone is the sole shareholder of Sunstone Advisors (U.S.) Inc. Darren Latoski and Steve Evans are the directors and officers of Sunstone Advisors (U.S.) Inc. Sunstone Advisors (U.S.) Inc. has agreed to provide certain services to the Holding LPs pursuant to the Services Agreements, as described in more detail under the heading "Management Agreements".
- (7) Maverick Management Ltd. ("Advisorco") is a British Columbia company. The common shares of Advisorco are owned by Big Wood Investments Ltd. and John C. O'Neill & Associates Ltd., which are personal holding companies of Rob O'Neill and John O'Neill. Rob O'Neill and John O'Neill are the directors of Advisorco. Advisorco has agreed to provide certain services to the Hotels Holding LP pursuant to the Advisory Agreement, as described in more detail under the heading "Management Agreements".
- (8) The Trust will invest the gross proceeds received from the issuance of Trust Units in the acquisition of an equal number of Master LP Units at a price of \$1,248.75 per Master LP Unit. The Trust will invest the balance of the gross proceeds received from the issuance of Trust Units in the acquisition of an equal number of shares of the Master GP. The Master GP will contribute the proceeds from the issuance of its shares in the capital of the Master LP, so that all of the proceeds from the issuance of Trust Units will be invested in the Master LP. The terms and conditions attaching to each Master LP Unit are summarized in "Description of the Securities Distributed – The Master LP".
- (9) The Master LP will invest a portion of the gross proceeds received from the issuance of Master LP Units in the acquisition of shares in the capital of Sunstone U.S. Hotel (No. 3) Inc. ("Hotels Leaseco"). Hotels Leaseco is a Delaware corporation. The shares of Hotels Leaseco will be owned by the Master LP, as to 99%, and Hotels Investment LP, as to 1%. The directors and officers of Hotels Leaseco are Steve Evans and Bryan Kerns. The terms and conditions attaching to the shares of Hotels Leaseco are summarized in "Description of the Securities Distributed – Hotels Leaseco".
- (10) The Master LP will invest a portion of the gross proceeds received from the issuance of Master LP Units in the acquisition of limited partnership units of Sunstone U.S. (No. 3H) L.P. (the "Hotels Investment LP") at a price of \$1,250 per Hotels Investment LP Unit. The terms and conditions attaching to each Hotels Investment LP Unit are summarized in "Description of the Securities Distributed – The Investment LPs". In order to satisfy Code requirements to be treated as a REIT, the Hotels Investment LP will issue its Class B Units to between 100 and 125 U.S. resident investors, for gross proceeds of between \$100,000 and \$125,000. The terms and conditions attaching to each Class B Unit of the Hotels Investment LP are summarized in "Description of the Securities Distributed – The Investment LPs". Sunstone Advisors (Delaware) No. 3H Inc. (the "Hotels Investment GP") is the general partner of the Hotels Investment LP. The Hotels Investment GP is a Delaware corporation, the shareholder of which is Sunstone Advisors (U.S.) Inc. and the directors and officers of which are Steve Evans and Bryan Kerns.
- (11) The Master LP will invest a portion of the gross proceeds received from the issuance of Master LP Units in the acquisition of limited partnership units of Sunstone U.S. (No. 3P) L.P. (the "Properties Investment LP") at a price of \$1,250 per Properties Investment LP Unit. The terms and conditions attaching to each Properties Investment LP Unit are summarized in "Description of the Securities Distributed – The Investment LPs".

In order to satisfy Code requirements to be treated as a REIT, the Properties Investment LP will issue its Class B Units to between 100 and 125 U.S. resident investors, for gross proceeds of between \$100,000 and \$125,000. The terms and conditions attaching to each Class B Unit of the Properties Investment LP are summarized in “Description of the Securities Distributed – The Investment LPs”.

Sunstone Advisors (Delaware) No. 3P Inc. (the “Properties Investment GP”) is the general partner of the Properties Investment LP. The Properties Investment GP is a Delaware corporation, the shareholder of which is Sunstone Advisors (U.S.) Inc. and the directors and officers of which are Steve Evans and Bryan Kerns.

- (12) The general partner of the Hotels Holding GP is Sunstone U.S. (No. 3H) Inc., a Nevada corporation the indirect shareholders of which are Darren Latoski and Steve Evans and the directors and officers of which are Steve Evans and Bryan Kerns.

- (13) The general partner of the Hotels Holding LP is Sunstone U.S. No. 3H (G.P.) Limited Partnership (the “Hotels Holding GP”). The Hotels Holding GP is a Nevada limited partnership, the limited partners of which are Rob O’Neill (as to a 25% interest), John O’Neill (as to a 25% interest) and Sunstone DS Investments Limited Partnership (referred to above in note (2)) as to a 50% interest.

The Hotels Holding GP has made a capital contribution of \$10 to the Hotels Holding LP, and has no further obligation to contribute capital. The Hotels Holding GP is entitled to receive a share of the Distributable Cash (Hotels) and Extraordinary Cash Distributions (Hotels) (refer to “Description of the Securities Distributed – The Holding LPs”).

- (14) The Hotels Investment LP will invest the gross proceeds received from the issuance of Hotels Investment LP Units in the acquisition of an equal number of Hotels Holding LP Units at a price of \$1,250 per Hotels Holding LP Unit. The terms and conditions attaching to each Hotels Holding LP Unit are summarized in “Description of the Securities Distributed – The Hotels LPs”

- (15) The Properties Investment LP will invest the gross proceeds received from the issuance of Properties Investment LP Units in the acquisition of an equal number of Properties Holding LP Units at a price of \$1,250 per Properties Holding LP Unit. The terms and conditions attaching to each Properties Holding LP Unit are summarized in “Description of the Securities Distributed – The Holding LPs”

- (16) The general partner of the Properties Holding LP is Sunstone U.S. Opportunity (No. 3P) LLC (the “Properties Holding GP”). The Properties Holding GP is a Nevada limited liability corporation, the sole members of which are Darren Advisors ULC and Triple E Advisors ULC. The manager of the Properties Holding GP is Suntip Management Inc., a Nevada corporation, the directors of which are Steve Evans and Bryan Kerns, each of whom indirectly owns 50% of Suntip Management Inc.’s issued shares.

The Properties Holding GP has made a capital contribution of \$10 to the Properties Holding LP, and has no further obligation to contribute capital. The Properties Holding GP is entitled to receive a share of the Distributable Cash (Properties) and Extraordinary Cash Distributions (Properties) (refer to “Description of the Securities Distributed – The Holding LPs”).

- (17) The general partner of the Master LP is Sunstone (No. 3) Inc. (the “Master GP”). The Master GP is a Nevada corporation which is wholly owned by Sunstone US. The directors of the Master GP are Steve Evans and Bryan Kerns.

- (18) Hotel Managerco intends to assign the Hotel Management Agreement to Tower Rock Hotels and Resorts Inc. (“Operatorco”), which is a U.S. subsidiary of O’Neill Hotels & Resorts Ltd.

2. BUSINESS AND INVESTMENT STRATEGY

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

Recent Developments in the United States

During the decade leading up to the end of 2007, U.S. real estate valuations significantly increased for a variety of reasons, including: high growth rates in net operating income; a significant increase in the number of lenders and the creation of conduit loans and commercial mortgage-backed securities; the availability of high loan-to-value ratio mortgage financing; a low interest rate environment; and a strong interest and confidence in real estate investments from a broad investor base.

The U.S. economy went into recession in December, 2007, which has had a significant adverse impact on financial market conditions in the U.S. and globally. As well, beginning in 2008, a significant correction in real estate values took place. The commercial mortgage-backed security market collapsed. As a result of this collapse and the sub-prime mortgage crisis, mortgage financing that had been readily available from banks, insurance companies, finance companies and fund managers became limited in supply and difficult to secure, as those entities tightened their

lending standards and sought to minimize their loan portfolio exposure due to the dramatic re-pricing of real estate properties and the continuing uncertainty in the real estate market.

Economic recession resulted in growing vacancies in retail, office and industrial properties and a reduction in net operating incomes from real estate assets, which put substantial downward pressure on real estate values and led to a deleveraging of the global financial system. As a result, numerous properties nationwide are in various stages of distress. Lenders have tightened their lending standards, reduced their overall lending capacity and, in some cases, have liquidated their lending positions. All of these factors have combined to create difficult conditions for securing financing on favourable terms or, in some cases, at all.

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

- Housing and Economic Recovery Act of 2008;
- The Temporary Guarantee Program for Money Market Funds;
- The Emergency Economic Stabilization Act of 2008 and the Troubled Asset Relief Program (TARP);
- The Term Asset-backed Securities Loan Facility (TALF);
- The Capital Assistance Program and the Bank Stress Tests; and
- The Public-Private Investment Program (PPIP).

The National Board of Economic Review (NBER), a U.S. private sector group composed of academic economists, declared in September, 2010 that the U.S. recession ended in June, 2009, and that a recovery commenced in that month. However, the NBER recognized that the U.S. economy has not returned to operating at normal capacity. Rather, unemployment remains at 9.6%, economic growth is sluggish and many economic measures are below their peaks of mid 2007.

Nonetheless, although recovery has been sluggish, Sunstone believes that economic conditions have generally improved in North America, and in the U.S. in particular, and that timing is favourable for investment in underperforming properties. Several indicators point to U.S. market stabilization, including a reduced rate of deterioration in the labor market and improved business and consumer confidence since the beginning of 2009. In July, 2010, the International Monetary Fund revised its U.S. GDP estimate for 2010 upwards to 3.3% and to 2.9% for 2011, providing further evidence of U.S. economic recovery and increasing global confidence in the U.S. market.

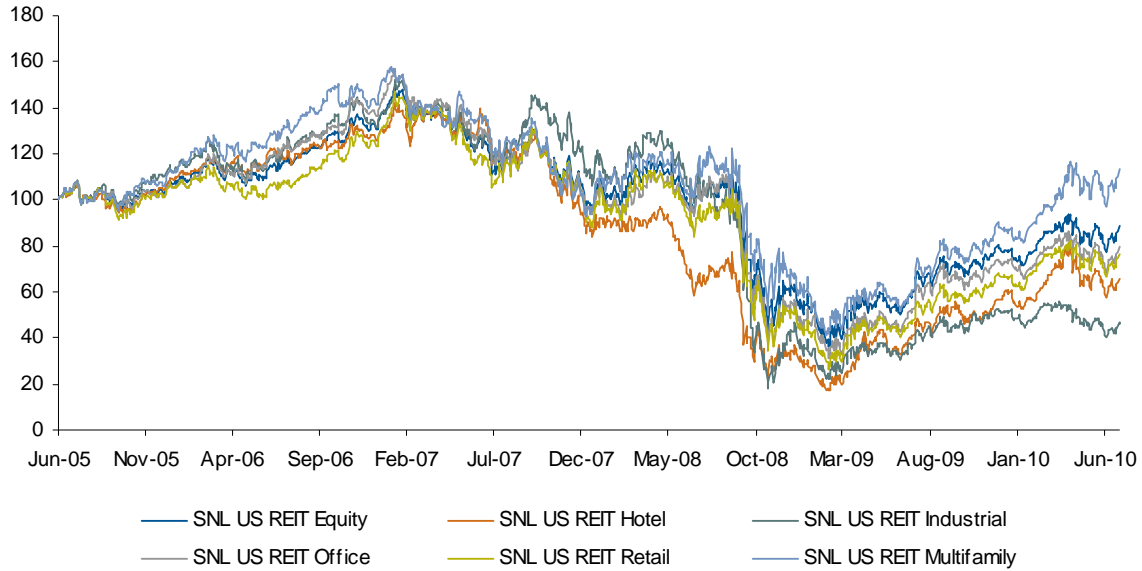
Despite recent optimism, the recovery is still nascent. The housing market, which was a key contributor to the financial crisis, has not rebounded significantly and U.S. financial markets, while mounting a strong recovery from their March, 2009 lows, remain volatile. Uncertainty remains, although it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

Recent Market Indicators

Investors should note that certain of the information set out below is available only for a fee.

Since March 2009, there has been evidence of recovery in the valuations of private market real estate assets in all classes and publicly-traded US REITs have generally performed strongly, with their unit values having recovered from the lows reached during the financial crisis.

Relative Performance of U.S. REIT's by Asset Class



SNL Financial LC is a business data service that focuses on real estate. It was founded in January, 1987 and is headquartered in Charlottesville, Virginia with additional offices across the United States.

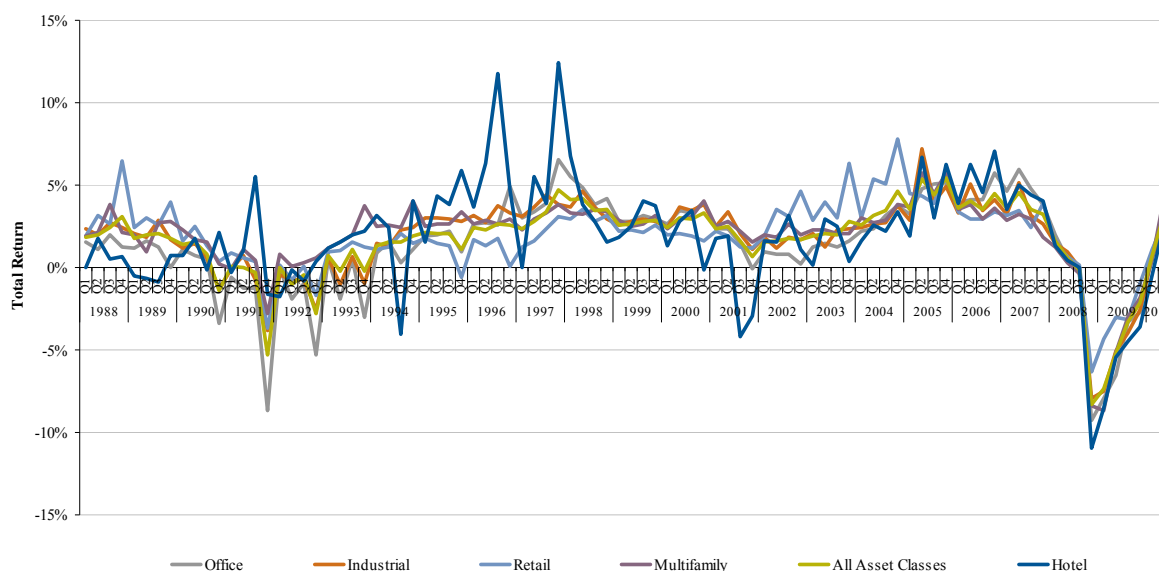
As shown by the following graph, global stock markets have remained volatile and volatility levels, as measured by the VIX Index, remain high relative to historical levels. The VIX Index is a measure of the implied volatility of S&P 500 index options. It represents a measure of the market's expectation of stock market volatility over the next 30 day period and is a weighted blend of prices for a range of options on the S&P 500 index. However, Sunstone believes that the recent stock market volatility is not indicative of the more stable returns offered by real estate investments.

VIX Index Performance



As demonstrated below, after a sharp decline commencing in 2008, private U.S. real estate investment returns turned positive in the first two quarters of 2010. Sunstone believes that the positive returns earned thus far in 2010 are a good indication that private real estate markets in the U.S. have stabilized and investment returns will commence reverting to historical norms.

U.S. Total Quarterly Returns by Real Estate Class (1988 – 2010)



Sunstone believes that real estate investors should consider private U.S. real estate investment opportunities as a means to increase their exposure to U.S. real estate while avoiding the volatility of the publicly-traded REIT's and real estate operating companies.

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

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

Included in such portfolio will be hotel properties acquired by the Hotels Holding LP. Together with the principals of O'Neill Hotels & Resorts Ltd., one of the leading North American hotel management companies, Sunstone has established the Hotels Holding LP to identify and acquire hotel properties in the U.S. and Hotel Managerco to manage and operate such Hotels. O'Neill Hotels & Resorts Ltd. operates the Westin Resort and Spa, in Whistler, BC; the Westin Grand Hotel in Vancouver, BC; and the Coast Blackcomb Suites at Whistler, BC. The principals of O'Neill Hotels & Resorts Ltd. have a combined 50 years of hotel industry experience. After successfully managing the transition of the family-owned Coast Hotels and Resorts chain to new owners in the 1990s, they established the Canadian Hotel Income Properties REIT ("CHIP REIT") in 1997 and, upon an initial public offering of nearly \$190 million, acquired 15 hotel properties, with the portfolio ultimately reaching

36 properties when management was internalized. In 2007, CHIP REIT was acquired by the British Columbia Investment Management Corporation. At that time, CHIP REIT owned 32 hotel properties valued at an estimated \$1.2 billion. From its initial public offering to its acquisition, CHIP REIT provided investors with a total return of 379% (14% annualized) as opposed to a 4% total return by the TSX over the same period.

Target Property Criteria

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

Focus on Newer Properties

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

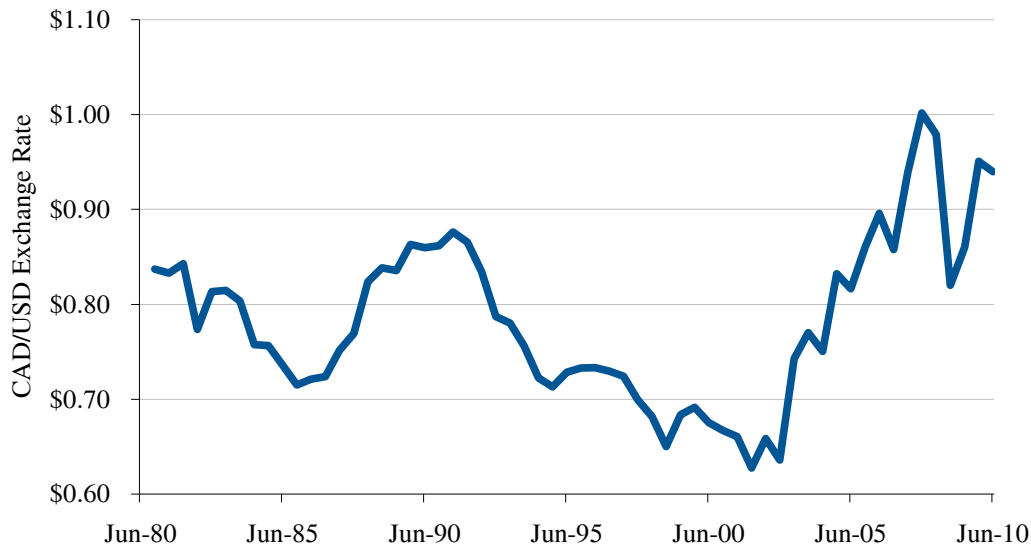
Geographic Focus on the U.S. “Sunbelt” Regions

Sunstone will focus on the acquisition of Properties in the “Sunbelt” regions of the U.S., primarily in the Southwestern and Southeastern areas of the U.S. States such as California, Arizona, Nevada, Texas, Georgia and Florida have experienced strong population growth rates over the last five years that were above the national average, and this trend is expected to continue into the next five years, with projected growth rates of 5%, 13%, 14%, 8%, 7% and 10% respectively, creating additional demand for revenue-producing properties. These same six states accounted for 47% of the nation’s population growth from 2006 to 2007. These same regions have relatively high concentrations of sub-prime mortgages, which Sunstone believes enhances the environment for opportunistic investments in revenue-producing properties. Sunstone believes that increased levels of “forced selling” by current owners should result in opportunistic valuations being obtained by it on purchased properties.

Attractive U.S. Dollar Based Investment

The Offering Price for Trust Units is denominated in U.S. dollars. With the Canadian dollar trading near its 40 year high in relation to the U.S. dollar, Sunstone believes that this is an opportune time for Canadian investors to use Canadian dollars to invest in a U.S. dollar denominated security of an investment vehicle that will own U.S. assets. In September 2007, the Canadian dollar reached parity with the U.S. dollar for the first time since November 1976. On September 1, 2010, the Canadian dollar closed for trading at \$0.9506. In contrast, on January 18, 2002, the Canadian dollar was trading at \$0.6202. The significant appreciation in the Canadian dollar has resulted in U.S.-based properties becoming very favourably priced for Canadian investors.

Historical CAD/USD Exchange Rate

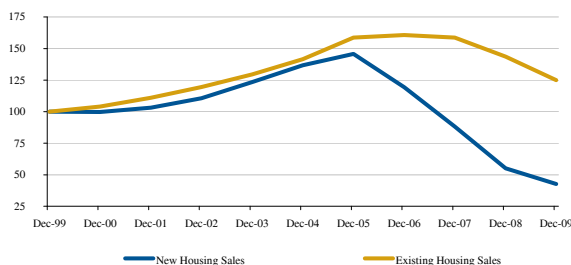


Source: Bloomberg Financial Markets

The Multifamily Apartment Property Market in the United States

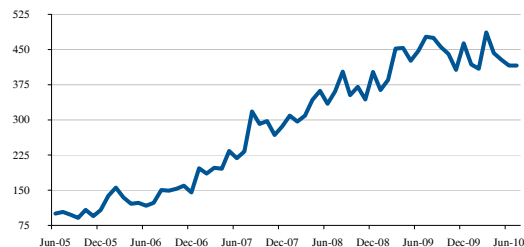
Over the past two years, the sale of existing housing in the United States has slowed and the sale of new housing has fallen dramatically. In addition, U.S. home foreclosures have significantly increased since 2007.

U.S. Housing Sales Index



Source: National Association of Realtors

U.S. Home Foreclosure Index



Source: Realty Trac

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

The Office and Industrial Property Market in the United States

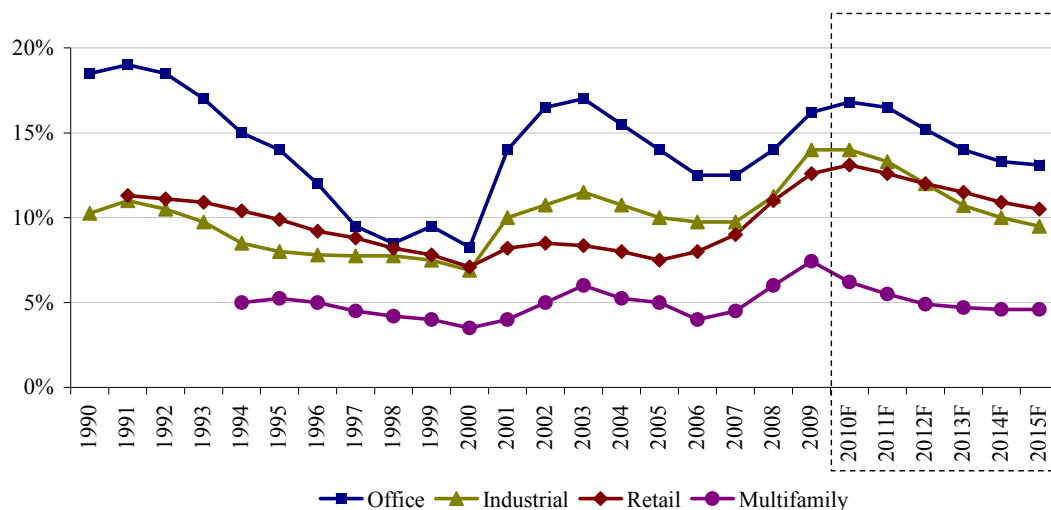
As the broader economy has begun to stabilize, Sunstone expects the U.S. office and industrial real estate markets to also stabilize with minimal further degradation of operating fundamentals, including lower occupancy and rental rates. Historically, office and industrial real estate fundamentals have tended to lag behind the broader economy. Primary determinants of revenue for office and industrial real estate properties include occupancy and rental rate levels, which are most heavily influenced by business expansion plans and new supply of property. At the end of an economic expansion, the overhang of new development in conjunction with a decrease in demand for leased space often puts additional downward pressure on real estate fundamentals as economic activity slows. In addition, credit markets tightened and financing was difficult to obtain, even for creditworthy borrowers. The steep decline in availability of credit to businesses and consumers led to the contraction in demand for industrial real estate. Conversely, businesses often wait until they are certain of an economic recovery before expanding their operations or payrolls. As a result, tenant decisions affecting leasing of space and occupancy become a derivative of the health of the employment market and real estate performance is often a lagging indicator.

Rebuilding what the office market has lost since the start of the recession will be challenging. According to Moody's/REAL Pricing Index, effective rent levels have lost nearly half of their post-2001 recovery gains, while property values have retreated to 2004 levels. The broader the recession, the larger the impact on the office market as stable tenants such as large financial institutions as well as accounting and law firms lay off staff and reduce required space.

Sunstone believes that although industrial rents may slightly decline in 2010, occupancy should stabilize and steadily improve in 2011 and 2012 with industrial markets stabilizing more quickly than office. Sunstone believes that occupancy in the office markets will remain relatively weak until 2013 and expects that vacancy will peak during 2010. According to Real Capital Analytics, the dollar amount of distress in the U.S. office market increased nearly three-fold in 2009. For those sitting on the sidelines with capital, this presents a unique opportunity to purchase revenue generating assets at distressed prices.

Since office and industrial real estate fundamentals tend to lag behind the broader economy, office and industrial real estate cash flows and values in the U.S. may continue to erode and may, on average, not stabilize until after a recovery in the broader economy, as illustrated in the chart below.

U.S. Historical and Projected Vacancy Rates by Sector

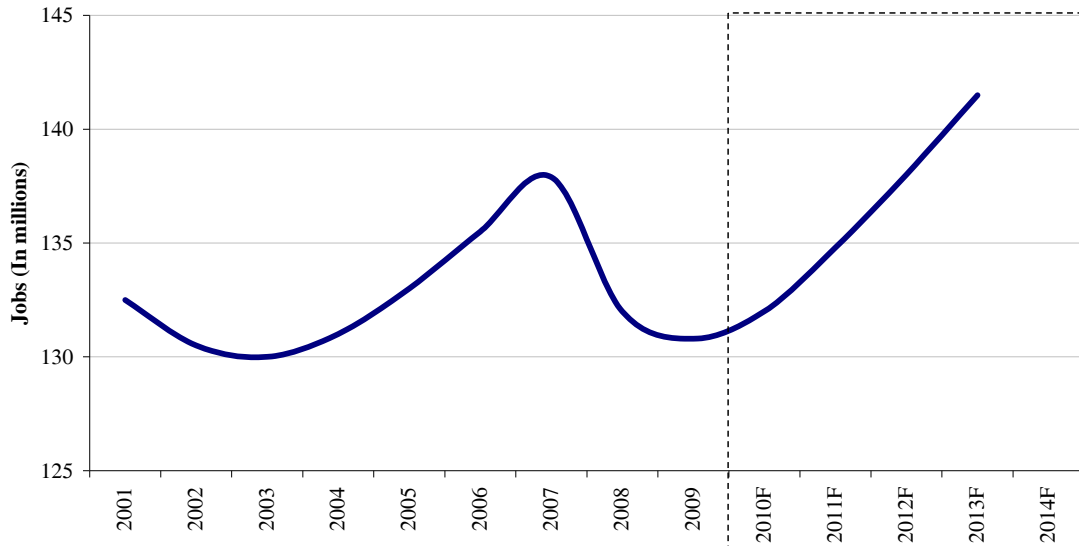


Source: CBRE-EA Outlook, Fall 2010

Note: Retail numbers represent availability rates. All others represent vacancy rates.

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

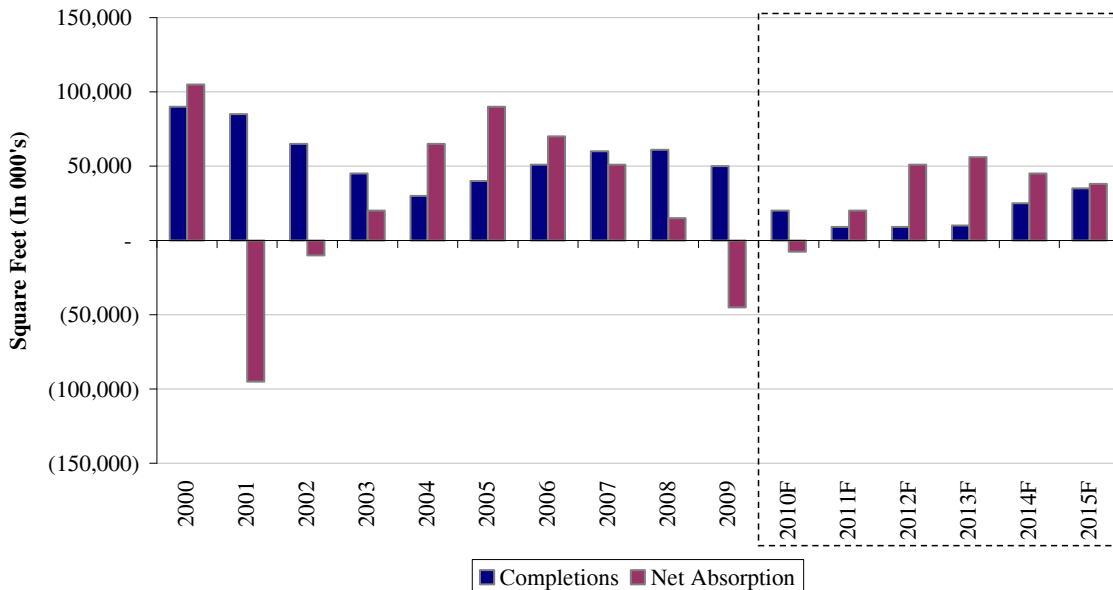
U.S. Payroll Employment



Source: BLS and CBRE Econometric Advisors

Net absorption in the U.S. office market is expected to improve commencing in 2010 and turn positive in 2011.

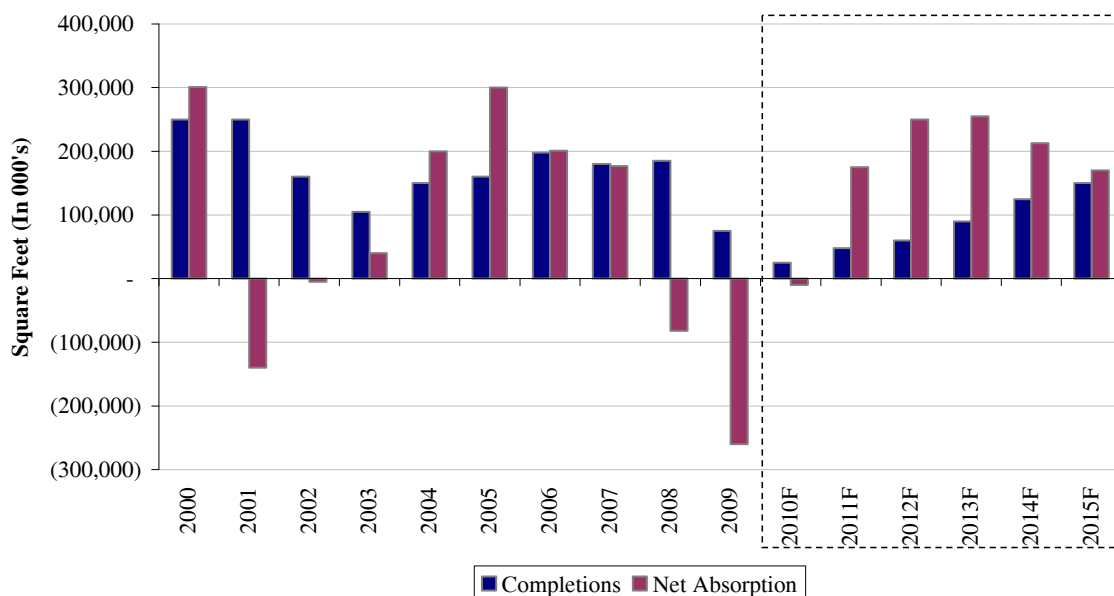
U.S. Office Cycle



Source: CBRE-EA Outlook, Fall 2010

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

U.S. Industrial Cycle



Source: CBRE-EA Outlook, Fall 2010

The Retail Market in the United States

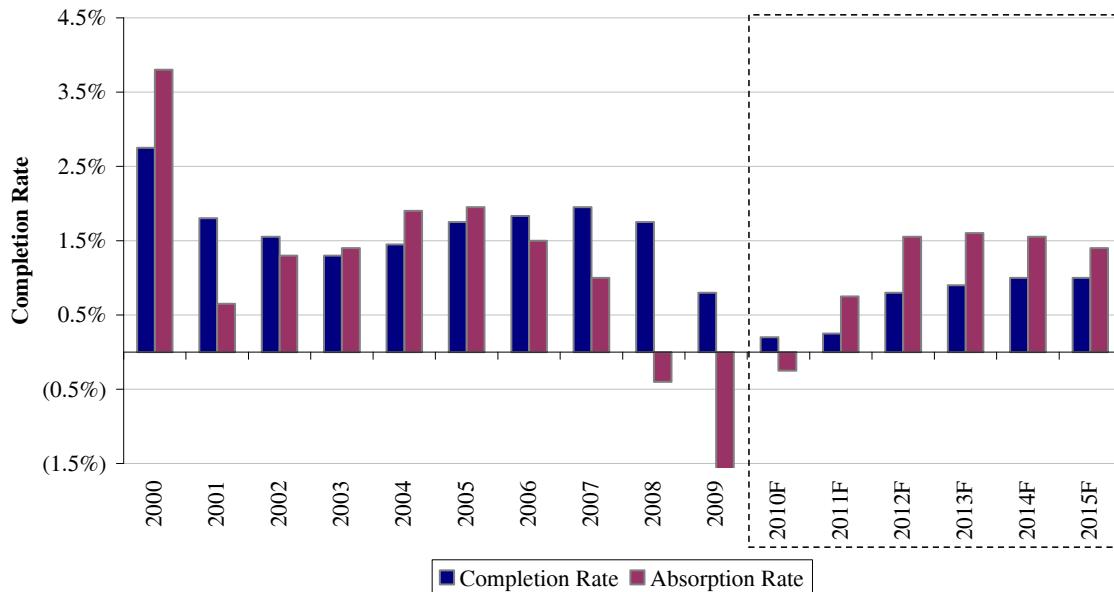
The retail real estate market was the hardest hit by the recession. Consumer confidence had been impacted by rising unemployment which has resulted in lower spending levels and led to tenant bankruptcies. The housing crisis and subsequent economic crisis had a dramatic impact on retailers. Both prompted consumers to pull back on discretionary spending, resulting in significantly reduced retail sales. Consumer confidence is slowly rebuilding; however, consumer consumption is expected to remain below long term averages for several years. Prominent retail bankruptcies since the start of the recession include Circuit City, Linens & Things, The Sharper Image, Whitehall Jewelers, Mervyn's, Bombay, and Steve & Barry's. As well, General Growth Properties, the second largest shopping centre operator in the U.S., filed for Chapter 11 bankruptcy protection on April 16, 2009 and is currently restructuring. These and other retail bankruptcies have resulted in millions of square feet of leased retail space being returned to the market (either in the form of vacancies or sublease space) and a multiyear high for retail vacancy rates.

Sunstone believes that the upheaval in the retail real estate market represents a unique opportunity to acquire select discounted properties which will be brought to the market for sale. Sunstone expects that owners with weaker balance sheets and a backlog of maturing mortgages will need to divest properties in order to raise funds in the face of challenging refinancing conditions. The Trust will seek to opportunistically acquire retail properties at attractive prices with promising revenue-producing potential. RioCan REIT, Canada's largest REIT that is exclusively focused on retail real estate, has also noted the opportunities available in the U.S. and has recently begun to make significant acquisitions in the U.S.

Sunstone further believes that the retail sector is beginning to recover from the recession after three years of continuous decline and increases in vacancy rates. Fundamentals continue to improve, driven by steadily increasing tenant demand. The retail sector has some inherent defensiveness to economic cycles, due to such factors as tenant diversification and the presence of grocery and consumer-staple retailers, and is positioned to further benefit from an improving economic environment which will encourage the absorption of existing vacant space and lead to increases

in net operating income from retail properties. The chart below indicates that net absorption of retail real estate is expected to turn positive beginning in 2011.

U.S. Retail Cycle



Source: CBRE-EA Outlook, Fall 2010

The Hotel Property Market in the United States

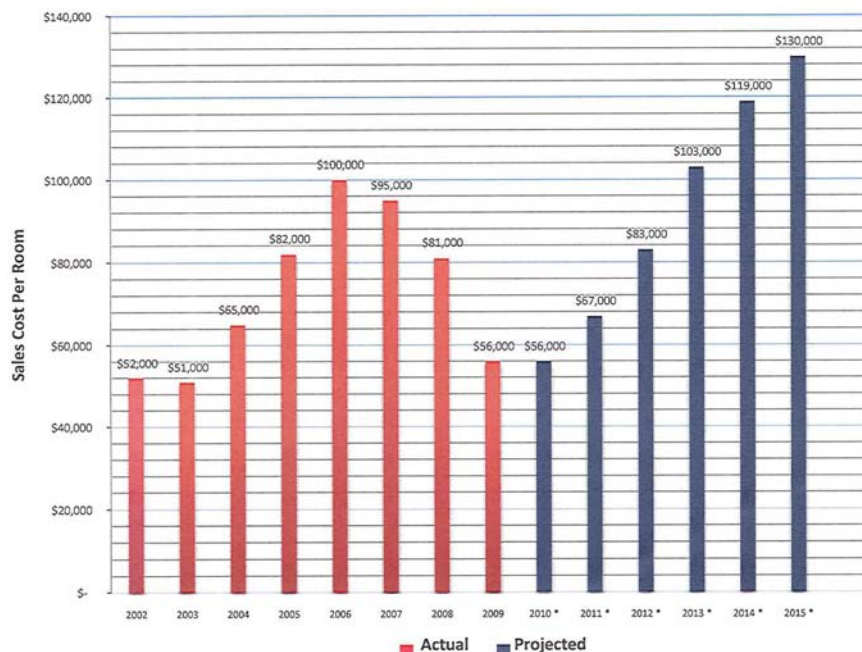
The U.S. hotel industry has experienced substantial declines in fundamentals since the end of 2007 as a result of the global economic recession and its adverse impact on business and leisure travel. According to Jones Lang Lasalle Hotels (“JLLH”), a leading global hotel investment services firm, global hotel transaction volume dropped 79% from 2007 to 2008, with overall sales values decreasing from \$114 billion in 2007 to \$24 billion in 2008. In the U.S., the decline was from \$45 billion in transaction value in 2007 to \$8.5 billion in 2008, a decrease of 81%. The greatest number of sellers during the period of 2007 to 2008 were highly-leveraged private equity funds, which had been the largest buyer group of hotel assets from 2005 to 2007, while the largest number of buyers in 2008 were private REITs. Sales volume in the U.S. fell again in 2009, to a 10-year low of approximately \$2 billion, as companies curtailed their travel and financing for hotel purchases dried up.

At the same time, revenue per available room (or RevPAR), a standard hotel industry metric which measures the revenue generating effectiveness of a hotel property through a combination of average daily rental rate and average occupancy rates, declined by 1.9% in 2008 and by 18.1% in the first three quarters of 2009, according to Smith Travel Research, a leading U.S. hotel research firm, thereby substantially reducing the returns to hotels owners.

However, JLLH reported in July, 2010 that the first and second quarters of 2010 evidenced a significant increase in hotel investments, with \$814 million of hotel transactions in the U.S. in the first quarter of 2010 and \$1.4 billion in the second quarter. At the same time, Smith Travel Research reported that RevPAR in the U.S. hotel market in July, 2010 had increased 8.5% over July, 2009.

As demonstrated by the chart below, valuations on a per room basis are expected to have hit their trough in 2010 and are expected to steadily increase in the coming years.

U.S. Hotel Opportunity Actual & Projected Value Trends for a Typical US Hotel



Source: HVS: Rushmore
Date: May 25, 2010

Sunstone believes that the significant number of hotel properties experiencing substantial declines in operating cash flow, coupled with the challenged credit markets, near-term debt maturities and, in some instances, covenant defaults relating to outstanding indebtedness, will present attractive investment opportunities for hotels and resorts and that well-capitalized investors will have the opportunity to acquire high-quality hotel properties at prices significantly below replacement cost. Sunstone believes that the following factors evidence the current state of the U.S. hotel industry:

- Significant Debt Defaults.** Cash flow at many hotel properties has declined or will likely decline to levels that are inadequate to support required debt service payments or that violate applicable covenants. Real Capital Analytics estimates that the number of hotel-related defaults has materially increased during the past year. Real Capital Analytics also estimates that as of April 30, 2010, there are over 1,000 hotel properties in distress (which includes default, deed-in-lieu, forced sales, foreclosure or bankruptcy), having an estimated aggregate value of approximately \$32 billion.
- Maturity Defaults and Lack of Available Financing.** According to Standard & Poor's, hotel-related commercial mortgage-backed securities, or CMBS, with an aggregate principal amount of approximately \$21 billion, are scheduled to mature over the next three years. In the current recessionary environment, traditional lending sources, such as banks, insurance companies and pension funds, have adopted more conservative lending policies and have materially decreased new lending commitments to hotel properties. Sunstone believes that the current and projected cash flows at many hotel properties, when coupled with more conservative lending policies, will only support mortgage financing that is significantly less than the amounts currently borrowed against such properties. As a result, Sunstone expects many owners of hotel properties will be unable to refinance maturing debt without significant additional equity investment, which may result in sales or foreclosures.

- *Under-Capitalized Owners.* Maintaining a hotel's physical condition at the levels required by major hotel brands often requires significant capital investment. This is particularly true for hotels in urban markets and in the upper upscale segment of the lodging industry, where Sunstone intends to focus the investment activity of the Trust. Sunstone believes that cash flow after debt service at many hotel properties may be insufficient to fund necessary capital expenditures and the owners of such hotel properties may face capital investment demands that could require additional equity investments. Sunstone believes that some hotel owners will be unable or unwilling to make the required equity investments and may choose or be compelled to sell their hotels.

3. DESCRIPTION OF THE BUSINESSES OF THE ISSUERS

The Trust will invest the proceeds from the issuance of Trust Units in the acquisition of an equal number of Master LP Units and shares of the Master GP. The Master GP will contribute the proceeds from the issuance of its shares to the capital of the Master LP, so that all of the proceeds from the issuance of Trust Units will be invested in the Master LP. The Master LP will invest the proceeds from the issuance of Master LP Units in one or more of the following underlying entities:

- (a) Properties Investment LP Units - the Properties Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Properties Holding LP Units and the Properties Holding LP will invest the proceeds from the issuance of the Properties Holding LP Units in the acquisition of Properties, other than Hotels;
- (b) Hotels Investment LP Units - the Hotels Investment LP will invest the proceeds from the issuance of such units in the acquisition of an equal number of Hotels Holding LP Units and the Hotels Holding LP will invest the proceeds from the issuance of the Hotels Holding LP Units in the acquisition of Hotels; and
- (c) Hotels Leaseco Shares – Hotels Leaseco will enter into leases of the Hotels (the “Hotel Leases”) from the Hotels Holding LP or subsidiary entities, and will engage Hotel Managerco to operate and manage the Hotels for and on behalf of Hotels Leaseco,

(refer to the Investment Structure chart on page 3).

As a result, an investment in Trust Units will be an indirect investment in the acquisition, ownership and leasing of the Properties and the Minimum Returns and other returns on and of capital payable to limited partners holding Holding LPs Units, and the distributions received from Hotels Leaseco will also ultimately form part of the Distributable Cash Flow (Trust) and be available for distribution to Trust Unitholders.

3.1 Business of the Trust

The Trust has been established for the purposes of issuing Trust Units and indirectly investing, through the Master LP, the Investment LPs, and the Holding LPs, in Properties. The Trust may also temporarily hold cash for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions of Distributable Cash Flow (Trust) to Trust Unitholders. The principal business of the Trust will be to issue Trust Units and to invest indirectly in the Properties.

The Trust's long-term objective is to earn income and gains from the Trust's indirect interest in the Properties held through the Investment LPs and owned by the Holding LPs, being a portfolio of high quality revenue-producing properties and hotels in the U.S. An investment in Trust Units is intended to provide Purchasers with the opportunity to receive cash distributions originating from the ongoing operation and/or leasing of the Properties and the opportunity to receive, in certain circumstances, the proceeds from a refinancing of a Mortgage Loan or a sale of a Property.

3.2 Business of the Master LP

The Master LP has been established for the purposes of issuing Master LP Units and investing in Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares. The Master LP will also temporarily hold cash for the purposes of paying the expenses and liabilities of the Master LP and making distributions to the holders of Master LP Units. The principal business of the Master LP will be to issue Master LP Units and to invest in the Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares.

3.3 Business of the Investment LPs and Holding LPs

The Investment LPs have been established for the purposes of issuing Investment LPs Units and investing in the Holding LPs Units. The Holding LPs have been established for the purposes of owning and leasing a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or interests in such properties). To satisfy lender requirements and ensure that property-level loans are not cross-collateralized, Properties will be owned by separate underlying limited partnerships established and owned by the Holding LPs.

3.4 Business of Hotels Leaseco

Hotels Leaseco has been established for the purposes of leasing the Hotels from the Hotels Holding LP or its subsidiaries, and engaging Hotel Managerco to manage and operate the Hotels.

3.5 The Properties

The Holding LPs intend to invest the proceeds realized from the issuance of Holding LPs Units and from Mortgage Loans in high quality, REIT-eligible revenue-producing properties in the U.S. The Holding LPs intend to concentrate on identifying properties for possible acquisition primarily in states such as California, Arizona, Texas, Georgia and Florida, which have experienced strong population growth since 2006, and to manage and reposition the Properties with the view to preserving capital and providing quarterly cash returns. Properties Holding LPs will focus on purchasing Properties which, in the opinion of the Holding GPs, are currently operating below their full income-producing potential.

All Properties will be purchased at prices and on terms negotiated with arm's length third party vendors. In some cases, the Properties will be acquired pursuant to agreements of purchase and sale entered into by Sunstone or its subsidiaries with arm's length third party vendors, which agreements will be assigned by Sunstone and such subsidiaries to the respective Holding LP at no cost other than reimbursement of any deposits (some of which may be refundable to such Holding LP) and due diligence and/or financing expenses paid by Sunstone or its subsidiaries prior to such assignment.

The Holding GPs will have a detailed inspection report prepared by an independent inspection firm for each Property that is proposed for acquisition, and will have any such Property appraised by a qualified appraiser.

The Holding LPs' primary investment objectives are as follows:

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

3.6 Guidelines for Property Acquisitions

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

- (a) assuming all 40,000 Trust Units offered under this Prospectus are issued, not more than 50% of the net proceeds from such issuance (being the gross proceeds less the amount paid by the Holding LPs 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) in the event that less than 40,000 Trust Units are issued, it may be necessary to apply more than 50% of the net proceeds to the acquisition of any one Property, given the guideline discussed in paragraphs (c) below, including applying up to 100% of the net proceeds to the acquisition of as little as one Property (after the creation of a reasonable reserve for renovation and upgrading of the Property and the creation of a reasonable working capital reserve);
- (c) upon purchase, each Property would be expected to generate a positive return on the respective Holding LPs' invested capital in the Property of not less than 6% per annum, with a target range of 8% per annum. The Holding GPs will be able to waive this minimum requirement for Properties which they believe provide unique value-added opportunities through replacement of management, re-leasing or similar initiatives; and
- (d) the Holding LPs intend to acquire Properties which are eligible for investment by a REIT and which produce REIT-eligible income. To the extent that a Holding LP intends to acquire an interest in a Property which is not eligible for investment by a REIT, a taxable subsidiary (which will be a taxable REIT subsidiary of that Investment LP for U.S. federal income tax purposes) will be established to acquire such Property.

3.7 Hotel Leases

The Hotels Holding LP, or subsidiaries established by it to own the individual Hotels to be acquired by Hotels Holding LP, will enter into a formal lease agreement with Hotels Leaseco in respect of each of the Hotels. The Hotel Leases will be entered into by the parties upon the acquisition of each of the Hotels by Hotels Holding LP or its subsidiaries. Pursuant to the Hotel Leases, Hotels Leaseco will have the exclusive possession and use of the Hotels during the term of the lease and will bear the cost of, and will be responsible for, day-to-day maintenance and repair of the Hotels, other than the cost of certain capital expenditures. Hotels Leaseco will determine, through the hiring of Hotel Managerco, how the Hotels will be operated and maintained. The Hotel Leases will generally be for terms of between five to seven years, or such other terms as are negotiated at the time such leases are entered into. Rent will be equal to fair market rent. Pursuant to the Hotel Leases, Hotels Leaseco will indemnify the Hotels Holding LP against all liabilities incurred by the Hotels Holding LP during the term of each Hotel Lease by reason of injury to persons or damage to property occurring at the Hotels or Hotels Leaseco's use, management, maintenance or repair of the Hotels.

3.8 Hotel Management Agreement

Hotels Leaseco will enter into the Hotel Management Agreement upon the acquisition of the first Hotel. Pursuant to the Hotel Management Agreement, Hotels Leaseco will engage Hotel Managerco to provide operations management and supervision services in respect of the Hotels. Subject to the terms of the Hotel Management Agreement and any operating policies agreed to by Hotels Leaseco and Hotel Managerco, and any applicable budgets, Hotel Managerco shall have control and discretion in the operation, direction, management and supervision of the Hotels. Pursuant to the Hotel Management Agreement, Hotel Managerco shall be responsible for recruiting, training, directing, supervising, employing and dismissing employees; the preparation of budgets; developing and implementing advertising programs; negotiating contracts for the provision of services to the Hotels; licensing; providing routine accounting and purchasing services; ongoing financial

reporting; maintaining the Hotels in substantially the same state of repair as each is in on the date of their acquisition; and providing such other services as are customarily performed by management companies of hotel properties similar to the Hotels.

The Hotel Management Agreement will commence on the acquisition of the first Hotel leased by Hotels Holding LP to Hotels Leaseco and will continue for five years. So long as the Hotel Managerco is not in default under the Hotel Management Agreement, it will have the option to renew the term of the Hotel Management Agreement for two further periods of five years each.

In consideration of the provision of services under the Hotel Management Agreement, Hotels Leaseco will pay Hotel Managerco a management fee equal to 3.5% of total revenues per month earned by each Hotel (plus applicable taxes). As well, Hotels Leaseco will reimburse the Hotel Managerco for all out-of-pocket expenses reasonably incurred by Hotel Managerco in the provision of services under the Hotel Management Agreement.

Hotel Managerco will have the right to subcontract and/or assign some or all of the services to be provided by it under the Hotel Management Agreement to a party who qualifies as an eligible independent contractor of Hotels Leaseco and the Hotels Investment LP as defined by the Code, provided that in the event of such a subcontract or assignment, Hotel Managerco will remain liable for the fulfillment of the obligations of the manager under the Hotel Management Agreement. Hotel Managerco intends to assign the Hotel Management Agreement to Operatorco., which is a U.S. subsidiary of O'Neill Hotels & Resorts Ltd. Upon such assignment, Hotels Leaseco may terminate the Hotel Management Agreement on 90 days notice either in whole or with respect to an individual Hotel.

3.9 General Features

Alignment of Interests

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

Mortgage Loans

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

Property Cash Flows

The operating cash flows and revenues from the Properties (other than Hotels) will be applied by the Properties Holding LP to the payment of Operating Expenses, the provision of reasonable reserves for working capital, renovations and upgrades, and the payment of interest and annual principal payments on the Mortgage Loans. After payment of such amounts, subject to the right of the limited partners holding Properties Holding LP Units to receive distributions equal to the sum of their Net Equity and payment of the Minimum Return (Properties)

and Sunstone US's right to receive the Incentive Advisory Fee (Properties), cash distributions and income of the Properties Holding LP will be allocated 80% to the limited partners holding Properties Holding LP Units and 20% to the Properties Holding GP.

Hotel Lease Revenue

The rental revenues received by the Hotels Holding LP from Hotels Leaseco pursuant to the Hotel Leases will be applied by the Hotels Holding LP to the provision of reasonable reserves for working capital, renovations and upgrades of the Hotels, and the payment of interest and annual principal payments on the Mortgage Loans. After payment of such amounts, subject to the right of the limited partners holding Hotels Holding LP Units to receive distributions equal to the sum of their Net Equity and payment of the Minimum Return (Hotels) and Sunstone US's and Advisorco's rights to receive the Incentive Advisory Fees (Hotels), cash distributions and income of the Hotels Holding LP will be allocated 80% to the limited partners holding Hotels Holding LP Units and 20% to the Hotels Holding GP.

Hotels Leaseco Revenues

The operating cash flows and revenues from the Hotels will be applied by Hotels Leaseco to the payment of Operating Expenses in respect of the Hotels, the payment of rents payable under the Hotel Leases, the provision of reasonable reserves for operating working capital and the provision for payment of income taxes. After payment or provisions for such amounts, the balance will be distributed by Hotels Leaseco to its shareholders by way of distributions.

Title to the Properties

In order to accommodate the expected requirements of Lenders and to segregate any risks of ownership between Properties, the Holding GPs intend to have each of the Properties owned by a separate, single-purpose entity. These entities are expected to be limited partnerships established in the United States, the sole limited partner of which will be the Properties Holding LP or the Hotels Holding LP, respectively, and which will be controlled by the respective Holding GPs.

Management of Properties

The Properties Holding GP intends to engage third party property managers for the ongoing day-to-day management of the operation of the Properties (other than Hotels) and intends to structure each third party property management contract with a performance bonus, such that the manager will be rewarded for increases in operating income that the manager achieves from a Property (other than a Hotel), thereby aligning the interests of the manager with that of the Properties Holding LP. The Properties Holding GP expects that the fee payable to a property manager will be between 3% and 5% of the gross revenue obtained from the managed Property or Properties.

4. DEVELOPMENT OF THE BUSINESSES OF THE ISSUERS

4.1 Description and General Development Since Inception

The Trust was established on August 17, 2010 for the purpose of indirectly owning and leasing interests in a diversified portfolio of high quality, REIT-eligible revenue-producing properties in the U.S. (or proportionate interests in such properties). Its principal business will be to issue Trust Units and acquire, own and lease the Properties through the Master LP. The Trust does not have an operating history.

To date, neither of the Holding GPs has identified any Properties for potential investment by the Holding LPs. Assuming that the maximum offering of 40,000 Trust Units is sold, the gross proceeds of \$50,000,000, plus estimated Mortgage Loans in the aggregate principal amount of \$92,115,942, will be used to: pay the Agents' Commission of \$4,000,000; pay the other expenses of this Offering estimated at \$600,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$131,594,203; pay due diligence, documentation

and financing costs relating to the purchase of such Properties of \$2,631,884; create reserves for renovation and upgrading of such Properties of \$657,971; create reasonable working capital reserves for such Properties of \$657,971; and pay the Financing Fees of \$1,973,913 (refer to “Use of Proceeds”).

Assuming that the minimum Offering of 4,000 Trust Units is sold, the gross proceeds \$5,000,000, plus estimated Mortgage Loans in the aggregate principal amount of \$8,521,739 will be used to: pay the Agents’ Commission of \$400,000; pay the other expenses of this Offering estimated at \$400,000; pay the estimated aggregate purchase price of as yet unidentified Properties of \$12,173,913; pay due diligence, documentation and financing costs relating to the purchase of such Properties of \$243,478; create reserves for renovation and upgrading of such Properties of \$60,870; create reasonable working capital reserves for such Properties of \$60,870; and pay the Financing Fees of \$182,608 (refer to “Use of Proceeds”).

4.2 Significant Acquisitions

None of the Trust, the Master LP, the Properties Investment LP, the Hotels Investment LP, the Properties Holding LP nor the Hotels Holding LP has made any property acquisitions or dispositions to date.

4.3 Milestones

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

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Complete the Offering	November 30, 2010	Agents’ Commission ⁽¹⁾	\$400,000	\$4,000,000
		Agents’ fees and expenses ⁽²⁾	\$75,000	\$75,000
		Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings)	\$325,000	\$525,000
		Subtotal	\$800,000	\$4,600,000

⁽¹⁾ The Trust will pay to the Agents the Agents’ Commission in an amount equal to 8% of the subscription price of Trust Units. Such amount ultimately will be borne entirely by the Holding LPs pursuant to the Cost Sharing and Recovery Agreements (as a cost of issuing the Properties Holding LP Units and Hotels Holding LP Units).

⁽²⁾ The Trust has also agreed to bear all of the Agents’ expenses (currently estimated to be \$75,000) of or incidental to the issue, sale and delivery of the Trust Units pursuant to this Offering, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. Such amounts ultimately will be borne entirely by the Holding LPs pursuant to the Cost Sharing and Recovery Agreements (as a cost of issuing the Properties Holding LP Units and Hotels Holding LP Units).

Investment in Properties

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

Milestone	Target Date for Completion	Estimated Costs		
			Assuming Minimum Offering	Assuming Maximum Offering
Document and Complete Purchase of Properties	December 31, 2011 ⁽¹⁾	Purchase Price	\$12,173,913	\$131,594,203
		Due diligence, documentation and financing costs ⁽²⁾	\$243,478	\$2,631,884
		Reserve for renovations and upgrades	\$60,870	\$657,971
		Working capital reserve	\$60,870	\$657,971
		Financing Fee	\$182,608	\$1,973,913
		Subtotal	\$12,721,739	\$137,515,942

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

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

5. USE OF PROCEEDS

The Trust and Master LP intend to spend the funds available to them as stated in this Prospectus in the indirect investment in Properties. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary.

The following table evidences the intended use of the gross proceeds of issuance of Trust Units and from the Mortgage Loans by the Properties Holding LP and the Hotels Holding LP. The allocation of the net proceeds received by the Master LP from the issuance of Master LP Units among Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares will be determined by the Master GP from time to time based upon the individual economic fundamentals of the prospective investment opportunities.

	Assuming Minimum Offering ⁽¹⁾	Assuming Maximum Offering ⁽¹⁾
Proceeds from issuance of Properties Holding LP Units and Hotels Holding LP Units	\$5,000,000	\$50,000,000
Mortgage Loans ⁽²⁾	8,521,739	92,115,942
Total Sources of Funds: C = A + B	\$13,521,739	\$142,115,942

Use of Funds		
Purchase Price of the Properties ⁽³⁾	\$12,173,913	\$131,594,203
Agents' Commission ⁽⁴⁾	400,000	4,000,000
Agents' fees and expenses ⁽⁵⁾	75,000	75,000
Expenses of this Offering (legal, accounting and audit, tax advice, printing, travel, securities filings) ⁽⁶⁾	325,000	525,000

Use of Funds		
Estimated closing costs for purchase of Properties (including transfer fees, legal, due diligence and financing costs) ⁽⁷⁾	243,478	2,631,884
Creation of reserve for renovation and upgrading of Properties ⁽⁸⁾	60,870	657,971
Creation of reasonable working capital reserves for the Properties ⁽⁹⁾	60,870	657,971
Financing Fees ⁽¹⁰⁾	182,608	1,973,913
Total	\$13,521,739	\$142,115,942

- (1) There will be no closing unless a minimum of 4,000 Trust Units are sold. The maximum Offering is 40,000 Trust Units.
- (2) The Holding GPs intend to finance a part of the purchase price of the Properties by way of Mortgage Loans from third party Lenders. The amounts and Lenders of such Mortgage Loan have not yet been identified and the amount shown in the table above on account of Mortgage Loans is an estimate only.
- (3) The purchase price of Properties shown is an estimate only, and may not be the actual aggregate price payable pursuant to the agreements of purchase and sale to be made between the Holding LPs, respectively, and arm's-length third party vendors, or to be made between Sunstone (or its subsidiaries) and arm's-length third party vendors and assigned to the Holding LPs by Sunstone (or such subsidiaries).
- (4) The Trust will pay to the Agents a commission and fee equal to 8% of the subscription price of Trust Units. Such amount ultimately will be borne by the Holding LPs pursuant to the Cost Sharing and Recovery Agreements.
- (5) The Trust has also agreed to bear all of the Agents' expenses (currently estimated to be \$75,000) of or incidental to the issue, sale and delivery of the Trust Units pursuant to this Offering, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. Such amounts ultimately will be borne by the Holding LPs pursuant to the Cost Sharing and Recovery Agreements.
- (6) Pursuant to the Cost Sharing and Recovery Agreements, the Holding LPs have agreed to bear all costs and expenses incurred in respect of the Offering, including the Agents' Commission, fees and expenses and the other expenses of the Offering.
- (7) The amount incurred in respect of the purchase of Properties by the Holding LPs 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 Holding GPs may undertake a refurbishment program with respect to one or more of the Properties. The amount shown is an estimate of the amount which may be required to establish a reserve for the payment of the anticipated and unanticipated costs of such programs for all of the Properties.
- (9) The Holding GPs will establish working capital reserves for the Holding LPs, respectively, 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) Sunstone US will be paid the Financing Fees equal to 1.5% of the gross purchase price of each Property for the provision of certain financial services to the Holding LPs. The Financing Fee will be equal to 3.8% of the gross proceeds of the Offering in the event that the minimum Offering is sold and 4.0% of the gross proceeds of the Offering in the event that the maximum Offering is sold.

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

In determining what would constitute "reasonable reserves" for renovation and upgrading and working capital reserves for such Properties, the Holding GPs 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 respective Holding GP having regard to, among other things, the Property's age, general state of repair, and an assessment of whether anticipated revenues would be sufficient to cover all or a portion of the

repairs or upgrades identified as reasonably necessary through the due diligence process. For the purposes of this Prospectus, the Holding GPs have estimated that a reasonable reserve for renovation and upgrading of the Properties is 1% of the purchase price of the Properties.

In determining how much of a working capital reserve would be reasonable for a given Property, the Holding GPs will generally target a working capital reserve of $\frac{1}{2}\%$ of the purchase price of the Property. In the event that the maximum Offering of 40,000 Trust Units is sold, the estimated aggregate purchase price of the as yet unidentified Properties is \$131,594,203; if the minimum Offering of 4,000 Trust Units is sold, the estimated aggregate purchase price of the as yet unidentified Properties is \$12,173,913. Accordingly, the targeted working capital reserves in the event of a maximum Offering is \$657,971, and the targeted working capital reserves in the event of a minimum Offering is \$60,870. However, for any given Property, the Holding GPs 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.

6. SELECTED FINANCIAL INFORMATION

Trust

The audited financial statements of the Trust for the period from the date of its formation to August 19, 2010 are included in this Prospectus. The Trust was only recently formed and capitalized with nominal capital. As the Trust has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

Master LP

The audited financial statements of the Master LP for the period from the date of its formation to August 19, 2010 are included in this Prospectus. The Master LP was only recently formed and capitalized with nominal capital. As the Master LP has not carried on any business to date, it has no material assets, or cash flow from financing or from operations.

7. EARNINGS COVERAGE RATIOS

Neither the Trust nor the Master LP has had any earnings to date, and neither currently has any outstanding long-term debt. Neither the Properties Holding LP nor the Hotels Holding LP has had any earnings to date, and neither has any current outstanding long-term debt. It is anticipated that upon the acquisition of the Properties, the Holding LPs will incur Mortgage Loans in the aggregate principal amount of up to \$92,115,942, assuming the maximum Offering is sold.

8. DESCRIPTION OF THE SECURITIES DISTRIBUTED

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

8.1 Trust Units

The rights and obligations of the Trust Unitholders are governed by the Declaration of Trust for the Trust made as of August 17, 2010 among the Trustee, Sunstone 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 Trust Declaration. **This summary does not purport to be complete and reference should be to the Trust Declaration itself, a copy of which is available from the Trustee.**

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

Trust Units

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

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

Distributions

The Trust will distribute to each Trust Unitholder Distributable Cash Flow (Trust) realized from its investment in Master LP Units (being the distributable cash flow received by the Master LP and generated by the Properties owned and leased through the Holding LPs and the distributions received from Hotels Leaseco) for each Distribution Period in which such amounts are realized. Subject to the foregoing, the Trust intends to declare distributions on a quarterly basis to Trust Unitholders of record on the last Business Day of each quarter. Distributions will be paid within 15 days following the end of each quarter for which a distribution is declared.

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

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

The Trustee will declare payable to the Unitholders of record at the close of business on the last day of each taxation year, the following amount to Trust Unitholders of record at the close of business on such day (whether or not such day is a Business Day): an amount equal to the net income of the Trust for such taxation year and any net realized capital gains for such year, in both cases other than (i) income and taxable capital gains of the Trust arising on or in connection with an *in specie* redemption of Trust Units which are paid or payable by the Trust to redeeming Trust Unitholders and (ii) any other income that was previously paid or made payable to Unitholders in such year.

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

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

If, on a Distribution Payment Date, the Trustee determines that the Trust does not have cash in an amount sufficient to pay the full amount of any distribution to be made on such Distribution Payment Date, or for any other reason cannot pay the distribution in cash, or the Trustee otherwise elects in respect of any such distribution, the distribution payable to the Trust Unitholders on such Distribution Payment Date will be distributed to holders of Trust Units in the form of additional Trust Units, or fractions of Trust Units, (at \$1,250 per Trust Unit) having a value equal to the cash shortfall. If the Trustee determines that the value of a Trust Unit is materially different than \$1,250, each additional Trust Unit will be issued at such different value. Those additional Trust Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. The distribution of Trust Units will be subject to the requirements of the applicable securities authority and if not permitted, distributions will be made in cash. The Trustee will consolidate the number of outstanding Trust Units after a distribution of additional Trust Units, so that each Trust Unitholder holds the same number of Trust Units held before the distribution of additional Trust Units.

Distribution on Termination of the Trust

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

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

Meetings of Trust Unitholders and Resolutions

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

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

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

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

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

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

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

Termination of the Trust

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

Amendments to the Trust Declaration

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

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

Information and Reports

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

Liability of Trust Unitholders

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

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

Redemption

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

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

- (a) where the Trust Units are listed on a stock exchange or similar market, an amount equal to the lesser of (i) 95% of the market price of the Trust Units during the 10 trading day period after the redemption date; and (ii) 100% of the closing market price of the Trust Units on the redemption date; or
- (b) where the Trust Units are not listed on a stock exchange or similar market, 95% of the aggregate of:
 - (i) the Master LP Unit Value, being:
 - (A) the aggregate Properties Holding LP Unit Value of the Properties Holding LP Units indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date, plus the aggregate value of cash, working capital or other assets of the Properties Investment LP on the redemption date, other than Properties Holding LP Units the value of which is already accounted for; plus
 - (B) the aggregate Hotels Holding LP Unit Value of the Hotels Holding LP Units indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date, plus the aggregate value of cash, working capital or other assets of the Hotels Investment LP on the redemption date, other than Hotels Holding LP Units the value of which is already accounted for and Hotels Leaseco Shares the value of which is accounted for under (b)(i)(C) below; plus

- (C) the aggregate Hotels Leaseco Share Value of the Hotels Leaseco Shares directly and indirectly held by the Master LP on the last day of the most recent calendar quarter that ends prior to the redemption date; plus
- (D) the aggregate value of the cash, working capital, or other assets of the Master LP on the redemption date, other than Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares the value of which is accounted for under (b)(i)(A), (B) and (C) above; less
- (E) the aggregate value of the liabilities of the Master LP, the Properties Investment LP and the Hotels Investment LP on the redemption date; less
- (F) the aggregate value on the redemption date of any interest in the Properties Investment LP, the Hotels Investment LP or Hotels Leaseco other than Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares held by the Master LP, plus
- (ii) the aggregate value of the cash, working capital, or other assets of the Trust on the redemption date, other than Master LP Units the value of which is accounted for under (b)(i) above; less
- (iii) the aggregate value of the liabilities of the Trust on the redemption date; less
- (iv) the aggregate value on the redemption date of any interest in the Master LP other than Master LP Units held by the Trust,

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

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

- (a) the total amount payable by the Trust by cash payment in respect of the redemption of Trust Units for that calendar quarter will not exceed \$100,000;
- (b) the total amount payable by the Trust by cash payment in respect of the redemption of Trust Units in any twelve month period ending at the end of that calendar quarter will not exceed 3/4 of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period; and
- (c) in the event that the Trust Units are listed on a stock exchange or similar market, the normal trading of the Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading on the redemption date or for more than five trading days during the 10 day trading period commencing immediately after the redemption date.

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

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

- (c) a distribution *in specie* to the Trust Unitholder of a number of Master LP Units with an aggregate value (having regard to the Master LP Unit Value at that time) equal to the aggregate redemption price of the Trust Units tendered for redemption.

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

Trust Notes, Debt Securities and Master LP Units received as a result of redemptions of Trust Units will generally not be qualified investments for Plans, and this could give rise to adverse consequences to a Plan and/or its annuitant, beneficiary thereunder or holder thereof, including the redeeming Trust Unitholder becoming subject to a penalty tax or, in the case of an RESP, the RESP 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 (as defined in the Tax Act) be the beneficial owners of Trust Units. If a Trust Unitholder becomes a non-resident of Canada or otherwise becomes a “designated beneficiary” as defined in section 210 of the Tax Act (and as defined in proposed subsection 210(1) of the Tax Act), the Trustee may, in its discretion, either forthwith redeem all or a part of the Trust Units held by such Trust Unitholder, or by written notice require the Trust Unitholder to, within thirty (30) days, transfer the Trust Units to a transferee who is not a “non-resident” or “designated beneficiary” as defined in section 210 of the Tax Act. The redemption proceeds payable for each Trust Unit to be redeemed will be equal to 85% of the lesser of the subscription price and the amount payable to a redeeming Trust Unitholder in the event of a Redemption of a Trust Unit, determined on the day on which the Trustee issues the redemption notice.

No Concentration of Ownership

Pursuant to the Trust Declaration, no one individual or his or her family may directly or indirectly acquire more than 9.9% of the Trust Units.

Powers and Responsibilities of the Trustee

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

- (a) holding Trust Property in safekeeping; retaining moneys, securities, property, assets or investments; investing moneys from time to time forming part of the Trust Property (as such term is defined in the Trust Declaration);
- (b) ensuring that the gross subscription proceeds are invested in Master LP Units;
- (c) borrowing money as necessary to pay distributions to Trust Unitholders, and encumbering Trust Property in respect thereof;
- (d) paying properly incurred expenses out of Trust Property;
- (e) depositing monies from time to time forming part of the Trust Property in accounts;
- (f) possessing and exercising rights, powers and privileges pertaining to ownership of or interest in Trust Property;
- (g) holding legal title to Trust Property;

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

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

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

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

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

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

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

Conflicts of Interest

The Trustee or a director or officer of the Trustee who directly or indirectly has a material interest in a material contract or transaction or proposed material contract or transaction with the Trust, other than an affiliate of the Trust, must disclose in writing to the Trust the nature and extent of such interest forthwith after becoming aware of the material contract or transaction or proposed material contract or transaction. Such director or officer of the Trustee must not vote on any resolution to approve the material contract or transaction, unless the material contract or transaction is one relating primarily to his or her remuneration as a director or officer, one for indemnity or insurance, or one with any affiliate of the Trust.

Where the Trustee or any director or officer of the Trustee fails to disclose his or her interest in a material contract or transaction, the Trustee or any Unitholder, in addition to exercising any other rights or remedies in connection with such failure exercisable at law or in equity, may apply to a court for an order setting aside the material contract or transaction and directing that the Trustee or such director or officer account to the Trust for any profit or gain realized, provided that if the Trustee or director or officer is acting honestly and in good faith, he or she will not be accountable to the Trust or to the Unitholders for any profit or gain realized from such material contract or transaction, and such material contract or transaction will not be void or voidable and may not be set aside, if: (i) the material contract or transaction was reasonable and fair to the Trust at the time it was approved; (ii) the material contract or transaction is confirmed or approved at a meeting of the Trust duly called for that purpose; and (iii) the nature and extent of the Trustee's or director's or officer's interest in such contract or transaction is disclosed in reasonable detail in the notice calling the meeting of the Trustee.

Rights of Trust Unitholders

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

Shareholders of a CBCA corporation may apply to a court to order the liquidation and dissolution of the corporation in certain circumstances, whereas Trust Unitholders may rely only on the general provisions of the Trust Declaration which permit the winding-up of the Trust with the approval of a Special Resolution of the Trust

Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Trust Declaration does not include comparable rights.

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

8.2 The Master LP

The rights and obligations of the Master GP and the parties holding Master LP Units are governed by the limited partnership agreement made August 18, 2010 establishing the Master LP among the Master GP, the Trust as the initial limited partner and all persons who subsequently become limited partners of the Master LP holding Master LP Units. The following is a summary of certain material provisions of the Master LP Agreement. **This summary does not purport to be complete and reference should be to the Master LP Agreement itself, a copy of which is available from the Master GP.**

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

Capital in the Master LP

The capital of the Master LP consists of an unlimited number of units of the Master LP ("Master LP Units") and the interest held by the Master GP. The Master GP has made a capital contribution of \$0.01 to the Master LP and as the initial limited partner, the Trust has made a capital contribution of \$9.99 to the Master LP. The Trust will contribute to the Master LP \$1,248.75 in capital per Master LP Unit purchased. Upon the issuance of each Master LP Unit, the Master GP shall make a capital contribution to the Master LP in the amount of \$1.25.

Allocation of Net Income and Net Losses

Net income and net losses of the Master LP will be allocated 0.1% to the Master GP and 99.9% to the limited partners holding Master LP Units, *pro rata*. If, as a result of such allocation, any partner of the Master LP has a negative balance in his, her or its capital account, the Master GP shall have the right to allocate net income of the Master LP to that partner in priority to other partners to the extent of the negative balance. In addition, the Master LP will not allocate net losses to a limited partner of the Master LP if such allocation would cause such limited partner to have a negative balance in his, her or its capital account, and the amount so not allocated will be allocated among the other partners of the Master LP. In such case, allocations of net income in subsequent years will be made by the Master GP by first allocating an amount of net income to the partners to whom the excess loss was allocated, in an amount equal to the excess loss previously allocated to them.

Cash Flow Distributions

To the extent cash flow permits, the Master LP will pay and distribute an amount equal to all cash flow from its investment in Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares in that year after payment of all current obligations of the Master LP. Cash flow will be distributed 0.1% to the Master GP and 99.9% to the limited partners holding Master LP Units, *pro rata*.

Distributions upon Wind-up, etc.

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

- (a) first, to pay all expenses incurred in the winding-up of the Master LP;

- (b) second, to pay all of the liabilities of the Master LP, including any loans or advances made by its limited partners and any amounts owing to the Master GP in respect of costs and expenses owing to it;
- (c) third, to establish such reserves as the Master GP considers necessary; and
- (d) fourth, the balance will be paid 0.1% to the Master GP and 99.9% to the limited partners holding Master LP Units, *pro rata*.

Additional Capital Contributions

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

Management of the Master LP

The Master GP shall have continuing exclusive authority over the management of the Master LP, the conduct of its affairs, and the management and disposition of the property of the Master LP, except for certain limited matters being subject to votes of the limited partners holding Master LP Units. The Master GP has unlimited liability for the debts, liabilities and obligations of the Master LP. A limited partner holding Master LP Units will not be liable for any debts, liabilities or obligations of the Master LP in excess of such limited partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such limited partner's Master LP Units, provided such limited partner does not take part in the control or management of the business of the Master LP.

Removal of the Master GP

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

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

Voting

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

Assignment of Units and Minimum Distribution Requirements

Master LP Units may be assigned and transferred in writing without restriction and no such transfer or assignment shall require any approval or consent from the Master GP or any other limited partner of the Master LP. However, the transferor must comply with the applicable securities legislation. Further, the transferee must agree to assume the obligations of the transferor that pertain to the Master LP Units transferred and to pay such costs, expenses and disbursements, including legal fees, as are reasonably incurred by the Master LP by reason of the transfer. A transferee of a Master LP Unit will not become a limited partner in respect of that Master LP Unit until all filings and recordings required by law to validly effect a transfer have been duly made.

Financial Information

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

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

8.3 The Properties Investment LP and the Hotels Investment LP

The limited partnership agreements for the Properties Investment LP and the Hotels Investment LP contain similar terms and will be described together for the purposes of this Prospectus. **This summary does not purport to be complete and reference should be to the Properties Investment LP Agreement and Hotels Investment LP Agreements themselves, copies of which are available from the Properties Investment GP and Hotels Investment GP, respectively.**

The rights and obligations of the Properties Investment GP and the parties holding Properties Investment LP Units are governed by the limited partnership agreement made September 1, 2010 establishing the Properties Investment LP among the Properties Investment GP, the Master LP as the initial limited partner and all persons who subsequently become limited partners of the Properties Investment LP holding Properties Investment LP Units. The rights and obligations of the Hotels Investment GP and the parties holding Hotels Investment LP Units are governed by the limited partnership agreement made September 1, 2010 establishing the Hotels Investment LP among the Hotels Investment GP, the Master LP as the initial limited partner and all persons who subsequently become limited partners of the Hotels Investment LP holding Hotels Investment LP Units.

Capitalized terms in this summary which are not defined in this Prospectus are defined in the Properties Investment LP Agreement and Hotels Investment LP Agreement.

Capital in the Investment LPs

The capital of each of the Investment LPs consists of an unlimited number of Class A units (being the Properties Investment LP Units and Hotels Investment LP Units, respectively), 1,000 Class B units ("Class B Units"), and the interests held by the Investment GPs. The Master LP will contribute to the Investment LPs \$1,250 in capital per Investment LPs Unit purchased.

Pursuant to the Code, in order to qualify as a REIT, each of the Investment LPs must be beneficially owned by at least 100 persons. In order to meet this test, the Investment LPs, on or before January 30, 2011, will issue Class B Units to between 100 and 125 persons, for a subscription price of \$1,000 per Class B Unit. Limited partners holding Class B Units will contribute \$1,000 in capital per Class B Unit purchased. Limited partners holding Class B Units will earn an annual percentage return, cumulative but not compounded, calculated on their net equity in the Investment LPs (the "Class B Minimum Return"), which annual rate will be established by the Investment GPs upon the issuance of the Class B Units, but is expected to be in the range of 12.5% per annum. Such annual return will be paid to the holders of the Class B Units in priority to the distribution of cash flow to the Master LP, as the holder of the Properties Investment LP Units and Hotels Investment LP Units, and the Investment GPs.

Allocation of Net Income and Net Losses

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

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

Cash Flow Distributions

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

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

Distributions upon Wind-up, etc.

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

- (a) first, to pay all expenses incurred in the winding-up of the Investment LPs;
- (b) second, to pay all of the liabilities of the Investment LPs, including any loans or advances made by their respective limited partners and any amounts owing to the Investment GPs in respect of costs and expenses owing to them;
- (c) third, to establish such reserves as the Investment GPs consider necessary;
- (d) fourth, to pay to the limited partners holding Class B Units, as a class, the sum of:
 - (i) any accrued and unpaid Class B Minimum Return, determined as of such date;

- (ii) if applicable, any Redemption Premium (defined below); and
- (iii) the Net Equity contributed by such limited partners, *pro rata*, in proportion to their respective Proportionate Shares; and
- (e) fifth, the balance to the Investment GPs and the limited partners holding Investment LPs Units as a class, *pro rata* in proportion to their respective Proportionate Shares.

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

Additional Distributions

The Investment LPs may also make additional distributions during the year, as the Investment GPs may determine, if necessary to meet the REIT annual distribution requirements.

Additional Capital Contributions

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

Management of the Investment LPs

The Investment GPs shall have continuing exclusive authority over the management of the Investment LPs, the conduct of their affairs, and the management and disposition of the property of the Investment LPs, except for certain limited matters being subject to votes of the limited partners holding Investment LPs Units. The Investment GPs do not have any rights to vote.

Removal of the Investment GPs

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

Voting

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

Description of Class B Units

Priority. Each Class B Unit is entitled to a liquidation preference (the "Liquidation Preference") of \$1,000 per Class B Unit, subject to adjustment as described under "Liquidation" below (the "Liquidation Value"). With

respect to distributions, including the distribution of the Investment LPs' assets upon dissolution, liquidation, or winding-up, the Class B Units will be senior to all other classes and series of units of the Investment LPs, whether such class or series is now existing or is created in the future, to the extent of the aggregate Liquidation Value and all accrued but unpaid distributions and any Redemption Premium (defined below) on the Class B Units. Holders of the Class B Units will not, however, participate in any appreciation in the value of the Investment LPs.

Distributions. Distributions on each Class B Unit will accrue on a daily basis at an annual rate to be determined by the Investment GPs, but which is expected to be in the range of 12.5%. Distributions will accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Investment LPs legally available for the payment of distributions. Such distributions shall be cumulative such that all accrued and unpaid distributions shall be fully paid or declared with funds irrevocably set apart before any dividend, distribution or payment may be made to holders of Investment LPs Units. If at any time the Investment LPs pays less than the total amount of distributions then accrued with respect to the Class B Units, such payment will be distributed ratably among the holders of the Class B Units on the basis of the number of Class B Units owned by each such holder. Distributions on the Class B Units will be payable semi-annually on June 30 and December 31 of each year. The first dividend on the Class B Units is expected to be paid on June 30, 2011.

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

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

Liquidation. In the event of any dissolution, liquidation, or winding-up of the Investment LPs (a "Liquidation Event"), limited partners holding Class B Units will be entitled to receive *pro rata* in cash out of the assets of the Investment LPs available therefor, before any distribution of the assets may be made to the holders of Investment LPs Units, an amount equal to the Liquidation Value, plus any cumulative dividends (and any interest thereon), plus, if applicable, the Redemption Premium described above. Upon payment of such amount, the holders of the Class B Units will have no other rights or claims to any of the remaining assets of the Investment LPs either upon distribution of such assets or upon dissolution, liquidation, or winding-up.

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

Either of the Investment GPs, in their sole discretion, may elect not to pay the limited partners holding Class B Units the sums due immediately upon a Liquidation Event but instead may choose to first distribute such amounts as may be due to the limited partners holding Investment LPs Units and such Investment GP pursuant to the Investment LPs Agreements. If an Investment GP elects to exercise this option, it shall first establish a

reserve in an amount equal to 200% of all amounts owed to the limited partners holding Class B Units pursuant to the respective Investment LPs Agreements. In the event that the sum held in the reserve is insufficient to pay all amounts owed to the limited partners holding Class B Units, the limited partners holding Investment LPs Units and the Investment GP shall contribute back to the Investment LPs any distributions or other payments received from the Investment LPs in connection with a Liquidation Event to the extent necessary to enable the Investment LPs to pay all sums payable to the limited partners holding Class B Units.

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

Conversion. No Class B Unit is convertible into units of any other class or series.

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

The foregoing is a summary only of certain of the material provisions of the Properties Investment LP Agreement and Hotels Investment LP Agreement. For a complete understanding of all of the provisions of the Properties Investment LP Agreement and Hotels Investment LP Agreement, reference should be made to such agreements themselves, copies of which are available from the Investment GPs.

8.4 Hotels Leaseco

Hotels Leaseco is authorized to issue an unlimited number of common shares in its capital. Common shares will be issued by Hotels Leaseco 99% to the Master LP and 1% to the Hotels Investment LP at the price of \$0.01 per share.

The holders of the common shares in the capital of Hotels Leaseco will be entitled to the payment of distributions as and when declared by the directors of Hotels Leaseco and in such amounts as are declared from time to time. The directors currently intend to declare distributions in an amount equal to the operating cash flows and revenues from the Hotels, after payment of Operating Expenses in respect of the Hotels, the payment of rents payable under the Hotel Leases, the provision of reasonable reserves for operating working capital and the provision for payment of income taxes. Such distributions will be paid to the Master LP and Hotels Investment LP as the holders of the common shares of Hotels Leaseco within a reasonable time after being declared. The holders of common shares in the capital of Hotels Leaseco will be entitled to exercise one vote for each such share.

8.5 The Holding LPs

The limited partnership agreements for the Properties Holding LP and the Hotels Holding LP contain similar terms and will be described together for the purposes of this Prospectus. **This summary does not purport to be complete and reference should be to the Properties Holding LP Agreement and Hotels Holding LP Agreements themselves, copies of which are available from the Holding GPs, respectively.**

The rights and obligations of the Properties Holding GP and the parties holding Properties Holding LP Units are governed by the limited partnership agreement made September 1, 2010 establishing the Properties Holding LP among the Properties Holding GP, the Properties Investment LP as the initial limited partner and all persons who subsequently become limited partners of the Properties Holding LP holding Properties Holding LP Units. The rights and obligations of the Hotels Holding GP and the parties holding Hotels Holding LP Units are governed by the limited partnership agreement made September 1, 2010 establishing the Hotels Holding LP among the Hotels Holding GP, the Hotels Investment LP as the initial limited partner and all persons who subsequently become limited partners of the Hotels Holding LP holding Hotels Holding LP Units.

Capitalized terms in this summary which are not defined in this Prospectus are defined in the Properties Holding LP Agreement and Hotels Holding LP Agreement.

Capital in the Holding LPs

The capital of each Holding LP consists of an unlimited number of Properties Holding LP Units and Hotels Holding LP Units, respectively, plus the respective interest held by the applicable Holding GP as general partner. Limited partners will contribute to the Holding LPs \$1,250 in capital per Holding LP Unit purchased.

Cash Flow from Operations

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

- (a) first, the limited partners will be paid the amount of the Minimum Returns. The Holding GPs will not be entitled to share in cash flow, proceeds of sale, and surplus proceeds from refinancing, nor will Sunstone US or Advisorco be entitled to receive payment of the Incentive Advisory Fee, until the Minimum Returns have been paid. The Minimum Returns will be calculated on a non-compounded, cumulative basis such that in the years when the Minimum Returns are not available from cash flow, they will accumulate and be paid from cash flow in subsequent years;
- (b) second, the limited partners will be repaid their Net Equity; and
- (c) third, the balance, after payment of the Incentive Advisory Fees, will be paid out as to 80% to the limited partners and 20% to the Holding GPs.

Net Proceeds from Refinancings, Sale or other Capital Transactions

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

- (a) in the event of a sale of a Property, to pay any costs involved in the sale and to pay all amounts required to discharge any Mortgages or encumbrances registered against the Property;
- (b) to pay to the limited partners of the respective Holding LP that amount which is estimated by the respective Holding GP 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 Holding LP, including without limitation, any loans advanced by the respective Holding GP or the limited partners of the Holding LP, plus accrued interest;
- (d) to the limited partners of the Holding LP until such limited partners have received repayment in full of the Net Equity, to the extent not already paid;
- (e) if the limited partners of the Holding LP have not received full payment of the Minimum Return, to the limited partners of the Holding LP until they have received the full Minimum Return;

- (f) if necessary, to the limited partners of the Holding LP in an amount equal to any allocation of net income or net loss in excess of the Minimum Return;
- (g) if the respective Holding GP is allocated any net income or net loss, to the Holding GP until such amount is paid to the Holding GP; and
- (h) the balance will be distributed 80% to the limited partners of the Holding LP, *pro rata* as a group, and 20% to the respective Holding GP.

Allocation of Income and Losses for Tax and Accounting Purposes

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

Additional Capital Contributions

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

Distributions Upon Wind-up, etc.

Upon the liquidation, dissolution or wind-up of a Holding LP, the assets of the Holding LP will be liquidated and all proceeds thereof collected by the respective Holding GP, and all such proceeds shall be distributed as follows:

- (a) in the event that dissolution occurs upon the sale of the last of the Properties owned by such Holding LP, to pay any costs involved in the sale, including the disposition fee payable to Sunstone US and Advisorco, and to pay all amounts required to discharge any mortgages or encumbrances registered against the assets;
- (b) to pay all expenses incurred in the winding-up of the Holding LP;
- (c) to pay all of the liabilities of the Holding LP, including any loans or advances made by limited partners of such Holding LP and any amounts owing to the respective Holding GP in respect of costs and expenses owing to it pursuant to the Holding LP Agreement;
- (d) to establish such reserves as the respective Holding GP considers necessary;
- (e) to return to each limited partner of such Holding LP the amount in such limited partner's capital account;
- (f) to return to the respective Holding GP the balance in its capital account;
- (g) to pay to the limited partners of such Holding LP any unpaid portion of their Minimum Return;
- (h) to distribute any balance then remaining 80% to the limited partners of such Holding LP, *pro rata*, and 20% to the respective Holding GP.

Management of the Holding LPs

Under the terms of the Holding LPs Agreements, the Holding GPs are given full power and authority to manage, control, administer and operate the business of the Holding LPs, 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 Holding LPs. The Holding GPs have unlimited liability for the debts, liabilities and obligations of their respective Holding LP. A limited partner will not be liable for any debts, liabilities or obligations of either of the Holding LPs 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 Holding LPs Units, provided such limited partner does not take part in the control or management of the business of a Holding LP.

Removal of a Holding GP

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

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

Voting

Each of the Holding LPs Units has attached to it the right to exercise one vote at meetings of the respective Holding LP. Certain powers, relating generally to the existence and fundamental powers of each Holding LP, are specified in the Holding LPs Agreements to be exercisable only by way of a Special Resolution passed by the limited partners thereof.

Joint Ventures and other Ownership Structures

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

The foregoing is a summary only of certain of the material provisions of the Properties Holding LP Agreement and the Hotels Holding LP Agreement. For a complete understanding of all of the provisions of the Properties Holding LP Agreement and the Hotels Holding LP Agreement, reference should be made to the Properties Holding LP Agreement and the Hotels Holding LP Agreement themselves, copies of which are available from the Properties Holding GP and the Hotels Holding GP.

8.6 Subscription

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

- (a) irrevocably authorizes and directs the Agents to provide certain information to the Trustee, including such Purchaser's full name, residential address, telephone number, social insurance,

business or corporation account number, as the case may be, and the name and registered representative number of the Agents, and covenants to provide such information to the Agents;

- (b) acknowledges that he, she or it, as the case may be, is bound by the terms of the Trust Declaration and is liable for all obligations of a Trust Unitholder;
- (c) makes representations and warranties, including without limitation, the respective representations and warranties set out in the Trust Declaration; and
- (d) irrevocably nominates, constitutes and appoints the Trustee as the Purchaser's true and lawful attorney and agent with the full power and authority as set out in the Trust Declaration.

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

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

9. CAPITALIZATION

9.1 Existing and Proposed Capitalization

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

Description of security	Number authorized to be issued	Number outstanding and carrying value as at September 3, 2010	Number outstanding and carrying value after Offering	
			Assuming Minimum Offering	Assuming Maximum Offering
Initial contribution by Sunstone as settlor	1	1 (\$10)	1 (\$10)	1 (\$10)
Trust Units	unlimited	Nil	4,000 (\$5,000,000) ⁽¹⁾	40,000 (\$50,000,000) ⁽¹⁾

⁽¹⁾ Gross proceeds before issuance costs. Issuance costs will be borne by the Properties Holding LP and the Hotels Holding LP pursuant to the Cost Sharing and Recovery Agreements. Assuming that all 40,000 Trust Units are sold pursuant to this Offering the issuance costs will be \$4,600,000. Assuming that the minimum Offering of 4,000 Trust Units is sold, the issuance costs will be \$800,000.

9.2 Long-Term Debt

Neither the Trust, the Master LP, the Properties Investment LP nor the Hotels Investment LP has had any earnings to date, and neither currently has any outstanding long-term debt. Neither the Properties Holding LP nor the Hotels Holding LP has had any earnings to date, and currently has no outstanding long-term debt. It is anticipated that upon the acquisition of the Properties, the Properties Holding LP and the Hotels Holding LP will incur Mortgage Loans in the aggregate principal amount of up to \$92,115,942. The Properties Holding GP and the Hotels Holding GP will target an overall loan-to-value ratio (of mortgage loans) of not more than 70% of the purchase price of the Properties, plus the amount of any property improvement reserve account approved by the Lenders. However, if deemed appropriate by the Properties Holding GP or the Hotels Holdings GP, having regard to all of the circumstances including the potential value of the Properties identified for investment, the Properties Holding GP or the Hotels Holding GP may cause the overall loan-to-value ratio of the Mortgage

Loans to exceed this threshold. Such loans will generally be for terms of three to seven years, with fixed interest rates calculated with reference to the interest rate on a government bond with a similar term, plus an amount determined in accordance with market factors. The Mortgage Loans will be secured by mortgages registered on the Properties in respect of which the loans were advanced.

10. PRIOR SALES

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

11. PRINCIPAL SECURITY HOLDERS

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

12. DIRECTORS AND OFFICERS

12.1 Name, Address, Occupation and Security Holdings

Trustee

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

Name, Age, Municipality of Residence and Position Held with Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Robert W. King ⁽³⁾ Age 44 Vancouver, BC Director	President of King Pacific Capital Corporation, a financial services company involved in mortgage finance and real estate investment, from January 1994 to present. Director of Wall Financial Corporation, a real estate investment and development company, from March 2005 to present. Trustee of WesternOne Equity Income Fund, June 2006 to present. Trustee of PIRET, June 2007 to present. Director and officer of trustee and general partners of prior Sunstone entities.	Director of Trustee since August 17, 2010.	500 common shares ⁽¹⁾	50%	50%

Name, Age, Municipality of Residence and Position Held with Trustee	Principal Occupation	Periods Served as a Director or Officer	Securities of the Trustee Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
James Redekop Age 50 Mt. Lehman, BC Director	President of Redekop Holdings Inc. from March 1996 to present. Redekop Holdings Inc. is a personal holding company with interests in real estate development and construction projects. Director and officer of trustee and general partners of prior Sunstone entities.	Director of Trustee since August 17, 2010.	500 common shares ⁽²⁾	50%	50%
Darren Latoski ⁽³⁾ Age 41 Vancouver, BC President	Director and President of Sunstone Realty Advisors Inc.; Director and President of Sunstone Realty Advisors (Canada) Inc.; Trustee of WesternOne Equity Income Fund and President and CEO of WesternOne Equity GP Inc., June 2006 to present; Trustee of PIRET, June 2007 to present. President of trustee and general partners of prior Sunstone entities.	President of Trustee since August 17, 2010.	none	n/a	n/a

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

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

(3) The audit committee of the Trustee will be comprised of Mr. King and Mr. Latoski.

Personal Profiles

Robert W. King – Mr. King is President of King Pacific Capital Corporation, a financial services company involved in mortgage finance and real estate investment. Mr. King is also a principal of Westbridge Capital Group, a full-service commercial mortgage brokerage company. Mr. King has served on the Board of Directors of Wall Financial Corporation, a real estate investment and development company whose shares are listed for trading on the Toronto Stock Exchange, since March, 2005. Mr. King earned his M.B.A. from Dalhousie University in 1992 and a Bachelor of Arts from the University of British Columbia in 1989.

James Redekop - Since leaving the single family home construction industry in 1986, Mr. Redekop has been involved in multi-family housing and commercial construction and development in British Columbia, primarily through special-purpose private companies held through Redekop Holdings Inc., Mr. Redekop's holding company. His primary focus has been with residential wood-frame condominium and townhouse projects. Over the past eighteen years, he has acted as general contractor or project manager on numerous multi-family developments.

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

The Master GP

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

Name, Age, Municipality of Residence and Position Held	Principal Occupation	Periods Served as a Director	Securities of the Master GP Beneficially Owned or Directly or Indirectly Controlled	Percentage of Class Outstanding	Percentage of Class Outstanding After Giving Effect to this Offering
Steve Evans ⁽²⁾ Age 46 North Vancouver, BC President and Director	Director and Secretary of Sunstone Realty Advisors Inc.; Director and Secretary of Sunstone Realty Advisors (Canada) Inc.; Director of WesternOne Equity GP Inc., June 2006 to present; Trustee of PIRET, June 2007 to present; Trustee of Huntington Real Estate Investment Trust, September 15, 2008 to present.	President and Director of the Master GP since August 18, 2010.	nil ⁽¹⁾	nil	nil
Bryan Kerns ⁽²⁾ Age 49 Dallas, Texas Secretary and Director	President and owner, Tipton Group, Inc. 1997 to present.	Secretary and Director of the Master GP since August 18, 2010.	nil	nil	nil

(1) The issued shares of the Master GP are owned by the Trust.

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

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

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

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

Previous Real Estate Experience of Messrs Latoski and Evans

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

Sunstone Opportunity Fund Limited Partnership (“Sunstone LP”)

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

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

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

Having sold all of its assets and distributed all income and gains to its partners, Sunstone LP was dissolved on July 25, 2006. Investors owning limited partnership units of Sunstone LP and Series A Debentures of SRAI Capital Corp. received an annualized internal rate of return (IRR) of approximately 36%. Annualized internal rate of return (IRR) is a measure commonly used in financial analysis and measures the multi-period receipt of cash returns by the investor over the life of an investment. In the case of Sunstone LP and Series A Debentures of SRAI Capital Corp., the IRR has been calculated based on total cash distributions of \$19,636.30 per unit of investment, including the periodic repayment of the initial per unit capital investment of \$12,500, over a term of approximately 20 months. (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone Opportunity Fund (2004) Limited Partnership (“Sunstone (2004) LP”)

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
1425 Kebet Way	Port Coquitlam, BC	47,693	\$3,765,187	Jan-05	Single industrial tenant	\$4,570,000	May-05
West Willow	Langley, BC	70,074	\$9,750,000	Mar-05	Fairway Market,	\$14,200,000	Jul-06

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Shopping Centre					Fanny's Fabrics, Baskin Robbins, Mail Boxes Etc.		
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	\$10,275,000	June-10
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
Total Purchase Price			\$40,775,187		Total Sale Price	\$55,068,500	

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

Sunstone (2004) LP recently completed the sale of the last of its assets and is in the process of distributing all income and gains to its partners, completing final financial and tax reporting, and commencing the process for the dissolution of Sunstone (2004) LP. To June 30, 2010, investors owning limited partnership units of Sunstone LP and Series B Debentures of SRAI Capital Corp. received an annualized internal rate of return (IRR) of approximately 17.59%. Annualized internal rate of return (IRR) is a measure commonly used in financial analysis and measures the multi-period receipt of cash returns by the investor over the life of an investment. In the case of Sunstone (2004) LP and Series B Debentures of SRAI Capital Corp., the IRR has been calculated based on total cash distributions of \$18,617.21 per unit of investment, including the periodic repayment of the initial per unit capital investment of \$12,500, over a term of approximately 67 months (Refer to "Risk Factors – Non-GAAP Measures").

Sunstone Opportunity Fund (2005) Limited Partnership ("Sunstone (2005) LP")

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Westview Building	Calgary, AB	34,453	\$3,300,000	Dec-05	Multiple office tenants	\$5,800,000	Jun-07
Camco Distribution Centre	Montreal, QC	164,308	\$11,900,000	Mar-06	Mabe Canada Inc.	\$13,375,000	Aug-07
Pickering Ridge – 50% interest	Pickering, ON	237,000	\$17,675,000	Mar-06	Coast/Interhome Furniture, Kitchen Stuff, Pennington's, Extreme Fitness	N/A	N/A

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
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	\$4,300,000	Jan -10
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
Total Purchase Price			\$122,250,000				

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

Sunstone (2005) LP continues to own five assets. To date, investors owning limited partnership units of Sunstone (2005) LP and Series C Debentures of SRAI Capital Corp. have received repayment of approximately 56% of their subscription price and have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 26.2%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future

refinancing or disposition of the five properties currently owned by Sunstone (2005) LP (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone Opportunity Fund (2006) Limited Partnership (“Sunstone (2006) LP”)

Sunstone also organized Sunstone (2006) LP, which in October 2006 raised total cash proceeds from its joint offering with Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Mortgage Fund of CDN\$50,000,000. The proceeds from that offering have been invested in the acquisition and ownership 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	\$10,150,000	Oct-08
Maple Park Shopping Centre – 90% interest	Quesnel, BC	140,000	\$2,884,500	Feb-07	Dollarama	N/A	N/A
Millwoods Mainstreet Mall	Edmonton, AB	142,865	\$29,000,000	Feb-07	IGA Garden Market, Bank of Montreal, Rogers Video, Tim Hortons, Wendy’s	N/A	N/A
Evergreen Centre	Sooke, BC	67,156	\$8,170,000	Feb-07	Western Foods, Shoppers Drug Mart, Royal Bank, BC Liquor Store, A&W	N/A	N/A
Smithers Mall	Smithers, BC	43,741	\$1,760,000	Mar-07	Zellers Select, Bank of Nova Scotia	N/A	N/A
Terrace Shopping Centre	Terrace, BC	19,728	\$2,360,000	Mar-07	TD Canada Trust, Dollar Store With More	\$2,360,000	Sep -09
Cariboo Mall	100 Mile House, BC	39,708	\$2,170,000	Mar-07	Pharmasave, True Value Hardware, Bargain Shop	N/A	N/A
788 Caldew Street	Delta, BC	56,624	\$3,900,000	Mar-07	Single industrial tenant	\$5,000,000	Apr 08
Starlite Centre	Regina, SK	26,869	\$5,321,500	May-07	KFC, Nevada Bob’s Golf	N/A	N/A
Polson Place	Vernon, BC	116,016	\$12,500,000	May-07	Shoppers Drug Mart, Galaxy Theatre, Royal Bank	N/A	N/A
Grand Marshall	Toronto, ON	15,965	\$3,400,000	Jun-07	Province of Ontario’s Ministry of Transportation	N/A	N/A
Galleries Kirkland	Montreal, QC	85,862	\$12,100,000	Aug-07	Nevada Bob’s Golf, TD Bank	N/A	N/A
City Gate Centre	Chilliwack, BC	46,163	\$16,466,086	Dec-07	HSBC, Envision Credit Union, Liquor Depot, Blockbuster, Dakota’s Restaurant	N/A	N/A

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Place des Quatre-Bourgeois - 47.5% interest	Sainte-Foy, QC	245,028	\$11,597,125	Feb 08	Winners, Jean Coutu, IGA, Reitmans, Stitches, Source by Circuit City, Rogers	N/A	N/A
Total Purchase Price			\$118,229,211				

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

Sunstone (2006) LP continues to own 11 assets. To date, investors owning limited partnership units of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Mortgage Fund have received repayment of approximately 3% of their subscription price and have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 25.6%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the 11 properties currently owned by Sunstone (2006) LP (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone (2007) Co-Ownership

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Timmins Square - 35% interest	Chilliwack, BC	391,410	\$18,550,000	Dec-07	Sears, Zellers, Winners, SportChek, No Frills grocery store	N/A	N/A
Health Plus	Calgary, AB	31,655	\$8,600,000	June 08	Rexall and medical users	N/A	N/A
Confederation Mall - 70% interest	Saskatoon, SK	329,127	\$19,670,000	Sep 08	Safeway, Canadian Tire, Bank of Montreal, Scotiabank, government liquor store	N/A	N/A
7600 Vantage Way	Delta, BC	73,396	\$8,700,000	Sep-08	Tristar Industries Ltd.	N/A	N/A
Orchard Gardens Plaza – 50% interest	Kelowna, BC	43,988	\$3,200,000	Oct 08	Blockbuster Video, Swiss Chalet, Nevada Bobs	N/A	N/A
838 Fort Street	Victoria, BC	19,234	\$3,300,000	Oct-08	Custom House, Nexient Learning, Alarmpoint Systems and Three Point Properties	N/A	N/A
Golden Acres	Calgary, AB	57,559	\$10,475,000	Jun-09	Pizza Hut, Swiss Chalet, Mr. Sub, CitiFinancial and Daily Liquor.	N/A	N/A
845 Marine Drive	North Vancouver,	88,751	\$39,000,000 ⁽¹⁾	Mar-09	Thrifty Foods and Bed, Bath & Beyond	\$46,700,000	Aug -10

(development property)	BC						
Total Purchase Price			\$111,495,000				

- (1) Amount shown includes purchase price of land plus all costs of development and construction of the centre

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

Sunstone (2007) Co-Ownership continues to own seven income-producing properties which it has acquired and has recently completed the sale of one property, which was developed as an income-producing property. To date, investors owning units of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 15.8%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the seven properties currently owned by Sunstone (2007) Co-Ownership (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone U.S. Opportunity Limited Partnership (“Sunstone U.S. (2008) LP”)

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
The Livingston	Plano, TX	213,838	\$18,350,000	May-09	Multifamily Residential	N/A	N/A
Fountainwood Apartments	Eules, TX	228,900	\$15,200,000	May-09	Multifamily Residential	N/A	N/A
Windsong Apartment Homes	Dallas, TX	172,172	\$13,100,000	Oct-08	Multifamily Residential	N/A	N/A
San Brisas Apartments (20%) interest	Phoenix, AZ	210,000	\$3,800,000	Nov -09	Multifamily Residential	N/A	N/A
Paragon at Kirkland Apartments	Scottsdale, AZ	289,098	\$34,200,000	Nov -09	Multifamily Residential	N/A	N/A
Total Purchase Price			\$84,650,000				

Sunstone U.S. (2008) LP continues to own all five of the assets which it has acquired. Given the recent completion of the portfolio acquisitions by Sunstone U.S. (2008) LP, none of the subscription price paid by investors in Sunstone U.S. Opportunity Realty Trust has been repaid to investors. Investment returns have only recently reached normalized levels. To date, investors owning units of Sunstone U.S. Opportunity Realty Trust have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 6.0%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the five properties currently owned by Sunstone U.S. (2008) LP (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone Opportunity Fund (2008) Limited Partnership (“Sunstone (2008) LP”)

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

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
Crowfoot Corner	Calgary, AB	51,002	\$22,000,000	Jul-09	Boston Pizza, Wendy's and UPS.	N/A	N/A
Crowfoot Village	Calgary, AB	63,128	\$23,000,000	Jul-09	Starbucks, KFC and Mac's.	N/A	N/A
2626 12th St. NE	Calgary, AB	43,426	\$2,150,000	Jul-09	Purchased Vacant	N/A	N/A
St. Albert Professional Building	St. Albert, AB	46,379	\$7,550,000	Dec -09	Medical office building	N/A	N/A
Boundary Park Plaza	Surrey, BC	54,800	\$13,700,000	Jan -10	Pharmasave, Coast Capital Savings, Sherwin Williams Paint, M&M Meats	N/A	N/A
Total Purchase Price			\$68,400,000				

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

Sunstone (2008) LP continues to own all five of the assets which it has acquired. Given the recent completion of the portfolio acquisitions by Sunstone (2008) LP, none of the subscription price paid by investors in Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund has been repaid to investors. Investment returns have only recently reached normalized levels. To date, investors owning units of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 8.6%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the five properties currently owned by Sunstone (2008) LP (Refer to “Risk Factors – Non-GAAP Measures”).

Sunstone U.S. Opportunity (No. 2) Limited Partnership (“Sunstone U.S. (No. 2) LP”)

Sunstone also organized Sunstone U.S. Opportunity (No. 2) Realty Trust, which in October, 2009 raised total cash proceeds from its joint offering with Sunstone U.S. (No. 2) LP of \$31,000,000. Such funds have been contributed by Sunstone U.S. Opportunity (No. 2) Realty Trust to the Sunstone U.S. (No. 2) L.P. and then to Sunstone U.S. Opportunity (No. 2) Limited Partnership and have been used in the acquisition of the following properties:

Property	Location	Area	Purchase Price	Purchase Date	Major Tenants	Sale Price	Sale Date
San Brisas Apartments (80%) interest	Phoenix, AZ	210,820	\$15,200,000	Nov -09	Multifamily Residential	N/A	N/A
Walker Commons	Houston, TX	326,590	\$29,500,000	Jun -10	Multifamily Residential	N/A	N/A

Total Purchase Price	\$44,700,000			
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Sunstone U.S. (No. 2) LP continues to own the two assets which it has acquired and is continuing to seek properties for acquisition. Given the early stage of the development of Sunstone U.S. (No. 2) LP's property portfolio, none of the subscription price paid by investors in Sunstone U.S. Opportunity (No. 2) Realty Trust has been repaid to investors and investment returns have yet to reach normalized levels. To date, investors owning units of Sunstone U.S. Opportunity (No. 2) Realty Trust have received a total pre-tax cash return on investment, on an unaudited basis, of approximately 1.3%. The foregoing pre-tax cash return is calculated to June 30, 2010, and additional returns on investment proceeds will be received by investors from future operating cash flow and any future refinancing or disposition of the five properties currently owned by Sunstone U.S. (No. 2) LP (Refer to "Risk Factors – Non-GAAP Measures").

The returns mentioned above do not have standardized meanings prescribed by Generally Accepted Accounting Principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable measure calculated in accordance with GAAP, as such measures are based on investment which is external to the issuer. The measures used are meaningful to the investors as they are based on the average investor's individual investment in the entities mentioned. Sunstone uses such unaudited measures to provide investors with an estimated guideline as to the investment returns received on its previous investment offerings. Investors are cautioned that historical returns on other Sunstone investment offerings and similar offerings by others are not predictive of the returns which may be achieved by Trust Unitholders from an investment in Trust Units (Refer to "Risk Factors – Non-GAAP Measures").

Pure Industrial Real Estate Trust

Messrs. Evans and Latoski are two of the six trustees of Pure Industrial Real Estate Trust ("PIRET"), an unincorporated, open-ended investment trust established for the purposes of acquiring, owning and leasing a diversified portfolio of income producing industrial properties in both primary and secondary markets across Canada. PIRET focuses exclusively on investing in industrial properties and as of the date hereof is the only publicly-traded vehicle in Canada that offers investors exclusive exposure to Canada's industrial real property assets. Sunstone Industrial Advisors Inc., a private company controlled by Darren Developments Inc. and Triple E Ventures Inc., which are in turn private companies controlled by Darren Latoski and Steve Evans, is the asset manager of PIRET.

Since 2007, PIRET has raised over CDN\$74 million in equity financing and acquired a portfolio of 54 industrial properties in Canada having an acquisition price of over CDN\$164 million. Since its inception, PIRET has been one of Canada's best performing REITs, providing investors with a total return of 32% since its IPO as opposed to a -5% total return by the TSX over the same period.

Personal Profiles

Darren Latoski - As President and indirect 50% owner of the shares in Sunstone, Mr. Latoski participated in the negotiation and acquisition of property interests by Sunstone LP totaling CDN\$44,190,000, by Sunstone (2004) LP totaling CDN\$40,775,187, by Sunstone (2005) LP totaling CDN\$122,250,000 by Sunstone (2006) LP totaling CDN\$118,229,211, by Sunstone (2007) Co-Ownership totaling CDN\$105,695,000, by Sunstone U.S. (2008) LP totaling USD\$84,650,000, by Sunstone (2008) LP totaling CDN\$64,800,000, and by Sunstone U.S. (No. 2) LP totaling \$44,700,000, 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.

Steve Evans – As Chief Operating Officer and indirect 50% owner of the shares in Sunstone, Mr. Evans participated in the negotiation and acquisition of property interests by Sunstone LP totaling CDN\$44,190,000, by Sunstone (2004) LP totaling CDN\$40,775,187, by Sunstone (2005) LP totaling CDN\$122,250,000 by Sunstone (2006) LP totaling CDN\$118,229,211, by Sunstone (2007) Co-Ownership totaling CDN\$105,695,000, by Sunstone U.S. (2008) LP totaling USD\$84,650,000, by Sunstone (2008) LP totaling CDN\$64,800,000, and by Sunstone U.S. (No. 2) LP totaling \$44,700,000, 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.

For 14 years up to 2001, Mr. Evans was Vice President of England Securities Ltd., a real estate investment, development and management company. In his capacity as Vice President, Mr. Evans actively participated in the negotiation, acquisition and management by England Securities Ltd. of multifamily apartment properties throughout western North America. Mr. Evans' experience in this regard included assets in the following markets: Dallas, Texas (ten projects); Houston, Texas (three projects); Palm Desert, California (one project – converted to condominiums); Toronto and surrounding area (eight projects); Calgary, Alberta (one project); Vancouver and surrounding area (three projects). In addition to these initial acquisitions, Mr. Evans also participated in the successful mortgage refinancing of numerous projects in order to re-capitalize various limited partnerships.

Hotel Managerco and Advisorco

Robert F. (Rob) O'Neill – Rob O'Neill, age 61, is a director and senior officer of Hotel Managerco and Advisorco. He holds a Hotel and Hospitality Management degree from the British Columbia Institute of Technology. Mr. O'Neill does not work full time for Hotel Managerco and Advisorco, and expects to devote approximately 50% of his time to the operations of the Hotel Managerco and Advisorco. Mr. O'Neill is a contractor of the Issuers.

Mr. O'Neill is a founder and, since 1994 has been the Chairman of O'Neill Hotels & Resorts Ltd., one of the leading North American hotel management companies, which currently operates the Westin Resort and Spa at Whistler, BC; the Westin Grand Hotel, Vancouver, BC; and the Coast Blackcomb Suites at Whistler, BC.

Mr. O'Neill was a founder of the Coast Hotels chain. From 1982 to 1991, Coast Hotels grew from six to 15 owned, managed and franchised hotels. In 1988, the Coast Hotel chain was sold, with management retained for a period of three years to 1991. From 1982 to 1991, Mr. Rob O'Neill was President of Coast Hotels.

In 1997, Mr. O'Neill co-founded the Canadian Hotel Income Properties REIT (“**CHIP REIT**”), of which he was President and a founding Trustee. Mr. O'Neill has not entered into a non-competition agreement with the Issuers.

John C. O'Neill – John O'Neill, age 47, is a director and senior officer of Hotel Managerco and Advisorco. He holds a Bachelor of Commerce degree from the University of British Columbia. Mr. O'Neill does not work full time for Hotel Managerco and Advisorco, and expects to devote approximately 50% of his time to the operations of the Hotel Managerco and Advisorco. Mr. O'Neill is a contractor of the Issuers.

Mr. O'Neill is a founder and, since 1994 has been the President of O'Neill Hotels & Resorts Ltd., one of the leading North American hotel management companies, which currently operates the Westin Resort and Spa at Whistler, BC; the Westin Grand Hotel, Vancouver, BC; and the Coast Blackcomb Suites at Whistler, BC.

Mr. O'Neill held various executive positions with Coast Hotels from 1982 to 1991, during which time Coast Hotels grew from six to 15 owned, managed and franchised hotels. In 1988, the Coast Hotel chain was sold, with management retained for a period of three years to 1991, during which time Mr. O'Neill was Senior Vice President Marketing, Sales and Development. In 1997, Mr. O'Neill co-founded the CHIP REIT. He served as President of its external manager from 1997 to 1999 and as a trustee of CHIP REIT from 1999 to 2002. Mr. O'Neill has not entered into a non-competition agreement with the Issuers.

12.2 Corporate Bankruptcies

Robert King, a director of the Trustee, served as a director of Redekop Properties Inc. (“RPI”) from March 1997 to June 2001. RPI was formerly listed on the Toronto Stock Exchange. On December 4, 2000, RPI and certain affiliated companies applied for and were granted a protective order under the *Companies' Creditors Arrangement Act* (Canada). On February 9, 2001, RPI and an affiliated company, applied for, and received a

stay order under the *Companies' Creditors Arrangement Act* (Canada). A monitor was appointed to monitor the business and financial affairs of RPI while the stay order remained in effect.

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

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

12.3 Potential Conflicts of Interest (Directors and Officers)

Sunstone US is owned indirectly and controlled by Steve Evans and Darren Latoski. Pursuant to the Services Agreements, Sunstone US will be receiving various fees and payments from the Holding LPs in respect of the acquisition and disposition of Properties and asset management and the Incentive Advisory Fees. The Holding GPs are owned indirectly and controlled by Steve Evans and Darren Latoski. Pursuant to the limited partnership agreements for the Holding LPs, the Holding GPs will be participating in the profits of the Holding LPs.

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

12.4 Insurance Coverage for Directors and Officers and Indemnification

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

13. EXECUTIVE COMPENSATION

Trust and Trustee

Executive Compensation

The Trustee is a newly incorporated entity and has not completed a financial year. For the period from formation on August 17, 2010 to September 2, 2010, no compensation was paid by the Trust to the Trustee or by the Trustee to its sole executive officer, Darren Latoski. The Trustee does not have a chief executive officer or chief financial officer nor any other executive officer whose total salary and bonus is expected to exceed \$150,000 during any financial year.

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

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

Pension Plan Benefits

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

Termination of Employment, Change in Responsibilities and Employment Contracts

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

Director Compensation

The Trustee is a newly incorporated entity and has not completed a financial year. For the period from formation on August 17, 2010 to September 2, 2010, no compensation was paid by the Trustee to its directors, Robert King and James Redekop. The Trustee intends to pay its Directors annual compensation in the amount of \$12,500 per annum.

Master LP and Master GP

Executive Compensation

The Master LP is a newly incorporated entity and has not completed a financial year. For the period from formation on August 18, 2010 to August 31, 2010, no compensation was paid by the Master LP to the Master GP or by the Master GP to its executive officers. The Master GP does not have a chief executive officer or chief financial officer nor any other executive officer whose total salary and bonus is expected to exceed \$150,000 during any financial year.

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

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

Pension Plan Benefits

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

Termination of Employment, Change in Responsibilities and Employment Contracts

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

Director Compensation

The Master GP is a newly incorporated entity and has not completed a financial year. For the period from formation on August 18, 2010 to September 2, 2010, no compensation was paid by the Master GP to its directors, Steve Evans and Bryan Kerns. The Master GP does not intend to pay any compensation to its directors

13.1 Management Agreements

Services Agreements

Pursuant to the Services Agreements between the Holding LPs and Sunstone US, Sunstone US has agreed to provide certain services relating to the Holding LPs and the Properties, including structuring this Offering and

the Investment LPs; liaising with legal and tax counsel; identifying Properties for acquisition; maintaining ongoing liaison with the Lenders in respect of the Mortgage Loans for the Properties; conducting ongoing analysis of market conditions to monitor the Holding LPs' investment in the Properties; supervising property management; advising the Holding LPs with respect to the disposition of the Properties; and providing investor communication and reporting services to the Holding LPs. In consideration of providing such services, the Holding LPs will pay to Sunstone US:

- (a) the Financing Fees, in an amount equal to 1.5% of the gross purchase price of each Property (or interest in a Property);
- (b) the Disposition Fees in an amount equal to 1.5% of the gross selling price for each Property (or interest in a Property);
- (c) in the case of the Hotels, if the gross selling price of a Hotel exceeds 150% of the Hotels Holding LPs' aggregate cost of acquisition for the Hotel (including purchase price, due diligence, closing costs, legal fees, and capital replacement costs), an additional disposition fee in an amount equal to 2% of the gross selling price of such Hotel;
- (d) the Asset Management Fees, in an annual amount equal to 1.5% of the Net Asset Values, payable monthly from property revenues, on the last day of each month during the term of the Services Agreements in an amount equal to 0.125% of the Net Asset Values at the beginning of each such month; and
- (e) the Incentive Advisory Fees, being an amount equal to 20/80ths of the total payments made to limited partners holding Properties Holding LP Units in respect of the Minimum Return (Properties), which will be earned and will accrue and become payable only after the limited partners have received distributions equal to the sum of their Net Equity and the Minimum Return (Properties) from current and/or prior years' Distributable Cash (Properties) and Extraordinary Distributions (Properties), and 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which will be earned and will accrue and become payable only after the limited partners holding Hotels Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Hotels) from current and/or prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

The Financing Fee will be equal to 3.8% of the gross proceeds of the Offering in the event that the minimum Offering is sold and 4.0% of the gross proceeds of the Offering in the event that the maximum Offering is sold.

Advisory Agreement

Pursuant to the Advisory Agreement, Advisorco will provide a variety of advisory services to the Hotels Holding LP in respect of the Hotels, including assisting in the identification of Hotels for purchase and the preparation and implementation of asset management plans relating to the investments in the Hotels. In consideration of these services, the Hotels Holding LP will pay to Advisorco fees equal to 1.0% of the gross purchase price of each Hotel (or interest in a Hotel); 1.0% of the gross selling price for each Hotel (or interest in a Hotel); an additional disposition fee equal to 2% of the gross selling price of a Hotel if the gross selling price of such Hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the Hotel (including the price, due diligence costs, closing costs, legal fees, and additional capital costs); and the Incentive Advisory Fees (Hotels), being an amount equal to 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which will be earned and will accrue and become payable only after the limited partners holding Hotels Holding LP Units have received distributions equal to the sum of their Net Equity and the Minimum Return (Hotels) from current and/or prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

13.2 Compensation Committee

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

13.3 Indebtedness of Directors and Executive Officers

None of the directors or executive officers of the Trustee or the Master GP is indebted to any of the Trustee or the Master GP.

14. AUDIT COMMITTEE AND CORPORATE GOVERNANCE

14.1 Audit Committee

Trust and Trustee

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

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

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

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

Master LP and Master GP

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

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

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

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

14.2 Corporate Governance

Trust and Trustee

Each of the directors of the Trustee, being Robert King and James Redekop, are independent within the meaning of applicable securities laws. There are no non-independent directors. Mr. King is also a director or trustee of the following reporting issuers: Wall Financial Corporation; WesternOne Equity Income Fund; the trustee of Sunstone U.S. Opportunity (No. 2) Realty Trust; the trustees of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund; the trustee of Sunstone U.S. Opportunity Realty Trust; Pure Industrial Real Estate Trust; the trustees of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund; the trustees of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Debenture Fund; SRAI Capital Corp., and the general partner of Sunstone Opportunity Fund (2005) Limited Partnership. Mr. Redekop is also a director of the following reporting issuers: the trustee of Sunstone U.S. Opportunity (No. 2) Realty Trust; the trustees of Sunstone Opportunity (2008) Realty Trust and Sunstone Opportunity (2008) Mortgage Fund; the trustee of Sunstone U.S. Opportunity Realty Trust; the trustees of Sunstone Opportunity (2007) Realty Trust and Sunstone Opportunity (2007) Mortgage Fund; the trustees of Sunstone Opportunity (2006) Realty Trust and Sunstone Opportunity (2006) Debenture Fund; SRAI Capital Corp., and the general partner of Sunstone Opportunity Fund (2005) Limited Partnership.

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

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

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

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

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

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

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

Master LP and Master GP

Bryan Kerns is an independent director of the Master GP within the meaning of applicable securities laws. Steve Evans is not an independent director. Mr. Evans is also a director or trustee of the following reporting issuers: Huntington Real Estate Investment Trust; the general partner of Sunstone U.S. (No. 2) LP; the general partner of Sunstone U.S. (2008) LP; the general partner of Sunstone Opportunity Fund (2008) Limited Partnership; Pure Industrial Real Estate Trust; the general partner of Sunstone Opportunity Fund (2006) Limited Partnership; the general partner of Sunstone Opportunity Fund (2005) Limited Partnership; and the general partner of Sunstone Opportunity Fund (2004) Limited Partnership.

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

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

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

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

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

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

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

15. PLAN OF DISTRIBUTION

15.1 Maximum Offering

The Agents, by this Prospectus, are offering to sell to the public in each of the provinces and territories of Canada up to a maximum of 40,000 Trust Units at a price of \$1,250 per Trust Unit until November 30, 2010. Purchasers are required to acquire a minimum of 10 Trust Units.

15.2 Minimum Offering

There will be no closing unless a minimum of 4,000 Trust Units are sold pursuant to this Offering. The distribution under this Offering will not continue for a period of more than 90 days after the date of the

Receipt for the Final Prospectus if subscriptions representing the minimum number of Trust Units are not obtained within that period, unless each of the persons or companies who subscribed within that period consents to the continuation. During such 90 day period, funds received from subscriptions will be held by the Agents, in trust; if the minimum number of Trust Units are not sold during the 90 day period, these funds will be returned to the subscribers unless the subscribers have otherwise instructed the Agents.

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

15.3 Securities Not Listed

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

15.4 Agency Agreement

Pursuant to an Agency Agreement made as of September 1, 2010 the Trustee, for itself and on behalf of the Trust as its trustee; the Master GP, for itself and on behalf of the Master LP as its general partner, the Properties Investment GP, for itself and on behalf of the Properties Investment LP as its general partner; the Hotels Investment GP, for itself and on behalf of the Hotels Investment LP as its general partner; Properties Holding GP, for itself and on behalf of the Properties Holding LP as its general partner; the Hotels Holding GP, for itself and on behalf of the Hotels Holding LP as its general partner, Sunstone US; Sunstone, and the Agents, the Agents have agreed to offer the Trust Units for sale on a “commercially reasonable best efforts” basis until November 30, 2010 or such later date as may be agreed by the Agents, in consideration of the Agents’ Commission equal to 8% of the aggregate purchase price of Trust Units sold under the Offering.

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

As a further incentive to the Agents or sub-agents, the Holding GPs have agreed to pay to the Agents a trailer fee equal to 25% of any amounts realized by the Properties Holding GP and the Hotels Holding GP in respect of their GP Interests. The Agents may assign all or part of their compensation entitlements to sub-agents effecting sales of Trust Units. As well, Sunstone US will pay to the Agents, on an annual basis in arrears, a trailer fee equal to 1/6th of the Asset Management Fees paid to Sunstone US. Such trailer fee will only be paid by Sunstone US to the Agents if it is collected by them. The Agents may assign all or part of the trailer fee to sub-agents effecting sales of Trust Units.

The Issuers and Sunstone have also agreed to bear all expenses of or incidental to the issue, sale and delivery of the Trust Units, including, without limitation, the reasonable fees and disbursements of legal counsel for the Agents and the reasonable out-of-pocket expenses (including applicable taxes) of the Agents. The Holding LPs ultimately will bear all of these expenses pursuant to the Cost Sharing and Recovery Agreements.

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

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

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

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

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

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

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

16. CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

This summary is based on the facts set out in this Prospectus and in a certificate provided to KPMG by the Issuers and Sunstone. This summary is also based upon the provisions of the Tax Act and the regulations (the “Regulations”) thereunder in force as of the date hereof and on KPMG’s understanding of the publicly available administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) published prior to the date hereof. 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 policies and assessing practices.

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

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

Tax Status of the Trust

Qualification as a “Mutual Fund Trust”

This summary assumes that the Trust will qualify as a “mutual fund trust” as defined in the Tax Act on completion of the offering of Trust Units hereunder, and will thereafter continuously qualify as a mutual fund trust at all relevant times. This summary assumes that the Trust will elect to be deemed to be a mutual fund trust from the date it is established. If the Trust does not qualify or ceases to qualify as a mutual fund trust, the Canadian federal income tax considerations described below would be materially different from those described in this summary, and in particular adverse consequences may arise including that (i) the Trust may become liable to pay certain additional taxes (with the result that the amount of cash available for distribution by the Trust would be reduced and Trust Unitholders may otherwise be adversely affected), and, (ii) unless at such time the Trust Units are listed on a designated stock exchange, the Trust Units will not be qualified investments for Plans (with the result that a Plan and/or its annuitant, beneficiary thereunder or holder thereof will generally become liable to pay additional tax or penalties or may be otherwise adversely affected, including, in the case of a RESP, the registration of such Plan may be revoked).

To qualify as a mutual fund trust at any particular time: (i) the Trust must be a unit trust (as defined in the Tax Act) resident in Canada; (ii) the Trust must not reasonably be considered to be established or maintained primarily for the benefit of non-residents of Canada; (iii) the Trust Units must have conditions requiring the Trust to accept, at the demand of a Trust Unitholder and at prices determined and payable in accordance with the conditions, the surrender of the Trust Units that are fully paid; (iv) the only undertaking of the Trust must be the investing of its funds in property (other than real property or an interest in real property or an immovable or a real right in an immovable), or the acquiring, holding, maintaining, improving, leasing or managing of real property (or an interest in real property) or an immovable (or a real right in immovables) that is capital property of the Trust, or any combination of such activities; and (v) the Trust must comply with certain prescribed requirements including that the Trust Units be qualified for distribution to the public and that at all relevant times there must be no fewer than 150 beneficiaries of the Trust, each of whom holds at least one “block of units” (as defined in the Regulations) having an aggregate fair market value of not less than CDN\$500 each.

Qualification as a “Real Estate Investment Trust”

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the “SIFT Measures”). The SIFT Measures effectively tax certain income of a publicly-listed or traded trust or partnership that is distributed to its investors as if the income were earned through a taxable corporation and distributed to its notional shareholders as a dividend. If the Trust, at any time in any taxation year, becomes subject to SIFT tax under the SIFT Measures the Canadian federal income tax considerations to the Trust and the Trust Unitholders could be materially different from those described in this summary, including that the Trust’s “non-deductible distribution amount”, as described below, would be taxable to the Trust (with the result that the amount of cash available for distribution by the Trust would be reduced) and such amount would also be included in the income of Trust Unitholders for purposes of the Tax Act as eligible dividends. As set out below, the Trust expects, and this summary assumes, that the Trust would not be liable to SIFT tax under the SIFT Measures.

The SIFT Measures

The SIFT Measures apply to any “specified investment flow-through” (a “SIFT”) and its investors. A SIFT is generally a Canadian resident trust (“SIFT trust”) or partnership (“SIFT partnership”) investments in which are listed or traded on a stock exchange or other public market, and which holds “non-portfolio properties” (as defined in the Tax Act). The effect of the SIFT Measures is that SIFT trusts and SIFT partnerships would generally 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 the 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 taxable Canadian corporations. For those purposes, “non-portfolio earnings” generally includes income (other than taxable dividends) from, or capital gains realized on, “non-portfolio properties” in the taxation year. The non-deductible distributions amount will also be included in computing income of the unit holder for purposes of the Tax Act as though it were an “eligible 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 purposes of the Tax Act 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 taxable Canadian corporations. Also, the SIFT partnership will be deemed to have received an eligible dividend from a taxable Canadian corporation equal to the taxable non-portfolio earnings less the applicable SIFT tax, and such eligible 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 unit holders of a SIFT trust.

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

The REIT Exception

The SIFT Measures do not, however, apply to a trust that qualifies as a “real estate investment trust” (“REIT”) (this exception is referred to as the “REIT Exception”). To qualify for the REIT Exception in a particular taxation year of the trust under the SIFT Measures, the trust must be resident in Canada throughout the taxation year and also meet the following conditions (“asset and revenue tests”):

- (a) the trust must at no time in the taxation year hold any “non-portfolio property” other than “qualified REIT property”;

- (b) not less than 95% of the trust's revenues for the taxation year must be derived from one or more of the following: (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 trust's revenues for the taxation year must be derived from one or more of the following: (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 trust must, at all times throughout the taxation year, hold real or immovable properties, indebtedness of a Canadian corporation represented by a bankers' acceptance, money and certain cash equivalents, deposits with a credit union, as well as certain debt or other obligations of governments in Canada having a total fair market value that is not less than 75% of the trust's equity value.

"Qualified REIT property" includes "real or immovable property" or a security of a "subject entity" that, in general terms, either (i) holds only property that is ancillary to the REIT's rental activities or legal title to real or immovable property of the REIT or another subject entity all of the securities of which are held by the REIT, or (ii) derives all or substantially all of its revenues from certain management or leasing activities relating to real or immovable property of the REIT or an entity of which the REIT holds a share or an interest. "Real or immovable property" further includes a security held by a REIT, if the security is a security of a trust that satisfies (or of another entity that would, if it were a trust, satisfy) the asset and revenue tests under the REIT Exception. However, "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. In addition, "rent from real or immovable properties" includes payment (whether realized directly by the REIT or indirectly through a trust in which the REIT holds an interest) for services ancillary to, and customarily rendered or supplied with, the rental of real or immovable properties, but excludes payment for other services supplied or rendered to the tenants of such properties, fees for managing or operating such properties, payment for the use of a room in a hotel or similar lodging facility, or rent based on profits.

"Non-portfolio property" includes certain securities of a "subject entity" owned by a trust or partnership if the fair market value of the securities of the subject entity or entities affiliated with the subject entity owned by the trust or partnership would exceed certain thresholds. Non-portfolio property also includes certain Canadian property or a security, if more than 50% of the fair market value of the security is derived from certain Canadian property, owned by the trust or partnership if the fair market value of such Canadian property and securities is greater than 50% of the fair market value of the equity value of the trust or partnership. In addition, a property that the trust or partnership, or a person or partnership with whom the trust or partnership does not deal at arm's length, uses at that time in the course of carrying on a business in Canada is also a non-portfolio property.

For the purposes of determining whether a property is "non-portfolio property", "qualified REIT property" or "real or immovable property":

- (a) an "entity" means a corporation, trust or partnership;
- (b) a "subject entity" means a corporation or trust that is resident in Canada, a Canadian resident partnership, or a non-resident person or partnership that is not a Canadian resident partnership that principally derives its income from one or any combination of sources in Canada; and
- (c) a "security" includes a liability, share, right to control the voting rights of a share, an interest in a trust, an interest as a member in a partnership or a right to acquire such a share, trust interest or partnership interest.

The SIFT Measures Applied

The SIFT Measures apply generally only to certain trusts or partnerships, the investments in which are listed or traded on a stock exchange or other public market. The Trust does not have immediate plans to list the Trust Units on any stock exchange for public trading. Should the Trust Units be in the future listed or traded on a stock exchange or other public market, the Trust expects that it would either be able to satisfy the requirements to qualify for the REIT Exception to the SIFT Measures and the Trust intends to operate in such a manner so as to qualify as a REIT on a continuous basis, or that the Sunstone US Limited Partnerships would not be Canadian resident partnerships for purposes of the SIFT Measures, such that the Trust would not realize “non-portfolio earnings” subject to SIFT tax. Consequently the Trust expects, and this summary assumes, that the Trust would not be liable to SIFT tax under the SIFT Measures.

As noted, even if the Trust Units become listed or traded on a stock exchange or other public market, the Trust expects to be able to satisfy the requirements to qualify for the REIT Exception. In this regard, the Trust expects that Hotels Leaseco and the Master GP would not be a “subject entity” and shares of each such entity would not be “non-portfolio property”, and that the Trust would be able to meet the asset and revenue tests in the REIT Exception. In this regard, the Trust expects the Master GP, the Master LP and each of the underlying partnerships would also each meet the asset and revenue tests and other conditions under the REIT Exception so that the Trust’s shares of the Master GP and the units of the Master LP held by the Trust would be “qualified REIT property” and “real or immovable property” of the Trust for purposes of the REIT Exception. Notwithstanding the Trust’s expectations, the Trust’s actual qualification as a REIT in any given year will depend upon the Trust meeting, through actual annual operating results, the various conditions imposed by the REIT Exception to the SIFT Measures.

Even if the Trust fails to meet the REIT Exception, the Trust also expects that it would generally not own any non-portfolio property and thus would not have “non-portfolio earnings” that would be subject to tax under the SIFT Measures provided that the Master GP is not a corporation resident in Canada and the Master LP and its subsidiary partnerships (the “Sunstone US Limited Partnerships”) are not “Canadian resident partnerships”. A “Canadian resident partnership” generally means a partnership (a) all of the members of which are resident in Canada, (b) that is formed under the laws of a province in Canada, or (c) that would, if it were a corporation, be resident in Canada (including a partnership that has its “central management and control” in Canada). In this regard, the Sunstone US Limited Partnerships will not be formed under the laws of a province of Canada, nor will all the partners of such partnerships be residents of Canada (the general partners of the Sunstone US Limited Partnerships are, or are expected to be, resident in the U.S. and not in Canada). In addition, Sunstone believes that the Sunstone US Limited Partnerships will be managed and operated in such a manner that their central management and control will be located in the U.S., such that if these partnerships were to be considered corporations they would not be considered resident in Canada. However, the actual status of the Sunstone US Limited Partnerships as partnerships that are not “Canadian resident partnerships” will depend upon maintaining central management and control outside of Canada.

KPMG will not review the Trust’s compliance with conditions for the REIT Exception nor the Sunstone US Limited Partnerships’ residency, including central management and control. The Trust Declaration and the Master LP Agreement provide that the Issuers will monitor compliance with such requirements. There can be no assurances that the treatment of SIFTs and REITs under the Tax Act will not be changed, or that administrative policies or assessing practices of the CRA will not develop, in a manner which adversely affects the Issuers or Trust Unitholders.

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

Taxation of the Issuers

Taxation of the Trust

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

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

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

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

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

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

(c) income, which may be offset by non-capital losses, if any, carried forward from prior years, will be payable in the year to Trust Unitholders, subject to the qualifications described below.

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

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

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

Taxation of the Sunstone US Limited Partnerships

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

Generally, cash distributions to a limited partner, including the Trust, in excess of the limited partner’s share of the income and capital gains for a fiscal year will be treated for 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 any of the Sunstone US Limited Partnerships 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 any of the Sunstone US Limited Partnerships incurs losses for purposes of the Tax Act, a limited partner, including the Trust, will be entitled to deduct in the computation of its income for purposes of the Tax Act its share of any such losses for any fiscal year to the extent of that limited partner’s “at-risk amount” in respect of the relevant partnership. In general, the “at-risk amount” of a limited partner in respect of a limited partnership for any taxation year will generally be the adjusted cost base of the limited partner’s partnership interest at the end of the year (subject to certain provisions of the Tax Act), plus any undistributed income allocated to the limited partner for the year, less any amount owing by the limited partner (or a person with whom the limited partner does not deal at arm's length) to the limited partnership (or a person with whom the limited partnership

does not deal at arm's length), and less the amount of any benefit that the limited partner (or a person with whom the limited partner does not deal at arm's length) is entitled to receive or obtain for the purpose of reducing, in whole or in part, any loss of the limited partner from the investment.

The income for purposes of the Tax Act of the Master LP must include its income or loss allocation from the Hotels Investment LP and the Properties Investment LP calculated in accordance with the Tax Act and dividends, if any, received from Hotels Leaseco. In computing its income or loss, the Master LP may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Master LP may also deduct any expenses incurred by it in the course of the issuance of Master LP Units on a five-year straight line basis (subject to pro-ration for short taxation years), to the extent such costs are not reimbursed under the Cost Sharing and Recovery Agreement – Hotels Investment LP and the Cost Sharing and Recovery Agreement – Properties Investment LP.

The income for purposes of the Tax Act of the Hotels Investment LP must include its income or loss allocation from the Hotels Holding LP calculated in accordance with the Tax Act and dividends, if any, received from Hotels Leaseco. In computing its income or loss, the Hotels Investment LP may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Hotels Investment LP may also deduct any expenses incurred by it in the course of the issuance of Hotels Investment LP Units on a five-year straight line basis (subject to pro-ration for short taxation years), to the extent such costs are not reimbursed under the Cost Sharing and Recovery Agreement – Hotels Holding LP.

The income for purposes of the Tax Act of the Properties Investment LP must include its income or loss allocation from the Properties Holding LP calculated in accordance with the Tax Act. In computing its income or loss, the Properties Investment LP may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Properties Investment LP may also deduct any expenses incurred by it in the course of the issuance of Properties Investments LP Units on a five-year straight line basis (subject to pro-ration for short taxation years), to the extent such costs are not reimbursed under the Cost Sharing and Recovery Agreement – Properties Holding LP.

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

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

In computing income or loss, each of the Hotels Holding LP and the Properties Holding LP may generally deduct a reasonable amount of interest paid in the year or (in the case of simple interest) payable in respect of the year pursuant to a legal obligation to pay interest on borrowed money used, and on amounts payable for property

acquired, for the purpose of earning income from a business or property, including interest in respect of the Mortgage Loans. Compound interest is deductible only when actually paid. The Tax Act limits the deduction of interest expense and property taxes incurred in connection with vacant land and of interest expense and other soft costs attributable to the period of construction, renovation or alteration of a building, and instead requires such amounts to be added to the cost of land and building for purposes of the Tax Act.

This summary assumes that the Hotels Holding LP and the Properties Holding LP will hold their interest in the Properties as capital property and accordingly, in computing the income or loss of the Hotels Holding LP and the Properties Holding LP, deductions may also be claimed in respect of “capital cost allowance” to the extent permitted under the Tax Act and the Regulations. Such deductions claimed by the Hotels Holding LP may not exceed the net income of Hotels Holding LP from the leasing of the Hotels and such deductions claimed by the Properties Holding LP may not exceed the net income of the Properties Holding LP from the operation of the Properties (other than Hotels). Further, the deductions in respect of a Property will be restricted in the Hotels Holding LP’s or the Properties Holding LP’s fiscal period in which the Property is acquired to one-half of the amount otherwise allowable (and will be subject to pro-rata for short taxation years). Subject to such restrictions and certain other exceptions, annual deductions will be allowed on a declining balance basis at a rate of 4% per annum on the “undepreciated capital cost” (generally, initial capital cost and additions to 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 Hotels Holding LP and/or the Properties Holding LP, as the case may be, must allocate the net proceeds of disposition (gross proceeds less reasonable costs of disposition) on a reasonable basis among each separate asset which comprises the properties sold. On dispositions of Properties that are capital properties for purposes of the Tax Act, a capital gain will be realized to the extent that the amount by which the net proceeds of disposition allocated to a particular depreciable property exceeds the capital cost of that property (no capital loss can be realized on depreciable property). A capital gain (or capital loss) will be realized to the extent that the amount by which the net proceeds of disposition allocated to a non-depreciable capital property exceeds (or is less than) its adjusted cost base. On a sale or other disposition, the lesser of the proceeds of disposition allocable to a particular class of depreciable capital property and the original cost of the property is deducted from the balance of the undepreciated capital cost of such class. If at the end of the taxation year of the Hotels Holding LP and the Properties Holding LP the balance of any class is negative, the balance is included in computing income of the Hotels Holding LP or the Properties Holding LP, as the case may be, resulting in a recapture of previous capital cost allowance deductions. Where the Hotels Holding LP or the Properties Holding LP has disposed of the last property of a particular class and there remains a positive balance of the undepreciated capital cost in that class at the end of the year, the Hotels Holding LP and the Properties Holding LP, as the case may be, may, subject to detailed rules of the Tax Act, be entitled to deduct the remaining positive balance as a terminal loss in computing its income.

Taxation of Trust Unitholders

Distributions

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

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

Trust Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Trust Unit to the Trust Unitholder will immediately thereafter be nil.

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

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

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

Purchases of Trust Units

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

Dispositions of Trust Units

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

The adjusted cost base of a Trust Unit to a Trust Unitholder will include the amount paid by the Trust Unitholder for the Trust Unit, subject to certain adjustments. The cost to a Trust Unitholder of additional Trust Units received in lieu of a cash distribution of income (including net capital gains) will be the amount of income (including the applicable non-taxable portion of net capital gains) distributed by the issue of those respective Trust Units. For the purpose of determining the adjusted cost base to a Trust Unitholder of Trust Units, when a Trust Unit is acquired, the cost of the newly acquired Trust Unit must be averaged with the adjusted cost base of all of the Trust Units owned by the Trust Unitholder as capital property immediately before that acquisition. The non-taxable portion of distributions (other than the non-taxable portion of any net capital gains) received on a Trust Unit will generally reduce the adjusted cost base of the Trust Unit.

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

Where Trust Units are redeemed and the redemption price is paid by the delivery of Debt Securities as described above, the redeeming Trust Unitholder will be required to include in income any interest on Debt Securities acquired (including interest that accrued prior to the date of the acquisition of such Debt Securities by the Trust Unitholder that is designated as income to the Trust Unitholder by the Trust) in accordance with the provisions of the Tax Act. The cost of any Debt Securities distributed by the Trust to a Trust Unitholder upon redemption of Trust Units will be equal to the fair market value of those Debt Securities at the time of the distribution less any accrued interest on such Debt Securities. Similarly, where Trust Units are redeemed and the redemption price is paid by the delivery of Master LP Units as described above, a redeeming Trust Unitholder will be required to include in income the Trust Unitholder's allocable share of income or loss of the Master LP for purposes of the Tax Act for the year that includes the redemption (and the Trust Unitholder's allocable share of income or loss of the Master LP for all years during which the Trust Unitholder holds the Master LP Units), in accordance with the provisions of the Master LP Agreement and the detailed rules of in the Tax Act in that regard. In the case of the Trust Unitholder's allocable share of loss of the Master LP for any given fiscal year, the Trust Unitholder, will be entitled to deduct in the computation of its income for purposes of the Tax Act only to the extent of that Trust Unitholder's "at-risk amount" as described above under "Taxation of the Sunstone US Limited Partnerships". The cost of any Master LP Units distributed by the Trust to a Trust Unitholder upon a redemption of Trust Units will be equal to the fair market value of those Master LP Units at the time of the distribution.

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

Taxation of Capital Gains and Capital Losses

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

A Trust Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6⅔% computed with reference to its "aggregate investment income" (as defined in the Tax Act) for the year, which includes amounts in respect of taxable capital gains.

Foreign Tax Credits and Deductions

The following summary is based on the Trust and the Master LP being treated as partnerships for U.S. federal income tax purposes. For such purposes, a Trust Unitholder (or generally, in the case of a Plan that is a Trust Unitholder, the annuitant, beneficiary or holder of such Plan) should be considered the relevant taxpayer with respect to U.S. tax withheld on distributions of earnings and profits from the Master LP. For Canadian federal

income tax purposes, the Trust Unitholders would generally be taxable on income paid or payable by the Trust to the Trust Unitholders. Accordingly, to the extent the Master LP withholds U.S. tax on distributions made for a year and the Trust pays (or makes payable) its income to Trust Unitholders for that year, an amount equal to the portion of the U.S. tax that is attributable for U.S. tax purposes to a particular Trust Unitholder may be deductible from such Trust Unitholder's Canadian federal income tax otherwise payable for that year (a "foreign tax credit"), or may be deductible in computing the Trust Unitholder's income for Canadian tax purposes for that year (a "foreign tax deduction"), as described in the ensuing paragraphs, provided however that in the case of U.S. tax withheld by the Master LP on a "REIT capital gains dividend" distribution, which is attributable to US real property interest gain, made by the Investment LPs (or on any other distributions made by the Investment LPs which result in U.S. effectively connected income to the Trust for U.S. federal tax purposes), the Trust Unitholder also files a U.S. federal income tax return to establish the Trust Unitholder's final U.S. income tax liability for the year.

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

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

Reference should be made below to "17.2 Summary – Taxation of Trust and Trust Unitholders" under "U.S. Federal Income Tax Considerations" for further information on the taxation of the Trust and the Trust Unitholders for U.S. federal income tax purposes, as such taxation directly affects the Trust Unitholder's entitlement to the foreign tax credits and deductions outlined in the preceding paragraphs.

Alternative Minimum Tax

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

Trust Unitholder to liability for alternative minimum tax) must be increased by, among other things, any capital gains realized by such Trust Unitholder on the disposition of Trust Units and by any net income of the Trust that is paid or payable to such Trust Unitholder and that has been designated as a taxable dividend or as a taxable capital gain.

Eligibility for Investment

Provided that at a particular time the Trust qualifies as a mutual fund trust within the meaning of the Tax Act, the Trust Units will be “qualified investments” (as defined in the Tax Act and the Regulations) at that time for trusts governed by Plans.

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

17. U.S. FEDERAL INCOME TAX CONSIDERATIONS

17.1 Introduction

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

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

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

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

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

For purposes of this summary, a “Non-US Trust Unitholder” means any Trust Unitholder that is not: (i) a US citizen, US permanent resident (green card holder) or individual resident in the United States; (ii) a corporation or other entity taxable as a corporation that is either created or organized under the laws of the United States or a political subdivision thereof or that is for other reasons treated as if were taxable as a corporation created or organized under the laws of the United States; (iii) an estate, the income of which is subject to United States federal income tax regardless of the source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust’s administration and one or more United States persons have the authority to control all of its substantial decisions.

All Non-US Trust Unitholders are assumed to be residents of Canada entitled to all relevant benefits of the 1980 US-Canada Tax Convention as amended (the “US-Canada Treaty”).

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

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

No ruling has been sought from the US Internal Revenue Service (the “IRS”) on any aspect of this Offering.

This summary is based on the facts set out in this Prospectus and the facts, assumptions and representations set out in a certificate provided to KPMG by the Issuers, Sunstone and O’Neill Hotels & Resorts Ltd. This summary is also based upon the relevant provisions of the Code (also referred to herein as “IRC”), the regulations under the IRC, the US-Canada Treaty, as amended and the judicial and administrative interpretations and pronouncements thereof as currently in effect. These authorities are subject to change retroactively and/or prospectively and any such changes could affect the accuracy of the summary below.

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

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

17.2 Summary

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

Taxation of Trust and Trust Unitholders

Taxation of Trust

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

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

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

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

The following discusses the principal US federal income tax consequences of the Trust distributions received by Non-US Trust Unitholders through Master LP, of dispositions by the Trust of interests in the Investment LPs and Hotels Leaseco and of dispositions by Non-US Trust Unitholders of interests in the Trust. The summary assumes the Investment LPs qualify as REITs and Hotels Leaseco is a taxable REIT subsidiary of Hotels Investment LP for US federal income tax purposes.

US Federal Income Taxation of Non-US Trust Unitholders if the Investment LPs Qualify as REITs

This section describes, in general terms, the US federal income taxation of Non-US Trust Unitholders arising from an investment in the Trust of income derived by the Trust through the Master LP in Investment LPs, if the Investment LPs qualify as REITs. The rules governing the US federal income taxation of Non-US Trust

Unitholders are complex. The following discussion does not address or consider all aspects of US federal income tax of an investment in the Trust and does not consider state, local, or non-US tax consequences.

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

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

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

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

Payments of US source FDAP to a US partnership are not subject to withholding even if the US partnership has foreign partners; however, the US partnership generally is required to withhold US tax at a 30 percent rate with respect to a foreign partner’s allocable share of the US partnership’s US source FDAP income that the US partnership derives during its taxable year. A US partnership generally is required to withhold US tax at any time during a calendar year when it distributes to a foreign partner an amount attributable to the US partnership’s US source FDAP income. If a US partnership does not actually distribute all of its US source FDAP income to its foreign partners, the US partnership generally is deemed to have distributed on the last day of its taxable year any amounts it had not distributed, and generally is required to withhold any withholding tax with respect to this deemed distribution on the earlier of the date on which it mails to partners the statement required by IRC section 6031(b), or the due date for furnishing that statement.

The time at which the US partnership is required to deposit any withheld tax with respect to US source FDAP generally depends on the amount withheld. A US partnership also has annual filing requirements with respect to withholding on US source FDAP, including filing of a Form 1042 with respect to its withholding for a calendar year, and the filing of a separate Form 1042-S with respect to each partner to whom a payment was made or deemed made.

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

The taxable income of a nonresident alien individual or foreign corporation that is effectively connected with the conduct of a US trade or business is subject to the same US federal graduated rates of tax that apply to US persons. Taxable income is computed by claiming deductions that are connected with the effectively connected gross income on a timely filed return. A nonresident alien individual or foreign corporation that derives ECI (including amounts received as a partner through a partnership) is generally required to make quarterly payments

of estimated US tax, and is required to file a US federal income tax return. As discussed in more detail below, a US or foreign partnership is generally required to withhold US tax under IRC section 1446 with respect to effectively connected taxable income (“ECTI”) of the partnership derived through the partnership by foreign persons who are partners in the US or foreign partnership. Quarterly payments of IRC section 1446 withholding tax generally are required to be deposited by a partnership using Form 8813 and reported to partners when deposited. The partners generally may take into account these payments in determining whether they are required to make any additional estimated tax payments, and may claim these amounts as credits against their US federal income tax liability. The partnership may be liable for failure to comply with the IRC section 1446 withholding requirements, including failure to make timely quarterly payments, and failure to withhold the required amount (underwithholding). For example, under IRC section 1446, a US partnership with ECTI allocable to a partner that is a foreign partnership is required to timely withhold and deposit US tax with respect to the ECTI. In addition, the foreign partnership also is required under section 1446 to timely withhold on its ECTI allocable to the foreign partnership’s foreign partners, but is permitted to credit against its section 1446 withholding tax obligation, any amounts withheld under section 1446 with respect to it by the US partnership of which it is a partner. Under section 1446, a partnership that has ECTI allocable to a foreign partner generally must file an annual return with respect to the section 1446 withholding on Form 8804, and must file a separate Form 8805 with respect to each foreign partner.

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

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

However, a REIT is not required to withhold under IRC section 1445 on distributions to a person it has reasonably determined is a US person, for example, by obtaining a certification of non-foreign status from that person. For example, a REIT is not required to withhold under IRC section 1445 with respect to an investor that it reasonably has determined is a US partnership.

Income or gain of a partnership that is treated as effectively connected with a US trade or business under section 897 is taken into account in computing the partner’s ECTI that is subject to withholding under IRC section 1446, and also is subject to withholding by a US partnership under section 1445(e)(1). Consequently, if a US partnership derives from a REIT any income on which the REIT would be required to withhold under IRC section 1445 if paid by the REIT to a foreign person, then the US partnership generally must withhold with respect to such income or gain allocable to its foreign partners under IRC sections 1446 and 1445. However, if a US partnership properly complies with its withholding obligations under IRC section 1446 with respect to ECTI attributable to such income or gain, then the US partnership generally will be deemed to have satisfied its obligation to withhold under IRC section 1445.

In addition to liability for regular federal income tax on ECI, a corporate Non-US Trust Unitholder that derives income that is (or is treated as) ECI (including amounts received as a partner through a partnership) may also be

subject to US branch profits tax.¹ The US branch profits tax generally is imposed at a rate of 30 percent, subject to reduction under an applicable tax treaty. Corporate Non-US Trust Unitholders should not be eligible for a reduced US branch profits tax rate under the US-Canada Treaty.

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

As discussed above, a US partnership (such as Master LP) generally must withhold under IRC sections 1441 and 1442, with respect to a foreign partner's distributive share of the US partnership's US source FDAP for a calendar year.

Ordinary REIT Dividends

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

A US partnership that is a shareholder in a REIT, as a withholding agent with respect to any foreign partners, is generally required to withhold a 30 percent FDAP Tax on the gross amount of all ordinary REIT distributions allocable to foreign partners that are not attributable to capital gains derived by the REIT and that are made indirectly to Non-US Trust Unitholders through allocations of partnership income to the Trust, including distributions that may later be determined to have been in excess of current and accumulated earnings and profits, unless an exception applies.

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

REIT Distributions In Excess of Earnings and Profits

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

A US corporation that is or has been a US real property holding corporation ("USRPHC") is generally required to withhold 10 percent federal income tax ("Section 1445(a) FIRPTA Withholding Tax") on the portion of certain distributions that is in excess of its earnings and profits with respect to distributions to foreign shareholders, but not US shareholders. The withholding by a USRPHC is imposed as if the portion of the distribution in excess of the corporation's earnings and profits were received in exchange for an interest in the corporation (e.g., such interests in Investment LP). A US REIT (unlike other US corporations) may not be

¹ IRC section 884.

required to withhold Section 1445(a) FIRPTA Withholding Tax on an amount designated by the REIT as a return of basis. Although a REIT would be required to withhold Section 1445(a) FIRPTA Withholding Tax at a 10 percent rate with respect to such a distribution to a foreign person, as discussed, above, a REIT generally is not required to withhold under section 1445 on such distributions to an investor it reasonably has determined to be a US partnership.

However, any distribution from the Investment LPs to Master LP that is in excess of Investment LPs' earnings and profits and the Trust's adjusted basis in its Investment LPs Units is treated as gain from a disposition of a USRPI (e.g., an interest in the Investment LPs) by Master LP to the extent allocable to the US partnership's foreign partners. As discussed above, a US partnership that is a US shareholder in a US corporation that is a USRPHC generally must withhold under IRC sections 1445 and 1446 (with compliance with IRC section 1446 generally satisfying IRC section 1445 withholding obligations), with respect to its foreign partners.

The amount of tax required to be withheld by a US partnership under IRC section 1446 generally is equal to 35 percent of ECTI. However, a US partnership with a foreign partnership as a partner, instead of withholding based only on the status of the foreign partnership as a single foreign person, may choose to withhold as if the partners of the foreign partnership were the US partnership's direct partners, provided the US partnership obtains adequate information from the foreign partnership that is its partner. The IRC section 1446 tax rates applicable to both the US partnership and the foreign partnership that is one of its partners may be the same, and are discussed below with the application of the IRC section 1446 withholding rules with respect to the foreign partnership.

The portion of the tax withheld by Master LP that would be allocable to the Trust, and then by the Trust to a particular Non-US Trust Unitholder is not necessarily equal to the Non-US Trust Unitholder's US federal income tax liability with respect to any gain or income subject to US tax. A Non-US Trust Unitholder to whom a portion of such a distribution is allocated by the Trust must file a US tax return without regard to whether any tax is withheld, and without regard to whether any amount withheld and allocable to that Non-US Trust Unitholder exceeds or is less than the Non-US Trust Unitholder's tax liability (see discussion below).

The Trust (as a partnership for US federal income tax purposes) is also generally required under IRC section 1446 to deduct and withhold tax ("Section 1446 Withholding Tax") quarterly with respect to the Non-US Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of Investment LPs Units). The rate of Section 1446 Withholding Tax on ECTI that is attributable to gains on certain capital assets is generally 15 percent (or 20 percent if after December 31, 2010, or 25 percent if attributable to certain depreciation recapture) of the allocable ECTI for nonresident individuals and 35 percent for foreign corporations. A non-publicly traded partnership such as the Trust must remit quarterly deposits of this Section 1446 Withholding Tax with respect to the partnership's ECTI by using Form 8813. The Trust must file an annual return of Section 1446 Withholding Tax using Form 8804 with a separate Form 8805 for each Non-US Trust Unitholder in order to report the amount of Section 1446 Withholding Tax allocable to that Non-US Trust Unitholder and for purposes of the Non-US Trust Unitholder completing the required annual US federal income tax return.

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

A Non-US Trust Unitholder is required to file annually a timely US federal income tax return with respect to any ECI, and may, on that timely US federal income tax return, claim as a credit against its US federal income tax liability the amount of Section 1446 Withholding Tax (including the allocable amount of any Section 1446 Withholding Tax credit claimed by the Trust with respect to withholding by Master LP) withheld and remitted by the Trust, and annually reported to it by the Trust on Form 8805. Non-US Trust Unitholders are required to file a US federal income tax return (i.e., Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) to report their USRPI gain, without regard to whether amounts are withheld. A foreign person subject to withholding of US tax generally may recover any excess withholdings by filing a US federal

income tax return for the year in which the distribution is made, provided the return is filed no later than two years after the tax is withheld. Non-US Trust Unitholders must obtain a US taxpayer identification number in order to file a US federal income tax return.

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

REIT Capital Gain Dividends

As discussed above, the US taxation of partners of a US partnership with respect to income derived by a US partnership such as the Master LP, is determined as if the US partnership's income were derived directly by the partners. Similarly, the IRC section 1446 withholding obligation of the Master LP ultimately may be based on the US tax rates applicable to foreign persons directly investing in the Trust. Because the Master LP may withhold under IRC section 1446 at rates applicable to foreign persons who invested directly in the REIT, it is relevant to analyze the taxation of foreign persons on distributions from a REIT, both with respect to IRC section 1446 withholding, and the ultimate taxation of investors in the Trust.

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

A capital gain dividend by a REIT to a foreign person (including a nonresident alien individual or a foreign corporate shareholder) is generally treated as gain recognized by such foreign person on the disposition of a USRPI to the extent attributable to a gain recognized by the REIT on the disposition of a USRPI ("USRPI Dividend"). A USRPI Dividend is generally treated as ECI in the hands of the foreign shareholder, and is subject to FIRPTA Tax and, if directly paid to a foreign person, also to Section 1445(e)(6) FIRPTA Withholding Tax. In general, the maximum US tax rate for USRPI gains on certain capital assets for nonresident alien individuals is 15 percent (or 20 percent if after December 31, 2010, or 25 percent if attributable to certain depreciation recapture) of the allocable ECTI attributable to the net gain. In general, the maximum US tax rate for USRPI gains for foreign corporations is 35 percent of the net gain. A corporate Non-US Trust Unitholder that receives a USRPI Dividend through the Trust may also be subject to US branch profits tax. US branch profits tax is imposed in addition to regular federal income tax generally at the rate of 30 percent on a calculated amount (to the extent earnings are repatriated or are treated as repatriated from the United States). Corporate Non-US Trust Unitholders should not be eligible for a reduced US branch profits tax rate under the US-Canada Treaty.

A REIT is generally required to withhold and remit to the IRS Section 1445(e)(6) FIRPTA Withholding Tax equal to 35 percent of the USRPI Dividend it pays to a foreign person. Thus, a capital gain distribution from the Investment LPs to the Trust that is attributable to the Investment LPs' disposition of a USRPI, and that is treated under IRC section 897(h)(1) as gain from a disposition of a USRPI by the Trust, is generally subject to 35 percent Section 1445(e)(6) FIRPTA Withholding Tax. However, a REIT is not required to withhold under IRC section 1445(e)(6) with respect to a distribution to a US partnership. As discussed above, the US partnership would be required to withhold under IRC sections 1445 and 1446, and proper compliance with IRC section 1446 withholding obligations generally will be deemed to satisfy a US partnership's IRC section 1445 withholding obligation. As discussed above, a US partnership with a foreign partnership as a partner may withhold with respect to the partners of the foreign partnership.

Accordingly, it may be possible for the Master LP to reduce the rate of IRC section 1446 withholding on USRPI Dividends paid to the Master LP and allocable to foreign partners of the Trust to 15 percent (or 20 percent if after December 31, 2010, or 25 percent if attributable to depreciation recapture) with respect to USRPI

Dividends allocable first to the Trust and then allocable to nonresident alien individuals that are Non-US Trust Unitholders.

The Trust (as a foreign partnership for US federal income tax purposes) also is generally required under IRC section 1446 to deduct and withhold Section 1446 Withholding Tax quarterly with respect to the Non-US Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of a USRPI). Section 1446 withholding tax on ECTI that is attributable to USRPI gains is generally 15 percent (or 20 percent after December 31, 2010) on the gains from certain capital assets (or 25 percent in the case of depreciation recapture) for nonresident individuals and 35 percent for foreign corporations. A non-publicly traded partnership such as the Trust must remit quarterly deposits of this Section 1446 Withholding Tax with respect to the partnership's ECTI by using Form 8813, and currently notify its partners of such quarterly withholding with respect to their allocable share of partnership income. The Trust also must file an annual return of Section 1446 Withholding Tax using Form 8804 with a separate Form 8805 for each Non-US Trust Unitholder in order to report the amount of Section 1446 Withholding Tax allocable to that Non-US Trust Unitholder.

The amount of Section 1446 Withholding Tax withheld by a US partnership such as Master LP with respect to a USRPI Dividend by the REIT to Master LP that is treated as a gain from the Master LP's disposition of a USRPI and allocated to the Trust, may be credited against the Trust's liability to withhold Section 1446 Withholding Tax on the Trust's ECTI, if Master LP properly withholds under IRC section 1446, timely notifies the Trust of the amount of IRC section 1446 withholding withheld by Master LP with respect to the Trust, and then completes and files with the IRS a Form 8805 that contains the Trust's US taxpayer identification number. Depending on the actual facts, it is possible that the amount of Section 1446 Withholding Tax withheld by Master LP will not fully satisfy the Trust's liability to withhold Section 1446 Withholding Tax.

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

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

Disposition of Investment LPs Units

Gain recognized by a nonresident alien individual and foreign corporation on the sale or exchange of interests in a corporation generally is not subject to US federal income taxation unless the interests sold are USRPIs. Stock of a US corporation is generally presumed to be a USRPI unless a foreign shareholder establishes that the stock is not a USRPI. It is expected that interests in the Investment LPs Units will be USRPIs. Therefore, Non-US Trust Unitholders will be subject to FIRPTA Tax and Section 1446 Withholding Tax on their distributive shares of gains recognized by Master LP and the Trust on Master LP's disposition of the Investment LPs Units. In general, the maximum US tax rate for USRPI gains for nonresident alien individuals and foreign corporations with respect to the disposition of a USRPI that is a capital asset is 15 percent (or 20 percent if after December 31,

2010, or 25 percent if related to certain depreciation recapture) and 35 percent, respectively, of the net gain recognized.

Corporate Non-US Trust Unitholders will not generally be subject to US branch profits tax on their distributive shares of gain from the sale or exchange by the Trust of the Investment LPs Units or on a distribution in excess of the US tax basis in the Investment LPs Units.

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

The amount of Section 1446 Withholding Tax withheld by Master LP with respect to ECTI attributable to its gain on its disposition of the Investment LPs Units may be credited against the Trust's liability to withhold Section 1446 Withholding Tax on the Trust's ECTI, if Master LP properly completes and files with the IRS a Form 8804 and also a Form 8805 with respect to the Trust. Depending on the actual facts, it is possible that the amount of Section 1446 Withholding Tax withheld by Master LP will not fully satisfy the Trust's liability to withhold Section 1446 Withholding Tax.

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

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

Disposition of Trust Units

Gain from the disposition of the Trust Units generally will also be treated as gain from the disposition of USRPIs in determining the substantive US tax liability of Non-US Trust Unitholders to the extent the Trust's assets are attributable to the Investment LPs Units (assuming that the Investment LPs Units are the only USRPIs held directly or indirectly by the Trust). Consequently, gain of a Non-US Trust Unitholder from a sale or exchange of the Trust Units or gain recognized on a distribution by the Trust in excess of the US tax basis of the Trust Units to the extent attributable to the Trust's investment in the Investment LPs Units through Master LP will generally

be subject to FIRPTA Tax as gain from the disposition of a USRPI in the manner described under the section entitled *Disposition of Investment LPs Units*. An exception to gain recognition may apply to certain distributions.

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

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

US Federal Income Taxation of Non-US Trust Unitholders on Distributions and Gains Related to the Trust's Hotels Leaseco Stock

This section describes, in general terms, the US federal income taxation to Non-US Trust Unitholders of an investment in the Trust with respect to the Trust's Hotels Leaseco stock. The Trust and Hotels Leaseco expect that the stock of Hotels Leaseco may be a USRPI. Therefore, the discussion below addresses the US federal income tax implications if Hotels Leaseco stock is treated as USRPI and also if Hotels Leaseco stock is not treated as USRPI. The Trust and Hotels Leaseco will monitor whether and when Hotels Leaseco stock may become a USRPI. The following discussion does not address or consider all aspects of US federal income tax and does not consider state, local, or non-US tax consequences.

Hotels Leaseco Dividends

As discussed above, the US taxation of partners of a US partnership with respect to income derived by a US partnership such as the Master LP, is determined as if the US partnership's income were derived directly by the partners. Similarly, the section 1446 withholding obligation of the Master LP ultimately may be based on the US tax rates applicable to foreign persons directly investing in the Trust.

Distributions out of Hotels Leaseco's current or accumulated earnings and profits ("Hotels Leaseco dividends") generally are treated as dividends that are US source FDAP whether paid directly to a foreign person, or paid through Master LP. Although Hotels Leaseco generally is not required to withhold when distributing such dividends to a US partnership, the US partnership generally must withhold with respect to such amounts allocable to its foreign partners. Generally, the gross amount of Hotels Leaseco dividends is subject to US tax and withholding at a rate of 30 percent, with no allowance for deductions, unless a lower rate applies under an applicable treaty. Hotels Leaseco dividends paid to the Non-US Trust Unitholders through a US partnership and then through a foreign trust (i.e., Trust) that is not a "fiscally transparent" entity under the laws of Canada for US federal income tax purposes (but is treated as a partnership and thus a fiscally transparent entity for US federal

income tax purposes) should be entitled to treaty-reduced US tax rate of 15 percent provided that Trust is a qualifying person under the US-Canada Treaty.

Master LP, as a withholding agent with respect to Hotels Leaseco dividends it receives and allocates to foreign partners, is generally required to withhold the 30 percent FDAP Tax on the gross amount of all Hotels Leaseco dividends that are made indirectly to Non-US Trust Unitholders through the Trust, including distributions that may later be determined to have been in excess of current and accumulated earnings and profits, unless an exception applies.

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

Hotels Leaseco Distributions In Excess of Earnings and Profits

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

A US corporation that is or has been a US real property holding corporation is generally required to withhold 10 percent federal income tax (Section 1445(a) FIRPTA Withholding Tax) on the portion of certain distributions to foreign persons that is in excess of its earnings and profits. The withholding is imposed as if the portion of the distribution in excess of the corporation's earnings and profits were received in exchange for an interest in the corporation (e.g., such interests in Hotels Leaseco). However, a US corporation is not required to withhold on distributions to a US person such as Master LP. However, Master LP generally is required to withhold on its US source dividend income that is allocable to its foreign partners, and under IRC sections 1445 and 1446 with respect to any of its income or gain that is treated as effectively connected income or gain from a disposition of a USRPI. Master LP generally must withhold when it actually distributes US source FDAP to a foreign partner, or with respect to any undistributed amounts that Master LP retains on the last day of Master LP's taxable year. If Master LP receives distributions of US source FDAP from Hotels Leaseco during the year and redistributes those amounts during the same year before it is determined whether the distribution from Hotels Leaseco exceeds its earnings and profits for the year, and assuming that Hotels Leaseco stock is a USRPI, then Master LP may be required to withhold on the entire amount it distributes as if it were attributable to a US source dividend it derived, and to withhold tax equal to 30 percent of the entire distribution, or a lower rate applicable under a US tax treaty, but no lower than 10 percent.

If Hotels Leaseco determines its stock is a USRPI on the date it makes a distribution in excess of earnings and profits, and notifies Master LP, then Master LP generally must withhold and timely remit to the IRS the Section 1446 Withholding Tax with respect to any ECTI Master LP determines is allocable to a foreign partner. If Master LP properly complies with its withholding obligations under IRC section 1446, it also will be deemed to have complied with its IRC section 1445 withholding obligations. The portion of the Section 1446 Withholding Tax withheld by Master LP that is allocable through the Trust to a particular Non-US Trust Unitholder is not necessarily equal to the Non-US Trust Unitholder's US federal income tax liability. A Non-US Trust Unitholder to whom a portion of such a distribution is allocated by the Trust must file a US tax return without regard to whether any Section 1446 Withholding Tax is withheld, and without regard to whether any amount withheld and allocable to that Non-US Trust Unitholder exceeds or is less than the Non-US Trust Unitholder's tax liability.

Likewise, the Trust (as a partnership for US federal income tax purposes) is also generally required under IRC section 1446 to deduct and withhold tax quarterly with respect to the Non-US Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from the Trust's disposition of Hotels Leaseco's stock if such stock is a USRPI). See earlier discussion under "REIT Distributions In Excess of Earnings and Profits" for the IRC section 1446 withholding procedures and requirements that would be applicable to Hotels Leaseco if Hotels Leaseco stock is a USRPI.

Non-USRPI gains from the sale or exchange of property recognized by a foreign person not otherwise engaged in a US trade or business are generally not subject to US federal income tax and generally not subject to withholding tax. Stock of a US corporation that is not regularly traded on an established securities market is presumed to be a USRPI unless, within 30 days before the distribution, the foreign shareholder receives a statement from the US corporation that the US corporation's stock is not a USRPI ("non-USRPI Statement"). The non-USRPI Statement will not be valid unless the US corporation issuing the non-USRPI Statement also provides a notice to the IRS ("non-USRPI Notice") within 30 days of mailing the non-USRPI Statement to its shareholder that it has provided a non-USRPI Statement.

If the stock of Hotels Leaseco is not a USRPI on the date of the distribution in excess of earnings and profits, withholding tax relating to disposition of a USRPI generally is not required on or with respect to the distribution. In such case, Hotels Leaseco intends, within 30 days of a distribution from Hotels Leaseco in excess of earnings and profits, to issue the non-USRPI Statement to Master LP stating that its stock is not a USRPI, and the Trust intends to file the non-USRPI Notice with the IRS within 30 days after mailing the non-USRPI Statement.

A distribution by Hotels Leaseco in excess of the sum of its earnings and profits and Master LP's adjusted tax basis in its Hotels Leaseco stock, is generally treated in a similar manner to a disposition by Master LP of its interest in Hotels Leaseco. The US federal income tax treatment of gain from the disposition of an interest in Hotels Leaseco is discussed below.

Disposition of Hotels Leaseco Stock

Similar to a disposition by the Trust of Investment LPs Units, a Non-US Trust Unitholder will be subject to FIRPTA Tax and Section 1446 Withholding Tax on its distributive shares of gains recognized by Master LP on its disposition of the Hotels Leaseco stock if such stock is a USRPI on the date of such disposition, and to Section 1446 Withholding Tax on its distributive shares of Master LP's gains allocated to the Trust and by the Trust to the Non-US Trust Unitholder. In general, the maximum US tax rate for USRPI gains for nonresident alien individuals and foreign corporations with respect to the disposition of a USRPI that is a capital asset is 15 percent (or 20 percent if after December 31, 2010, or 25 percent if related to certain depreciation recapture) and 35 percent, respectively, of the net gain recognized.

If Hotels Leaseco stock is a USRPI, Master LP will generally be required under IRC section 1446(a) to withhold tax on the ECTI attributable to a disposition of Hotels Leaseco stock by Master LP or on redemption of the Hotels Leaseco stock by Hotels Leaseco, and allocable to a foreign partner of Master LP. Because Master LP is a US person, US tax is not required to be withheld under section 1445(a) on Master LP's disposition of Hotels Leaseco stock. See earlier discussion under "*Disposition of Investment LPs Units*" for the IRC section 1446 withholding procedures and requirements that will be similarly applicable with respect to Master LP's disposition of Hotels Leaseco stock if Hotels Leaseco stock is a USRPI on the date of such disposition.

Likewise, the Trust (as a partnership for US federal income tax purposes) is also generally required under IRC section 1446 to deduct and withhold tax quarterly with respect to the Non-US Trust Unitholders' distributive shares of ECTI of the Trust (including gain resulting from Master LP's disposition of Hotels Leaseco's stock if such stock is a USRPI). See earlier discussion under "REIT Distributions In Excess of Earnings and Profits" for the IRC section 1446 withholding procedures and requirements that would be applicable to the Trust with respect to Master LP's disposition of stock of Hotels Leaseco if Hotels Leaseco stock is a USRPI on the date of such disposition.

If Hotels Leaseco stock is not a USRPI on the date Master LP disposes of Hotels Leaseco stock, withholding tax relating to disposition of a USRPI is generally not required on the disposition. In such case, Hotels Leaseco intends to issue, within 30 days of a disposition of Hotels Leaseco stock by the Trust, the non-USRPI Statement to Master LP stating that its stock is not a USRPI. Master LP generally will be permitted to rely on the non-USRPI Statement to avoid withholding under section 1446 with respect to any ECTI from its disposition of the Hotels Leaseco stock. Hotels Leaseco also intends to file the non-USRPI Notice with the IRS within 30 days of mailing the non-USRPI Statement to Master LP.

Estate and Gift Tax

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

A non-domiciliary individual is taxed at death on the fair market value of his or her gross estate, less certain deductions and exclusions. The gross estate of a non-domiciliary is limited to certain tangible and intangible property situated in the US. For example, stocks and bonds of US corporations or real property located in the US are included in a non-domiciliary individual's US estate. Estate tax is generally not applicable for deaths in 2010, but is applicable for deaths after 2010.

As explained above, it is assumed that the Trust should be classified as a foreign partnership, Master LP should be classified as a US partnership and the Investment LPs and Hotels Leaseco should be classified as US corporations for US federal tax purposes (including federal gift and estate tax purposes).

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

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

Federal Income Taxation of the Investment LPs as REITs

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

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

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

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

For example:

- Undistributed taxable income (including undistributed net capital gains) will be taxed at the regular rates for corporations.
- A REIT may be subject to “alternative minimum tax” on items of tax preference.
- A REIT is subject to the highest corporate income tax rate on net income from a sale or other disposition of “foreclosure property” (i.e., generally property acquired through foreclosure or after default on a loan secured by the property or a lease of the property) held primarily for sale to customers in the ordinary course of business and on other non-qualifying income earned from foreclosure property.
- A REIT is subject to a 100 percent tax on net income from “prohibited transactions”. Prohibited transactions are generally sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.
- A REIT is subject to a 100 percent tax on certain transactions with its taxable REIT subsidiaries if such transactions are not at “arm’s-length”, as defined.
- If a REIT fails to satisfy either the 75 percent or 95 percent gross income test (as discussed below) but has nonetheless maintained its qualification as a REIT because it has met certain other requirements, the REIT will be subject to a 100 percent tax on an amount equal to the greater of the amount by which it fails the 75 percent or 95 percent test multiplied by a fraction calculated to reflect the REIT’s profitability.
- If a REIT (1) fails to satisfy any of the REIT asset tests (as discussed below), other than a “de minimis” failure of the 5 percent or 10 percent REIT asset test as described more fully below, it may continue to qualify as a REIT if it meets certain other requirements and it pays a tax equal to the greater of \$50,000 or the highest corporate income tax rate multiplied by the net income from the non-qualifying assets for the period of time it failed to satisfy the asset tests; or (2) fails to satisfy REIT requirements other than the gross income and asset tests and meets certain other requirements, it will have to pay \$50,000 for each failure in order to remain a REIT.

A REIT is subject to a 4 percent excise tax on the excess of the required distribution over the sum of amounts distributed and amounts retained on which federal income tax was paid. The required distribution for this purpose is at least 85 percent of its ordinary income, 95 percent of its capital gain net income, and any undistributed amounts from prior periods.

Requirements for REIT Qualification

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

Organizational Requirements

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

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

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

Generally a partnership organized in the US, which has an objective to carry on business and which otherwise satisfies all of the REIT requirements may be eligible to make a REIT election. In that regard, a partnership may satisfy the REIT requirement that it be managed by one or more trustees or directors if the partnership has the corporate characteristic of centralized management. Units in a partnership may also satisfy the transferability requirement if the Unitholder has the absolute right to assign his or her partnership interest to a new partner without the consent of another person and upon the assignment the new partner has all the rights and obligations of the former limited partner. The Investment LPs do not intend to seek a ruling from the IRS to confirm that it is eligible to become REITs. Accordingly, no assurances can be given that the IRS will not challenge the Investment LPs’ status as REITs and that such status will not ultimately be upheld by the courts.

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

REIT Subsidiaries

The separate existence of a qualified REIT subsidiary is disregarded for US federal income tax purposes. All the assets, liabilities, income, deductions, and credits of a qualified REIT subsidiary are treated as though they are owned or earned directly by the REIT. A qualified REIT subsidiary is an entity that is treated as a corporation for US federal income tax purposes (but for the REIT provisions for qualified REIT subsidiaries) if 100 percent of the stock of the entity is owned by the REIT. A “taxable REIT subsidiary” (“TRS”) is not however, treated as a qualified REIT subsidiary.

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

An entity will not qualify as a TRS if it directly or indirectly operates or manages a “qualified lodging facility” or a “qualified health care property” or generally provides to another person under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care property is operated, unless such rights are provided (in the TRS’s capacity as a licensee, franchisee or similar capacity) to an “eligible independent contractor” (EIK) (as defined below) to operate or manage a lodging facility or health care property and such lodging facility or health care property is either owned by the TRS or leased to the TRS by its parent REIT. A “qualified lodging facility” means a hotel, motel or any establishment more than one-half of the dwelling units in which are used on a transient basis in which no authorized gambling activities are conducted. A qualified lodging facility also includes any customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such REIT.

A TRS is not considered to operate or manage a qualified lodging facility or a qualified health care property solely because it possesses a license or permit or similar instrument enabling it to do so or employs individuals working at such facilities or properties located outside the US, provided that an EIK (defined below) is responsible for the daily supervision and direction of such individuals on behalf of the TRS pursuant to a management agreement or similar contract.

An EIK is a person (or entity) that satisfies the following requirements: (i) is, or is related to, a person who is engaged in the active trade or business of operating and managing qualified lodging facilities for any person who is not a related person with respect to the REIT or the TRS at the time of entering into a management agreement or other similar service contract with the TRS to operate its qualified lodging facility, (ii) does not own, directly or indirectly, more than 35 percent of the REIT’s stock, and (iii) not more than 35 percent of such person is owned, directly or indirectly, by one or more persons owning 35 percent or more of the REIT’s stock. For purposes of determining whether those ownership limits are satisfied, actual ownership as well as constructive ownership under the rules of IRC section 318 (with certain modifications) are taken into account.

Hotels Investment LP and Hotels Leaseco intend to timely file a joint election for Hotels Leaseco to be treated as a TRS of Hotels Investment LP. Upon acquiring Hotels, which Hotels Investment LP believes will constitute qualified lodging facilities, Hotels Holding LP (or its lower tier partnerships) intends to lease the Hotels to Hotels Leaseco. Hotels Investment LP intends for each lease to be treated as a true lease for US federal income tax purposes. As such, the lease income paid by Hotels Leaseco to Hotels Holding LP (or its lower tier partnerships) is intended to qualify as rents from real property discussed below under *Annual Income Requirements*.

Hotels Leaseco intends to contract with Hotel Managerco to manage and operate the Hotels. Hotels Investment LP and Hotels Leaseco believe, and currently intend to take all steps reasonably practicable to ensure that Hotels Leaseco has not engaged in and will not engage in operating or managing the Hotels and that Hotel Managerco and any subcontractors that Hotel Managerco may engage, have qualified and will continue to qualify as EIKs with respect to Hotels Leaseco and Hotels Investment LP.

In order for the base rent, percentage rent and additional charges paid by the TRS to constitute “rents from real property” for the purposes of the 75 percent and the 95 percent gross income tests (see discussion under *Annual Income Requirements* below), the leases between the TRS and the REIT must be respected as true leases for US federal income tax purpose and not treated as service contracts, joint ventures or some other type of arrangement. In making such a determination, courts have considered a variety of factors, including the following:

- The intent of the parties;
- The form of the agreement;
- The degree of control over the property that is retained by the property owner (e.g., whether the lessee has substantial control over the operation of the property or whether the lessee was required simply to use its best efforts to perform its obligations under the agreement); and
- The extent to which the property owner retains the risk of loss with respect to the property (e.g., whether the lessee bears the risk of increases in operating expenses or the risk of damage to the property) or the potential for economic gain (e.g., appreciation) with respect to the property.

In addition, IRC section 7701(e) provides that a service contract or a partnership agreement in form should be treated as a lease of property if the contract should be properly treated as such, taking into account all relevant factors. Since the determination of whether a service contract should be treated as a lease is inherently factual, the presence or absence of any single factor may not be dispositive in every case.

Dividends from Hotels Leaseco to the Hotels Investment LP should qualify for the purposes of the 95 percent gross income test but not for the purposes of the 75 percent gross income test (see discussion under *Annual Income Requirements* below). As mentioned above, certain transactions, such as lease payments, between Hotels Investment LP and Hotels Leaseco (as a TRS of the Hotels Investment LP) are subject to a 100 percent tax to the extent the IRS were able to assert successfully that a deduction for such item(s) by Hotels Leaseco could be reduced under specified arm’s length standards required by the IRC. Such tax would be *in lieu* of an actual reduction of the deducted item.

Hotels Investment LP and Hotels Leaseco intend that transactions between themselves reflect arm’s-length standards required by the IRC. They also intend that any leases between Hotels Investment LP and Hotels Leaseco will be structured with the intent to qualify as true leases for US federal income tax purposes. For example, with respect to each lease to be entered into by the Hotels Investment LP and Hotels Leaseco:

- Hotels Holding LP (or its lower tier partnerships) (as the lessor) and Hotels Leaseco (as the lessee) intend for their relationship to be that of lessor and lessee, and such relationship will be documented by a lease agreement;
- The lessee will have the right to exclusive possession and use and quiet enjoyment of the Hotels covered by the lease during the term of the lease;
- The lessee will bear the cost of, and will be responsible for, day-to-day maintenance and repair of the hotels other than the cost of certain capital expenditures, and will dictate through the hiring of the hotel managers, how the Hotels are operated and maintained;
- The lessee will benefit from any savings and will bear the burdens of any increases in the costs of operating the Hotels during the term of the lease;
- In the event of damage or destruction to the Hotels, the lessee will be at economic risk because it will bear the economic burden of the loss in income from operation of the hotels subject to the right, in certain circumstances, to terminate the lease if the lessor does not restore the hotel to its prior condition;

- The lessee will indemnify the lessor against all liabilities imposed on the lessor during the term of the lease by reason of (A) injury to persons or damage to property occurring at the Hotels or (B) the lessee's use, management, maintenance or repair of the Hotels;
- The lessee will be obligated to pay, at a minimum, substantial base rent for the period of use of the Hotels under the lease;
- The lessee will stand to incur substantial losses or reap substantial gains depending on how successfully it, through the hotel managers, who work for the lessee during the terms of the leases, operates the Hotels;
- The lessor believes that the lessee reasonably expected, at the times the leases were entered into and subsequently renewed or extended, to derive a meaningful profit, after expenses and taking into account the risks associated with the lease, from the operation of the Hotels during the term of its leases; and
- Upon termination of each lease, the applicable hotel is expected to have a remaining useful life of at least 20 percent of its expected useful life on the date the lease was entered into, and a fair market value of at least 20 percent of its fair market value on the date the lease was entered into.

However, no assurances can be given that the IRS will not challenge the belief that each lease is based on "arm's-length" terms and/or recharacterize a lease as a service or partnership agreement. If any lease were recharacterized as service or partnership agreement, or disregarded altogether for US federal income tax purposes, all or part of the payments that the lessor receives from the lessees would not be considered rent or would not otherwise satisfy the various requirements for qualification as "rents from real property". In that case, Hotels Investment LP likely would not be able to satisfy either the 75 percent or 95 percent gross income test described below, and as a result, would lose its REIT status.

REIT Partnerships

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

A partnership is not subject to US federal income tax; instead, its partners are required to recognize for US federal income tax purposes their respective shares of the partnership income and other allocated items.

Annual Income Requirements

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

1. At least 75 percent of the REIT's gross income ("75 percent gross income test"), excluding gross income from prohibited transactions and certain hedging transactions, must be derived from:
 - Rents from real property, as defined;
 - Interest on obligations secured by mortgages on real property;
 - Gain from the sale of real property that is not held primarily for sale;
 - Income and gain derived from "foreclosure property" (as previously described);
 - Income from certain temporary investments (described below); and

- Certain other real estate-related income.
2. At least 95 percent of the REIT's gross income ("95 percent gross income test"), excluding gross income from prohibited transactions and certain hedging transactions, must be income of a passive-type, including:
 - Income described in the 75 percent test, above;
 - Dividends, including dividends from a TRS;
 - Interest (whether or not secured by a mortgage); and
 - Gain from the sale or disposition of stock or securities.

Certain Types of Income

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

1. Rents from interests in real property;
2. Charges for services customarily furnished or rendered (i.e., services customarily provided in the geographic area in connection with the rental of space for occupancy) in connection with the rental of real property, whether or not those charges are separately stated;
3. Rent attributable to personal property that is leased in connection with a lease of real property provided that the rent attributable to personal property does not exceed 15 percent of the total rental amount; and
4. Rents received from a TRS (which would otherwise be disqualified as related party rents), provided that certain conditions are satisfied (see earlier discussion on rules specific to qualified lodging facilities leased by the REIT to a TRS).

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

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

Generally, ITSI means with respect to a property, any amount received or accrued directly or indirectly by the REIT for furnishing or rendering services to its tenants or for managing or operating the property. However, if such services are rendered or furnished, or such management or operation is provided through (1) an "independent contractor" (as defined) from whom the REIT does not derive or receive any income; or (2) a TRS of the REIT, then such services, management or operation is not treated as furnished, rendered or provided by the REIT for purposes of determining whether they create ITSI. In addition, certain customary property management services may be provided directly by the REIT without causing amounts to be treated as ITSI. Nonetheless, if the amount of ITSI as determined under the preceding rules exceeds 1 percent of all amounts

received or accrued directly or indirectly during the taxable year by the REIT with respect to such property, then all such amounts received with respect to the property are treated as ITSI.

Property Held Primarily for Sale: A REIT is subject to a 100 percent tax on its net income from “prohibited transactions”. A prohibited transaction includes the sale of property held primarily for sale to customers in the ordinary course of business other than foreclosure property. Whether property is held primarily for sale to customers in the ordinary course of business depends on the facts and circumstances. However, a prohibited transaction is deemed not to include the sale of property that is a real estate asset and is held primarily for sale to customers in the ordinary course of business if:

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

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

Quarterly Asset Requirements

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

- At least 75 percent of the value of the REIT’s gross assets must consist of real estate assets (which generally include qualified temporary investments, described above, interests in real property, interest in mortgages and shares in other REITs), cash, cash items, and U.S. Government securities.
- Not more than 25 percent of value of its total assets may consist of securities, other than U.S. Government securities and securities that qualify as real estate assets.
- Not more than 25 percent of the value of its total assets may consist of securities of TRS (see earlier discussion).
- Not more than 5 percent of its total assets may consist of securities of one issuer (other than interests in TRS, U.S. Government securities and securities that qualify as real estate assets).
- The REIT may not hold securities that make up more than 10 percent of total voting power or value of the outstanding securities of any one issuer (except for interests in TRSs, U.S. Government securities, securities that qualify as real estate assets and, for 10 percent value limitation purposes, certain exempted securities).

A REIT that meets the asset tests at the close of any quarter will not lose its REIT status if it fails to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values of assets owned in the immediately preceding quarter (including a failure caused solely by a change in the foreign currency exchange rate used to value a foreign asset). If, on the other hand, a REIT fails the asset test because of the acquisition of an asset, the failure can be cured by disposing of non-qualifying assets within 30 days after the close of the quarter. Under certain circumstances, a REIT may avoid REIT disqualification after the 30-day cure period by disposing of sufficient non-qualifying assets (or otherwise meeting such asset tests) within six months of the last day of the quarter in which the REIT first identifies the violation and by taking certain other steps.

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

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

Annual Distribution Requirements

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

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

A dividend is also taken into account if it is declared before the REIT timely files its federal income tax return for such year, it is actually paid in the 12-month period following the close of the prior year, it is paid not later than the first regular dividend payment after such declaration, and the REIT timely files an election. To the extent a REIT relies on this election for more than 15 percent of its ordinary income or more than 5 percent of its capital gain net income, it may be subject to 4 percent excise tax on such excess late distributions. Finally, a REIT and its holders of common interest (i.e., consent stock) may agree to deem a dividend to occur if certain conditions are met and a consent to such treatment is timely filed.

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

Records Maintenance

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

Other Applicable Rules

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

18. RISK FACTORS

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

This is a Blind Pool Offering; Reliance on the Holding GPs and their Management – This is a “blind pool” Offering. Although the Issuers expect that the available net proceeds of the Offering will be applied in the purchase of one or more Properties, the specific Properties in which the net proceeds will be invested have not yet been determined. In any event, if the maximum Offering of 40,000 Trust Units is sold, the Issuers expect that approximately \$45,400,000 (approximately 90.8% of the gross proceeds of the Offering) will be applied to the purchase price and other acquisition costs of one or more Properties (including Financing Fees payable as described herein), and to the creation of working capital reserves and reserves for renovations and upgrades. If only the minimum Offering of 4,000 Trust Units is sold, the Issuers expect that approximately \$4,200,000 (approximately 84.0% of the gross proceeds of the Offering) will be applied to the purchase price and other acquisition costs of one or more Properties (including Financing Fees payable as described herein), and to the creation of working capital reserves and reserves for renovations and upgrades.

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 Holding GPs and their principals, Darren Latoski and Steve Evans. In particular, prospective purchasers will have to rely on the discretion and ability of the Holding GPs and their 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 Holding GPs to successfully implement the Issuers' investment strategy will depend in large part on the continued employment of Messrs. Latoski and Evans. None of the Trust nor the Holding GPs maintains key person life insurance for any of these named individuals. If the Holding GPs lose the services of one or both of these individuals, the business, financial condition and results of operations of the Issuers may be materially adversely affected.

Prospective purchasers will also be relying on the good faith and expertise of Hotel Managerco and its principals, Rob O'Neill and John O'Neill. In particular, prospective purchasers will have to rely on the discretion and ability of the Hotel Managerco and its principals in the management and operation of the Hotels, which will depend in large part on the continued employment of Messrs. O'Neill. Hotel Managerco does not maintain key person life insurance for Rob O'Neill or John O'Neill. If Hotel Managerco loses the services of one or both of these individuals, the business, financial condition and results of operations of the Issuers may be materially adversely affected.

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

Less than Full Offering – There can be no assurance that more than the minimum Offering will be sold. If less than all of the 40,000 Trust Units are sold pursuant to this Offering, then less than the maximum proceeds will be available to the Issuers and, consequently, their business development plans and prospects could be adversely affected, since fewer Properties will be purchased, owned and leased by the Holding LPs.

Return not Guaranteed – The Minimum Returns are preferred returns, but are not guaranteed and may not be paid on a current basis in each year or at all. The return on an investment in the Trust Units is not comparable to the return on an investment in a fixed-income security. Cash distributions, including a return of a Trust Unitholder's original investment, are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions.

Non-GAAP Measures - The Issuers have disclosed the annual, unaudited, pre-tax cash return on investment for investments in Sunstone LP, Sunstone (2004) LP and Sunstone (2005) LP as an annualized internal rate of return and on Sunstone (2006) LP, Sunstone (2007) Co-Ownership, Sunstone U.S. (2008) LP, Sunstone (2008) LP and Sunstone U.S. (No. 2) LP as a total pre-tax cash return on investment. Such measures do not have standardized meanings prescribed by Generally Accepted Accounting Principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable measure calculated in accordance with GAAP, as such measures are based on investment which is external to the issuer. The measures used are meaningful to the investors as they are based on the average investor's individual investment in the entities mentioned. Sunstone uses such annual, unaudited, pre-tax cash returns to provide investors with an estimated guideline as to the investment returns received on its previous investment offerings and to compare to similar returns quoted by competitive investments. Investors are cautioned that historical returns on other Sunstone investment offerings and similar offerings by others are not predictive of the returns which may be achieved by Trust Unitholders from an investment in Trust Units.

Risks of Real Estate Investment and 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) *Acquisition Risk* - The Holding LPs intend to acquire Properties selectively. The acquisition of Properties entails risks that investments will fail to perform in accordance with expectations. In undertaking such acquisitions, the Holding LPs will incur certain risks, including the expenditure of funds on, and the devotion of management's time to, transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the Properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired Property up to standards established for the market position intended for that Property may prove inaccurate.
- (b) *General Real Estate Ownership Risks* - All real property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions, local real estate markets, demand for leased premises, competition from other available premises and various other factors. The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. Distributable Cash (Hotels) and Distributable Cash (Properties) will be adversely affected if one or more major tenants or a significant number of tenants of the Properties were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties is not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the Holding LPs' investment may be incurred. The ability to rent unleased space in the Properties will be affected by many factors. Costs may be incurred in making improvements or repairs to Property required by a new tenant. A prolonged deterioration in economic conditions could increase and exacerbate the foregoing risks. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the Trust's financial condition.

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. Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and

the perceived desirability of such investments. Such illiquidity will tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sale proceeds realized might be less than the current book value of the Trust's investments or that market conditions would prevent prompt disposition of assets. The Trust may, in the future, be exposed to a general decline of demand by tenants for space in properties. As well, certain of the leases of the Properties held by the Trusts may have early termination provisions which, if exercised, would reduce the average lease term.

- (c) *Financing Risks* – There is no assurance that the Trust will be able to obtain sufficient Mortgage Loans to finance the acquisition of Properties, or, if available, that the Trust will be able to obtain Mortgage Loans on commercially acceptable terms. Further, there is no assurance or guarantee that any Mortgage Loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the Trust is able to purchase will decrease and the projected return from the ownership of Properties will be reduced. Even if the Trust is successful in obtaining adequate Mortgage Loans, the Trust may not be able to generate sufficient funds through the operation of the Properties to service the Mortgage Loans. If a default occurs under any of the Mortgage Loans, one or more of the Lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.
- (d) *Interest Rate Fluctuations* - The Mortgage Loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Trust's cost of borrowing.
- (e) *Potential Liability under Environmental Protection Legislation* – Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, the Trust could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the Properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect the Trust's ability to sell such Property or to borrow using the Property as collateral, and could potentially also result in claims against the Trust by private parties.
- (f) *Uninsured Losses* – The Holding GPs will, under the terms of the Holding LPs Agreements, 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 Holding LPs and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses (generally of a catastrophic nature) are either uninsurable or not economically insurable. Should such a disaster occur with respect to any of the Properties, the Trust could suffer a loss of capital invested and not realize any profits which might be anticipated from the disposition of such Properties.
- (g) *Reliance on Property Management* – In certain cases, the Holding GPs will rely upon independent management companies to perform property management in respect of the Properties (other than the Hotels). 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.
- (h) *Competition for Real Property Investments* – The Trust competes for suitable real property investments with individuals, corporations, real estate investment trusts and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those sought by the Trust. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments.
- (i) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Mortgage Loans or to fund changes in the variable rates of interest charged in respect of such loans.

- (j) *Joint Ventures* - The Holding LPs may invest in or be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks, including, (i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with the Holding LPs' or take actions contrary to the Holding LPs' instructions or requests or to the Holding LPs' 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 Holding LPs or for which the Holding LPs will be liable and/or result in the Holding LPs 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 Holding LPs 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 Holding LPs may not desire to sell but may be forced to do so because the Holding LPs do not have the cash to purchase the other party's interests. Such rights may also inhibit the Holding LPs's ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis the Holding LPs desire.
- (k) *U.S. Market Factors* - The Properties will be located in the U.S. Global market and economic conditions since the beginning of 2008 have been challenging with recession in the North American economy. U.S. markets are currently experiencing increased levels of volatility due to a combination of many factors, including high unemployment, decreasing home prices, the highest level of home foreclosures since the recession began in 2008, limited access to credit markets, higher fuel prices, less consumer spending, fears of a "double-dip" recession, and the slow rate of recovery. Although the recession technically ended in June, 2009, the U.S. economy has not returned to operating at normal capacity and the effects of the current market dislocation may persist as governments wind down fiscal stimulus programs. Concern about the stability of the markets generally and the strength of the economic recovery may lead lenders to reduce or cease to provide funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures. As a result, this economic downturn has reduced demand for space and removed support for rents and property values. The Trust cannot predict when the real estate markets will recover. The value of Properties acquired may decline if current market conditions persist or worsen.

Hotel Industry Risks:

- (a) *Operating Risks* - The Hotels Holding LP, through its investment in Hotels, will be subject to the operating risks inherent in the hotel industry. These risks include: cyclical downturns arising from changes in general and local economic conditions; changes in the level of business and commercial travel and tourism; increases in the supply of accommodations in local markets which may adversely affect the results of operations; competition from other hotels; the recurring need for renovation, refurbishment and improvement of hotel properties; changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations; seasonal fluctuations in hotel operating income produced throughout the year; availability of financing for operating or capital requirements; increases in operating costs due to inflation which may not necessarily be offset by increased room rates; and increases in expenses of travel, particularly automotive travel.

In addition to the foregoing, there are economic trends and factors that may be beyond the Hotels Holding LP's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the hotel industry, including those described above, and the conditions in the domestic or global economy generally. Such trends and factors could result in geographical

disparities among regions. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on the Trust's performance.

- (b) *Competition* - The hotel industry is highly competitive. Each of the Hotels will be located in an area that includes other hotels owned or operated by third parties. The Hotels Holding LP and Hotels Leaseco will compete locally and regionally with existing hotels and will compete with hotels that may be developed in the future. Some of the competitors of Hotels may have substantially greater marketing and financial resources than the Hotels Holding LP and Hotels Leaseco. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and revenues of the Hotels.
- (c) *Franchise Risk* – The Hotels may be subject to franchise agreements. The continuation of any franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a Hotel to conform to such standards or the failure of Hotels Leaseco or to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Hotels Holding LP determines are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Hotels Holding LP may elect to allow the franchise agreement to lapse. If a franchise were terminated, the Hotels Holding LP would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that the Hotels Holding LP would be able to obtain a suitable replacement franchise on acceptable terms, or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the Hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.
- (d) *Management by Hotel Managerco* – For U.S. tax purposes, the Hotels Holding LP and Hotels Leaseco cannot and will not directly operate the Hotels and, as a result, the results of operations, financial position, ability to service debt and ability to make distributions to Trust Unitholders are dependent on the ability of Hotel Managerco to operate the Hotels successfully. The Hotels Holding LP and Hotels Leaseco cannot and will not control Hotel Managerco. Thus, even if Hotels Holding LP believes the Hotels are being operated inefficiently or in a manner that does not result in satisfactory operating results, it may not be able to require Hotel Managerco to change its method of operation of the Hotels.
- (e) *Potential Labour Disruptions* - Employees employed at Hotels may be unionized and governed by collective agreements. Individual Hotels may experience labour disruptions or difficulties which could affect the short term operating performance of particular hotels. Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels or Hotels Leaseco's response to changes in government regulation of workers in the workplace. Hotel operations rely heavily on employees. Any labour shortage or stoppage caused by disagreements with employees, including unionized employees, could adversely affect the ability of the Hotels to operate, its occupancy and room revenue, and/or damage the Hotels Holding LP's or Hotels Leaseco's reputation. Any such labour difficulties could have a material adverse effect on the Trust's results of operations, business, prospects and financial condition.

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

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

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

Liability of Trust Unitholders – There is a risk that a Trust Unitholder could be held personally liable for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust). The Trust Declaration provides that no Trust Unitholder shall be held to have any personal liability as such for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Trust or the Trustee (to the extent that claims are not satisfied by the Trust). In any event, the Trust Declaration requires the Trustee to ensure that any written contract or commitment of the Trust includes an express limitation of liability except where not reasonably possible.

Risks Associated with Redemptions

- (a) *Use of Available Cash* - The payment in cash by the Trust of the redemption price of Trust Units will reduce the amount of cash available to the Trust for the payment of distributions to the holders of Trust Units, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.
- (b) *Limitation on Payment of Redemption Price in Cash* – The total cash amount available for the payment of the redemption price of Trust Units by the Trust is limited to \$100,000 in each calendar quarter and is limited in any twelve month period to 3/4 of 1% of the aggregate subscription price of all Trust Units that were issued and outstanding at the start of such twelve month period.
- (c) *Payment of Redemption Price in Kind* – As a result of the foregoing limitations, the redemption of Trust Units may be paid by way of a Trust Note, Debt Security or a Master LP Unit. Trust Notes and Debt Securities are payable over a term of five years or less with annual interest at the Canada Five-Year Yield. Trust Notes, Debt Securities and Master LP Units received as a result of redemptions of Trust Units may not be liquid. Further, they will generally not be qualified investments or may be prohibited investments for Plans, and this could give rise to adverse consequences to a Plan and/or its annuitant, beneficiary thereunder or holder thereof, including the redeeming Trust Unitholder or Plan holder becoming subject to a penalty tax, the Plan annuitant being deemed to receive income from the Plan, or, in the case of an RESP, having the Plan's tax-exempt status revoked. Accordingly, Plans that propose to invest in Trust Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Trust Units.

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

Risk Factors Relating to the Issuers' Canadian Tax Status – If the Trust does not qualify or ceases to qualify as a “mutual fund trust” under the Tax Act, adverse consequences may arise including that: (i) the Trust may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the non-qualifying trust would be reduced and Trust Unitholders may otherwise be adversely affected), and (ii) the Trust Units may not be or may cease to be qualified investments for Plans (with the result that a Plan and/or its annuitant, beneficiary thereunder or holder thereof will generally become subject to additional tax or penalties or may be otherwise adversely affected).

The exposure of the Issuers to the new tax on SIFTs imposed by the SIFT Measures will depend in part on whether or not the Trust Units, the Master LP Units, the Hotels Investment LP Units or the Properties Investment LP Units will be listed or traded on a stock exchange or other public market, and in such case on the Trust's ability to qualify as a REIT under the REIT Exception and the Master LP's, the Hotels Investment LP's or the Properties Investment LP's ability to maintain central management and control outside of Canada. Where the Trust Units, the Master LP Units, the Hotels Investment LP Units or the Properties Investment LP Units are listed or traded on a stock exchange or public market, the Trust does not qualify or ceases to qualify as a REIT under the REIT Exception, or any of the Sunstone US Limited Partnerships cease to maintain residency, including central management and control, outside of Canada, adverse consequences could arise including that the non-deductible distributions amount of the Trust or the taxable non-portfolio earnings of the Sunstone US Limited Partnerships, as previously described, could be taxable to the Trust or to the Sunstone US Limited Partnerships, respectively (with the result that the amount of cash available for distribution by the Trust would be reduced), and such amount would also, depending on the circumstances, be included in the income of Trust Unitholders for purposes of the Tax Act as eligible dividends.

There can be no assurances that Canadian federal income tax laws respecting the treatment of mutual fund trusts, SIFTs, and REITs will not be changed, or that administrative policies and assessing practices of the CRA will not develop, in a manner which adversely affects the Trust or the Master LP.

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

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

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

The Trust Declaration provides that the Trust shall, subject to the Trustee resolving otherwise, distribute to Trust Unitholders in each year an amount of net income and net realized capital gains in order to eliminate the

Trust's liability for tax under Part I of the Tax Act. Where the amount of net income and net realized capital gains of the Trust in a taxation year exceeds the cash available to the Trust for distribution in the year, such excess net income and net realized capital gains may be distributed to Trust Unitholders in the form of additional Trust Units. Trust Unitholders will generally be required to include an amount equal to the fair market value of those Trust Units in their taxable income notwithstanding that they do not directly receive a cash distribution.

There can be no assurance that Canadian federal income tax laws (or the judicial interpretation thereof or the administrative policies and assessing practices of the CRA) and/or the treatment of "mutual fund trusts", SIFTS, or REITs will not be changed in a manner which would adversely affect the Trust Unitholders, including on a retroactive basis.

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

U.S. Tax-Related Risk Factors

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

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

In the event that the Hotel Leases granted to Hotels Leaseco do not qualify for tax purposes as arms-length, there is risk that the Trust and its subsidiaries will be exposed to potentially significant tax penalties which could adversely impact the Trust's profitability and cash flows.

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

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

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

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

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

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

19. PROMOTER

Sunstone may be considered to be the promoter of the Issuers by reason of its initiative in organizing the business of the Issuers and taking the steps necessary for the public distribution of the Trust Units. As at the date hereof, neither Sunstone nor any of its directors, officers or shareholders beneficially owns, controls or directs, directly or indirectly, any Trust Units. Sunstone US, a subsidiary of Sunstone, will receive payment from the Holding GPs for services provided to the Holding GPs in respect of the acquisition or disposition of Properties and the ongoing management of the Properties and the Holding LPs.

20. LEGAL PROCEEDINGS

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

21. INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

22. AUDITORS

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

23. REGISTRAR AND TRANSFER AGENT

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

24. MATERIAL CONTRACTS

The following are the only material agreements, other than contracts entered into in the ordinary course of business, which the Issuers have entered into during the last two years, and the material agreements to which Purchasers will be required to become a party. **Copies of these agreements are available for inspection**

during regular business hours at the offices of Sunstone, located at 910 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2.

24.1 Particulars of Material Contracts

1. *Trust Declaration* – described in “Description of the Securities Distributed– The Trust”.
2. *Master LP Agreement* - described in “Description of the Securities Distributed– The Master LP”.
3. *Properties Investment LP Agreement* - described in “Description of the Securities Distributed– The Properties Investment LP and Hotels Investment LP”.
4. *Hotels Investment LP Agreement* - described in “Description of the Securities Distributed– The Properties Investment LP and Hotels Investment LP”.
5. *Properties Holding LP Agreement* – described in “Description of Businesses of the Issuers – The Holding LPs”.
6. *Hotels Holding LP Agreement* – described in “Description of Businesses of the Issuers – The Holding LPs”.
7. *Services Agreement (Properties)* – described in “Management Agreements”.
8. *Services Agreement (Hotels)* – described in “Management Agreements”.
9. *Advisory Agreement* – described in “Management Agreements”.
10. *Hotel Leases* - leases to be entered into between the Hotels Holding LP or its subsidiaries, as lessor, and Hotels Leaseco, as lessee in respect of each of the Hotels, described in “Description of the Business of the Issuers – Hotel Leases”;
11. *Hotel Management Agreement* - the agreement to be made between Hotels Leaseco and Hotel Managerco pursuant to which Hotel Managerco will provide certain operational and management services to Hotels Leaseco in respect of each the Hotels leased by Hotels Leaseco from the Hotels Holding LP or its subsidiaries – “Description of the Business of the Issuers – Hotel Management Agreement”;
12. *Agency Agreement* – described in “Plan of Distribution – Agency Agreement”.
13. *Cost Sharing and Recovery Agreements* –agreements among the Trust, the Master LP, the Investment LPs and the Holding LPs pursuant to which the Holding LPs will ultimately bear all costs and expenses in respect of this Offering.

24.2 Inspection of Contracts and Reports

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

25. EXPERTS

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

Certain legal matters in connection with this Offering will be passed upon by Clark Wilson LLP, on behalf of the Issuers, and by Miller Thomson LLP, on behalf of the Agents. As at September 3, 2010, 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 3, 2010, partners and associates of Miller Thomson LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the Issuers and their respective associates and affiliates.

KPMG LLP, in its capacity as tax advisor to the Trust, has prepared the summary of principal Canadian federal income tax considerations set out under the heading “Canadian Federal Income Tax Considerations” and the summary of principal U.S. federal income tax considerations set out under the heading “U.S. Federal Income Tax Considerations”. As at September 3, 2010, KPMG LLP beneficially owned, directly or indirectly, less than 1% in the outstanding securities of the Issuers and their respective associates and affiliates.

26. PURCHASERS’ STATUTORY RIGHTS

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

27. AUDITORS’ CONSENT

- see next page -

AUDITORS' CONSENT

We have read the prospectus of Sunstone U.S. Opportunity (No. 3) Realty Trust (the Trust) and Sunstone (No. 3) Limited Partnership (the Master LP) dated September X, 2010 relating to the sale and issue of Units of the Trust. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Trustee on the balance sheet of the Trust as at August 19, 2010 and our report to the General Partner of the Master LP on the balance sheet of the Master LP as at August 19, 2010. Our report on the Trust is dated August X, 2010, except for note 5 which is as of September X, 2010. Our reporting on the Master LP is dated August X, 2010, except for note 5 which is as of September X, 2010.

Chartered Accountants

Vancouver, Canada
September X, 2010

28. FINANCIAL STATEMENTS

Financial Statement
(Expressed in United States dollars)

**SUNSTONE U.S. OPPORTUNITY (NO. 3)
REALTY TRUST**

August 19, 2010

AUDITORS' REPORT

To the Directors of Sunstone U.S. Realty Services (No. 3) Inc.,
in its capacity as Trustee of the Trust

We have audited the balance sheet of Sunstone U.S. Opportunity (No. 3) Realty Trust as at August 19, 2010. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Trust as at August 19, 2010 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

August X, 2009, except as to note 5,
which is as of September XX, 2010

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Balance Sheet

(Expressed in United States dollars)

As at August 19, 2010

Assets

Cash	\$ 10
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Unitholders' Equity

Units:

Authorized: Unlimited

Issued: 1 unit	\$ 10
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See accompanying notes to financial statements.

Approved on behalf of the Trustee Sunstone U.S. Realty Services (No. 3) Inc.:

"Robert King"
Robert King

Director

"James Redekop"
James Redekop

Director

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

1. Incorporation and operations:

Sunstone U.S. Opportunity (No. 3) Realty Trust (the Trust) is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated August 18, 2010 under, and governed by, the laws of the Province of British Columbia. The Trust will file an election pursuant to the U.S. Internal Revenue Code of 1986, as amended from time to time (Code) to be taxed as a partnership for U.S. federal income tax purposes, effective on the date of its formation.

The principal business of the Trust is to invest the proceeds from the issuance of Trust Units in the acquisition of units of Sunstone (No. 3) Limited Partnership (the Master LP). The Master LP will invest the proceeds from the issuance of Master LP Units in:

- Sunstone U.S. (No. 3P) L.P. (the Properties Investment LP) Units. The Properties Investment LP will invest the proceeds from the issuance of Properties Investment LP Units in Sunstone U.S. Opportunity (No. 3P) Limited Partnership (the Properties Holding LP) Units. The Properties Holding LP will invest the proceeds from the issuance of Properties Holding LP Units in acquiring, owning and operating a diversified portfolio of revenue-producing real estate properties in the United States.
- Sunstone U.S. (No. 3H) L.P. (the Hotels Investment LP) Units. The Hotels Investment LP will invest the proceeds from the issuance of Hotels Investment LP Units in Sunstone U.S. Opportunity (No. 3H) Limited Partnership (the Hotels Holding LP) Units. The Hotels Holding LP will invest the proceeds from the issuance of Hotels Holding LP Units in acquiring, owning and operating a diversified portfolio of hotels and resorts in the United States.
- Sunstone U.S. Hotel (No. 3) Inc. (the Hotels Leaseco) Shares. The Hotels Leaseco will enter into leases with the Hotels Holding LP or its subsidiaries in respect of each of the hotels. Hotels Leaseco will engage a hotel operator to operate and manage the hotels for and on behalf of Hotels Leaseco.

There has been no activity in the Trust between its formation on August 18, 2010 and August 19, 2010, except for the receipt of a capital contribution. Accordingly, no statement of operations or statement of cash flows for this period have been presented.

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

2. Pending change in accounting policies - International Financial Reporting Standards:

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Enterprises will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of 2011. The Trust is currently assessing the impact of the transition to IFRS and developing a plan accordingly.

3. Unitholder's equity:

Unitholder's equity represents the initial capital contribution to the Trust made by Sunstone Realty Advisors Inc. The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest. Each trust unit entitles the trust unitholder to the same rights and obligations as any other trust unitholders and no trust unitholder is entitled to any privilege, priority or preference in relation to any other trust unitholders.

Each trust unitholder is entitled to participate equally with respect to any and all distributions of net income and net realized capital gains, subject to an adjustment in a trust unit's proportionate share as a result of the date of first issue of a trust unit in the first fiscal year of the Trust. On termination, the trust unitholders of record are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

The Trust intends to make quarterly distributions to trust unitholders.

4. Management and other services:

Pursuant to Service Agreements between the Hotels Holding LP, Properties Holding LP (the Holding LPs) and Sunstone Advisors (U.S.) Inc, (Sunstone US), Sunstone US has agreed to provide certain services to the Holding LPs. in consideration for providing such services, the Holding LPs will pay to Sunstone US:

- (a) a financing fee, in an amount equal to 1.5% of the gross purchase price of each property (or interest in a property);
- (b) a disposition fee in an amount equal to 1.5% of the gross selling price for each property;

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Notes to Balance Sheet

(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

- (c) in the case of the hotels, if the gross selling price of a hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the hotel (including purchase price, due diligence, closing costs, legal fees, and capital replacement costs), an additional disposition fee in an amount equal to 2% of the gross selling price of such hotel;
- (d) an asset management fee, in an annual amount equal to 1.5% of the net asset values of the properties and hotels purchased by the Properties Holding LP and the Hotels Holding LP, respectively, calculated as the greater of (a) the total cash proceeds from the Offering which are invested through the Master LP, Investment LPs and Holding LPs in the acquisition of properties and hotels; and (b) the total purchase price of the properties including all fees and expense and cash reserves, less any outstanding mortgage loans made in respect of the properties and hotels. The asset management fees will be payable monthly from property revenues on the last day of each month during the term of the Services Agreements in an amount equal to 0.125% of the net asset values at the beginning of each such month; and
- (e) an incentive advisory fee, being the aggregate of:
 - (i) the Incentive Advisory Fee (Properties) being an amount equal to 20/80ths of the total payments made to limited partners holding Properties Holding LP Units in respect of the Minimum Return (Properties) which accrues and is payable after the limited partners holding Properties Holding LP Units receive distributions of the Minimum Return (Properties) from prior years' Distributable Cash (Properties) and Extraordinary Distributions (Properties); and
 - (ii) the Incentive Advisory Fee (Hotels), being an amount equal to 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which accrues and is payable after the limited partners holding Hotels Holding LP Units receive distributions of their Minimum Return (Hotels) from prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

The Minimum Return (Properties) means a minimum return to the limited partners holding Properties Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners' Net Equity in the Properties Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Properties Holding LP Units to distributions and allocations of Distributable Cash (Properties), Extraordinary Distributions (Properties), net income

and taxable income of the Properties Holding LP prior to the Incentive Advisory Fee (Properties) being accrued and payable to Sunstone US.

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

The Distributable Cash (Properties) means; for any period, an amount equal to the Gross Rents from the operations of the Properties, less the Operating Expenses incurred in the operation of the Properties, less any other costs or expenses payable by the Properties Holding LP, and less reasonable reserves determined by the Properties Holding GP to be necessary to lease the Properties or manage the affairs of the Properties Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Properties).

The Extraordinary Distributions (Properties) means distributions to the partners of the Properties Holding LP arising from or related to funds received by the Properties Holding LP on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a refinancing or a sale of a Property, after deduction of any Disposition Fee (Properties), but excluding distributions of Distributable Cash (Properties).

Minimum Return (Hotels) means a minimum return to the limited partners holding Hotels Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners' Net Equity in the Hotels Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Hotels Holding LP Units to distributions and allocations of Distributable Cash (Hotels), Extraordinary Distributions (Hotels), net income and taxable income of the Hotels Holding LP prior to the Incentive Advisory Fee (Hotels) being accrued and payable to Sunstone US.

Distributable Cash (Hotels) means, for any period, an amount equal to the Gross Rents from the Hotel Leases to Hotels Leaseco, less any other costs or expenses payable by the Hotels Holding LP, and less reasonable reserves determined by the Hotels Holding GP to be necessary to maintain, replace or repair such Hotel or manage the affairs of the Hotels Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Hotels).

Extraordinary Distributions (Hotels) means distributions to the partners of the Hotels Holding LP arising from or related to funds received by the Hotels Holding LP on account of matters other than rental revenues payable by Hotels Leaseco pursuant to Hotel Leases, including distributions arising from a refinancing or a sale of a Hotel, after deduction of any Disposition Fee (Hotels), but excluding distributions of Distributable Cash (Hotels).

SUNSTONE U.S. OPPORTUNITY (No. 3) REALTY TRUST

Notes to Balance Sheet

(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

In addition, in consideration of asset advisory services provided by AdvisorCo to the Hotels Holding LP, the Hotels Holding LP will pay to AdvisorCo fees equal to 1.0% of the gross purchase price of each Hotel (or interest in a Hotel), 1.0% of the gross selling price for each Hotel (or interest in a Hotel), an additional disposition fee equal to 2% of the gross selling price of a Hotel if the gross selling price of such Hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the Hotel (including the price, due diligence costs, closing costs, legal fees and additional capital costs), and 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which accrues and is payable after the limited partners holding Hotels Holding LP Units are allocated their Minimum Return (Hotels) from prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

5. Subsequent event:

The Trust, along with the Master LP and Sunstone Realty Advisors Inc., entered into an Agency Agreement dated August ♦, 2010 pursuant to which it filed a prospectus dated September ♦, 2010 in each of the Provinces and territories of Canada in connection with its Initial Public Offering (the Offering) to sell a minimum of 4,000 units and a maximum of 40,000 units of the Trust at a price of \$1,250 per unit. Costs relating to the Offering include agents' fees of \$100 per Unit.

The proceeds for the Offering will be used by the Trust to acquire units in and contribute general partner capital to the Master LP.

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

Pursuance to the Agency Agreement, the Agents will receive commissions equal to 8% of the aggregate purchase price of Trust Units sold under the Offering. In addition the Properties Holding GP and Hotels Holding GP have agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Properties Holding GP and the Hotels Holding GP in respect of their respective general partner interest.

Financial Statement
(Expressed in United States dollars)

SUNSTONE (No. 3) LIMITED PARTNERSHIP

August 19, 2010

AUDITORS' REPORT

To the Directors of Sunstone (No. 3) Inc.,
in its capacity as General Partner of Sunstone (No. 3) Limited Partnership

We have audited the balance sheet of Sunstone (No. 3) Limited Partnership (the Master LP) as at August 19, 2010. This financial statement is the responsibility of the Master LP's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Master LP as at August 19, 2010 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

August X, 2010, except as to note 5,
which is as of September XX, 2010

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Balance Sheet

(Expressed in United States dollars)

August 19, 2010

Assets

Cash	\$ 10
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Partners' Capital

General Partner contribution (note 3)	\$ 0.10
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Initial Limited Partner contribution (note 3)	9.90
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	\$ 10
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See accompanying notes to financial statements.

Approved on behalf of the General Partner Sunstone (No. 3) Inc.:

"Steve Evans"
Steve Evans

Director

"Bryan Kerns"
Bryan Kerns

Director

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet

(Expressed in United States dollars)

August 19, 2010

1. Incorporation and operations:

Sunstone (No. 3) Limited Partnership (the Master LP) is a limited partnership formed pursuant to and governed by the laws of Nevada and created by the Master LP Agreement. The Master LP was established, among other things, to:

- (a) acquire Sunstone U.S. (No. 3P) L.P. (the Properties Investment LP) Units, Sunstone U.S. (No. 3H) L.P. (the Hotels Investment LP) Units and Sunstone U.S. Hotel (No. 3) Inc. (the Hotels Leaseco) Shares; and
- (b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Master LP and making distributions to the holders of the Master LP Units.

The general partner of the Master LP is Sunstone (No. 3) Inc. (the Master GP), a Nevada corporation. The initial limited partner is Sunstone U.S. Opportunity (No. 3) Realty Trust (the Initial Limited Partner or the Trust).

The principal business of the Master LP will be to invest the proceeds from the issuance of Master LP Units in:

- The Properties Investment LP Units. The Properties Investment LP will invest the proceeds from the issuance of Properties Investment LP Units in Sunstone U.S. Opportunity (No. 3P) Limited Partnership (the Properties Holding LP) Units. The Properties Holding LP will invest the proceeds from the issuance of Properties Holding LP Units in acquiring, owning and operating a diversified portfolio of revenue-producing real estate properties in the United States.
- The Hotels Investment LP Units. The Hotels Investment LP will invest the proceeds from the issuance of Hotels Investment LP Units in Sunstone U.S. Opportunity (No. 3H) Limited Partnership (the Hotels Holding LP) Units. The Hotels Holding LP will invest the proceeds from the issuance of Hotels Holding LP Units in acquiring, owning and operating a diversified portfolio of hotels in the United States.
- The Hotels Leaseco Shares. The Hotels Leaseco will enter into leases with the Hotels Holding LP or its subsidiaries in respect of each of the hotels. Hotels Leaseco will engage a hotel operator to operate and manage the hotels for and on behalf of Hotels Leaseco.

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

1. Incorporation and operations (continued):

The allocation of the net proceeds received by the Master LP from the issuance of Master LP Units among Properties Investment LP Units, Hotels Investment LP Units and Hotels Leaseco Shares will be determined by the Master GP.

There has been no activity in the Master LP between its formation on August 18, 2010 and August 19, 2010, except for issuance of one Investment Unit and one General Partner Unit. Accordingly, no statement of operations, or statement of cash flows for this period have been presented.

2. Significant accounting policies:

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

(a) Basis of presentation:

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

(b) Measurement uncertainty (use of estimates):

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

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

(c) Allocation of net income or net loss:

Net income or loss of the Master LP will be allocated 0.1% to the Master GP and 99.9% to the limited partners holding Master LP Units, pro rata.

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

2. Significant accounting policies (continued):

- (d) Pending change in accounting policies – International Financial Reporting Standards:

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Enterprises will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Master LP’s reporting for the first quarter of 2011. The Master LP is currently assessing the impact of the transition to IFRS and developing a plan accordingly.

3. Partners’ capital:

The capital of the Master LP consists of an unlimited number of units of the Master LP and the interest held by the Master GP. The Master GP has made a capital contribution of \$0.10 to the Master LP and has no further obligation to contribute capital. The Initial Limited Partner has made a capital contribution of \$9.90 to the Master LP, which contribution will be repaid upon subscription for the first Master LP units. The Initial Limited Partner will contribute to the Master LP \$1,248.75 in capital per Master LP unit purchased. Upon the issuance of each Master LP unit, the Master GP will contribute to the Master LP \$1.25 in capital.

4. Management and other services:

Pursuant to Services Agreements between the Hotels Holding LP, Properties Holding LP (the Holding LPs) and Sunstone Advisors (U.S.) Inc, (Sunstone US), Sunstone US has agreed to provide certain services to the Holding LPs. In consideration for providing such services, the Holding LPs will pay to Sunstone US:

- (a) a financing fee, in an amount equal to 1.5% of the gross purchase price of each property (or interest in a property);
- (b) a disposition fee in an amount equal to 1.5% of the gross selling price for each property;

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

- (c) in the case of the hotels, if the gross selling price of a hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the hotel (including purchase price, due diligence, closing costs, legal fees, and capital replacement costs), an additional disposition fee in an amount equal to 2% of the gross selling price of such hotel;
- (d) an asset management fee, in an annual amount equal to 1.5% of the net asset values of the properties and hotels purchased by the Properties Holding LP and the Hotels Holding LP, respectively, calculated as the greater of (a) the total cash proceeds from the Offering which are invested through the Master LP, Investment LPs and Holding LPs in the acquisition of properties and hotels; and (b) the total purchase price of the properties and hotels including all fees and expense and cash reserves, less any outstanding mortgage loans made in respect of the properties and hotels. The asset management fees will be payable monthly from property revenues on the last day of each month during the term of the Services Agreements in an amount equal to 0.125% of the net asset values at the beginning of each such month; and
- (e) an incentive advisory fee, being the aggregate of:
 - (i) the Incentive Advisory Fee (Properties) being an amount equal to 20/80ths of the total payments made to limited partners holding Properties Holding LP Units in respect of the Minimum Return (Properties) which accrues and is payable after the limited partners holding Properties Holding LP Units receive distributions of the Minimum Return (Properties) from prior years' Distributable Cash (Properties) and Extraordinary Distributions (Properties); and
 - (ii) the Incentive Advisory Fee (Hotels), being an amount equal to 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which accrues and is payable after the limited partners holding Hotels Holding LP Units receive distributions of their Minimum Return (Hotels) from prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

The Minimum Return (Properties) means a minimum return to the limited partners holding Properties Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners' Net Equity in the Properties Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Properties Holding LP Units to distributions and allocations of Distributable Cash (Properties), Extraordinary Distributions (Properties), net income and taxable income of the Properties Holding LP prior to the Incentive Advisory Fee (Properties) being accrued and payable to Sunstone US.

The Distributable Cash (Properties) means; for any period, an amount equal to the Gross Rents from the operations of the Properties, less the Operating Expenses incurred in the operation of the Properties, less any other costs or expenses payable by the Properties Holding LP, and less reasonable reserves determined by the Properties Holding GP to be necessary to lease the Properties or manage the affairs of the Properties Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Properties).

The Extraordinary Distributions (Properties) means distributions to the partners of the Properties Holding LP arising from or related to funds received by the Properties Holding LP on account of matters other than revenues arising from the ordinary course of operations of the Properties, including distributions arising from a refinancing or a sale of a Property, after deduction of any Disposition Fee (Properties), but excluding distributions of Distributable Cash (Properties).

Minimum Return (Hotels) means a minimum return to the limited partners holding Hotels Holding LP Units equal to 8% per annum, cumulative but not compounded, calculated on the limited partners' Net Equity in the Hotels Holding LP, which amount represents a cumulative preferential entitlement of the limited partners holding Hotels Holding LP Units to distributions and allocations of Distributable Cash (Hotels), Extraordinary Distributions (Hotels), net income and taxable income of the Hotels Holding LP prior to the Incentive Advisory Fee (Hotels) being accrued and payable to Sunstone US.

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet

(Expressed in United States dollars)

August 19, 2010

4. Management and other services (continued):

Distributable Cash (Hotels) means, for any period, an amount equal to the Gross Rents from the Hotel Leases to Hotels Leaseco, less any other costs or expenses payable by the Hotels Holding LP, and less reasonable reserves determined by the Hotels Holding GP to be necessary to maintain, replace or repair such Hotel or manage the affairs of the Hotels Holding LP in a prudent and businesslike manner, but does not include Extraordinary Distributions (Hotels).

Extraordinary Distributions (Hotels) means distributions to the partners of the Hotels Holding LP arising from or related to funds received by the Hotels Holding LP on account of matters other than rental revenues payable by Hotels Leaseco pursuant to Hotel Leases, including distributions arising from a refinancing or a sale of a Hotel, after deduction of any Disposition Fee (Hotels), but excluding distributions of Distributable Cash (Hotels).

In addition, in consideration of asset advisory services provided by AdvisorCo to the Hotels Holding LP, the Hotels Holding LP will pay to AdvisorCo fees equal to 1.0% of the gross purchase price of each Hotel (or interest in a Hotel), 1.0% of the gross selling price for each Hotel (or interest in a Hotel), an additional disposition fee equal to 2% of the gross selling price of a Hotel if the gross selling price of such Hotel exceeds 150% of the Hotels Holding LP's aggregate cost of acquisition for the Hotel (including the price, due diligence costs, closing costs, legal fees, and additional capital costs), and 10/80ths of the total payments made to limited partners holding Hotels Holding LP Units in respect of the Minimum Return (Hotels), which accrues and is payable after the limited partners holding Hotels Holding LP Units are allocated their Minimum Return (Hotels) from prior years' Distributable Cash (Hotels) and Extraordinary Distributions (Hotels).

SUNSTONE (No. 3) LIMITED PARTNERSHIP

Notes to Balance Sheet
(Expressed in United States dollars)

August 19, 2010

5. Subsequent events:

The Master LP, along with the Trust and Sunstone Realty Advisors Inc., entered into an Agency Agreement dated August XX, 2010 pursuant to which it filed a prospectus dated September X, 2010 in each of the Provinces and territories of Canada in connection with its Initial Public Offering (the Offering) to sell a minimum of 4,000 units and a maximum of 40,000 units of the Trust at a price of \$1,250 per unit. Costs relating to the Offering include agents' fees of \$100 per Unit.

The proceeds for the Offering will be used by the Trust to acquire units in and contribute general partner capital to the Master LP.

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

Pursuant to the Agency Agreement, the Agents will receive commissions equal to 8% of the aggregate purchase price of Trust Units sold under the Offering. In addition the Properties Holding GP and Hotels Holding GP have agreed to pay to the Agents an amount equal to 25% of any amounts realized by the Properties Holding GP and the Hotels Holding GP in respect of their respective general partner interest.

CERTIFICATE OF THE TRUST

DATED: September 23, 2010

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

SUNSTONE U.S. OPPORTUNITY (NO. 3) REALTY TRUST by its Trustee, Sunstone U.S. Realty Services (No. 3) 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 MASTER LP

DATED: September 23, 2010

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

SUNSTONE (NO. 3) LIMITED PARTNERSHIP

by its General Partner, Sunstone (No. 3) Inc.

“Steve Evans”

Steve Evans,
President and
Acting Chief Executive Officer

“Bryan Kerns”

Bryan Kerns
Secretary and
Acting Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

“Steve Evans”

Steve Evans, Director

“Bryan Kerns”

Bryan Kerns, Director

PROMOTER

SUNSTONE REALTY ADVISORS INC.

“Steve Evans”

Steve Evans, Secretary and Director

“Darren Latoski”

Darren Latoski, President and Director

CERTIFICATE OF THE AGENTS

DATED: September 23, 2010

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

DUNDEE SECURITIES CORPORATION

"ONORIO LUCCHESE"

ONORIO LUCCHESE

RAYMOND JAMES LTD.

"J. GRAHAM FELL"

J. GRAHAM FELL

CANACCORD GENUITY CORP.

"JUSTIN BOSA"

JUSTIN BOSA

GMP SECURITIES L.P.

"NEIL SELFE"

NEIL SELFE

HSBC SECURITIES (CANADA) INC.

"BRENT LARKAN"

BRENT LARKAN

MACQUARIE PRIVATE WEALTH INC.

"RAYMOND SAWICKI"

RAYMOND SAWICKI

SORA GROUP WEALTH ADVISORS INC.

"ROB ISAAC"

ROB ISAAC

BURGEONVEST BICK SECURITIES LIMITED

"MARIO FRANKOVICH"

MARIO FRANKOVICH

MGI SECURITIES INC.

"MARK ARTHUR"

MARK ARTHUR